

Development of clusters  
and networks of SMEs:

**The UNIDO programme**

*a guide to export consortia*



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT  
ORGANIZATION



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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION  
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## ANNEXES

A number of annexes are included on the CD ROM provided with this guide:

- Example of a Statute of a Consortium
- Example of a Shareholders' Agreement
- Italian Law 317/91
- Example of a Questionnaire to Identify Interested Firms
- Example of a Questionnaire to Identify the Activities to be Undertaken by the Consortium
- Example of a Questionnaire on the Management of the Consortium
- Guide to the Business Plan

## PREFACE

As a result of economic deregulation, improved transportation methods, and innovations in information and telecommunication technology, small and medium enterprises (SMEs) are increasingly exposed to global competition. At the same time, however, isolated firms face increasing difficulty in penetrating foreign markets. Due to the relatively small quantities produced by SMEs, these firms find it difficult to compete with the low-cost products of multinational companies that are able to exploit economies of scale. In addition, product life cycles have become shorter, calling for increased product and service development. Above all, small firms often do not have the financial means and know-how to successfully position their products in foreign markets.

The new challenges arising for small firms from globalization call for innovative responses. Acknowledging such an emerging need, UNIDO, under the framework of its programme “Development of Clusters and Networks of SMEs”, helps small firms to enhance their productivity by fostering inter-enterprise linkages as well as collaborative relations with local support institutions.<sup>1</sup> It assists SMEs to combine their strengths in order to take advantage of market opportunities and to solve common problems through a joint effort. Inter-firm cooperation by SMEs indeed allows individual firms to improve their competitiveness and thus seize opportunities arising in international markets as a result of globalization. Export consortia, which are vivid examples of such inter-firm cooperation, are a natural element of a cluster and network development strategy. Their potential to further the development of inter-firm cooperation, also in areas unrelated to exports such as quality improvements and upgrading of production methods, makes the development of export consortia a practical first step in improving the business environment and economic activity in general. As part of its programme, UNIDO has therefore promoted and assisted the creation of export consortia in various developing countries.

Although the benefits of grouping for export are relatively straightforward, achieving them in practice is a demanding task. Due to a lack of knowledge and preparation, many attempts to establish export groups among SMEs have failed. Many emerging economies in particular, lack experience as well as the institutional and regulatory framework to promote and support SME consortia. This guide provides an overview of the main aspects which must be considered to ensure the successful operations of export consortia. It attempts to assist those involved in the creation and promotion of export consortia to establish viable groups. It is intended for enterprises and others interested in the concept of export consortia and may prove useful for the actors involved in their creation and endorsement: promoters of export consortia, support institutions and policy makers.

This guide is based on UNIDO’s (United Nations Industrial Development Organization) and Federexport’s (Italian Federation of Export Consortia) experience in the development and promotion of export consortia gained in a variety of industrialized and developing countries. An effort was also made to review international good practice. The guide is structured as follows:

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<sup>1</sup>Further information on the UNIDO Programme for the development of clusters and networks of SMEs is available in the brochure *Development of Clusters and Networks of SMEs*.

**Part 1** gives an introduction to the concept of export consortia. It describes the obstacles that individual firms face when attempting to establish an export presence and presents export consortia as a possible means to overcome these difficulties. Export consortia are not homogeneous entities. The different types that exist are therefore briefly explained, followed by an overview of the various services they may provide.

The process of creating an export consortium is described in **part 2**. The three basic conditions that must underlie the formation of a consortium are identified. An explanation of the steps involved in establishing an export consortium follows. Finally, the main factors hindering and facilitating the creation process are listed.

**Part 3** presents issues related to the practical operation of export consortia such as the organizational structure, characteristics of member firms and the optimal size of an export consortium. Aspects concerning the legal formation of a consortium are discussed and the different sources of funding are explored. A number of challenges that export consortia might face in the course of their operations are listed. The section concludes by pointing to the importance of continuous adaptation of the services provided by consortia to the changing needs of their members.

The links of export consortia with private and public sector institutions are reviewed in **part 4**. The types of assistance that private associations may provide during the establishment phase, but also during the later operations, of export consortia are identified. This is followed by a discussion of the rationale behind public support to consortia and the precise form such support may take. Practical examples of government assistance to export groups conclude the section.

**Part 5** discusses impact assessments of export consortia. Aspects relating to various assessment methods are briefly discussed and possible impact indicators presented. A variety of factors are identified which may affect the correct measurement of a consortium's success.

The guide concludes by summarizing the main factors determining the success of export consortia. It is emphasized that it is the smaller and more inexperienced firms that can derive the most benefits from export consortia. Additionally, the grouping process initiated through consortia is identified as a means to lead to cooperation of SMEs also in areas unrelated to exports. Institutions wishing to promote SMEs may thus focus on the creation of export consortia as a first step in improving the competitiveness of small firms and the business environment that these firms operate in.

Throughout the guide, examples of existing export consortia are used to illustrate the main points and concepts. At the end of the guide, a selection of case studies from India, Tunisia, Morocco, Brazil and Argentina are presented to give concrete examples of how export consortia were created and of the results they can achieve.

A collection of annexes can be found on the CD ROM accompanying this guide. The documents included (such as questionnaires, which may be used to determine potential members and their priorities, the documents of incorporation and the business plan) illustrate certain issues discussed throughout the main text. It is hoped that they can serve as useful examples for those involved in the creation of export consortia.

## EXPORT CONSORTIA: AN OVERVIEW

Due to their small size, isolated SMEs often have difficulties to establish an export presence in foreign markets. They lack the necessary knowledge and financial means, may not meet foreign regulatory requirements and the quantities and quality produced are often unattractive for foreign buyers. By combining their knowledge, financial resources and contacts within an export consortium, SMEs can significantly improve their export potential and reduce the costs and risks involved in penetrating foreign markets. Although several types of export consortia exist, the main distinguishing factor is whether export consortia achieve these goals by promoting their members' products or by selling directly. In either case, a great variety of services is typically offered to members, ranging from basic administrative services over promotional activities to services improving members' operations.

### 1.1. WHAT IS AN EXPORT CONSORTIUM?

An export consortium is a voluntary alliance of firms with the objective of promoting the goods and services of its members abroad and facilitating the export of these products through joint actions. Members of a consortium realize that cooperation must prevail over competition in order to access key markets and the latest technology. An export consortium can be seen as a formal medium- to long-term strategic cooperation between firms that acts as a service provider specialized in facilitating access to foreign markets. Most consortia are non-profit entities. Typically, services are thus provided exclusively to member firms. Since SMEs can derive the most benefits from participating in a consortium, members are typically relatively small. In Italy, 80% of firms participating in a consortium have fewer than 50 employees (Federexport, 1998).

Members of export consortia retain their financial, legal and management autonomy. Firms are thus able to realize their strategic objectives by grouping into a separate legal entity which does not imply a loss of identity for any member. This constitutes the main difference between consortia and other types of strategic alliances. A consortium thus differs from a merger in the sense that all firms involved preserve their original legal status and the management of each firm retains its independence.

A consortium is also not to be mistaken for a cooperative. Even if both can be considered as a type of association, the principles and philosophy uniting the members of cooperatives differ considerably from those driving the members of a consortium. A cooperative aims to gather the strengths of all its members in order to increase their bargaining power and to make the best use of the means available. In the case of a consortium, by contrast, it is the members' common weaknesses that constitute the rationale for the union.

Export consortia not only exist among firms in the manufacturing sector, but can also be found in the service sector as well as among artisans. In Italy, the country with the most extensive consortia experience, the main operating sectors of export consortia are:



- Plant, machinery and engineering;
- Textiles, clothing, leatherwear, footwear;
- Food, wine, beverages;
- Chemicals;
- Wood and furniture;
- Glass, crystalware;
- Construction industry and related sectors;
- Electronic goods, electro technology and optical instruments;
- Jewellery, costume jewellery.

## **1.2. WHY OPT FOR AN EXPORT CONSORTIUM?**

SMEs often have considerable difficulties to enter foreign markets. Export consortia cannot only assist their members to achieve an export presence, but can also entail significant additional benefits.

### **1.2.1. Export Difficulties of SMEs**

Establishing a successful presence in foreign markets is considerably more difficult than in domestic markets. SMEs are often deterred from exporting by the complexities of the export business and the high risks involved. Without significant knowledge and preparation, attempts to export are doomed to failure and may even jeopardize the financial stability of the enterprise as a whole. Evidence suggests that particularly during the early stages of exporting, failure rates are relatively high. To develop export markets, significant know-how, effort and financial resources are needed. Foreign markets have their particularities and stringent requirements. These do not only encompass the demands of consumers, but also technical and regulatory obligations of recipient countries. Firms wishing to export must identify suitable foreign markets, contact local distributors and/or major consumers, learn about their clients' preferences, adapt the quality and price of products accordingly, and provide them with the opportunity to inspect products and to place their orders. In many cases, firms have to obtain certification that production methods are in line with certain technical and environmental standards. Finally, it is difficult to achieve a significant level of exports without offering a complete and coherent product range. The skills needed and the costs of meeting these challenges are often beyond the capacities of individual SMEs.

In order to export successfully, firms must meet certain basic conditions. These include:

- Full range of machinery to manufacture a complete exportable product;
- Production capacity and working capital to satisfy the volume requirements of foreign buyers;
- Technology to meet the quality specifications of export markets;
- Compliance with technical and environmental standards as well as with foreign legislation;

- Export infrastructure;
- Exposure to export markets and the means to conduct market research;
- Effective marketing techniques and the creation of an image for the products exported;
- Communication skills and bargaining power;
- Administrative capacity and facilities;
- Awareness of export incentives from government schemes.

The majority of small firms, especially those in developing and emerging economies, do not meet these requirements and thus do not have the means to successfully establish a presence on international markets. Many SMEs are managed as family businesses. Their owners often use only basic management methods, have limited financial and human resources available and are frequently unfamiliar with the demands and characteristics of end consumers in foreign markets. They therefore rightly view the risk of entering foreign markets to be high and do not perceive the returns obtained from entering foreign markets to justify the effort and costs involved.

### 1.2.2. Export Consortia: A Possible Solution

By cooperating within an export consortium, which combines the expertise and financial means of several firms, SMEs can overcome the obstacles listed above and effectively enter and develop foreign markets at reduced cost and risk. At the same time, members can improve their profitability, achieve efficiency gains and accumulate knowledge.

**Risk reductions.** By improving firms' access to information on foreign markets and by leading to a greater diversification of exports, export consortia can significantly reduce the risk of exporting and of exploring new business opportunities abroad. Diversification is achieved through an increase in the number of markets targeted as well as through a reduction of seasonal fluctuations in exports, especially when markets are geographically dispersed.

**Improved profitability.** Participation in an export consortium can greatly improve the profit margins of member firms through a variety of savings, the development of an export strategy and the achievement of stable exports. Within export consortia, members share administrative and promotional costs and thus avoid the expenses of establishing their own export department. By jointly using transportation and other export facilities, additional time and cost savings can be achieved. In addition, consortia help their members to move from simply supplying products to customers ("reactive" exporting) towards developing a true export strategy where domestic marketing activities can be extended and technical specifications and/or prices are not simply prescribed by clients ("active" exporting). A more coordinated and market-responsive approach to a specific country can thus be developed. When several enterprises join forces to promote their exports, they increase their bargaining power with distributors and buyers. In some cases, the consortium may even be able to develop its own distribution channels. Intermediaries, on which small firms often rely excessively, can thus be by-passed and the profitability of the firms' export operations improved.

Export consortia can increase the export opportunities available for members and thus help them to achieve a consolidated and sustained export presence. By assisting firms to extend their contacts and by creating strong links with clients, consortia can stabilize members' exports and can even assist members that had exported prior to joining a consortium.

**Efficiency gains.** Inter-firm cooperation of the type found in consortia allows SMEs to overcome the challenges arising from their small size and to exploit economies of scale and scope, which cannot be attained by the individual firm. By pooling financial and human resources and by sharing information and experiences, members of a consortium can improve and intensify their promotional activities abroad. In addition, activities can be undertaken that individual firms may not be able to carry out on their own, such as market research and product development. Furthermore, by joining together, member firms can provide a wider range of products as well as a larger quantity than any individual firm. The larger choice of products and the increased reliability of supply make the goods offered by a consortium more attractive to foreign clients. The competitiveness of members' products on an international scale is thus enhanced.

**Knowledge Accumulation.** One of the most important benefits of export consortia is linked to the accumulation of know-how. Firms participating in export consortia typically have limited export experience and are in the early stages of export market entry or expansion. By participating in an export consortium, members can improve their knowledge of how to operate in foreign markets, how to improve business operations in areas not related to exporting and of how to participate in alliances (Renart, 1999). Exporting is a classical example of "learning by doing". By participating in an export consortium, members can tap the different export-relevant resources and skills within the individual firms. Additionally, members may exchange knowledge in several areas such as on how to negotiate with banks or on how to implement certain technical standards. Finally, members of a consortium also become aware of the benefits of inter-firm cooperation and learn how group networks can be organized. They will thus be able to establish alliances for their future ventures.

Export consortia act as a forum for information dissemination and discussion. Since consortia often organize activities such as workshops, training courses or reviews of industry-relevant magazines and other publications, they can raise the members' awareness of the industry and of changes within it. These activities may also enable members to gather information on a variety of other topics, such as production methods or transport issues. Finally, through participation in the consortium, members become more aware of the quality and technical standards demanded in export markets.

Summarizing, export consortia can lead to considerable efficiency gains. While retaining their autonomy, members of an export consortium can improve export results and minimize costs. This can be achieved at a higher speed and at lower risk than if the firms had attempted to export on their own.

### 1.3. TYPES OF EXPORT CONSORTIA

Export consortia differ with respect to the services they provide. There are those that offer only basic secretariat functions, assist with translations and/or provide market research. There are, however, also those that help members develop a complete export strategy and provide a wider range of services, including collective purchases of inputs, legal assistance, the creation of a consortium brand and other forms of marketing.

The two main types of consortia that can be distinguished are promotional and sales consortia. Within this classification, several varieties of export consortia can be identified:

- Single-sector and multi-sector consortia;
- Consortia grouping competitors and those offering complementary goods and services;
- Regional consortia and those comprising members from several regions;
- Consortia targeting a specific region and those active on a global scale.

**Promotional and sales consortia.** Whereas the former refers to an alliance created to explore specific export markets by sharing promotional and logistic costs, the latter represents an entity that channels the members' exports. Promotional consortia thus confine themselves to promoting the products of their members and to assist these in accessing foreign markets. Sales are directly performed by the associated companies. Sales consortia, on the other hand, perform business promotion activities and organize the sale of member firms' products.<sup>2</sup> To ensure a certain image, these types of consortia often control the quality of the marketed products. While the number of member firms is typically limited in a sales consortium, promotional consortia usually have a significant number of members.

Within sales consortia, member firms delegate the authority to do business in their name to the managers of the consortium. Two types of sales consortia exist: (a) trading consortia, i.e. those that purchase the products from the member firms in order to resell them, and (b) consortia acting as export agents. Whereas in the former, the consortium negotiates credits and pays the member firms for their products, in the latter, member firms send their own invoices and attempt to obtain payment from their clients (Renart, 1997). Most sales consortia do not permit member firms to export on their own and require them to make use of the consortium instead. Depending on the consortium, however, the degree to which this is enforced may vary. Whereas some sales consortia apply this rule to all products and countries, others restrict it to the target markets and the products sold through the consortium (Welch and Joynt, 1987).

Since the members operate as a group on foreign markets, harmful behaviour, inadequate product quality or excessive prices of one member can have a damaging effect on the exports of the other members. This is likely to be more relevant in sales than in promotional consortia. It is crucial that the documents of incorporation (see section 3.4) specify which measures may be taken if such a situation arises, for example replacing the members' products.

<sup>2</sup>However, if a specific order to a consortium comprises goods not produced by member firms, it is useful for the consortium to be able to purchase these goods also from non-members to avoid foregoing a lucrative business opportunity.

Newly established consortia should not attempt to act as sales consortia for their members. It is useful for consortia to begin by promoting the exports of members and to move into selling the products only once the consortium has matured and the relationships between members have been strengthened (see box 1 for an example of a consortium that successfully moved from promotional to sales activities). In Italy, promotional consortia are far more frequent than sales consortia. In Spain, however, sales consortia tend to be the predominating form of consortia although they imply a lesser degree of autonomy for the member firms.

**Box 1.**  
**CPM—from a Promotional to a Sales Consortium**

CPM is an export consortium of garment makers and producers of knitwear located in Prato, Italy (also see box 3 for consortia in Prato). During the late 1990s, CPM's members decided to move into the Russian market. As this was perceived to be a very ambitious objective, the group agreed to begin by establishing a presence in Georgia and to use it as a stepping-stone to enter the Russian market.

