

HOW TO STRENGTHEN YOUR SME?

assessing business performances
to improve its competitiveness

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OUTLINE

1.

SMALL COMPANIES, A CHALLENGE IN EVERY COUNTRY, BUT...

2.

THE PROBLEM: INFORMATION ASYMMETRY AND OPACITY

3.

THE SOLUTION : ASSESSMENT & INFORMATION

4.

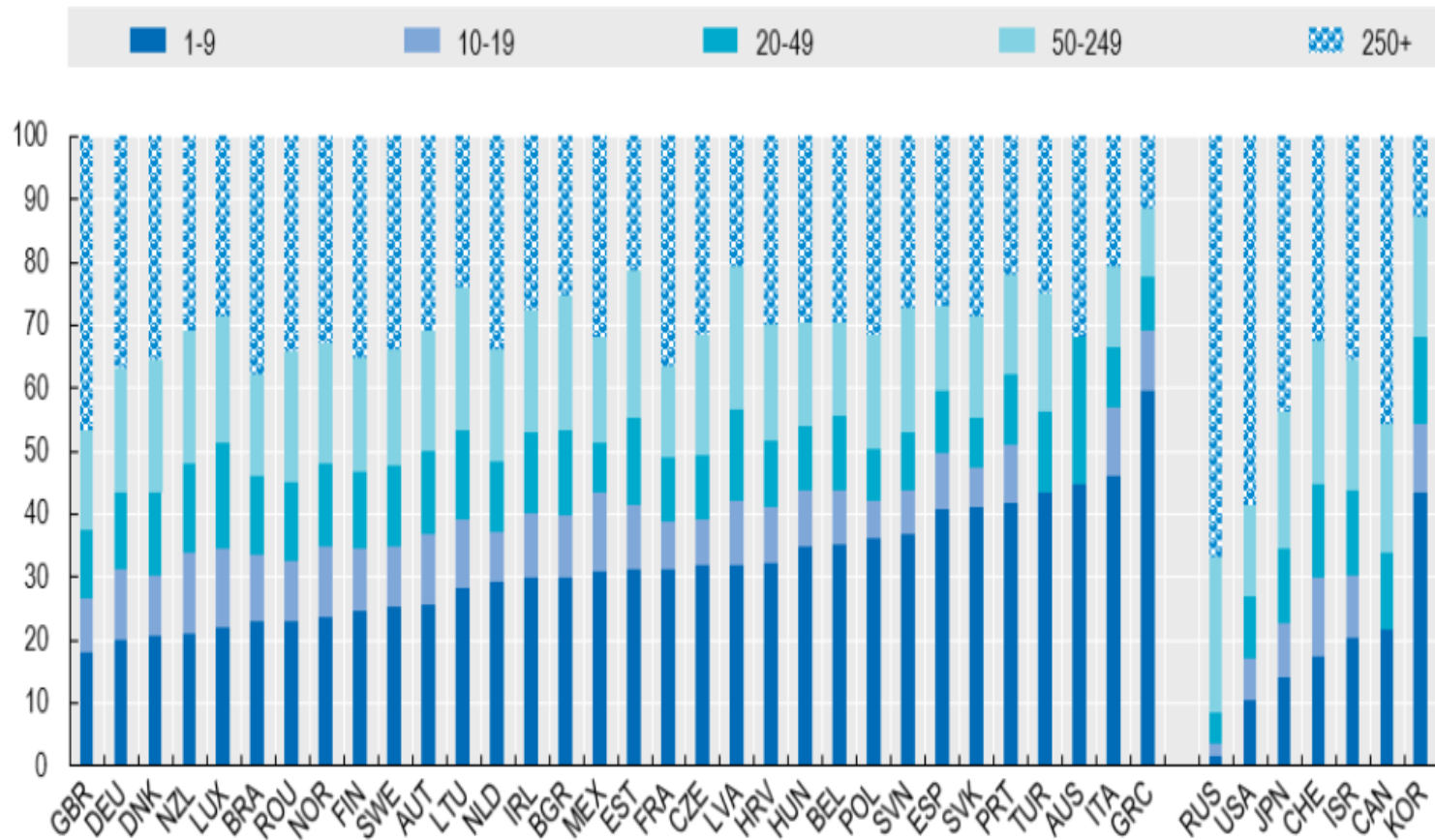
AN EXPERIMENTATION:  Small Business Assessment Tool

SMALL COMPANIES: A CHALLENGE IN EVERY COUNTRY, BUT...

+ FACTS AND FIGURES

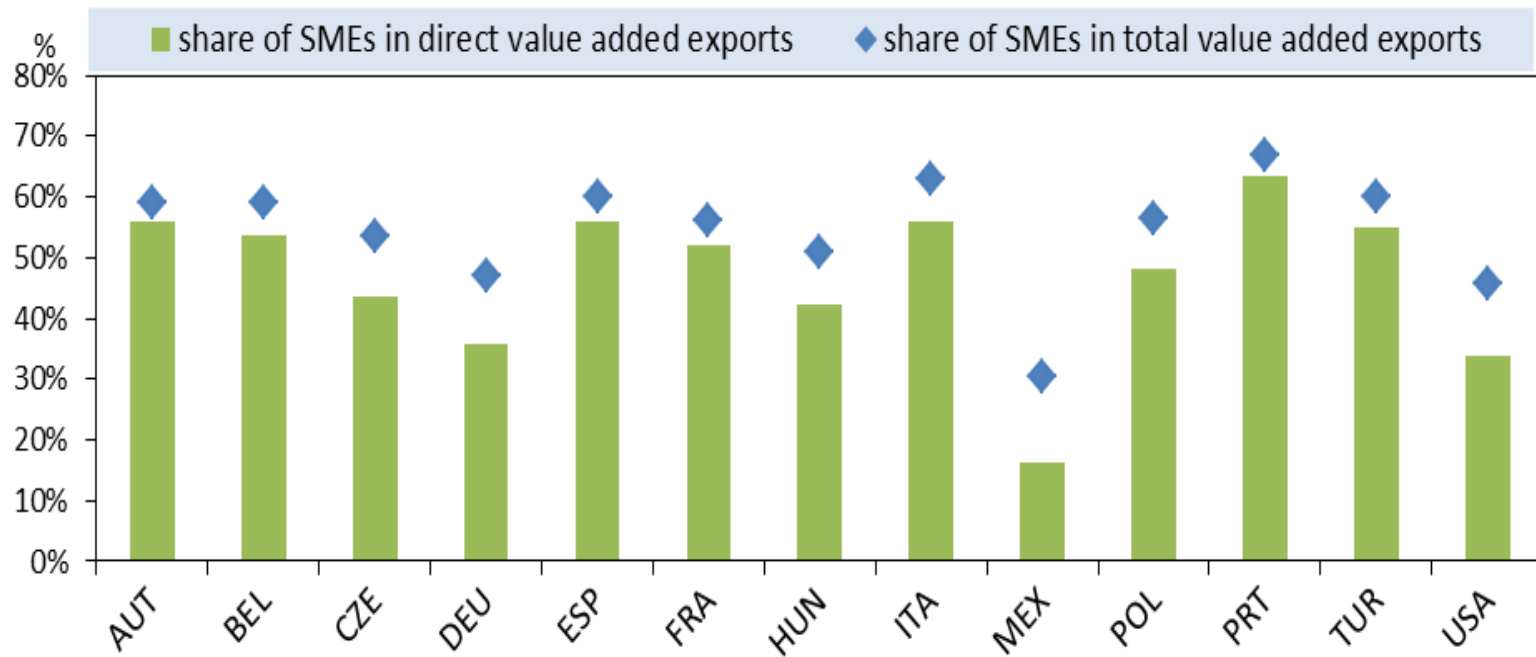
ECONOMIC CONTRIBUTION OF SMES (1)

PERCENTAGE OF ALL PERSONS EMPLOYED, TOTAL BUSINESS ECONOMY, 2014 OR LATEST AVAILABLE YEAR



ECONOMIC CONTRIBUTION OF SMES (2)

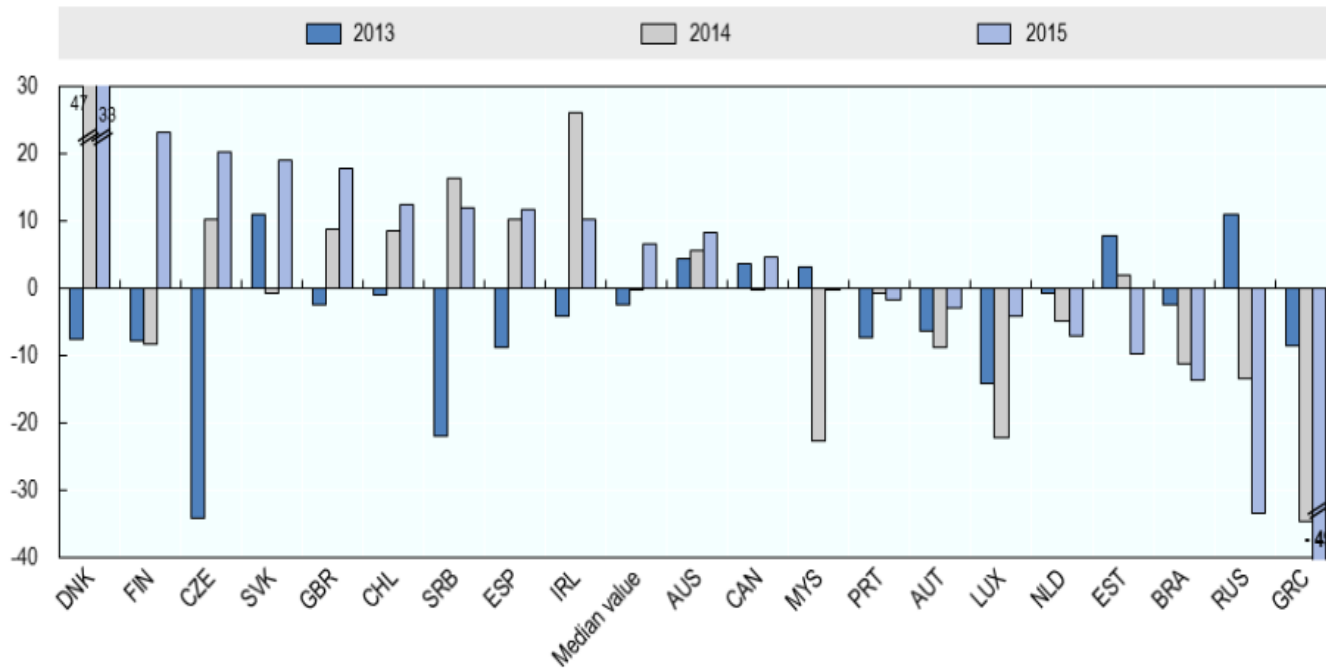
SHARE OF VALUE ADDED IN EXPORTS BY SMES, DIRECT AND TOTAL, 2009



RESULT: SMALL FIRMS ARE CONSTRAINED (1)