With assistance of the Technical University of Georgia, the consortium was able to establish contacts to local businessmen. A marketing and investigation tour resulted in offers to purchase \$500,000 worth of products from the consortium's members. However, problems arose with the terms of payments as members requested a payment guarantee. Due to their small size and the limited amount sold by each firm, a guarantee could not be extended towards each individual member. To overcome these problems, the consortium's President was able to negotiate an agreement with the Central Bank of Georgia. The central bank signed a guarantee agreement with a Swiss bank, which in turn guaranteed payment to the consortium.

Since only one letter of credit could be obtained in the name of the consortium and members did not want to forego a good business opportunity, it was decided that CPM should handle the transaction for its members. The consortium thus became the buyer of its members' products. The members sent an invoice to the consortium for the products they supplied. The consortium in turn sent a single invoice for the entire goods to the buyer in Georgia. For CPM, this implied that a change in its bylaws was necessary so that invoices could be issued. Once the payment was received, CPM paid its members according to the invoices they had issued. As a service company for its members, the consortium obtained no profit from the transaction. However, it had been agreed among the members that the consortium could add a margin of 5% to cover the administrative costs related to the contract (e.g. the contract with the Georgian client specified that CPM was responsible for advertising the products in Georgia and setting up showrooms).

For CPM, the move from a promotional consortium to one that could also directly handle exports for its members was a success.

**Single-sector and multi-sector consortia.** Single-sector consortia allow activities to focus on member firms' products, as these are more homogeneous than those of firms belonging to multi-sector consortia. In addition, firms active in a specific sector tend to be acquainted with each other and to have greater knowledge of each other's businesses than

those operating in several sectors. This is likely to improve cooperation among members. The main benefit of multi-sector consortia is that a wider range of products can be offered. For example, a consortium might be able to offer a complete range of hotel supplies (lifts, furniture, decorations, lighting and kitchen equipment). Cost savings are attainable for these types of consortia, provided that products are sufficiently close so that the same promotional methods can be applied to all goods and services. Despite the variety of firms within a multi-sector consortium, the group should be able to portray a common image. It is thus essential that members' products are compatible with respect to design and quality. Whereas the main binding elements between members of single-sector consortia are their familiarity with each other and the products they produce, members of multi-sector consortia often only share the will to access foreign markets.

If member firms produce closely related products, they might perceive each other as competitors and restrict their partnership to certain limited activities. Thus, unless members of a single-sector consortium produce complementary—and not competing—goods, cooperation between member firms may be enhanced within multi-sector consortia. Although products of the same sector are typically similar to each other, a generalization cannot be made that members of single-sector consortia are competitors while those of multi-sector consortia are not. Even within the same sector, goods often differ greatly from each other so that member firms of a single-sector consortium may in fact produce complementary goods.

A study conducted by Federexport in the late nineties revealed that the cost structure of single- and multi-sector consortia in Italy differs. Whereas over 78% of the expenses of single-sector consortia are related to promotion, this figure falls to less than 68% for multi-sector consortia. The difference is accounted for by the divergence of administrative costs for the two types of consortia: the share of administrative expenses in total costs is more than 10% higher for multi-sector consortia than for single-sector consortia (Federexport, 1998). Another Italian study on export consortia, found that the members of single-sector consortia have a more positive perception of the association's activities and are more active than those of multi-sector consortia. This could be attributed to the fact that it is not as difficult for consortia to offer services customized to one sector of operation than to the needs of member firms from several sectors. In the same study, firms that were not a member of a consortium reported a greater propensity to join a single-sector than a multi-sector consortium (59.1% versus 40.9%, respectively). The orientation towards single-sector consortia seemed to increase with the size of the firm and the number of distant export markets targeted (Camera di Commercio Industria Artigianato e Agricoltura di Milano & ALCE, 1996). In practice, however, Italian firms show a preference for multi-sector consortia: whereas 57% of member firms belong to a multi-sector consortium, only 43% are members of a single-sector consortia (Federexport, 1998).

**Consortia between competitors and between non-competitors.** When consortia are comprised of direct competitors, activities can be targeted directly to the goods or services produced and economies of scale can be achieved. Above all, more opportunities exist to share R&D projects (Renart, 1999). However, due to a lack of trust and a high

potential for conflict, most firms are reluctant to create an alliance with their competitors. If a consortium comprises competing firms, each member is likely to press for his personal goals, which will meet the resistance of the other members. The consortium may thus be hampered in its effectiveness and management costs may be higher than for consortia of non-competitors since conflicts have to be resolved. Nevertheless, there may be a danger that consortia grouping only producers of complementary goods are not able to supply the quantities demanded.

**Regional consortia and those comprising members from several regions.** Whether consortia comprise members of a specific region or of several regions typically depends on whether the initiative to establish a consortium comes from a national organization of enterprises in a specific sector or a local chamber of commerce. National consortia have the advantage that they can bring geographically dispersed firms into contact. They are thus more representative and may result in less competition between members than regional groups. Regional consortia, on the other hand, often have a specific local purpose, e.g. the promotion of typical food products or artisan goods. These types of consortia often emerge out of industrial districts. As boxes 2 and 3 show, there is a two-way relationship between industrial districts and export consortia.

**Consortia targeting a specific region and those active on a global scale.** The geographical outreach of the consortium's activity is another differentiating characteristic among consortia. If the markets targeted by the consortium are in the same geographic area, costs of operations can be minimized. Not only can transport expenses be reduced, but also information and advertising costs since the cultural distance between different countries within the region is likely to be small. However, as a consortium's activities move to a more global scale, diversification of export markets will increase.

**Box 2.**  
**Consortia and Industrial Districts**

Industrial districts, or clusters, are sectoral and geographical concentrations of enterprises producing and selling a range of related or complementary products. Within clusters, inter-firm cooperation is facilitated. When firms are located in clusters, small size is not necessarily an obstacle, as firms have easy access to suppliers of parts and services as well as to subcontractors. The competitive advantage of SMEs grouped in clusters is based on three inter-related aspects: specialization, cooperation and flexibility. Firm specialization allows small firms to focus their limited resources on their core competencies. Inter-firm cooperation enhances flexibility in terms of the amount of production. Firms may outsource more work when there is increased demand and less when there is a decrease. Alternatively, production processes may be divided into distinct phases with separate firms responsible for different phases. This allows for flexibility and short response times.

The success of clusters is rooted in local traditions and in local forms of social and economic organization. Therefore, clusters cannot simply be transplanted to other environments. However, by promoting initiatives such as export consortia, the development of inter-firm cooperation found in clusters can be nurtured.

A two-way relationship exists between clusters and consortia. On the one hand, inter-firm cooperation among consortia members is facilitated within clusters. Firms operating in geographical proximity of enterprises in the same line of business have greater knowledge of each other and are thus more likely to develop relationships of trust. An export consortium may also be more efficient within a developed cluster than in an isolated environment because of easy access to resources and support institutions. On the other hand, the creation of an export consortium and the cooperation mentality developed within it may itself be a first step to improve collaboration between firms of a particular region or to act as an impetus for the development of a cluster. By jointly undertaking activities in the framework of the consortium, members develop personal bonds and trust. However, export consortia (and similar intermediate structures) not only play a key role in facilitating inter-firm cooperation, but also in improving linkages between firms and surrounding institutions. Consortia are thus crucial to make enterprises confident in their local environment and to reinforce cluster performance.

Once inter-firm cooperation becomes consolidated within a consortium, the way is paved for further strategic alliances. The networks that are created and strengthened between firms during their membership in a consortium can facilitate collaboration between firms in areas unrelated to exports, even with firms who are no longer members of the consortium. Creating a consortium may therefore initiate a process—not just an entity—that becomes the foundation for a range of activities that are no longer dependent on the structure of the consortium (Welch et al., 1996). Policies designed to support inter-firm cooperation through the formation of export consortia may thus ultimately have positive repercussions on the business environment and on economic activity in general.

The promotion of consortia is thus a practical first step towards the creation of private sector initiatives, which may help nurture a positive local development environment. By increasing the efficiency and productivity of groups of firms and stabilizing the local community, export consortia may establish a foundation for endogenous growth.

In addition to the different types of consortia outlined above, country specific classifications exist. In Spain a distinction is made between **consortia in “origin”** and in **“destination”**, depending on the location of a consortium’s headquarters. Whereas the former refers to consortia with headquarters in the home country (Spain in this case), the latter refers to consortia with headquarters abroad and is not as common as the former. Both types may establish subsidiaries in other countries.

Some experts further distinguish between **hard** and **soft** consortia. Hard consortia are those with long-term objectives that are likely to operate permanently with or without expansion of membership. Soft consortia, by contrast, are those that are formed for a specific purpose and that are dissolved after the task is achieved. They are thus a more informal type of cooperation between firms. Although uncommon, some soft consortia might mature into hard ones when the members perceive the benefits of the collective approach and broaden their objectives and commitments.



**Box 3.**  
**Export Consortia in the Industrial District of Prato**

To understand how export consortia can grow out of specific local contexts, we may look at their development in a well-known Italian textile industrial district—Prato. 8,000 local firms, of which 80% are small processing units, constitute the textile industry of Prato. In addition to the textile industry, which employs 45,000 people (or 60% of local industrial employment and 35% of total local employment) there are many companies that produce textile machinery, chemical products and packing materials. The success of Prato is decisively influenced by the capacity of its manufacturers to design a wide range of products and to align their operations towards common objectives consisting of high quality standards and rapid delivery, small lots and competitive pricing.

Until the late 1970s, the Prato textile district was considered worldwide as a centre for the production of low-quality textiles and the processing of regenerated (recycled) fibres. Today, Prato is an unquestioned international leader in the production of woollen and fancy yarns for knitwear as well as textiles for the garment industry, for upholstery and for industrial uses. New types of products have taken their place alongside the traditional product lines: linen, cotton, silk and viscose. Every six months, at the start of the “Spring-Summer” and “Fall-Winter” seasons, the local mills present 2,000 new yarns and 60,000 new fabric designs. This enthusiastic pursuit of new ideas and the ability to anticipate trends make Prato a rich source of inspiration for the fashion world.

In Prato, examples of consortia activity could be detected even before the advent of the pro-consortia legislation of the 1980s. Already in the 1970s, several textile firms in Prato realised that inter-firm cooperation could be a powerful instrument with which to face the difficulties arising in international markets. The development of local consortia was favoured by the efforts of local business associations, the local Industrial Association (Unione Industriali), in particular. At later stages, consortia creation was further stimulated by the substantial benefits offered to consortia through governmental incentive schemes.

The development of export consortia in Prato is interrelated with the development of the industrial district. In the 1960s, export was practically non-existent and the great majority of textile machine producers worked exclusively for the local textile district. There were very few strong firms and these concentrated in machines for Prato’s traditional production: the recycling of rags and textile scraps.

At the beginning of the 1970s, TESSILTECNICA, a local firm, began compiling a vast catalogue of all the machines produced in the Prato area and Prato’s textile machines began to be known abroad. However, the names of the individual manufacturing firms did not appear and local manufacturers had no direct export activity or contact with foreign markets.

With time, local firms began to feel the need to manage their own exports. The occasion to do so arose in 1976-1977 when TESSILTECNICA began its decline in the wake of several unfortunate business moves. The local textile machine manufacturers suddenly found themselves without their only contact to foreign markets. This situation provided the stimulus for the creation of TEXMA PRATO, the first consortium for export promotion in Prato, in 1978.

With the assistance of the local Industrial Association (Unione Industriale), several textile machine manufacturers joined TEXMA PRATO. The founding firms agreed that their common objective was to maintain the capacity for export achieved by the former TESSILTECNICA and to nurture export activity through direct participation in the development of market contacts. TEXMA PRATO therefore promoted the very first initiatives to participate in trade fairs. Initially, participation was restricted to local exhibitions aimed at the regional and national markets. This swiftly led to joint participation in international events around the world.

Prato's textile industry rapidly evolved and, as it did, so did the technology employed. Prato abandoned the technology associated with recycling for that related to fashion and high quality textiles. However, the image of Prato remained linked to the recycling of fibres and thus to low quality textiles.

Above all, Prato needed to free itself from this image if it wanted to compete internationally. The district had to present itself on the international market with a new, more attractive image. TEXMA PRATO understood this need and set out to give the entire textile machinery subsector an image of professionalism, reliability and that of an industry at the forefront of technology. Events were organized and brochures designed to show that the firms associated with TEXMA met the highest European standards. The level of commitment and expertise these services require mean that very few individual member firms would have been able to organize and sustain such activities on their own.

However, TEXMA's development was not without difficulties. Some firms left the consortium feeling that their presence was incompatible with that of their competitors. Other firms have decided to take part in the consortium precisely because their competitors are members.

The activities undertaken by TEXMA and later consortia, especially those related to the image renewal for the local textile production, quickly brought positive ramifications for the entire textile district in terms of evolution and growth. In the majority of cases, the consortia not only produced a new image, but also promoted the development of an export culture and the use of technology to continuously improve production and competitiveness. Today, after 25 years of activity, all the firms associated with TEXMA PRATO have achieved a strong presence in the main foreign markets and Prato's leadership is recognized throughout the world.

Overall, TEXMA PRATO has played an important political role in that its activities have demonstrated the efficacy of such consortia in the stimulation of inter-firm collaboration among SMEs. TEXMA PRATO has been a vivid example for other consortia that have since developed in the Prato region and has greatly improved the relationship between firms and local institutions.

#### **1.4. SERVICES PROVIDED BY EXPORT CONSORTIA**

The concrete objective and thus the services provided depend on the type of consortium in question. Since promotional export consortia are more relevant in practice than sales consortia, this guide will concentrate on the former.

Member firms view the consortium as a provider of promotional services that assists them to create links with clients abroad (e.g. through participation in fairs), and offers basic consulting functions in areas related to the daily operations of the enterprises.

Box 4 shows that consortia coordinate the export-related actions of their member firms through a wide range of activities. As has been mentioned above, however, export consortia vary in the degree to which they provide services, from those offering only basic assistance to those providing an extensive service package. Not all consortia will thus offer the entire range of services outlined in box 4. Newly established export consortia may begin by providing basic secretarial services, limited research as well as sales promotion. They might venture into areas such as creation of a common brand, collective purchasing or product development at a later stage, when cooperation has proven successful and social cohesion among group members has been strengthened. The most common services provided by export consortia are outlined in detail below.

**Box 4.**  
**Services Provided by Export Consortia**

Export consortia allow SMEs to benefit from a series of specialized services that lead to a reduction of the high operational cost necessary to penetrate new markets, such as:

**Basic services**

- Administrative services (facsimile, email, etc.);
- Translations, interpretation and export consulting;
- Legal assistance;
- Creation of a common information system for the diffusion of relevant data (on business partners, market developments, etc.) among the members;
- Assistance in handling transport and customs clearance procedures;
- Establishing links to local or national institutions.

**Services related to the promotion of members' products**

- Joint Advertising (common catalogues, television spots, common website, etc.);
- Promotion, organization and coordination of member firms' collective participation in exhibitions and industrial fairs both in the domestic market and abroad;
- Participation of delegates of member firms in economic missions and study tours to foreign countries;
- Collective hosting of potential clients;
- Creation of a consortium trademark or brand and its support through promotional activities;
- Creation of collective communication, promotion, and marketing plans;
- Public relations and lobbying activities.

**Services going beyond mere promotional activities**

- Information on technical developments in the members' sectors, e.g. by reviewing industry-related press or participation in technical fairs;

- Organization of collective training activities and workshops;
- Market research (relating both to the *geographic area* and to the *segment* of the market to target) in order to identify where the economic activity of the consortium can best develop;
- Introduction of quality standards;
- Identification of distributors and clients;
- Establishment of a common distribution network;
- Research on improved processing techniques;
- Research and development of new and improved products in order to react to the changing preferences of clients;
- Selection of suppliers of raw materials and equipment to be utilized by the associate firms and the definition of common purchasing methods;
- Joint shipping;
- Assistance in obtaining certification of adherence to certain standards (e.g. ISO 9000);
- Response to a request by joint or complementary offers;
- Collective participation in tenders;
- Recovery of credit extended towards members' customers;
- Negotiation of preferential agreements with banks, travel agencies, etc.;
- Assurance of the member firms' professional ethics.

One of the most important services that export consortia provide is organizing member firms' **participation in exhibitions and industrial fairs** abroad. Due to the complexities involved in participating in fairs, many firms need assistance to locate a space and design a stand, to transport products, to organize publicity around the fair and to attend to visitors. Participation in exhibitions and fairs not only attracts international exposure but also initiates a learning process within the firms. Members without experience in participating in such events can derive benefits from collaborating with the more experienced members of the consortium, both in the preparatory phase as well as during the fair. Members actively participating in industrial fairs become familiarized with the rules and requirements of taking part in such an event, such as the various procedures having to be followed. They learn how to present their companies and how to interact with foreign buyers. Finally, they improve their ability to identify the needs of buyers and become aware of the importance of adhering to certain quality standards. The amount of orders placed at a fair or exhibition is thus likely to rise with the firms' experience in participating at such events.