SME FINANCING

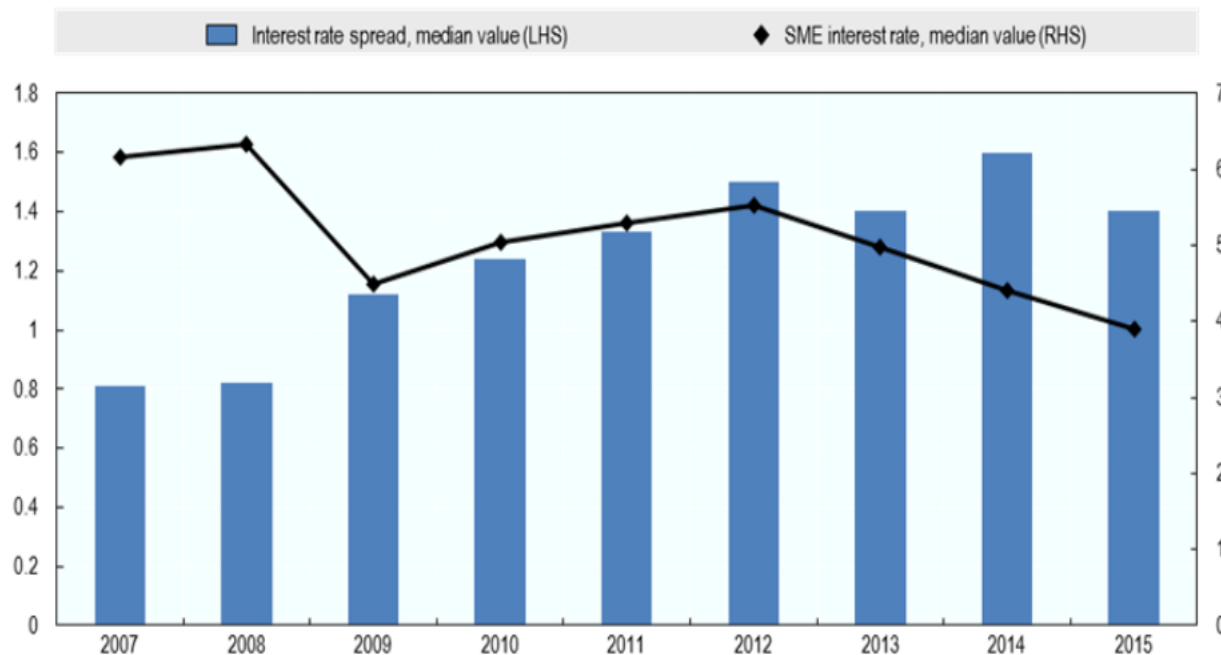
Year-on-year growth rate, as a percentage



RESULT: SMALL FIRMS ARE CONSTRAINED (2)

INTEREST RATE SPREADS BETWEEN LOANS TO SMEs AND TO LARGE ENTERPRISES, 2007-15

Average interest rate charged to SMEs and average spread between interest rates charged to SMEs and large enterprises, median values



SMALL FIRMS FACE GLOBAL DIFFICULTIES

MAIN BARRIERS TO GROWTH MENTIONED

+ 2/3 of SMEs receiving innovation support are not satisfied with the support received (SEC(2009)1197 – Making public support for innovation in the EU more effective)

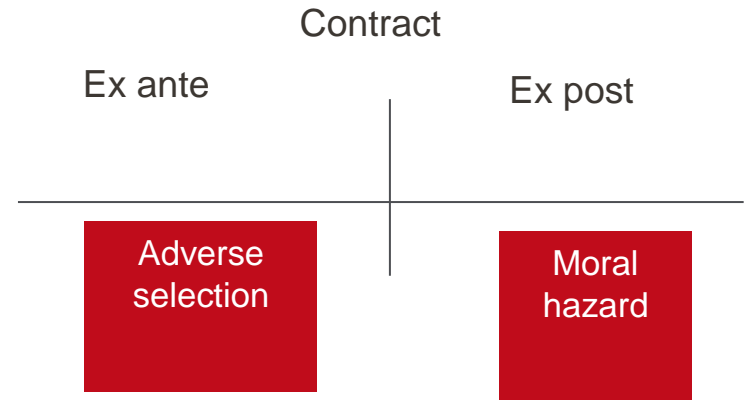
+ 5 major bottlenecks to SME innovation (survey 2011):

- i. lack of finance,
- ii. lack of innovation management capacity,
- iii. poor IP management,
- iv. innovation unfriendly public procurement,
- v. lack of networking skills

Source: WP 2014-2015; *Enhancing Innovation Capacity of SME, Brussels, 18 October 2013*

THE PROBLEM : INFORMATION ASYMMETRY & OPACITY

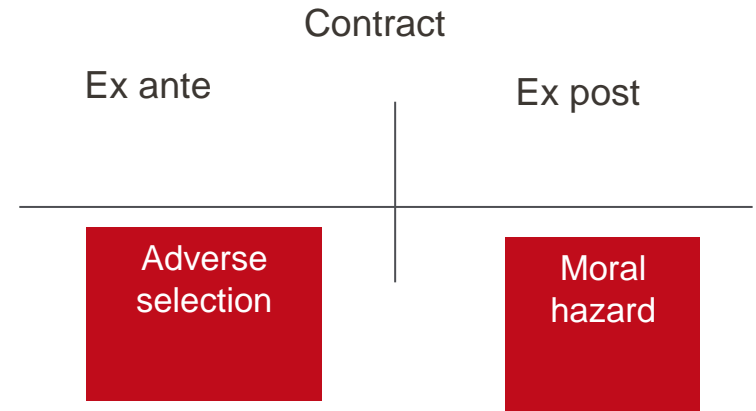
ASYMMETRIC INFORMATION (1)



Adverse selection

- Caused by asymmetric information before a transaction is consummated
- Bank loan officer cannot easily tell the difference between high and low quality borrowers
- Part of the loan officer's job is to use credit analysis to uncover relevant information
- Asymmetry of information is particularly acute for small firms since there is little publicly available information

ASYMMETRIC INFORMATION (2)



Moral Hazard

- Occurs after the loan is made
- Loan contract may provide the firm an incentive to pursue actions that take advantage of the lender
- If the firm does very well, the owner does not pay more to the issuer of the bank loan
- If the firm does poorly, the owner's liability is limited to the terms of the loan
- Therefore, owners disproportionately share in the upside of increased risk, while lenders disproportionately share in the downside

FIRM OPACITY : INTERNAL AND EXTERNAL CONSEQUENCES

+ Opacity hampers growth

- + lack of knowledge concerning the firm position
- + insufficient information about the competitors
- + deficient flows of information inside the company
- Results in suboptimal strategies

+ Opacity deteriorates relationships

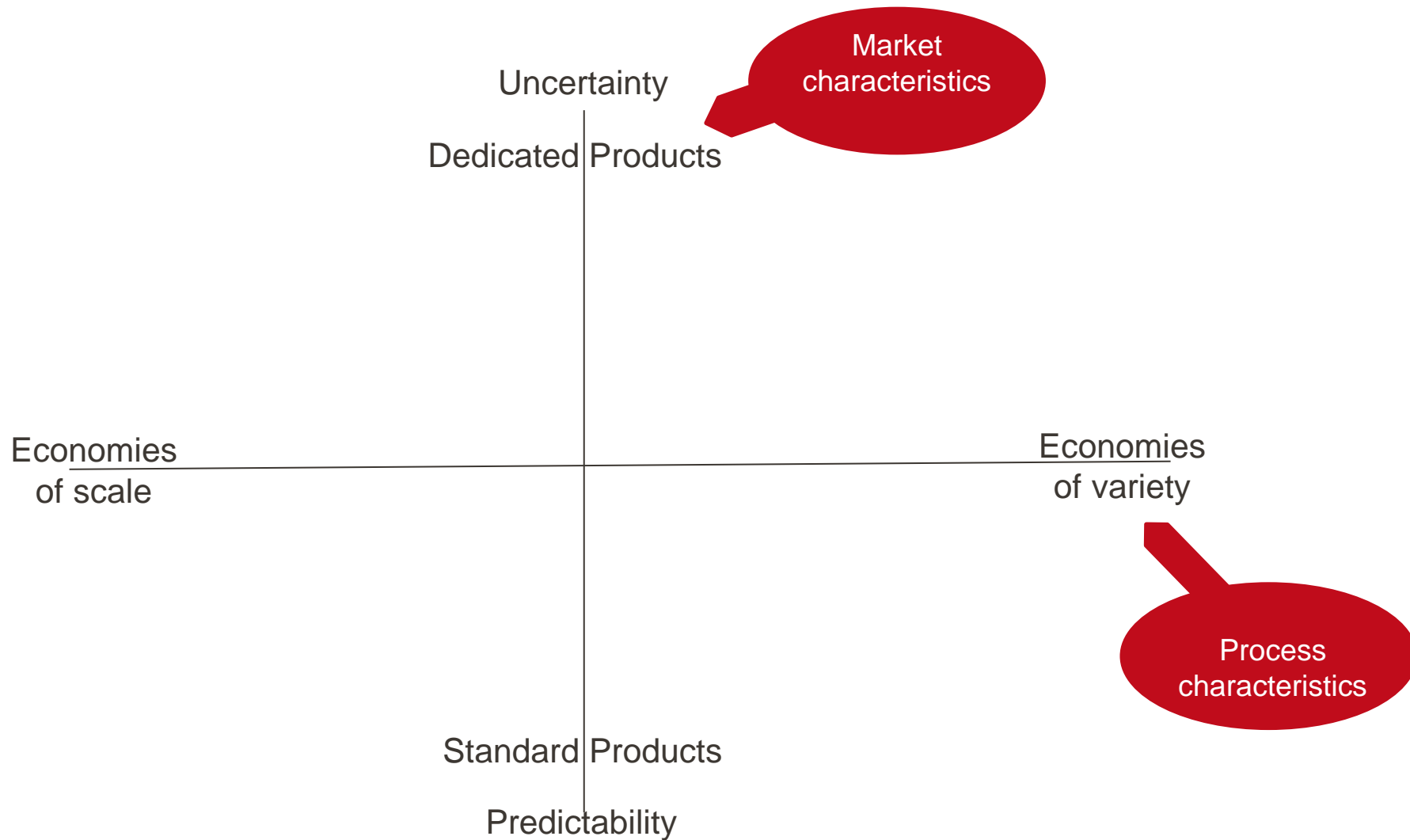
- + with banks → less short and long term credit
- + with providers → less commercial debts
- + with customers → problem of positioning on the market
- + with business support organizations → inappropriate support and missing opportunities to get subsidies