When collectively participating in a fair, costs can be reduced for the individual participants by creating a common brochure and by hiring joint services for stall design. Many consortia arrange a common stand for their members. By pooling the members' resources, greater awareness and a more impressive image can be created among buyers than would be possible for any individual firm.

Some consortia create a **common trademark** for their members in order to portray a collective image. This can result in significant cost savings for advertising, as it is less expensive to establish a single brand in a given market, than the brands of all members.

However, if members fear a loss of independence and prefer to continue using their own trademarks, it may be possible to use a common brand for packaging in combination with the firms' own brand. Joint packaging reduces costs and provides a coherent image for the consortium and its members. To ensure that individual members do not damage the image of the consortium, consistent quality is crucial. The consortium may therefore establish a quality assurance certification to which members must adhere.

Through workshops, training courses, R&D-related activities and collective purchases of equipment, consortia can contribute significantly to the **upgrading of technical and human resources** leading to considerable increases of member firms' productivity and thus competitiveness. Workshops organized by a consortium give members the opportunity to discuss issues such as technological innovations within the industry or the adaptation of production processes to international requirements. A consortium may also offer a wide variety of training courses. These could range from training in accounting, computer skills, negotiation skills (especially in an international context), marketing and technical skills to guidance on how to comply with quality specifications. A consortium assisting its member firms in undertaking research and development activities can help the members to improve their competitiveness through innovation. If consortia organize joint purchases of equipment, members cannot only benefit from reduced prices but also from the latest technology.

In the global economy of today, logistics are a decisive factor for the competitiveness of firms. Export consortia can assist member firms to **optimize the logistics** of their foreign market operations by offering services related to inventory management, operations management, the development of a distribution strategy as well as to transportation modes. For example, export consortia may assist members to improve the provision of inputs or to reduce the transport cost of finished goods by conducting logistics studies. One well-established Indian export consortium in the knitwear cluster of Tirupur, the Tirupur Exporters' Association (TEA), even promoted the creation of an internal container depot to reduce the delay in transport and cargo handling for its members.

A crucial service that export consortia typically provide to their members is the **establishment of links to local or national institutions**. In contrast to individual firms, a consortium grouping several enterprises may have fewer problems to contact support institutions and is more likely to receive financial assistance. Due to their increased bargaining power, consortia might also be able to negotiate credit lines for their member firms.

In most cases, member firms are not required to participate in all the activities undertaken by a consortium. Instead they can choose among the services rendered only those that are most suitable to their export priorities and for which they are willing to pay a fee. The amount of services a consortium is able to offer will thus depend crucially on the number of members it has.

To ensure that the consortium offers the services that its members expect, a constant dialogue between the management of the consortium and the member firms is essential. This demands the active participation of firms in the design and implementation of activities. Services should be critically analysed in order to determine their impact

and their use to members. The consortium must be flexible to introduce any changes necessary. Member firms may expect consortia to be more than just another service provider and to actively assist them in developing new business opportunities. The consortium can do so by conducting market research and organizing the participation of members in fairs and exhibitions. However, without the active involvement of its members, the activities undertaken by the consortium cannot achieve a significant impact.

Export consortia rarely implement all the steps that encompass a complete export strategy. While certain elements of the export strategy (e.g. the determination of products and prices) are almost always retained with the member firms, the consortium implements other elements such as the selection of intermediaries in the target markets or the participation in fairs. In order to create synergy effects, the activities undertaken by the consortium must be coherent and must have a complementary role to those undertaken by the individual members.



## CREATING AN EXPORT CONSORTIUM

The design and establishment phase of a consortium can be considered as the most decisive in the life of a consortium. During this stage, decisions are taken which determine the continued viability and success of the group. Experience has shown that grouping exercises, such as the creation of export consortia, face the highest danger of failure in the early establishment phase.

UNIDO and Federexport have assisted the creation of export consortia in countries as varied as Argentina, Brazil, India, Italy, Mexico, Morocco and Tunisia. Based on this broad experience, the following represents a simplified analysis of the actors involved and the steps that must be taken to establish a consortium.

### 2.1. BASIC PRINCIPLES

Before initiating the process of establishing a consortium, the actors involved should be aware of three underlying conditions, which must be met to ensure success.

- **Clear objectives:** The definition of precise and realistic objectives is crucial, as these will determine the activities spelled out in the business plan, the choice of the legal form to adopt and finally the financial contribution of each member. The consortium's objectives must thus reflect thorough discussions with potential member firms.

The success of the first joint activities is fundamental for the continuation of the project. Only realistic, albeit ambitious, goals should be set in order to reinforce the motivation of members to participate in the consortium. Attaining these goals will entail a demonstration effect and prepare the members for future joint activities. Other, larger-scale initiatives may always be added in the future.

- **Consensus Building:** Consensus building is one of the key factors determining the success of a consortium. Members cannot be expected to develop the trust necessary to effectively coordinate their activities from one day to the next. However, only when the group is able to achieve consensus and has achieved a certain degree of internal stability, can its operations be successful (Welch and Joynt, 1987). Before ambitious joint activities can be undertaken effectively in foreign markets, it is thus essential that some sort of grouping process has taken place in which solidarity has been created and members have gotten to know each other, their needs and their expectations. This can be achieved, for example, through visits to each other's factories, group meetings and workshops or group travel. To further the grouping process and to ensure that motivation and momentum are retained, however, some limited export related activities should also be undertaken collectively at an early stage. Consensus building among the potential member firms can be promoted through their active involvement in the conception of the consortium, e.g. through regular meetings and lively discussions on the set-up of the consortium and its objectives.



- **Time factor:** During the conception stage, potential members must recognize that creating a successful consortium and reaping its benefits takes time. Experience shows that the creation of a consortium typically takes between six to twelve (in some cases even more) months of preparation—from the initial conversations between interested parties to completing all administrative procedures required.

The entrepreneurs engaging in the creation of a consortium must also be aware that immediate gains cannot be expected once joint activities are undertaken and that a quick pay-off will not be achieved. Instead, they should see their contributions to the consortium's capital as a long-term investment. Although some positive results may be achieved shortly after the consortium's creation, the true impact of such organizations will only be seen over time. Foreign markets are not easy to access but with a suitable range of products and a clear market entering strategy, efforts will ultimately prove successful.

Awareness of the time factor is closely linked to the two points above, i.e. the objectives of the consortium and consensus building among the various actors involved. Success in clearly identified short-term goals can result in a virtuous circle for the consortium. The operation of the consortium is reinforced as members realize that cooperation pays off. The increase in trust and motivation will help the members to come to a consensus and thus to tackle more ambitious projects. Achievements in the short term thus helps to ensure the continuation of the consortium's operations and the realization of long-term, more structural changes in the local business environment.

The above conditions must underlie all phases of consortia creation, but are of special importance in the start-up phase. Once the actors involved are aware of these general principles, the establishment process can be initiated.

The initiative to create an export consortium may either come from a public institution or, preferably, from the private sector, be it from an association of firms or from individual entrepreneurs who have realised the need to work together to obtain the financial and human resources needed to continuously develop their exports. No matter if the initial idea to establish an export consortium comes from the public or private sector, participating firms must be committed to joint activities to penetrate foreign markets. The common will to improve export performance must be the binding force behind the stages involved in the creation of the consortium as well as in the subsequent performance of the group's tasks. Although many firms are initially doubtful about the idea of cooperation, especially when it involves working together with competitors, they must realise that cooperating entails benefits they could not achieve by themselves.

## **2.2. THE STEPS INVOLVED IN CONSORTIUM CREATION**

Although considerable differences exist between individual consortia, some common development phases can be identified. Despite the fact that the outline below cannot take the dynamic elements between the individual steps into account, it is hoped that it can serve as a guideline for those interested in the project of creating a consortium.

### Box 5. Creating an Export Consortium

The eight steps involved in creating an export consortium are:

1. Identifying a suitable promoter
2. Identifying potential members
3. Conducting a study of interest and contacting interested firms
4. Designating representatives
5. Organizing meetings between potential members
6. Undertaking a feasibility study and drafting a business plan
7. Formal incorporation of the consortium
8. Follow-up

### Step 1. Identifying a Promoter

The promoter of a consortium (also called broker, agent, coordinator, tutor or facilitator) is present from the beginning of the consortium creation process. His task is to initiate, guide and organize the establishment of the consortium. He facilitates consensus building, helps maintain the momentum of the project and assists potential members to define a realistic business plan. His job is not to dictate what is to be done, but rather to assist in the launching of the networking project. He should thus leave ample scope to the future member firms to define their own priorities and to customize the consortium to their needs. However, until skills and resources are acquired within the group itself, the promoter's knowledge and contacts are crucial to guide the members and to assist them in all the steps involved in the consortium creation process. This task will be particularly difficult in countries lacking a culture of inter-firm cooperation.

The promoter's tasks include:

- Assisting firms to identify common objectives and possible partners;
- Making firms aware of the possibility of reaping benefits through cooperation and thus reducing the uncertainty related to the concept of consortia;
- Supporting the process of member selection;
- Guiding firms in the grouping process by organizing meetings, providing information, supporting the drafting of documents such as the business plan, etc.;
- Giving advice on difficult choices arising in the process, such as the legal form to be adopted;
- Providing general secretarial support;
- Establishing links with support institutions and relevant administrative entities and acting as an intermediary between policy makers and entrepreneurs;
- Introducing member firms to the realities of international business, i.e. explaining the important role of issues such as marketing, quality control and adherence to technical and environmental standards;

- Supporting the recruitment of personnel for the consortium;
- Resolving conflicts between members;
- Accompanying members in their first collective activities.

Although the promoter should preferably be unconnected to the potential members, he is sometimes the owner or a director of one of the future member firms. In most cases, however, the promoter is an external agent, e.g. an official of a local industrial association, a chamber of commerce or a national federation of consortia. He may also be a consultant recruited by a public institution or an international development organization. As an external agent, the promoter is seen as neutral and can thus drive the group formation process without being suspected of favouring a particular firm. As an “outsider”, he may also be in a better position to identify the possible areas of cooperation as well as strengths and weaknesses of members. He may thus have a better perception of what is feasible for a particular group and which projects should best be left for a later point in time.

The personality, motivation and experience of the promoter is crucial for the group building exercise. The promoter should therefore be versed in marketing and group-building activities. He should have a profound knowledge of the sector in which the member firms operate as well as personal contacts to several potential member firms. Furthermore, he should be able to motivate future members, have conflict resolution skills, negotiation skills and the flexibility and willingness to assist future members to find a solution acceptable to all.

The promoter’s assistance can only be of temporary nature. His overall aim is to support the consortium’s members in taking the group’s operations into their own hands, i.e. he promotes the self-organization of the future members. He must therefore ensure that already during the design and establishment phase, initiatives come from the entrepreneurs and that his assistance is limited to accompaniment of the process. He must also avoid creating excessive links with the individual members that may hinder the development of more direct relations between the members themselves. If the promoter fails to do so, the survival of the consortium will depend on his presence and the assistance of support institutions.

Although the assistance of the promoter should be phased out with the formal incorporation of the consortium, experience from export grouping schemes in various countries has shown that member firms may still contact him with their problems, even beyond the establishment phase. In this case, his role should be limited.

## Step 2. Identifying Potential Members

In this second step, a general idea is won of which types of firms may become members of the future consortium. In cooperation with competent local institutions, promoters of export consortia must identify industrial sectors and services suitable for this type of inter-firm association. These must be buoyant and have an unexploited or under exploited export potential. Furthermore, any existing networks or untapped relationships among firms should be identified, as these will facilitate future cooperation.

The process of identifying enterprises for an export consortium can be initiated by compiling a representative sample of firms operating in the sector(s) in which the consortium is to be active. Assistance in compiling this sample may be received from trade associations, chambers of commerce and other public or private associations.

The selection of potential member firms is the most crucial element in the process of consortium creation. To ensure the success of the future consortium, participating firms must meet carefully defined criteria with respect to their size, reputation, financial stability and the goods or services they offer.<sup>3</sup> They must be able to offer products of adequate quality, in sufficient volumes and at a price that is competitive at the international level. Most importantly, the goods must fit into a predetermined product range. As seen above in section 1.3, in which the different types of consortia were described, cooperation between firms is facilitated and the benefits of cooperation are enhanced when member firms' products are complementary and not competing. Ideally, members should produce differentiated, but complementary goods that can be sold to the same clients or through the same distribution channels and require the same or a similar promotional strategy (Renart, 1997).

Additional selection criteria which are frequently used are: similar turnover of firms, export activity or potential, adherence to ISO standards and registration in the country in question. Firms with headquarters abroad, often subsidiaries of foreign firms, should not be targeted. These firms have ensured their market access and do not need a consortium. Depending on the precise objective of the consortium, other criteria may be specified such as products corresponding to European standards or existing contacts with other potential members. A final crucial aspect when selecting potential members is the management and personnel of the firms. These must have the technical knowledge required, be flexible and able to work in a team.

### Step 3. Conducting a Study of Interest and Contacting Interested Firms

After having identified a reasonable number of firms that could potentially benefit from participating in a consortium, the awareness and interest of these enterprises in the concept of export consortia must be determined. To this end individual interviews and meetings are organized with firms in the priority sector(s) that have an export potential, correspond to the criteria determined, and are willing to participate in an export consortium. The notion of consortia, their relevance, membership conditions and past experiences with consortia should all be explained at this stage. Firms' position and expectations towards the project of an export consortium will emerge from these interviews and meetings.

In addition to the interviews and meetings, a survey is conducted among the enterprises previously identified. The survey gives firms the opportunity to express their interest in the concept of export consortia. Additionally, it permits the promoter to determine firms' common weaknesses and expectations, which can be used to define joint starting

<sup>3</sup>Criteria such as these help reduce the potential for conflict within the consortium from the beginning stages. In a Tunisian consortium, differences in size and financial capacity of member firms gave rise to problems, as some of the consortium's activities represented significant financial outlays for the smaller and less affluent members.

objectives. The survey may also help to identify the willingness of potential members to commit to the consortium, both in time and in financial terms. The study thus serves as a basis for all future activities (c.f. file: *Example of a Questionnaire to Identify Interested Firms, CD ROM*).

Once potential future members have been identified and their common problems, concerns and expectations have been determined with help of the survey, the promoter must contact the enterprises having stated an interest in association with a consortium. The goal is to confirm the survey results, to respond to firms' questions and to obtain a preliminary confirmation in the form of a letter of intent, which reflects the firms' assurance to pursue the creation of a consortium.

At this stage, the number of firms in contact with the promoter has been greatly reduced from the original number that was contacted during step 2. It is essential to contact a large number of firms initially in order to ensure that only suitable firms will be selected as members. During his initial contacts with firms, the promoter should gather as much information as possible on the firms in order to decide whether they meet the membership criteria. The firms must obtain the information needed to be able to determine whether for them the benefits of participating in a consortium outweigh the costs involved. Determining member firms is thus a two-way process.

During this stage, the promoter must take measures to ensure that those firms initially interested in the project of creating a consortium do not leave the process before additional firms willing to participate have been identified. This can be achieved, for example, by organizing regular meetings (see below) or working groups.

#### Step 4. Designating the Representatives

Each firm should designate one main contact person who will be responsible for representing the firm and defending its interests at the meetings preceding the constitution of a consortium. This representative must dispose over considerable decision-making power and is typically the owner or one of the firm's directors. He must have the authority to negotiate the design and operation of the future consortium and to take the decision of whether his firm should join the consortium or not. Once a firm has decided to become a member, it must designate a permanent representative who may either be the initial contact person or another manager of the firm.

In order to ensure the effective operation of the consortium at later stages, it is not only essential that member firms fit together and meet the selection criteria, but also that the permanent representatives are able to work together. Personal relations and sympathy between representatives are fundamental for trust and cooperation to develop between the future members. Previous export groups have failed because some individual members were unable to work together. Due to the importance of interpersonal relations between the permanent representatives for consensus building and hence the functioning of the consortium, it is essential that these representatives are as "permanent" as possible and are not replaced every so often. Additionally, disturbances can be minimized if each permanent representative has a substitute who knows the other members and is always informed of the consortium's activities and proceedings.

At this stage, the promoter should identify possible leaders among the permanent representatives that will be able to drive the formation process and can act as catalysts for the consortium's future activities.

### Step 5. Meetings of Potential Members

Following the first encounter between the promoter and executives of potential member firms, a series of meetings takes place between the promoter and the companies' representatives in order to begin the active phase of consortium creation: defining objectives and the concrete actions to be taken.

A first round of preliminary meetings is organized in the form of information sessions on consortia. These first meetings play a crucial role in providing an opportunity for future members to make contacts. The importance of developing solidarity and cohesion within the group should be stressed to make members aware that this will be a considerable part of the group's early activities. These first-round meetings are also intended for potential member firms to reflect on the concrete objectives of the consortium, financial and legal matters and to give feedback to the promoter.

If export consortia already exist in the country in question, the promoter may consider inviting a representative of an established consortium to attend the initial meetings in order to speak about his consortium's experience and to answer questions.

Ideally, the first meetings should be hosted by an official organization, such as an industrial association or a public body. This gives the consortium creation process a formal character and ensures neutrality.

Once all general questions have been answered and participants are ready to take concrete steps towards the establishment of the consortium, a second round of meetings can be initiated. During this second round, the project is presented and studied in more detail. A first draft of a business plan and of a Statute should be elaborated and debated. Additionally, the division of responsibilities must be discussed. It is essential to clarify which functions will be performed by the consortium and which ones by the firms.

It is essential that group meetings, which take place over a period of several months, be in regular intervals, i.e. at least once every two weeks. These meetings will foster a climate of cooperation essential for the later functioning of the consortium. Additional meetings between the promoter and group leaders should be scheduled to maintain the momentum of the project.

### Step 6. Undertaking a Feasibility Study and Drafting a Business Plan

Once the proposal for the creation of the consortium is clearly drafted and the firms identified are determined to participate, the formulation of a business plan becomes necessary. This plan should be based on the member firms' needs and priorities determined by means of a **questionnaire** and a feasibility study (c.f. files: *Example of a*

*Questionnaire on the Activities to be Undertaken; Example of a Questionnaire on the Administration of a Consortium, CD ROM).*

The **feasibility study** helps to ensure that the objectives determined are not overly ambitious in the early stages of the consortium's existence. The study should include an outline of the procedures as well as the financial and human resources needed for the consortium's creation and the realization of its goals. It should also suggest how the necessary resources will be obtained. The study should furthermore include an analysis of the member firms' Strengths, Weaknesses, Opportunities and Threats. This so-called SWOT analysis will help determine a clear business strategy delineating the markets and the segments to be targeted as well as the mechanisms used, all of which will subsequently be specified in the business plan. This strategy should serve as a guideline for the future activities of the consortium but may be adapted when a need is perceived, e.g. due to changes in the external environment.

The **business plan** specifies the activities that members wish to undertake jointly and provides an overview of the expenses involved. Clearly, the resources available will determine the activities planned and the amount of markets to target. In the early stages following a consortium's establishment, it is advisable to focus the limited funds available on a few activities and target only a small number of markets. At later stages, positive results may lead to an increase in members' contributions and activities can be expanded.

The Board of Directors may have to take a decision on which activities have priority given the budget available. The choice of the first endeavours is crucial. These activities should clearly reflect the needs and expectations of the members identified in the questionnaires. They must be well distributed among the actors involved and problems to be solved. Additionally, risks should be minimised, i.e. a certain degree of diversification should be ensured. It is essential to achieve concrete results as soon as possible in order to maintain the momentum of the project.

In addition to the activities planned, the business plan should define the organizational structure of the consortium as well as details concerning implementation of the objectives. The activities foreseen must be outlined by area and the costs involved in each one specified. The business plan will play a crucial role when determining the legal structure to adopt and the amount of capital to be contributed by each member in order to ensure financial viability (c.f. file: *Guide to the Business Plan, CD ROM*).

The elaboration of a complete business plan and its approval by all members takes time and should preferably be organized with the assistance of an external expert to assure objectivity.

## **Step 7. Formal Incorporation of the Consortium**

At this stage, which may be more than twelve months after the idea of creating a consortium was first raised, firms must formally commit themselves to the consortium. This commitment is made on the basis of the preliminary meetings, the feasibility study and the business plan. Commitments are made on several levels: (a) a commitment to

abide by the consortium's Statute, which describes the form of interaction, the choice of management etc.; (b) a commitment to contribute financially and (c) a commercial commitment, e.g. to export primarily to a certain group of countries as specified in the business plan (Renart, 2002).

Establishing a formal structure with clear rules and responsibilities at an early stage will help the participants to focus their activities. Although being formally registered cannot ensure the consortium's success, it can be understood as a declaration of commitment towards cooperation and the consortium's goals. As trust develops and personal links are strengthened between members, this formal structure may become of secondary importance.

The newly established consortium will be organized according to the procedures specified in the documents of incorporation. The Statute is typically accompanied by the Shareholders' Agreement, which spells out in greater detail how the collective functions are to be performed. Both have been circulated among the members during the meetings. The last version of the Statute and of the Shareholders' Agreement is put to vote during the first General Meeting of the consortium. The members must decide whether membership is the same for all or if variations are possible, for example: voting members, non-voting members, voting members with differing obligations, etc. In this first Meeting, the Board of Directors is also elected (c.f. file: *Example of a Statute of an Export Consortium, Example of a Shareholder's Agreement, CD ROM*).<sup>4</sup>

At this stage, the Executive Director of the consortium should be recruited. Furthermore, office space should be located so that the consortium can begin its operations. Occasionally, office space will be provided by one of the members or a support institution. To facilitate interaction among members, it is advisable for the consortium's office to be located in geographical proximity of the majority of member firms.

Firms not convinced of the benefits of the consortium's activities for their particular company will opt out of the process at this stage. The others will contribute the predetermined amount to the consortium's initial capital. The role of the promoter is now mainly reduced to that of an advisor.

## Step 8. Follow-up

To assist the consortium in its early stages, a continuous follow-up should be ensured by the promoter and the support institutions involved in the establishment process. This can be achieved through individual or joint meetings to discuss the consortium's achievements and the challenges it is faced with.

During the period directly following the formal establishment of a consortium, both internal and external relationships must be promoted, i.e. the relationships between member firms and those between the consortium and its export partners. The member firms have committed to each other and relationships and trust must develop between

<sup>4</sup>Section 3.4 below explores the question of which legal forms a consortium may adopt and describes the documents of incorporation.



the representatives. Additionally, the creation of contact and links between various consortia should be encouraged to facilitate the exchange of information and experience. In order to ensure regular exports, contacts to clients must be created and existing relationships strengthened.

Discussion and mutual decision-making, the essence of inter-firm cooperation, must govern all activities of the consortium. Although the goals of the consortium were established early on and possible methods of achieving them were analysed in the feasibility study and outlined in the business plan, it may take some thought and discussion among the members on how to begin to act towards the stated ends. It should be emphasized that discussion as well as joint decision-making and implementation are all part of inter-firm cooperation and are positive in themselves. If the consortium makes it to this stage, its chances for survival may be considered very good.

It is very likely that some of the decisions taken during the establishment phase of the consortium are found to be inadequate at a later stage. It is therefore essential that flexibility be maintained to adopt the changes required.

### 2.3. FACTORS AFFECTING THE CREATION PROCESS

The creation of a collective structure regrouping several SMEs is not an easy task. There are a number of obstacles and the risks of failure can be significant. Admittedly, the initial phases are the most delicate. The challenges most often encountered relate to overcoming the individualism of entrepreneurs as well as the doubts and uncertainty with regard to the outcome of joint initiatives. It is not always easy to convince firms and support institutions of the benefits of working together, especially when a culture of inter-firm cooperation does not exist.

In general, the members of a consortium must overcome the following **obstacles**:

- Hesitation of participating enterprises related to the novelty of the concept;
- Lack of trust and the resulting reluctance to form an association together with local “competitors”;
- Absence of a leader among the firms who gives an impulse to the project;
- Firms dropping out in the early stages of the creation process due to differing export interests;
- Problems related to mobilizing the members’ financial contribution;
- Conviction of firms that they cannot benefit from membership in a consortium since they may already serve a foreign market and do not realize that other opportunities exist;
- Temptation to abuse the consortium as a means to further personal goals;
- Difficulty to convey a joint image of the consortium;
- Insufficient regulatory framework or one inadequate for inter-firm cooperation;
- Absent, weak or unsuited institutional support at the local, regional or national level.

Although it will be difficult for firms to meet these challenges, the majority of them can be addressed by a competent promoter who stimulates group building. As time passes and first activities have proven successful, these challenges may become obsolete.

Embryonic consortia are not only faced with obstacles, but also experience **positive events** such as:

- Identification of other firms interested in becoming a member of the consortium;
- Achieving consensus among member firms, e.g. on an export strategy, the legal form to be adopted, or the distribution of costs among members;
- Identification of target markets;
- The recruitment of capable staff that is able to further the interests of the consortium's members;
- Awareness of the member firms that they are acquiring knowledge on foreign markets, promotional methods, etc.

These events reinforce the operations of the association by improving the relationships between the members and by raising their motivation to participate in the consortium.



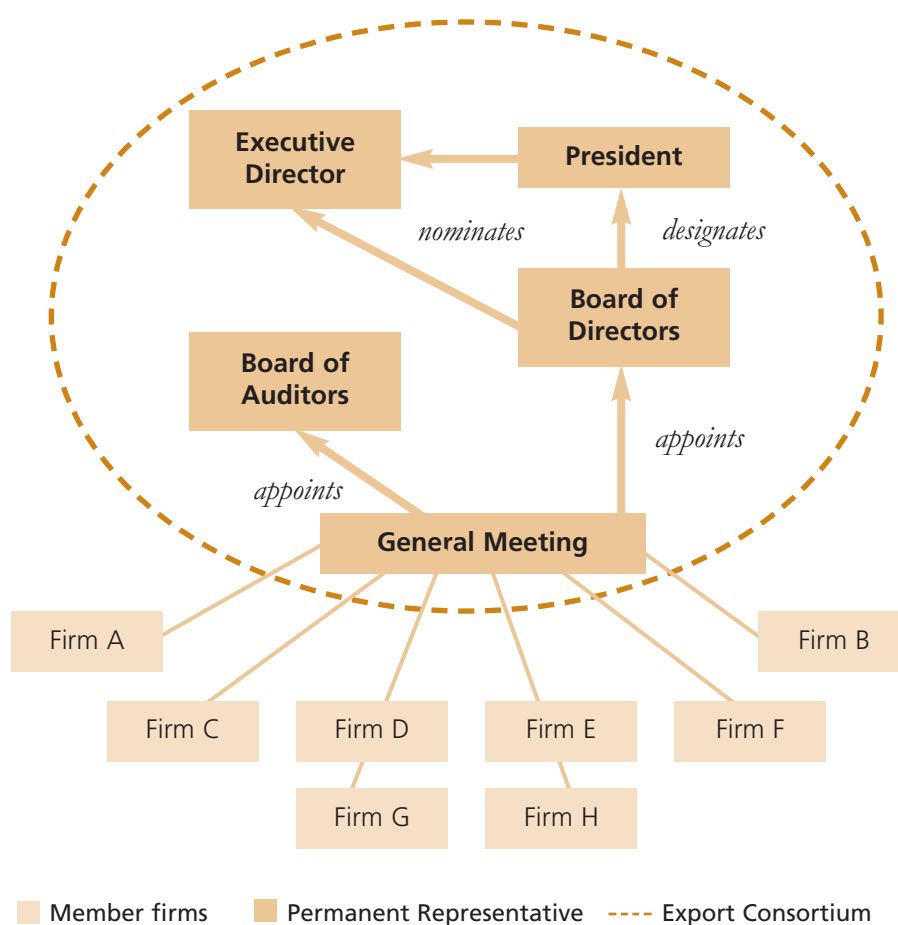
## EXPORT CONSORTIA IN PRACTICE

Several aspects contribute to the successful operation of a consortium. These include the group's organizational structure, the characteristics of member firms and their participation within the consortium, the size of the consortium, the legal form adopted and how it is funded. In addition, internal and external challenges to the consortium must be addressed. Finally, the activities undertaken must evolve if the changing needs of member firms are to be served adequately.

### 3.1. ORGANIZATIONAL STRUCTURE

This section provides a short overview of the main bodies constituting an export consortium, which are represented in the figure.<sup>5</sup> Detailed information on the bodies and on their functions can be found in the file *Example of a Statute of an Export Consortium* on the CD ROM.

#### Graphical Representation of an Export Consortium



<sup>5</sup>This section partly draws on Renart (1997; 1999).

The **General Meeting** is constituted by all members who have met their financial obligations towards the consortium. Typically, each member has the right to one vote. The meeting is convened and chaired by the consortium's President. It can be convened to hold an Ordinary Meeting (e.g. to approve the consortium's financial position, appoint the Board of Directors, determine membership fees and to give general directives) or to hold an Extraordinary Meeting (e.g. to alter the Statute, admit or exclude members, deliberate on extension or anticipated dissolution of the consortium, etc.).

The **Board of Directors** manages the consortium. It is constituted of a given number of members appointed by the Ordinary Meeting. Directors typically hold office for two years and may be re-elected. They may or may not be entitled to a salary. The Executive Director may, or may not be a member of the Board of Directors or may participate without having the right to vote. From among its members, the Board may designate the President of the consortium as well as Vice Presidents. The Board of Directors is convened when the President or the majority of members judges it necessary.

The **Executive Director** of the consortium is charged with the daily operations of the group. Since he must promote and defend the interests of the consortium as a whole, without favouring particular firms, it is advisable for the member firms to recruit him externally. In addition to being a neutral actor, an externally recruited director can concentrate solely on his commitment towards the consortium. In contrast, a director designated among the members must divide his time and efforts between the association and the firm employing him. Work relating to the consortium may be given less priority, which will ultimately reflect on the performance of the consortium.

The Executive Director should have a business background, export experience, organizational skills, knowledge of foreign languages and be well acquainted with the member firms, their goods and services as well as with the sector(s) in which they operate. As the Executive Director is a prime determinant of the consortium's success, it is advisable that a first-class manager be recruited. Export consortia in the past have failed as a result of bad management. Depending on the size of the consortium, it may have additional employees, such as secretarial staff or marketing experts, to assist the Executive Director. Members must support the Director's work by providing the necessary information and trusting his judgement.

Two types of Executive Directors can be identified. Whereas the "administrator type" solely implements the decisions taken by the Board of Directors, the "leader type" also defines the strategies to be implemented by the consortium and proposes them to the Board for approval. Active members may prefer the former type for fear of losing autonomy. However, it must always be kept in mind that the Executive Director is a professional with export experience who can greatly enhance the consortium's success if given sufficient leeway.

In addition to an externally recruited director, many consortia have a **President** from one of the member firms. His task is to represent the group and to ensure the conformity of the operations with the interests of the consortium. As mentioned above, he is designated by the Board of Directors. The President typically holds office for three

years, but may be reelected. He convenes and presides over the General Meeting and the Board of Directors. He hires the consortium's staff and nominates the Executive Director who is, in turn, reconfirmed by the Board.

The **Board of Auditors** is an optional body that oversees the consortium's accounting. If the creation of a Board of Auditors is foreseen, the number of members is specified in the Statute. Many consortia simply outsource the auditing of accounts.

The **permanent representatives** (see section 2.2) have a "double representation" function in that they represent their firm within the consortium but also the consortium within their firm.

It is advisable that, in addition to the official meetings of the Board of Directors and the General Meeting, frequent informal interaction takes place between the Executive Director and the members as well as among the permanent representatives themselves.

## 3.2. MEMBER FIRMS

A consortium's operations are greatly influenced by its member firms. Section 2.2 above briefly mentioned possible selection criteria for members. Members' motivation, their size, export experience, products and the degree of their active participation have a crucial effect on a consortium's performance.

Most consortia allow membership to be extended to other firms, even after the group's formal establishment. In most cases, however, the Statute requires approval by two thirds of the General Meeting before accepting a new member.

### 3.2.1. Characteristics of Member Firms

The decisive characteristics of firms participating in an export consortium are their determination to develop foreign markets and their investment mentality. Above all, members of export consortia are willing to cooperate with other firms to achieve these goals. Trust among members is one of the key factors for the effective functioning of a consortium. Trust is greatly facilitated by pre-existing relations between members and by transparent operations of the consortium.

The size of individual members within the consortium may also have a considerable effect on the operations of the group. Most large firms have the resources to design their own export strategy. Nevertheless, they may choose to participate in a consortium to be able to offer a larger range of products to their clients. Small members may suspect large firms of wanting to control the activities of the group and the promotional strategy to be followed. Typically, cooperation is thus enhanced when members are similar in size. Their technical and business standards will be comparable and interests are more easily coordinated. However, smaller firms may also benefit from the membership of larger firms since these may take initiatives and are likely to have prior marketing experience or contacts in target markets.

Consortia typically group firms that are at different stages in the development of their export markets. There are those firms that wish to use the consortium to enter export markets for the first time, those that want to target markets that are far away or particularly difficult to enter and those that are already well-positioned in foreign markets and use the consortium to develop additional business opportunities. Naturally, these different stages of export development entail different expectations of the services a consortium should offer. Experience has shown that firms at the beginning stages of export activities can derive the most benefits from participation in an export consortium, as these are the most in need of assistance and thus the most motivated.

Not only the members as such, but also their products are an essential factor for the success of a consortium. Member firms' goods and services must be adapted to the target markets and a sufficient range of products must be offered. As was seen above, consortia offering complementary products are not only easier to manage, but also have decisive advantages because they provide a greater choice to potential customers.