THE SOLUTION : ASSESSMENT & INFORMATION

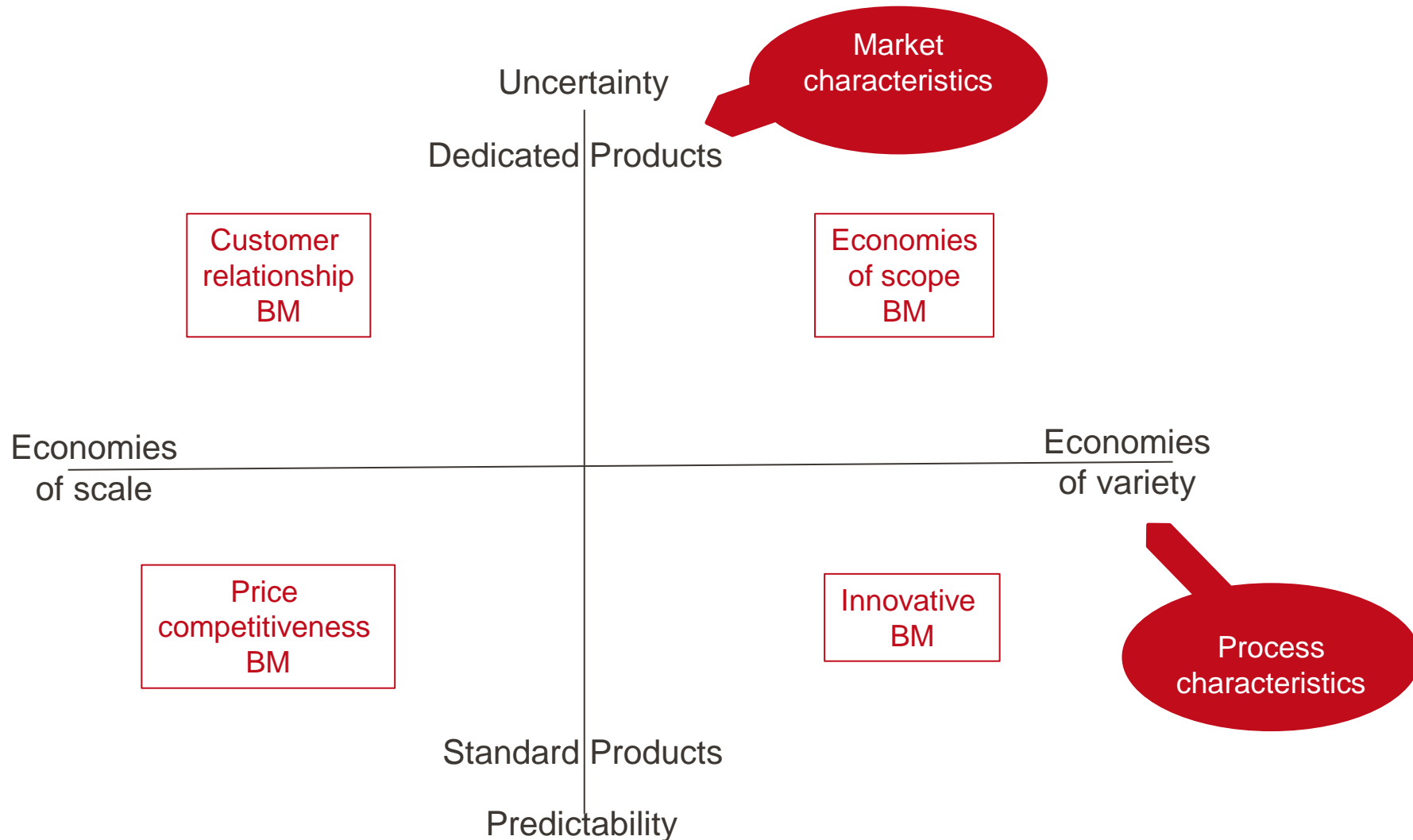
DEFINING BUSINESS MODELS (1)



DEFINING BUSINESS MODELS (1)



DEFINING BUSINESS MODELS (1)



DEFINING BUSINESS MODELS (2)

BUSINESS MODELS' CHARACTERISTICS

4 business models resulting from an economic analysis adapted from Salais and Storper theory* to make sense of the vast diversity currently observable throughout the world's industrial regions :

✓ **Price competitiveness business model**

Companies offer standard and generic products, employ a uniform workforce and aim at maximizing factors productivity. Underlying industrial standardization and market predictability make it possible to make production plans and to adapt productive equipment to expected economic risk.

✓ **Innovative business model**

New services and new families of products are conceived and created to answers new or expected needs or to finds new properties and uses to existing products. The companies create a general knowledge that can be adapted to various uses or able to introduce change in already existing production processes. Their main problem is to balance the taste for novelty and its acceptance.

* Robert Salais and Michel Storper : Worlds of production - the action frameworks of the economy, 1997, Cambridge, MA., HUP

DEFINING BUSINESS MODELS (3)

BUSINESS MODELS' CHARACTERISTICS

✓ **Economies of scope business model**

These companies adapt products provided by firms belonging to the price competitiveness business model to meet a particular demand: they sell standard products to specific customers. Activities are designed by the demands of the buyer. The few producers who can meet this demand compete each others on the basis of price and speed of delivery. Great flexibility is needed to respond to customers' changing requirements.