### 3.2.2. Participation of Member Firms

Firms deciding to join a consortium must be aware of the fact that membership requires a significant commitment not only in terms of financial resources, but also in terms of time. Without the continuous participation of the permanent representatives and their active involvement in the group's decision-making process, the consortium cannot work effectively and offer those services most useful to its members. By assuming management responsibilities within a consortium, firms can maximize the learning opportunities arising from membership in a consortium.

Typically, leaders and followers can be identified among the members of a consortium. The leaders are usually the larger enterprises. In many cases, the Director of one of these firms is appointed as President of the consortium. Although one firm may be more active than others, members should be equal from a legal perspective. The shares should thus be distributed equally among the members to encourage a balanced distribution of power and commitment.

In practice, the degree of active participation greatly varies among members. A study on Italian export consortia finds that only 23.8% of members participated actively (i.e. regularly attended meetings of the consortium and had made suggestions on new services to be offered), while 40% were rather passive and only participated minimally in internal decision-making processes. The remaining 36.2% hardly participated and had never made suggestions on activities to be undertaken. The study reveals that the degree of participation within the consortium is correlated with the development of members' export activities. Those member firms viewing the consortium as a mechanism to enter new markets were significantly more active than those that had already achieved a substantial export presence. Nevertheless, the study reports that a significant fraction (about 20%) of member firms take on management responsibilities within the consortium (Camera di Commercio Industria Artigianato e Agricoltura di Milano & ALCE, 1996).

### 3.3. SIZE OF A CONSORTIUM

There is no rule as to the number of firms needed to create an export consortium. The larger the consortium, the more resources are available and the more services can be offered. However, cohesion and efficiency within the group are likely to decrease, as the development of trust between individual members is hindered. In addition, it will be difficult for the consortium to focus its activities and to develop a consistent export promotion strategy. Management costs are thus likely to rise with the size of the consortium. Whether, and to what degree the potential for conflict rises with the number of firms depends on the characteristics of members as well as on conflict resolution mechanisms within the consortium.

The size of a consortium will largely depend on its objective. In contrast to promotional consortia, sales consortia tend to be relatively small since it is more difficult to manage the export operations of a large number of firms. In addition, firms are more reluctant to join sales consortia, as these involve ceding a significant degree of autonomy to the consortium. The number of firms participating in a consortium will also often be restricted if members agree to exclude competitors.

Participation of a sufficient number of firms is critical for a consortium's successful operations. If a culture of inter-firm cooperation is lacking, it may, however, be advisable to restrict the number of member firms in the early stages. Experience from India and Tunisia has shown that eight to twelve member firms is a reasonable number to establish a consortium. This number may easily be increased at a later stage to ensure a critical mass of workload and funds. If members are micro enterprises or very small firms, a larger number of members may be needed to achieve this critical mass than if members are medium-sized. The optimal size for any consortium may also be influenced by the environment and whether it has easy access to support institutions.

The larger the consortium, the stronger must be its management to ensure efficient functioning. In small consortia, i.e. up to 20 members, members should be able to arrange meetings at relatively frequent intervals and to participate continuously in the formulation of promotional strategies as well as the development of activities. In larger groups, by contrast, such active participation of members may not be possible without impeding the consortium's efficiency. The management of large consortia must therefore be given considerable autonomy and decision-making power.

In Italy, the majority of consortia have between 11 and 50 member firms. A study conducted in Italy by Federexport found that out of 111 consortia, 30.6% had less than 10 member firms, 46% had between 11 and 50 member firms and the remaining 23.4% had more than 50 members (Federexport, 1998).

### 3.4. LEGAL FORM OF A CONSORTIUM

A consortium is a legal entity distinct from its member firms. With few exceptions, Italy being the most relevant (see section 4.2), consortia are not recognized as a specific form of enterprise association. The recognition of consortia as a juridical form is



not a prerequisite for efficient functioning of a consortium. Nevertheless, it is essential that consortia are formalized in some way, either through a written contract or, preferably, through the establishment of a separate entity.

### 3.4.1. Choice of a Legal Form

The legal form adopted by a consortium will always depend on the precise objectives of its member firms and, above all, on the particularities of the legal system of the country in question. A general answer can thus not be given as to which form is the most suitable for a consortium. Considerations such as the amount of paid-in capital, liability of member firms, requirements on the minimum number of member firms, whether a profit motive exists or not, reporting requirements, and/or the amount of time for registration must be taken into account. These tend to differ for the various legal forms that may be adopted. In most cases, members choose the creation of a company or the formation as an Economic Interest Grouping. Depending on the country in which the consortium is to be established, other alternatives may exist. Occasionally, the legal structure of some consortia is simply limited to a private contract between members. This, however, typically inhibits the consortium to receive subsidies.

**Creation of a company.** Most consortia are structured either as a public or as a private limited company. In both cases, member firms' liability is limited to their capital contribution. The advantage of the former is that it is more flexible than the latter and members can enter and leave the consortium more easily. The formation of both types of companies, however, is relatively costly.

**Formation as an Economic Interest Grouping.** This legal form was developed specifically for enterprises wishing to embark on joint activities. Its duration is fixed and, unlike limited liability companies, it does not require a specific initial investment. However, members are liable for any losses accruing to the consortium. Although a capable management, good planning of activities and adequate fees should ensure that no losses arise, members may nevertheless be deterred from choosing this legal form.

A Tunisian consortium of natural olive oil producers, which UNIDO assisted in its creation, chose to form as an Economic Interest Grouping. It addressed the problem of unlimited liability by introducing a control mechanism. The Director who decides on the use of funds has no direct access to them. They will only be released with the approval of the Treasurer.

The possible legal forms should be discussed at the second round meetings during the creation process of a consortium. Members should always seek professional legal advice on this matter, as the legal form will greatly influence the future operations of the consortium.

### 3.4.2. The Documents of Incorporation

The precise requirements for the establishment of a consortium will depend on the legal form chosen as well as on the country in question. This also holds for the documents required for the formation of a consortium. Many different terms exist to denote these documents. Terms frequently used are a firm's Statute, its Articles of Incorporation, its Memorandum of Association or a company's Constitution. These are typically supplemented by bylaws governing the internal and external relationships of the consortium, such as a Shareholders' Agreement, and, in some cases, an Internal Regulation. For the purpose of this paper, the terms Statute, Shareholders' Agreement and Internal Regulation will be used to reflect past UNIDO experience.

A consortium's **Statute** should specify the group's name, its location and term, the purpose of the consortium, the composition of its fund, the duties and responsibilities of members, the bodies of the consortium, the method for electing a President, the mechanisms for firms to enter or leave the consortium as well as the conditions under which they may be excluded. It also determines procedures applying to increases in shares and liquidation of the consortium (c.f. file: *Example of a Statute of an Export Consortium*, CD ROM). To enable promotional consortia to move into selling members' products if necessary (e.g. if a client wishes to pay only a single invoice), the purpose of the consortium should not be defined too narrowly. The possibility to export in addition to the mere promotion of exports should thus be foreseen in the Statute.

As mentioned above, the Statute is often accompanied by a **Shareholders' Agreement**. This document determines the relations among members that are not foreseen or not adequately specified in the official Statute of a company or of an Economic Interest Grouping. Adhering to the complex procedures involved in making amendments to a Statute is not necessary for altering a Shareholders' Agreement. Such an agreement is thus more flexible and can be adapted to changing conditions more easily.

Most Shareholders' Agreements provide for a minimum membership period to ensure that capital is not withdrawn before investments are reflected in export sales. They may also clarify issues such as if competitors of the initial members may be admitted to the consortium (c.f. file: *Example of a Shareholders' Agreement*, CD ROM).

In order to avoid disputes, the rights and obligations of members should be clearly defined. In some countries, the Statute and the Shareholders' Agreement are thus supplemented by an **Internal Regulation**. This regulation specifies the procedures to address problems that may arise during a consortium's operations. It may, for example, stipulate how costs for specific activities are divided among the consortium and its members or determine if sales consortia may purchase goods from non-members to fulfil certain orders. It should also specify whether members leaving the consortium have the right to continue using the consortium's brand and the distribution channels developed by the consortium.

It cannot be emphasized enough that the precise requirements with respect to the documents of incorporation will vary among countries.

### 3.5. FUNDING A CONSORTIUM

Sufficient funding is crucial for the effective functioning of an export consortium. Funding of consortia is usually based on two sources: the members of the consortium and institutions. The first source of financing comes directly from the member firms and may take one of the following forms: a one-time contribution to underwrite the consortium's capital, annual membership fees, and fees for specific services. A combination of these is also possible. In exceptional cases, additional contributions may be necessary to cover possible losses. The **contributions to the share capital** are made during the formal establishment of the consortium. They are typically made in equal parts. The precise amount of the contribution to the consortium's capital will often depend on the legal form chosen. These contributions are the members' investment to set up the office and eventually to access foreign markets. Returns will only be reaped in the medium to long run, in the form of improved export performance. A consortium's expected operating costs are covered by **monthly or annual membership fees**, which may be reassessed every year. In combination with the fees for specific services, this membership charge is used to ensure the consortium's operations and to implement the activities approved by the Board of Directors. A **fee for specific services** is often introduced in consortia in which some, but not all members, participate in certain activities. This tends to be the case in relatively large consortia. Offering fee-based services is a mechanism to ensure the sustainability of the consortium as well as to make members aware of the value of the consortium's services and of the expenses the group incurs. Fees from members for specific services are typically calculated on a non-profit basis.

Differences may exist in the funding of promotional and sales consortia. In addition to membership fees, members of sales consortia may have to pay a commission. This commission usually takes the form of a certain percentage of the sales achieved in the target export markets. The percentage can either be fixed (e.g. 5% of total export sales) or calculated depending on the volume of exports achieved. For example, members may have to pay 7% of the first \$X of export sales, 6% for the sales between \$X and \$Y and 5% between \$Y and \$Z, etc. The use of a percentage of export sales to determine each member's contribution, introduces a certain degree of equity in the sense that those who benefit most from the consortium also pay the most. This type of fee schedule is, however, clearly more suited for sales consortia than for those focusing solely on promotional activities. Additionally, a consortium might run into liquidity problems if a certain predicted sales volume does not materialize, as the consortium's income will also be less than predicted. Commissions on export sales should thus always be supplemented by periodic payments. In addition to ensuring sustainability, fixed contributions guarantee that all members assume a certain part of the costs that they create by their mere participation in the consortium (Renart, 1997). In contrast to other types of consortia, trading consortia often cover their costs by including a margin between the purchase and the sales prices. For all types of consortia, a combination of fixed and variable member contributions is generally advisable.

Some consortia, particularly sales consortia, demand higher contributions from new members. The reasoning behind this is that new members can benefit from the goodwill created by the initial group since the consortium's establishment and that they should thus assume their fair share of the costs.

The total financial contributions made by members should not be too limited. Without sufficient funds, consortia cannot offer the services that their members need. A vicious circle may arise, as members become unwilling to fund a consortium offering services that do not meet their expectations. In addition to ensuring the sustainability of the consortium, higher fees may motivate members to participate more actively in the consortium in order to ensure that their objectives are met.

To avoid conflicts concerning member firms' contributions to the consortium, the sources of funding and the exact appropriations of individual members should be thoroughly discussed during the establishment phase and specified in the Statute. This must also clearly state what will be done should the consortium create losses. Changes may be introduced at later stages if a need is perceived.

The other major source of finance for consortia, which supplements contributions from members, comes from institutions such as government agencies or business associations.<sup>6</sup> Institutions typically co-finance specific initiatives and services. Alternatively, they may attempt to encourage firm participation by supporting consortia on the basis of the number of founding members or in proportion to increases in membership numbers. In most cases, institutional assistance is substantial in the early stages of an export consortium and is reduced as the group becomes consolidated over time. It cannot be emphasized enough that the subsidies granted should not be the prime motive for the members to participate in the consortium. Although assistance may be necessary in the beginning phases, in the medium to long run, the group must be sustainable on its own.

As a result of an insufficient initial capitalization, excessive costs, late reception of subsidies, or bankruptcy of a member firm, financial problems may arise for a consortium. Financial losses can be avoided by ensuring, already during the design phase, that costs are sufficiently covered by members' contributions, that special services are paid for by the members using them and that member firms all have sufficient financial health. It is advisable for the consortium to employ an accountant who ensures that the consortium always has sufficient funds available to carry out its activities. Even financially sound consortia may have difficulties to dispose of sufficient working capital as subsidies are typically disbursed only after certain activities have taken place and after documents have been verified. If members pay a fee for the activities they participate in, they should do so in advance to ensure that the consortium has sufficient funds available.

A study conducted among members of Italian consortia (Camera di Commercio Industria Artigianato e Agricoltura di Milano & ALCE, 1996) revealed that only half the firms asked were able to quantify their precise annual expenses related to their participation in a consortium. It is crucial that consortia maintain transparent accounts of their expenses. This is important, not only to ensure that activities planned do not exceed the consortium's financial capacity, but also that member firms are able to calculate whether the consortium's benefits outweigh the costs involved.

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<sup>6</sup>Part 4 treats the types of assistance offered by private and public institutions and briefly presents the government programmes to support export consortia of selected countries.

**Box 6.**  
**Funding the Creation of a Consortium**

The establishment phase of a consortium will entail certain expenses for travel, contacting potential members, legal advice and preliminary research to determine the focus of the consortium's future activities. Since these costs occur before the consortium has been formally established, it must be determined who covers the expenses incurred. If a joint fund is not available until the formal establishment of a consortium, the effort and resources invested in the promotion or design of the consortium may be insufficient.

Three possible ways to overcome this problem have been identified by Renart (1997):

- The promoter may recover his expenses after the formal establishment of the consortium. He would thus effectively lend money to the future consortium. However, if the potential members cannot come to an agreement and the consortium is never formally established, the promoter runs the risk of not being able to recover his outlays.
- The members having in principal agreed to participate in the consortium, albeit without formal commitment, share the costs of creating the consortium. In this case, the promoter will prepare a budget restricted to the establishment phase and members make specific contributions to cover the budgeted costs.
- In some countries (e.g. in Spain), it is possible to apply for financial assistance from public institutions to cover the costs related to the creation of alliances. In this case, the promoter should initiate the relevant steps to apply for such a subsidy. In those situations where the promoter is financed by a public institution or an international developmental agency, such as UNIDO, it is likely that this organization will cover the costs incurred during the establishment phase.

With the formal establishment of the consortium, this problem clearly becomes irrelevant, as the alliance will have its own funds at its disposal.

Although funding is often seen as the prime obstacle in the start-up phase of a consortium, the main challenge is typically more of a cultural nature. To create the solid foundation necessary for every collective project, it is fundamental to create a true climate of trust among the entrepreneurs.

### **3.6. CHALLENGES TO OVERCOME**

The obstacles that member firms face during the design and establishment phase were outlined in section 2.3 above. In the present section, the challenges which a consortium may face during the course of its existence will be described. These can be classified into two types: internal and external. Internal challenges refer to the problems that might arise due to the organization or management of the consortium as well as due to potential conflicts between members. External challenges denote the difficulties arising due to the operating environment. Both types of challenges can largely be addressed by ensuring strong cohesion among members.

The list of challenges below does not suggest that every consortium will necessarily face all of these obstacles. It is simply intended to make firms inexperienced in inter-firm cooperation aware of the types of problems that may arise. Addressing the challenges already during the design and establishment phase will help to avoid a great number of them. Many of these problems can also be tackled by ensuring a careful selection process for members and by promoting linkages and solidarity among members.

### 3.6.1. Internal Challenges

- Competition between members, and the resulting lack of trust, are among the most important sources of conflict within a consortium. In order to operate successfully within a consortium, the natural individualism of entrepreneurs must be overcome.
- Members may be reluctant to engage whole-heartedly in a consortium. They may be unwilling to provide information on their contacts for fear of revealing their business and logistics secrets and of losing clients to other members. Additionally, they might be concerned about losing good employees.
- Conflicts may arise concerning the financial contributions to be made. Individual members might perceive that one member is receiving more benefits from the consortium than others while contributing the same amount. The possibility of conflicts arising for this reason can be reduced by requiring members to pay a special fee for the services they demand from the consortium.
- Members may disagree on the use of the contributed funds and have different priorities with respect to the promotional activities undertaken. Whereas one member firm may prefer participating in several trade fairs or starting an advertising campaign in country X, another one may wish to hire sales agents in country Y.
- Since all firms have their own agenda, many of the decisions taken within the consortium (e.g. which countries or market segments to target) will involve a degree of compromise between the members. A firm may perceive this as sub-optimal for its business strategy and may not be willing to accept the decisions taken. It may thus wish to continue the export activities it finds more suitable on its own, albeit at a higher cost. Alternatively, it may decide to leave the consortium altogether if it perceives the consortium to hamper it in its individual actions.
- The benefit of cost savings may be offset by a dilution of efforts on the part of the consortium's management. The Executive Director has the difficult task of working simultaneously for all members and may thus not be able to devote the time expected to finding a solution to the export problems of each individual firm (Renart, 1999).
- If, in the course of time, members achieve different export results, tensions may arise. Members may consider the difference as unmerited and attribute it to preferential treatment by the Executive Director. As mentioned above, they might additionally call for a redefinition of the way financial contributions are made.
- Alternatively, there may be differences in the amount of intangible benefits derived from the consortium, such as learning how to undertake certain activities. Members may thus wish to leave the consortium at different points in time to continue exporting on their own.

- While the consortium is in operation, situations may occur that were unforeseen in the documents agreed on during the establishment phase, i.e. the Statute and the Shareholders' Agreement. Some members may thus perceive a need for a revision of the contracts, to which others may or may not agree (Renart, 1999).
- Agreement must be found on a quality control mechanism for members' products. Members may, however, perceive this as an intrusion into their autonomy.
- Members may have difficulty to agree on an external candidate for the position of the Executive Director of the consortium.
- The marketing directors of member firms may see the consortium as a threat to their position and refuse to support the consortium's activities. In this case, they should be integrated into the decision-making process of the consortium, e.g. by participating in regular meetings to discuss possible export promotion strategies.
- In the case of sales consortia, the main challenge is how to organize export operations between individual members and the consortium, i.e. how responsibilities as well as profit and costs will be divided. Members must thus agree on whether the consortium is to be managed as a trading consortium or is to act as an export agent for its members.

### 3.6.2. External Challenges

- Many countries lack a regulatory and institutional framework for consortia and other strategic alliances of firms. The inexperience of financial and support institutions with respect to consortia may complicate operations and hinder obtaining assistance from public bodies.
- Due to an unfavourable external macroeconomic and political environment, export orders may not increase despite suitable promotional activities undertaken by the consortium.
- Clients may accuse member firms of colluding and fixing prices. Since members of consortia are typically small, their products mostly represent only a small share of the market. Although members' bargaining power is likely to increase through cooperation within a consortium, they typically do not have the potential to influence market supply. Increases in prices of member firm's products are more likely to arise from improvements in quality and design than from collusion.

## 3.7. THE EVOLUTION OF AN EXPORT CONSORTIUM

An export consortium may cease to exist either because a large proportion of members chooses to leave the consortium so that continuation is not feasible or practical for the remaining members, or because all members agree to dissolve the consortium if they perceive that it has fulfilled its function.

The composition of export consortia is subject to change as members enter and exit. The duration of a firm's membership within a consortium will depend on the degree to which the benefits arising from membership are eroded over time. Some members may

leave the consortium after having successfully learned how to export. These members see the consortium solely as a vehicle to establish an export presence in a particular market and wish to continue exporting on their own once they have obtained the relevant skills. The choice of these members to leave the consortium is not necessarily a sign of the group's failure. In fact, members' decision to leave may be viewed as the natural consequence of their development within the consortium. It may thus be considered as a sign of success for a consortium if it was able to assist its members in acquiring the skills and knowledge necessary to continue exporting on their own. As other members continue to value the cost- and risk-reduction functions of the consortium and suggest innovative services, which the consortium could offer and from which they would benefit, the participation of a certain member typically does not coincide with the duration of the consortium.

Due to innovations in information and communication technology, many of the services offered by promotional export consortia in industrial countries are becoming redundant. A crucial element determining the survival of a consortium is its ability to identify new opportunities and to offer innovative services in order to ensure that the benefits of participating in the consortium are not eroded for its members. With the attainment of initial goals and due to changes in the macroeconomic as well as the institutional environment, the needs of member firms are likely to evolve. Export consortia must be aware of the changing needs of their members and be flexible enough to adapt. It is essential that the bylaws can be easily amended to reflect these changes.<sup>7</sup> Consortia active for a long time may also need to exchange the Executive Director periodically in order to ensure that evolution within the group can take place and that the group can adapt to new situations.

#### **Box 7.**

#### **Innovative Services Provided by the Tirupur Exporters' Association**

An example of an export consortium which continuously offers new and innovative services is TEA, the export consortium active in the Indian cotton knitwear cluster in Tirupur. It set up various local infrastructure facilities for the benefit of Tirupur's export producers and for the city as a whole. In addition to the creation of the container terminal mentioned above (see section 1.4), TEA lobbied for the establishment of a local customs office directly in Tirupur, built a pavilion to house the Tirupur Knitwear Fair, created a telecommunication network for the cluster in order to overcome the chronic telecommunication problems and promoted the creation of a company to supply and process water required for dyeing and bleaching as well as to provide water to households.

<sup>7</sup>As was seen in box 1, once the need to do so arose, the Italian export consortium CPM was able to move from a mere promotional consortium to one selling on behalf of member firms. For this, changing the bylaws was necessary, however.



The services offered by a consortium should evolve as the group achieves a certain degree of experience and as its financial resources rise through the admission of new members. Whereas initial activities will concentrate on achieving narrow goals, the need for a broadening of activities will arise at the latest once initial problems have been overcome. It is thus useful for well-established consortia to move from providing exclusively traditional services (e.g. organizing members' participation in fairs or producing catalogues) to more innovative services that might be useful for members that have already achieved a certain degree of export presence (e.g. joint purchasing, identification of opportunities in foreign markets that had not been targeted so far, promotion of international cooperation, development of e-commerce, or even the establishment of a joint sales office abroad).

## THE ROLE OF PRIVATE AND PUBLIC SECTOR INSTITUTIONS

Experience has shown that private sector associations and public institutions have played a fundamental role in the development and proliferation of export consortia. In contrast to individual firms, private associations or public authorities are typically not suspected of hidden intentions when promoting export consortia. Particularly in the design and establishment phase, there is thus a role for an external organization in initiating and supporting the process, e.g. by supplying information or by providing a forum for firms to meet and to exchange ideas. However, also following the formal incorporation of a consortium, practical support and an enabling environment in the form of supportive legislation can greatly contribute to a group's successful operations.

### 4.1. PRIVATE ASSOCIATIONS AND EXPORT CONSORTIA

Private associations are well positioned to drive the consortium creation process and to ensure that the real needs of local SMEs are addressed. The relationships developed within business associations are often a first step towards the creation of a consortium. Some associations have created working groups on export promotion, which developed into embryonic export consortia.

The case studies included throughout this guide illustrate how private associations at both the local and national level can encourage the development of export consortia and influence their operations. Associations support the creation of consortia by:

- Organizing awareness campaigns on the benefits of export consortia;
- Assisting in the identification of possible member firms;
- Providing a venue for interested firms to meet;
- Assisting potential members to define future activities;
- Providing legal advice.

In addition, they assist established consortia by:

- Providing office space, computer and internet facilities as well as secretarial services;
- Offering training courses;
- Providing information (e.g. on possible target markets, credit facilities, etc.)
- Allowing the consortium to benefit from contacts in foreign markets and/or with public authorities;
- Providing a representative venue to receive foreign clients;
- Assisting newly established consortia in the development and implementation of certain activities.

**Box 8.**

**Federations of Export Consortia in Italy and Argentina**

Federexport, the Italian Federation of Export Consortia, is a national association of export consortia. Founded in 1974, it currently represents over 110 consortia with a total of 4,300 firms operating in all business sectors. Total exports of Federexport's member firms amount to 14.5 billion Euro, the equivalent of 7% of total Italian exports. The Federation also includes two hotel associations, which together group 1,700 hotel chains and individual hotels, with a total turnover of about 3 billion Euro.

Federexport is the consortia's representative in contacts with those institutions actively involved in the promotion of Italian firms: the Italian National Institute for Foreign Trade (ICE), the Ministry of Industry, the Ministry of Foreign Affairs, regional governments and chambers of commerce, both in Italy and abroad. Through its lobbying activities, Federexport was able to achieve the recognition of consortia as a specific legal entity in the civil code.

In addition to coordinating its members' activities, Federexport promotes the consortium model in other countries, provides tax and legal advice to consortia and directly promotes the exports of its member SMEs through trade delegations, market surveys and conferences. Furthermore, Federexport has negotiated credit lines from major banks to finance the sale of its members' goods and services to Central Europe, Mediterranean countries and Latin America. In order to publicize the work of consortia to a wider audience, to further inter-consortia cooperation and to speed up the flow of information between the consortia and the group of member firms, Federexport has produced a computerized network and created a website ([www.federexportonline.it](http://www.federexportonline.it)).

In December 2002, an association similar to Federexport, the Association of Export Consortia and Export Groups (Asociación de Coordinadores de Grupos y Consorcios de Exportación), was established in Argentina. In May 2003, it was recognized as having a formal legal personality. The founding members of the Association are twelve Directors of export consortia that had participated in a study tour to Italy, organized by ICE and Federexport in October 2002. The Association is currently admitting new members.

The main objectives of the Association are to promote inter-firm cooperation and an export culture in the country, to contribute to an improvement in the export performance of Argentinean consortia and to lobby for laws that promote strategic alliances among firms. In addition, it contributes to the training of professionals in the field of export consortia through the organization of workshops, training courses, conferences, round tables, etc. To foster the exchange of experience, the Association further aims to create linkages to similar associations in Argentina and abroad as well as to establish contacts with chambers of commerce and industrial associations. In June 2003, an agreement was signed between the Association and Federexport. The two federations intend to cooperate in order to jointly promote the establishment and development of export consortia in Argentina and to foster projects between firms and consortia in both countries with the aim of increasing the levels of bilateral trade.

For its first year of operations, the Association foresees to: (a) identify export consortia throughout the country and to create a database of export consortia, their members and Directors, (b) initiate a publicity campaign for the Association, including

the creation of a website, a monthly newsletter, a brochure of the member consortia and their export offer and (c) coordinate and advertise training courses for members of export consortia.

There are no formal linkages among the Association and the public and private institutions promoting export consortia in Argentina. Nevertheless, good relationships exist and close cooperation is envisaged.

## 4.2. THE PUBLIC SECTOR AND EXPORT CONSORTIA

Governments in many countries support the internationalization of firms. Assisting a group of firms in the form of an export consortium is more efficient than supporting individual firms. However, in the long run, consortia should be self-sustainable. Countries such as India, Italy, Spain, and Tunisia grant support to existing export consortia. Other countries, such as Chile and Denmark have developed programmes to encourage the formation of enterprise networks. Although these programmes were initially aimed at improving firms' competitiveness in general, they developed into schemes to promote exports.

### 4.2.1. Public Support to Export Consortia

A buoyant export sector can entail significant benefits for national economies. By serving a larger market through exports, domestic production can be increased, enterprises can reach optimum production scale without being constrained by the size of the domestic market, and industrial growth is stimulated on account of specialization. Moreover, in the recent past, international trade (especially in semi-manufactured products) has grown significantly faster than the vast majority of national economies. Exporting is a major source of foreign exchange. Thus, it not only enables developing countries to import the goods and services they need to grow and cannot yet produce effectively (e.g. high technology products), but it also helps to address balance of payment deficits and/or to service their foreign debt. Finally, participation in international markets provides a constant stimulus for innovation through exposure to novelties introduced by competitors and the need to preserve market share.

Due to the importance of exports for economic growth as well as due to the size-related difficulties of SMEs to enter foreign markets, governments may perceive a need to assist small firms in developing their export potential.<sup>8</sup> Small firms' problems to obtain credit from the banking sector to finance their export activities may be seen as an additional justification for public support to SMEs.

Because of a leverage effect, assisting SMEs in a consortium implies a more efficient use of limited resources than intervening at the individual-firm level. The decision of

<sup>8</sup>For a discussion on the role of SMEs in economic growth see Snodgrass and Biggs (1995).

which types of firms are more “deserving” than others can be avoided to a large extent. Furthermore, it can be ensured that no individual firm receives unjustified preferential treatment.

Firms may be reluctant to participate in export consortia since the benefits will only fully be reaped in the long term, in the form of increased exports. Public intervention may thus be justified to demonstrate the value that inter-firm cooperation can have. This can best be achieved by following a project-oriented approach and linking subsidies to promotional activities instead of a consortium’s operating costs. Subsidies have in the past been an important incentive for enterprises to engage in export consortia. Although a specific legislation for consortia (as in Italy) is not essential, a prerequisite to avoid rent seeking is a precise and effective legislative framework for financial assistance from the public sector. Experience shows that many consortia cease operations once subsidies are withdrawn. The incentive for joining an export consortium should be the concept of inter-firm cooperation to overcome joint obstacles, not the desire to obtain subsidies.

The possibility of fraud can be reduced if subsidy-granting authorities require that accounts are certified by an external accountant. An alternative to direct incentives for export consortia, which is also likely to decrease the probability of fraud, are the provision of loans at preferential interest rates and repayment terms as well as fiscal incentives. In most countries, export consortia operating on a non-profit basis are eligible for tax exemptions. Government institutions may also support consortia by providing market information or assisting the group to obtain contacts abroad. Embassies may be helpful in promoting the consortium abroad, e.g. by distributing their brochures and providing information to potential clients.

The role of the public sector, if present at the outset, should diminish over time. Efficient export consortia must be able to survive without institutional support in the long run. Nevertheless, a gradual withdrawal of external assistance is essential in order to avoid disruptions in a consortium’s operations.

There may be a risk in some countries that financial aid and development programmes will mostly benefit those actors that are already among the most advanced and will not reach those most in need. This may occur due to a lack of information or simply because the firms most in need are not capable of responding adequately to available opportunities. The creation, or the widening, of a gap between the most innovative and international firms and those connected to traditional activities or sectors must be carefully avoided. Such a division is undesirable not only because it results in uneven economic growth, but also because it is likely to cause strong social tensions that can undermine the general development process. Policy makers must thus avoid exclusively promoting consortia in the manufacturing or service sectors, but also further the development of artisan consortia. Craftspeople are often unaware of the possibilities to export, mostly due to a lack of information and contacts. In addition, artisans are frequently not organized well enough to realize their potential capacity of production and the quality of products is often not sufficiently high to meet foreign market needs. Artisans are thus often not able to realize the export potential of their artisan crafts and could greatly benefit from membership in an export consortium.

#### 4.2.2. Public Support in Practice<sup>9</sup>

Many governments in both industrialized and emerging economies have implemented grouping or networking schemes for SME exporters. A selection of these is shortly described in below. Policy makers must keep in mind that the same policy actions in differing environments are likely to lead to different economic results. Social, institutional and cultural features as well as economic and competitive contexts play a key role in shaping the outcomes of policy actions. Thus, although it is crucial to learn from past experience of countries pioneering in the area of export consortia promotion, policy actions must be adapted to local realities. An approach for the promotion of inter-firm cooperation must therefore be flexible and dynamic.

Welch and Joynt (1987) report several export grouping schemes which have been relatively unsuccessful. It must thus be underlined that no matter how high the public incentives given to the creation of export consortia, without the commitment of participating firms, any grouping exercise is doomed to failure sooner or later.

Due to the large variation in the extent of export assistance among countries, export consortia are encouraged to obtain information on possible assistance from the relevant public authority in their country.

In **Italy**, public support for consortia, both from national and local governments, has given a considerable impetus to the proliferation of consortia. However, during the early phases of consortia development, public intervention played only a marginal role. The early creation of Italian consortia can mainly be attributed to the initiative of firms.

Italy is the country with the most developed legal framework for promoting consortia. In 1974, an amendment was made to the Civil Code to recognize consortia as a legal entity. In 1989, law 83 was passed. This law governs the formation, operation and funding of export consortia and is implemented by the Ministry of Industry. In 1991, law 83/89 was supplemented by certain articles from law 317/91 (c.f. file: *Law 317/91*, CD ROM) and in 2000, it was altered to transfer the authority for regional consortia to the respective regions. For multi-regional consortia authority has remained with the Ministry of Industry. Due to European regulation, additional changes to the existing Italian legislation have become necessary. Subsidies can now only be granted for extra-European exports.

Law 83/89 establishes public funding for export consortia of eight or more SMEs. To be eligible for subsidies, consortia must have a non-profit motive. The law provides annual subsidies of up to 40% of promotional costs for consortia, which may increase to 60% for export consortia in Southern Italy and up to 70% for consortia in the first five years of activity. Total annual subsidies may not exceed €77,000 for consortia with less than 25 members, €103,000 for consortia with more than 25 and less than 75 members and €155,000 for consortia with 75 or more member firms. Furthermore, consortia are eligible for several tax reductions and exemptions. The amount of the subsidy granted in a particular year is calculated on the basis of expenses incurred by the consortium in the previous year. To avoid fraud, cost statements must be certified by

<sup>9</sup>This section draws on UNIDO (1995;1998a; 2002; 2003), ICEX (2003) and information provided by Federexport.

an independent accountant. Consortia wishing to obtain subsidies must restrict their activities to exporting their members' products and/or to undertaking the promotional activities necessary to do so. They may, however, import raw materials and semi-finished goods to be used as inputs for their members' production. According to Federexport, the average funds granted in practice amount to no more than 25-30% of consortia's expenses.