✓ **Customer relationship business model**

These firms offer dedicated products made through a specialized process. Their output rests on specialized skills and know-how of individuals organized to stick to the preferences of specific customers. Personal relationships matter and are a core asset for the companies. Firms provide personalized products or services and need to make accurate expectations and to be very flexible to keep their position on the market. Investments in intangible assets and in human capital are crucial.

AN EXPERIMENTATION:

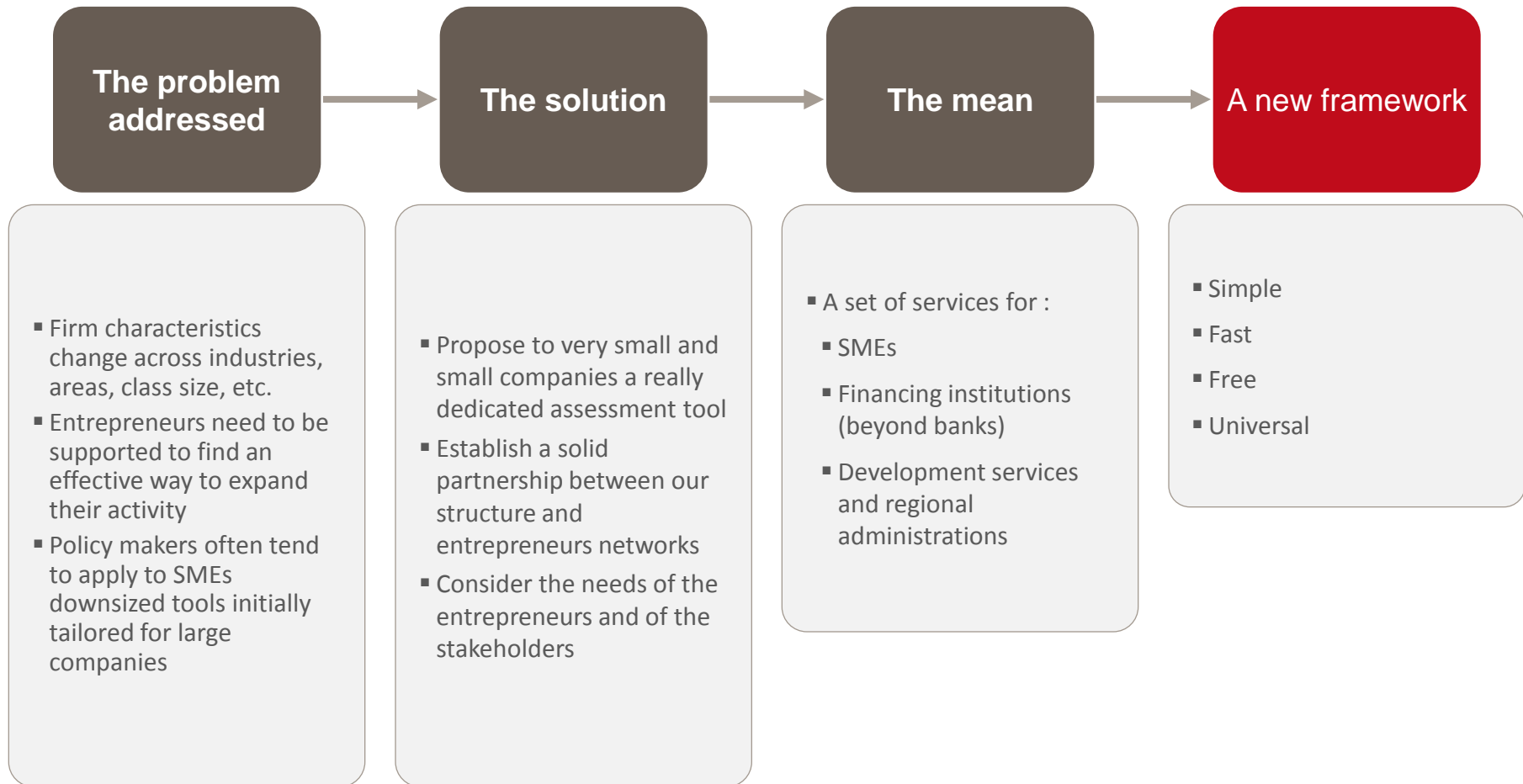
SBAT  by **OPEE**

Small Business Assessment Tool

Observatoire des Pratiques des Entrepreneurs et des Entreprises
Observatory on Practices of Entrepreneurs and Enterprises

SMEs ASSESSMENT

THE PRODUCTION PROCESS OF AN EFFECTIVE TECHNIQUE



OPEE: OBJECTIVES AND MISSIONS (1)

HOW DO WE WORK?

+ **OPEE** provides a framework for the formulation of action proposals for enterprises and has created a tool (SBAT: Small Business Assessment Tool).

+ **SBAT** is a tool designed for small and medium-sized businesses. It aims not only to evaluate your activity for free but also to compare it with your competitors. This tool enables you to make choices to ensure a safe and prosperous future.

+ Developed under the umbrella of **The Next Society**, a European project launched in 2017 and led by Anima Investment Network

OPEE: OBJECTIVES AND MISSIONS (2)

HOW DO WE WORK?