Members of export consortia in Italy seem to be divided over the question whether a consortium should be financially autonomous from state contributions. Whereas 56% are against financial autonomy, 44% are in favour. The former group finds that financial assistance for the promotion of SMEs and their exports is justified and/or that consortia should avail themselves of existing subsidies. The latter group, on the other hand, perceives subsidies to reduce the consortium's independence and rejects them out of liberal tendencies. A clear positive correlation can be found between the size of a firm and its preference for financial autonomy from state subsidies (Camera di Commercio Industria Artigianato e Agricoltura di Milano & ALCE, 1996).

In **Spain**, the Institute for Foreign Trade (ICEX) grants subsidies for a limited period of three years to both export consortia "in origin" and "in destination" (see section 1.3). In the first year, assistance amounts to 50% of the operational and promotional expenses eligible for subsidies. This is reduced to 45% and 40% in the second and third year, respectively. In addition, a significant share of travelling expenses is subsidized by ICEX. Total financial assistance per consortium may not exceed €180,000 a year. Before a consortium's formal incorporation, financial assistance is granted for viability studies and constitution expenses. In addition to subsidies granted by ICEX, consortia may obtain additional financial assistance, either from other federal government institutions or from the regions.

In order to qualify for subsidies, export consortia in Spain must meet the following criteria. They must:

- be legal entities distinct from those of their members;
- have an externally recruited Executive Director;
- present a business plan with a three-year time horizon for activities abroad (including quantified expectations per market);
- have at least four Spanish member firms (or three in the case of consortia in "destination") with equal participation in the consortium's capital.

In addition, no member may own shares of another member firm. Before approving an application of a specific consortium for the first time, ICEX analyses the viability of the group.

Between 1985 and 2000, approximately 300 export consortia were created with ICEX subsidies.<sup>10</sup> There seems to be evidence that a significant percentage of consortia survived

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<sup>10</sup>Until 2001, subsidies were granted for four years. The time for the financial assistance was reduced, but the amount increased, as it was perceived that the major financial difficulties occur within the first three years of a consortium's life. At the time of writing, it was not apparent whether this change in policy has had an impact on the number of consortia in existence and on the number of applications for the subsidy.

beyond the subsidy period. In 1997, only 20% of the 206 export consortia created with ICEX subsidies had been dissolved (Renart, 2002).

When UNIDO began its activities related to export consortia in **Tunisia**, a specific legal framework for export consortia did not exist. As a result of a presidential decree in May 2002, Tunisian consortia now also benefit from support granted by the Competition Development Fund (FODEC). This assistance is administered by the Bureau de Mise à Niveau (BMN), a department of the Tunisian Ministry of Industry whose task is to assist Tunisian SMEs to upgrade their operations and thus to increase their competitiveness. The FODEC subsidy encompasses 10% on tangible investments and 70% on intangible investments for which a study must be presented at the Bureau de Mise à Niveau. Tunisian consortia can also benefit from subsidies granted to individual firms under the FOPRODEX, the Export Promotion Fund administered by the Centre for the Promotion of Exports. Under the FOPRODEX, financial assistance of up to 80% is available for promotional activities, market studies as well as for participation in missions abroad and invitations to tender. The funds granted are partly available in the form of loans, repayable over three years at the market rate.

Incentives for consortia should not be linked to the existence or non-existence of a specific regulatory framework for consortia. Even if no specific laws exist, governments should ensure that consortia can obtain the same types of benefits as their individual members. In **India**, for example, no direct support exists for consortia as such. Nevertheless, both individual SMEs and consortia can receive financial support for activities such as participation in trade fairs or market research and receive tax concessions on export earnings.

The **Danish** Network Programme was initiated in 1989 and was in operation until 1992. Until then, inter-firm cooperation had not been part of the country's industrial culture. The programme's goal was thus to stimulate cooperation between firms, particularly in areas such as the creation of new business opportunities, establishing agents and distributors in new markets and pooling individual products into complete product ranges. Initially, the programme had been devised to improve the competitiveness of firms in general. In practice, however, it became aimed at enhancing the export potential of manufacturing companies.

To implement the programme, 40 network brokers were trained to identify suitable firms and to assist embryonic groups of firms to identify a viable network idea. Cooperation projects were developed in three phases, during each of which grants could be obtained by groups of at least three SMEs.

During phase 1, up to DKK 75.000 (approximately US\$11,700 in 1991) were granted to help the participating firms to establish contacts and to carry out a feasibility study. Phase 2 encompassed the planning phase, during which firms were eligible to receive 50% of expenses incurred while planning the cooperation (drafting of plans, budgets, agreements, etc.). During phase 3, established networks could obtain 50% of operating costs during the first year and 30% during the second year. No subsidies were granted for fixed investments.



Although an evaluation of the Network Programme (Danish Agency for Development and Trade, 1996) was relatively critical of the outcome, it seems that the programme was successful on various accounts:

- Over the programme's existence, 5000 enterprises (out of a target group of 10-12,000) became more or less involved with the concept of forming networks. In total, 147 networks, consisting of 672 firms, were established.
- This high participation rate helped make networking part of the Danish business culture. The concept spread widely and networking has become a natural option to consider in the face of new business challenges.
- In an interim survey, 75% of participating firms expressed that operating within a network was raising their ability to compete.
- The know-how of promoting networks has been exported to a number of other industrialized countries, more precisely to regions in Australia, Canada, France, New Zealand, Norway, Portugal, Spain, United Kingdom and United States of America.

Due to its limited duration, the Danish programme was largely government financed. In the programme implemented in the United Kingdom, by contrast, services are largely paid for by participating enterprises. The advantage of the former is that it accelerates firms' participation and facilitates achieving scale in a programme. The latter, however, generates a stronger commitment of participating enterprises and makes the programme sustainable.

In **Chile**, *Proyectos de Fomento* or PROFOs (development projects) were introduced by the government's SME promotion agency, SERCOTEC, in the early 1990s. The positive results achieved with the original PROFOs, which were aimed at creating networks of firms in general, encouraged the development of a new programme specifically directed at export markets. Using the sectoral export committees of the Association of Export Manufacturers, SERCOTEC channelled funds towards groups of SMEs wishing to export. Funding was available for groups of firms (*a*) participating in trade fairs or arranging shipping as a group (*b*) carrying out a SWOT analysis for the group, and (*c*) developing strategies to address issues such as ISO 9000 certification, standards and quality improvements. SERCOTEC paid for 70% of the costs of a promoter, or group manager, for the first three years. In addition, it subsidized the hiring of consultants to diagnose problems and to assist with specific areas targeted for improvement.

A key actor in the PROFOs was the group manager. His task was to promote the group's activities and to assist the members to develop a competitive advantage based on cooperation. For this, the group manager needed to cultivate good relationships between participating firms, improve the provision of support services to the network and encourage members to make use of them.

An evaluation of the different types of PROFOs found that the programme had overall been successful as firms had been able to expand their businesses. Above all, the programme was self-sustainable. The increase in tax revenue generated from the expansion of participants' business activities more than offset the public funds utilized for the programme.

## IMPACT ASSESSMENT FOR EXPORT CONSORTIA

In the past, few evaluations of the impact achieved by export consortia have been undertaken. Although impact assessments may be costly to perform, they are essential to account for the funds received from members and the public sector. They help identify weaknesses to be rectified and thus allow consortia to learn from past mistakes. Evaluations of export consortia will differ with respect to the methods and indicators used and are complicated by a variety of measurement problems.

### 5.1. ASSESSMENT METHODS

No blueprint exists of how to measure the impact of an export consortium. The design of an evaluation, the particular approach employed, the indicators chosen and the tools used will crucially depend on the purpose of conducting the assessment as well as on the party undertaking the evaluation. Assessments can have differing rationales and objectives. They can either be intended to *prove* impact or to *improve* impact. Whereas in the former case, impact assessment is used to account for resources used, in the latter case it is intended as a learning process to enhance performance. If the objective of the evaluation is to prove impact, a greater emphasis is put on objective and accurate measurement. Evaluations are often carried out over a longer time frame and scientific research methods are used. If, however, the evaluation is intended to improve impact, the key aspect is to understand the process analysed. A degree of subjectivity may therefore be accepted and evaluations can be carried out over a shorter time frame (Nadvi and Barrientos, 2003). Evaluation methods are also likely to vary due to differing needs of end users. The consortium, member firms and the public authorities granting subsidies may disagree on how a consortium's impact should be assessed and will wish to measure different variables, requiring differing assessment methods. The ultimate objective and the end user will also have an impact on the time frame foreseen for the evaluation. Assessments can either be conducted "on-the-spot" or over the course of several years.

Several methods exist to measure a consortium's impact including interviews, questionnaire surveys and comparisons of members' export performance prior to joining the consortium with that at a later time. Alternatively, evaluations may entail comparisons between predicted and actual results. Firms participating in a consortium may also be compared to a control group of firms that have similar characteristics to those of members, but do not participate in a consortium. A cost-benefit analysis can ensure that the costs incurred do not outweigh the impact achieved. All these assessment methods can serve as a basis for undertaking quantifiable statistical analyses.

Nevertheless, these methods have certain disadvantages. Respondents of interviews and surveys may be influenced by what they think an interviewer will want to hear and what they think may be the consequence of their responses (e.g. a reduction in subsidies). If the export success of consortium members is to be compared with a control group, results may be biased due to inherent differences between members and the firms

belonging to the control group (selectivity bias). The former may, for example, be more active in developing their exports than the latter. An evaluation's outcome may also be distorted if a group's impact is to be measured by comparing predicted and actual results. In many cases, objectives are only specified in vague terms and are too general to be measured. Alternatively, a negative image of the consortium's achievements may arise if results predicted in the business plan were unrealistic.

## 5.2. SUCCESS INDICATORS

A single variable to measure the impact of export consortia does not exist. As was seen above, creating networks of firms within a consortium can result in externalities in other areas. Thus, it is not only the achievements on foreign markets which constitute a consortium's success or failure, but also the creation of social cohesion among group members, which will be relevant in their future endeavours. Mere continuation of an export consortium's operations or the duration of a firm's participation in the consortium are therefore not sufficient measures of impact. A consortium's success must be assessed in terms of the business achievements, in terms of knowledge acquired by member firms as well as in terms of network and relationship results. The precise indicators chosen may be a subjective decision of the evaluators, which will determine how impact is measured. Whereas some qualitative variables can only be measured through a questionnaire determining members' perceptions, others can clearly be quantified. Additionally, the indicators used for impact assessment may vary depending on the objectives a consortium sets out to achieve. Different variables may thus be used for evaluations of promotional and of sales consortia.

Government institutions will mainly be interested in adopting an approach to prove impact, i.e. to determine whether the subsidies granted have had a significant effect on consortia and their member firms.<sup>11</sup> Public authorities conducting impact assessments of the consortia they have assisted may thus adopt additional indicators to supplement the ones mentioned below. Foremost, they will be interested in whether a consortium continues its operations after subsidies are phased out. They will also be interested in the number and the type of member firms a consortium has. In some cases, governments will also try to determine the effect on employment and growth within member firms. For a public authority, it will be difficult to compare one consortium's success with that of another as consortia vary greatly among each other with respect to their objectives, geographical coverage, extent of activities undertaken, etc.

Variables that measure the impact of a consortium address either the performance of member firms or that of the consortium itself. In the following, the main indicators used for assessing export consortia will briefly be discussed individually.

Variables assessing the economic effects of consortium membership on firms include:

- Increase in export turnover;
- Increase in the number of export markets;

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<sup>11</sup>See for example Rosenfeld (1996) on issues relating to evaluations of state schemes aimed at improving inter-firm cooperation.

- Achievement of regular exports;
- Cost and time savings;
- Ability of firms to export on their own.

**Increase in export turnover.** The increase in export turnover from the beginning of a firm's membership in an export consortium is a frequently used impact indicator. It is relatively easy to measure and summarizes the main benefits of a consortium to its members. However, it will not be a reasonable indicator to use in the case of firms that did not export prior to joining a consortium as the increase in export turnover would theoretically be infinite.

**Increase in the number of markets.** Experience has shown that although participation in a consortium can lead to erratic sales early in the life of a consortium, achieving a consolidated presence on several markets will take time. After three to five years, members of a consortium can be expected to export to new markets and to have two to three regular customers per market (Federexport, personal communication). A simple number of markets, however, does not give an indication of success. The type of market must also be taken into account. As Renart (1997, p. 70) puts it: "exporting to the United States and to Andorra is not comparable".

The consortium's activities related to promotion, technological upgrading and quality control will enable the members to move from small to larger distributors and thus to enhance their export potential. In addition to an increase in the number of countries to which members export, increases in the number and quality of distribution channels can therefore be used to measure a consortium's success.

A greater number of markets, both with respect to the countries accessed and the distribution channels, is also likely to imply an increase in export turnover and in some cases the creation and use of new export methods.

**Ensuring regular exports.** With regular exports, members are able to use their full production potential and can plan their activities. By analysing whether a firm's export sales have become more stable since it became a member, it can be determined if a consortium has assisted its members to move from occasional sales abroad to gaining a sound footing in foreign markets.

This indicator is closely related to the number of markets that members serve. With a larger number of countries targeted and improved distribution channels, members' exports are likely to become more stable through diversification.

**Cost and time savings.** The cost savings a consortium is able to achieve for its member firms is a variable that is relatively easy to measure. It is an essential input for a cost-benefit analysis. Thus, the amount of money that individual firms save by carrying out activities collectively should be assessed. To avoid bias, it is essential to include any subsidies that may have been granted to the consortium in the calculation.

Since a consortium does not only lead to a reduction of expenditures, but also to significant time savings for an individual firm, these should also be taken into account when determining a consortium's impact.

**Firms' ability to export on their own.** The prime objective of export consortia is to assist their members to establish an export presence and to teach them how to export. If this is achieved and members are able to continue exporting on their own, it is a sign of success of the consortium's activities. It must always be remembered that it is not the entity of the consortium that is essential, but the processes which it initiates.

This variable can be measured either by asking members to assess how their exporting skills have improved through membership in the consortium or by evaluating past members that have left the consortium to continue exporting on their own.

If a consortium's capacity to teach firms how to export is to be determined, it may be advisable to measure one or two years after a member's withdrawal from the consortium. A bias may, however, be introduced since the characteristics of individual members are likely to vary and thus influence measurement.

The main variables which can be used to directly measure the consortium's performance are the:

- Number of services offered;
- Perception of members;
- Cost effectiveness.

**The number of services offered.** The amount of services offered by a consortium will naturally depend on the funds available and on its experience. In Italy, active consortia organize members' participation in more than 50 exhibitions and in more than 10 missions per year. However, the mere fact that a consortium offers a certain number of services does not necessarily imply that it is efficient and successful in doing so. For example, simply participating in a fair abroad will not improve export sales. In order to achieve presence in a specific export market, the same members must participate regularly in the same exhibitions. It is thus useful to assess how many orders or requests for more information on members' products are received following such an event. It must be remembered that a consortium is intended to increase the business opportunities for its members. Whether actual sales will materialize depends crucially on the members' products and prices.

**Members' perception of the consortium.** A consortium cannot be considered successful if its members are not entirely convinced of its use for their export activities. Members' perception can be measured by means of a questionnaire. Alternatively, the frequency of member's participation in meetings of the consortium can be assessed. If members perceive the consortium's activities and the information distributed at meetings to be relevant for their business, they will participate in these meetings and possibly even suggest how the group's activities could be extended. If members are reluctant to attend meetings, this may be a sign that they do not find the consortium's activities to be valuable. In these cases, the group's management may have to be replaced to ensure that members' needs are adequately reflected in the services offered by the consortium.

The perception of members is likely to vary with the degree of export experience they had achieved and with their expectations of the consortium prior to joining.

**Cost effectiveness.** It must be ensured that the funds received from members and public entities are used effectively. This can be done, for example, by monitoring the proportion of administrative and promotional costs in the overall budget and its development.

#### **Box 9.** **Evidence from Italy**

In Italy, members of a consortium seem to export a higher share of their turnover than non-member firms. On average, small member firms with less than nine employees achieve almost half of their turnover (46%) through exports, while non-members export only 32.6% (Camera di Commercio Industria Artigianato e Agricoltura di Milano & ALCE, 1996). Additionally, member firms operate, on average, in a larger number of foreign markets. Almost 49% of member firms operate in six or more countries, compared to 34% for non-member firms. The share of member firms operating in countries other than Western Europe is significantly higher for member firms (72%) than for non-member firms (60%). Federexport's findings (1998) support the results of the Milan chamber of commerce. However, the results are even more accentuated. Only 30% of Federexport members limit their operations to less than five markets, 29% target from six to ten markets and 41% operate in more than ten markets, half of which lie outside Europe. This contrasts with 66% of non-member firms that operate only in up to five markets. According to Federexport's experience, members of Italian consortia have been able to increase their exports by 20-30% since they joined a consortium. Thus, membership in a consortium seems to lead to a diversification of exports and to increases in export turnover.