- ① An observatory focused on companies and policy makers perspective →
 - i. SMEs survival and growth
 - ii. local development
 - iii. Inclusive growth
- ② An innovative approach
 - i. Development of a set of tools dedicated to small firms
 - ii. Narrow collaboration between academic and economic world
 - iii. Economic models and empirical tests to test in vitro the robustness of our proposals

OPEE: OBJECTIVES AND MISSIONS (3)

A CLEARLY DELIMITED FIELD OF EXPERTISE

2 objectives:

- i. Improve SMEs strategies : internal
- ii. Reduce information asymmetries : external

1 method and 2 requirements:

- i. a large dataset coming from different sources to be more reliable
- ii. A set of statistical techniques borrowing to AI the more efficient classification techniques

The result : an assessment tool, **SBAT**
Small Business Assessment Tool

SBAT: A TWO-LEVEL ANALYSIS (1)

LEVEL 1 : DEFINITION OF THE BUSINESS MODEL TO WHICH ANY FIRM BELONG

Principles:

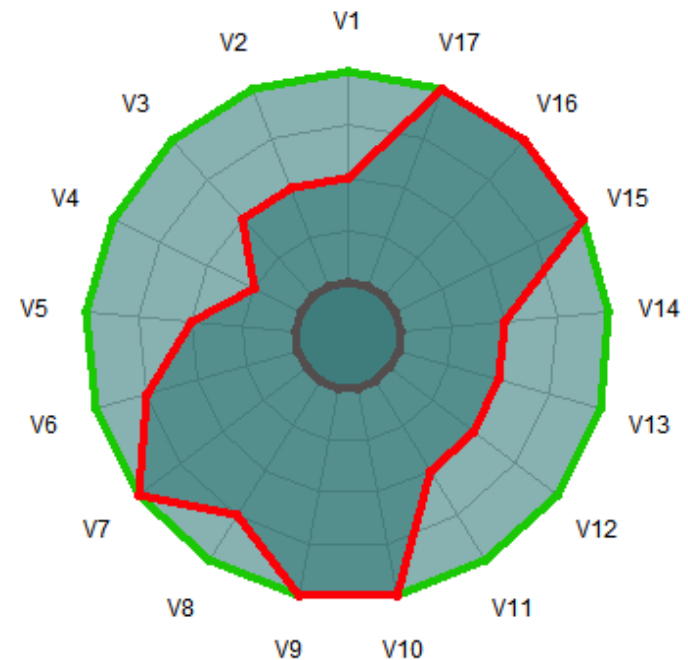
- + Most evaluation techniques rest upon the size (number of employees, sales, total assets) and/or the industry in which a firm operates to make a judgement on its robustness → risk of bias in comparisons
- + SBAT considers a mix of productive and market characteristics to determine the most accurate bench to which a given firm should be compared
 - + market and production process determine the right reference group
 - + reference to the business model
 - + possibility to break down the reference group by size, industry or location

SBAT: A TWO-LEVEL ANALYSIS (2)

LEVEL 1 : POSITIONING OF A FIRM IN THE RELEVANT BUSINESS MODEL

➤ Report for the 1st level:

- Presentation of the characteristics of the business model to which the firm belongs
- Characterization of any respondent firm compared to the other firms belonging to the same business model
- Identification of the strengths and weaknesses of the respondent firm
- Comments and advises dedicated to the entrepreneur



SBAT: A TWO-LEVEL ANALYSIS (2)

SPECIFIC FIELDS ANALYSIS

Level 2 : positioning of one particular firm to a reference group considering several aspects

- + Financing
- + Innovation
- + Internationalization
- + Human resources (in progress)
- + Leadership (in progress)
- + Risk (in progress)

A TWO-LEVEL ANALYSIS (3)

LEVEL 2 : FINANCING

- **Objective**

Positioning a company according its financing practices

- **One questionnaire**

20 questions to assess:

- + The firm position compared to the reference group
- + The positioning of the company towards funds providers
- + The customer relationship
- + The complementarity of the various financial resources
- + The financial horizon

A TWO-LEVEL ANALYSIS (4)

LEVEL 2 : INNOVATION

- **Objective**

Defining a company profile concerning innovation

- **One questionnaire**

25 questions to assess:

- + The firm position compared to the reference group
- + The involvement of a given firm in :
 - Product innovation
 - Process innovation
 - Organizational and marketing innovation
- + Its pro-active or reactive behavior

SBAT: A TWO-LEVEL ANALYSIS (5)

LEVEL 2 : INTERNATIONALIZATION

- **Objective**

Defining a company profile concerning innovation

- **One questionnaire**

24 questions to assess:

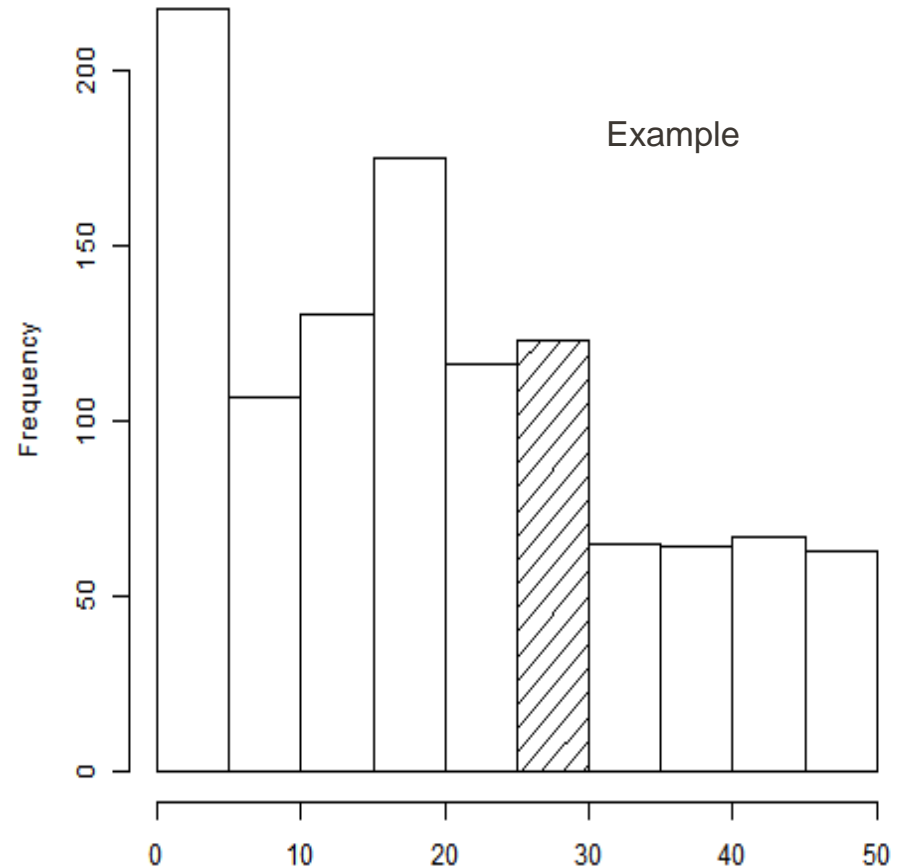
- + The firm position compared to the reference group
- + The profile of the company towards international system:
 - Exportation
 - Technological internationalization
 - Purchase internationalization
- + Mode of entry in international markets
- + Appreciation of the entrepreneur on his/her own commitment to enter international markets

SBAT: A TWO-LEVEL ANALYSIS (6)

DELIVERABLES : POSITIONING OF A FIRM ACCORDING THE DIFFERENT FIELDS

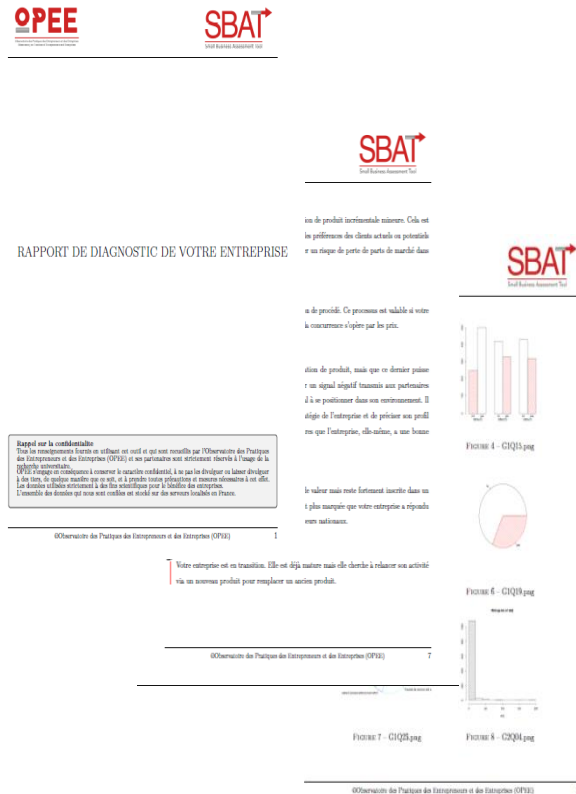
➤ Reports for the 2nd level:

- For each field (innovation, financing, etc.) grouping of questions in several consistent sub-themes to give an operational analysis
- For each sub-theme, assessment of any respondent firm and comparison to the structure, conduct and performance of the other firms belonging to the same business model
- Identification of the threats and opportunities of the respondent firm and advice to improve the current situation



SBAT: A 20 PAGES COMPLETE REPORT

AVAILABLE LESS THAN 1 MINUTE AFTER FILLING IN THE QUESTIONNAIRE



+ Automatic analysis to compare 1 given company to an *ad hoc* bench

+ Tests performed with French entrepreneurs to adapt the questionnaires

+ More than 6,000 companies employing more than 1 and less than 50 employees **in the dataset**

+ Applicable to OECD and non-OECD countries

+ Preliminary results already obtained for French, Jordanian, and Lebanese small companies

ADVANTAGE: ONE TOOL, THREE USERS

SBAT CAN BE USED TO ASSESS, PILOT, AND SIGNAL A COMPANY

Complementary uses by:

① The enterprise to:

- + Self analyze and adapt its strategy
- + Compare its performance and organization with those of competitors
- + Improve the bargaining power when dealing with financial resources providers

② The stakeholders and policy makers to:

- + Estimate *ex-ante* the impact of supports and subsidies provided to a company
- + Understand better the characteristics of an entrepreneurial ecosystem

③ The financing system and business support organisms to:

- + Complete their usual rating models
- + Allocate subsidies

IMPACTS

❑ Several targets:

- + Companies
- + Research
- + Pedagogy
- + Digitalization
- + Subventions (public & private funds)
- + National, European or international programs



THANK YOU AND VISIT OUR WEBSITE

www.opee-sbat.org/en