### **5.3. FACTORS AFFECTING THE OUTCOME OF IMPACT ASSESSMENTS**

Several factors complicate estimations of a consortium's impact:

- Using any of the indicators mentioned above, it will be problematic to determine the precise share that should be attributed to the consortium. On the one hand, measuring the increase in export turnover as a result of membership is likely to be biased upwards if a firm devotes a considerable amount of resources to developing a certain market, in addition to the resources provided to the consortium. On the other hand, members will tend to attribute their export success to their own efforts rather than to the activities undertaken by the consortium, resulting in a downwards bias. This will especially be the case in consortia in which firms had exported prior to becoming members.
- It is not possible to fully control all factors which may affect members' export performance. External events, which may have an effect on the consortium's operations or the amount of exports achieved by members include macroeconomic factors both in the home and export markets, exchange rate fluctuations, the activities of foreign competitors, political instability or, in the case of producers of agricultural goods, droughts or floods. These events are likely to influence the export performance of members. The indicators mentioned above may thus no longer provide a valid picture of a consortium's impact. Due to external events in foreign markets, comparisons between a member firm's growth in export sales and growth in domestic sales should not be avoided.

- In addition to the events mentioned above, a consortium's success will be influenced by factors such as developments in the industry or sector, aggregate production potential of members and the level of state assistance (both financial and practical). In order to evaluate information acquired during the impact assessment, it is thus essential to understand the social and institutional context in which a particular consortium is operating.
- The impact achieved by a consortium will depend to a significant degree on the characteristics of its members. The impact is likely to vary among small and large members and among members from different sectors or regions. It may thus be difficult to derive a general conclusion from analysing only a proportion of members. Additionally, comparisons between consortia are complicated.
- The moment when measurement is attempted will greatly influence the outcome. For example, if an evaluation is conducted too early in the life of a consortium, not enough time will have elapsed for the consortium to make a significant impact on exports. At the moment of measurement, the consortium should thus be relatively well established and not depend excessively on subsidies for its activities. However, if evaluations are postponed too long, some of the group's initial flexibility to adopt the necessary changes identified during the evaluations may be gone. Additionally, some members may already have left the consortium because their expectations weren't met.
- Determining the impact of a consortium accurately is problematic as one of the main outputs of export consortia, namely changes in the behaviour of member firms, is intangible and thus nearly impossible to quantify. These changes include learning how to export, the development of relationships among firms and their increased willingness to engage in joint activities. The interrelated nature of these outputs further increases the difficulty of measuring them correctly. The same holds for the indirect effects achieved by export consortia. These include, for example, the awareness created among policy makers on the benefits of inter-firm cooperation, which may in turn contribute to an enabling environment for all types of SME networks.
- Member firms are often unable to quantify the exact costs and benefits of participating in a consortium (Camera di Commercio Industria Artigianato e Agricoltura di Milano & ALCE, 1996). A cost-benefit analysis may thus be difficult to conduct. However, the fact that firms do not withdraw from the consortium suggests that the perceived benefits are higher than the costs involved.
- The conclusion drawn from an impact assessment may depend on which party the evaluator represents and on initial expectations. For a consortium, it may be considered a success if members were able to achieve an export presence in a certain market. Member firms, however, may have expected to meet a certain target in this market, which they did not achieve.
- For rigorous measurements of the overall impact of export consortia, the effect on non-members must also be considered, i.e. it must be determined if the improvements in members' export performance have negative effects on the exports of non-members (substitution effect).

## CONCLUSIONS

Although export consortia are not a panacea for all of SMEs' export-related challenges, they are an effective means for these firms to achieve foreign market penetration at reduced cost and risk. Establishing a viable export consortium is, however, a complex task. This guide has provided an overview of the main factors that should be considered during the creation and later operations of export consortia. A few general conclusions can be drawn concerning the factors that determine a consortium's success:

- A good promoter is a crucial actor in the design and establishment phase. His support during the initial stages can ensure the long-term viability of the group. He can help streamline the process and ensure timely implementation. Additionally, he facilitates group building and helps members to define realistic objectives.
- The success of the first joint activities is fundamental for the continuation of the project. Only realistic goals should be set in order to reinforce the motivation of members. Attaining these goals will entail a demonstration effect and prepare the members for more ambitious activities in the future. Nevertheless, the entrepreneurs engaging in the creation of a consortium must be aware that immediate gains cannot be expected once joint activities are undertaken and that a quick pay-off will not be achieved. Achieving a strong footing in new export markets is a task that may take years.
- Good relationships among members are another decisive factor for the efficient functioning of a consortium. Members must know and respect each other to avoid conflicts and jealousy. Some sort of grouping process, e.g. through visits to each other's factories should thus take place at the beginning of the establishment phase.
- Not only the members as such, but also their products are essential. Member firms' goods and services must be adapted to the target markets and a sufficient range of products must be offered. Consortia offering complementary products are not only easier to manage, but also have decisive advantages in that they provide a greater choice to potential customers.
- The Executive Director plays a fundamental role in the success or failure of a consortium. He must have sufficient independence to manage the consortium, while at the same time maintaining close relations with members. The Executive Director is also responsible for ensuring that the consortium's impact is assessed periodically and that the services provided are adapted to the changing needs of members.
- Above all, it is important that members are motivated and completely committed to participating in a consortium. They must be convinced of the benefits a consortium can bring to their businesses. To ensure that members' real needs are addressed, the initiative to create a consortium should thus come from the entrepreneurs themselves. Public and private associations can, however, stimulate and support the process by organizing information campaigns and providing assistance during the creation process.

Subsidies have in the past served as an important tool to promote export consortia. If public authorities wish to promote the internationalization of SMEs, it is more efficient and less distorting to support an export consortium than the individual firms. Specific



benefits existing for individual firms should thus always be accessible for consortia as well. Subsidies should preferably be granted for promotional rather than for operational costs. However, in the medium to long term, export consortia must be self-sustainable. Once a consortium has gained a certain degree of experience, direct subsidies should be withdrawn gradually. It may, however, be useful to maintain fiscal benefits for non-profit consortia and indirect types of support (e.g. in the form of information provision) throughout the life of a consortium.

Experience has shown that particularly small firms and those at the early stages of export activities can derive the greatest benefits from participation in an export consortium. They are most in need of assistance and thus the most motivated to participate actively. Particularly in developing countries, export consortia can be an important mechanism to promote exports. Firms in these countries often do not have the infrastructure and the access to information and other resources that their counterparts in industrialized countries have.

Most importantly, establishing a consortium may initiate a process and not just create an entity. By fostering inter-firm cooperation, also in areas unrelated to exports, consortia improve the business environment for SMEs and enhance the capacity of firms to take advantage of market opportunities. Export consortia can thus be a first step of a comprehensive strategy to strengthen the competitiveness of SMEs through inter-firm cooperation.

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## Case Studies

The following section provides case studies from UNIDO and Federexport experience in the development and promotion of consortia. Case studies presented come from India, Tunisia, Morocco, Brazil and Argentina. They encompass manufacturing, service, artisan, textile and food consortia.

### Case Study 1. Consortia in the Indian Machine Tool Cluster of Bangalore

The machine tool cluster of Bangalore encompasses about 125 firms, including 45 machine tool manufacturers (MTMs) and 70 to 80 small-scale producers of machine components. The cluster has a turnover of Rs2,500 million (US\$50 million), approximately 40% of India's total production of machine tools. However, most of this arises from domestic sales of the large MTMs.

In 1999, when UNIDO began its assistance to the Bangalore cluster, the Indian Machine Tools Manufacturers Association (IMTMA) was the main organization for MTMs. Its membership consisted predominantly of large-scale manufacturers and the association mostly dealt with macro issues. Small-scale units were mostly disorganized and lacked the capacity of collectively addressing their problems, the greatest of which was their inability to market their products.

A recession in the domestic market and the mounting competition from foreign producers intensified the need for improved sales techniques. Traditionally, the small-scale manufacturers had been selling their machines through personal connections. However, this strategy was not applicable in export markets. The small firms needed to take up aggressive marketing and to obtain national and international market linkages as well as support services to upgrade their products' quality in order to remain competitive in a global market. All this was, however, beyond their individual reach.

To address these needs, the UNIDO cluster development programme had to take an active lead to promote the creation of several consortia. The programme concentrated on the more dynamic firms, relying on their leadership to rope in more members. To limit the scope for internal conflict, it was decided that firms should not be competitors in the markets, but should produce complementary goods. Furthermore, it was agreed that members of a consortium should be of similar size in terms of production capacity and ability to invest.

Overall, 56 firms were organized into nine marketing consortia. The programme further helped these groups to form an umbrella association, called the Association for Bangalore Machine Tool Consortia (ABMTC), to provide a platform to exchange information. The newly created consortia were assisted in hiring a coordinator (called Network Development Agent or NDA in short) to run the day-to-day activities of the consortium. However, it soon became clear that the NDAs that could be recruited locally were not very competent. Moreover, the leadership of some consortia proved unable to effectively guide the NDAs. Most notably, essential skills pertaining to conflict resolution were abundantly missing among the NDAs available locally. To overcome these problems, UNIDO provided capacity training to the NDAs, including on-the-job training and two formal sessions for NDAs.

Each individual consortium has pooled its members' resources to undertake various common marketing initiatives which individual small firm could not undertake due to the high costs involved. Although activities were initially aimed at the domestic market, they were quickly adapted to foreign markets. Achievements of the consortia, within the six months following their creation, include the elaboration of common brochures, establishment of joint marketing offices across the country, appointment of common marketing dealers and consultants, creation of common websites, joint advertising campaigns, a common warehouse and collective participation in several international exhibitions, both in India and abroad. Overall, these new marketing channels have generated business worth Rs23 million (US\$460,000) and enquiries worth Rs161 million (US\$3.22 million).

One of the main achievements in terms of export-related activities so far has been the entry of one consortium into the Chinese market. Throughout the cluster, China was traditionally perceived as a competitor for Indian goods and none of the consortia members was willing to venture into the Chinese market. However, Chinese machine tools are typically standardized and a shortage of customized machine tools exists. The UNIDO programme therefore called in a Business Development Service (BDS) provider to point out this market niche to the firms, who began to see China as an opportunity instead of a threat. The members of the Bangalore Machine Tool Manufacturer's Network (BMTMN) became interested in organizing a study tour to China and charged their NDA with preparing the mission. Two months later, a delegation of BMTMN embarked on their study tour to gain more information on the Chinese market and on the potential prospects for Indian firms. The study tour, which included visits to MTMs in China, buyers, fairs and support institutions, was perceived as a success and shortly afterwards, the consortium sent two members back to China to assess the need for establishing a sales office. It was found that the creation of a common office was premature and alternative distribution channels were identified. In addition to these missions, three members of the consortium participated in an international fair in China where they distributed BMTMN's common brochure on behalf of the other members.

As a result of BMTMN's positive experience, other consortia, with the support of ABMTC, have prepared study tours to countries besides China and have organized their participation to important international fairs abroad.

Cooperation between member firms has improved due to their membership in the consortia. Consortia can share enquiries: often, an order is received by a firm that is not in a position to take up the work. In such cases, the members can share the enquiry within the consortium and if nobody is in a position to take up the work, the enquiry is passed to other consortia. Firms are thus becoming more confident that they can take up large-volume orders and share them among each other. Additionally, members have referred their customers to other consortium members and have developed a database of buyers, thereby increasing the customer base for all firms.

## Case Study 2. The Tunisian Consortium TEC Consulting

Established in 2001 within the framework of the UNIDO-Tunisian Ministry of Industry technical cooperation project, the Tunisian Engineering Consortium Consulting (TEC Consulting) is the second consortium created in Tunisia. The first Tunisian consortium, C-8, was created a year before and groups eight producers of automobile spare parts.\*

TEC Consulting groups twelve research and consultancy firms specialised in engineering. The initiative for the creation of this consortium arose from an awareness campaign organized by a UNIDO project in Tunisia, which had already assisted the firms of C-8 to establish their consortium. During meetings with firms interested in the concept of enterprise networks, UNIDO experts explained the advantages that inter-firm cooperation entails and provided information on how C-8 was established. Following one of the presentations, the heads of several engineering companies contacted the Bureau de Mise à Niveau (BMN) within the Ministry of Industry, to present their ideas on the creation of a consortium grouping complementary engineering services. The firms had realized that individually, they were too small and their expertise was too narrow to be able to compete with larger engineering companies for national and international tenders. However, by joining together, they could offer the range of services and skills required.

Initially, 30 engineering companies declared their interest in the project of joining a consortium. The BMN provided institutional support and channelled the firms' efforts. It hosted the first meetings of the companies' directors with UNIDO's promoter. During these meetings, various practical issues were discussed such as the possible objectives of a future consortium, selection criteria for members and possible legal forms.

The experience which had been gained during the establishment of C-8 proved very useful in the creation process of TEC Consulting, particularly with respect to the selection criteria of members. For example, it had become clear that difficulties relating to differences in the resources and investment capabilities of member firms could be avoided by requiring members to have similar financial means and a similar level of technological competence.

Since large international tenders often require a great number of experts in one field, it was decided that companies offering the same types of services could be accepted as members. To ensure knowledge and respect of the mutual competencies, it was agreed that future members must be associates of the Tunisian Association of Consultancy Firms. Furthermore, it was agreed that applicants must be consultancy firms who have been in operation for a significant number of years, wish to upgrade their work and wish to work according to ISO 9000 standards.

The twelve engineering companies that met the membership criteria agreed that their main objective would be to combine their competencies in areas such as consulting, public and private building design, urban planning, hydraulics, information systems, topography, environmental studies, electrification and civil engineering, so as to jointly provide a comprehensive and competitive offer when bidding for international tenders. To reach this goal, they decided on the following activities for the consortium:

\*In addition to C-8 and TEC Consulting, one other consortia has so far been created, namely a consortium grouping producers of natural olive oil. Several other consortia are in the process of being created.

- Producing a joint catalogue as well as a promotional brochure (in two languages) presenting the consortium and its twelve members;
- Creating a website;
- Conducting market research;
- Developing training courses;
- Obtaining the necessary certification for members;
- Establishing links with large international donors;
- Organizing several business trips abroad;
- Signing partnership agreements with research consultancies abroad.

The twelve firms decided to establish a public limited company, whose capital is divided into twelve equal parts and determined in accordance with the needs established in the business plan. The consortium is headed by a President who is elected among the members of the consortium. An Executive Director and an assistant to the President may be recruited externally. The Board of Directors is composed of the representatives of the twelve member consultancy firms. The consortium is located and registered in the office of the President of the consortium.

To complement the Statute and the Shareholders' Agreement, an Internal Regulation, specifying the subcontracting procedures within the consortium, was drafted. This was perceived as necessary since the main problem of consortia in the service sector is how services offered should be subcontracted to individual members.

On March 19th 2001, TEC Consulting was officially established as a limited company with a total paid-in capital of 60,000 Tunisian Dinar, i.e. 5000 Dinar (approximately US\$3,500 in 2001) for each of the twelve members.

The consortium has participated in the Congress of Arab Engineers and was part of the official delegation of the Tunisian Prime Minister to Iran. During the latter occasion, a draft agreement was signed between TEC Consulting and a large Iranian consultancy firm specialized in the construction of dams. The distribution of pamphlets through Tunisian embassies abroad quickly resulted in contacts with foreign consultancy firms and partnerships with nine other foreign companies were established. Following several missions to neighbouring countries, TEC Consulting has been contracted for several projects, among them the construction of the Algerian Ministry of Energy and of a University in Algeria. The consortium is open to new members and three companies have voiced their interest to join. A website for the consortium has been created at [www.tecconsulting-tunisie.com](http://www.tecconsulting-tunisie.com).

## Case Study 3. The Artisan Consortium CO.D.EX.ART. of Essaouira (Morocco)

Declared UNESCO World Heritage in 2001, Essaouira is a picturesque city situated on the Moroccan coast, 350 km south-west of Casablanca. Essaouira is renowned for its craft industry. In 2001, 7000 artisans found work in this sector. With 75% of artisan production, woodworkings made out of thuja wood, called “Arar”, represent one of the main productive activities in Essaouira.

Since 2001, UNIDO, in cooperation with the Ministry for Artisans and the Social Economy, assists the Essaouira artisan cluster. In the context of this cooperation, a diagnostic study was conducted of the group of artisans producing marquetry (inlaid woodwork). Their know-how, the quality of their products and the efficiency of their production methods were analysed. Additionally, their relations among each other and their links with public and private associations as well as potential domestic and foreign markets were studied. As a result of the study, several actions were developed to address the needs of the artisans. The activity that was perceived as most crucial for the future development of the cluster was the creation of an export consortium.

Following an awareness campaign by UNIDO, fifty artisans with an equal level of training, production techniques and infrastructure decided to join forces and to create an export consortium. With the assistance of UNIDO and the Association of Artisans, the consortium CO.D.EX.ART plc. became functional in spring 2003. Its objective is to make the crafts of its members more attractive for foreign buyers through promotional campaigns, quality improvements and the development of new product lines.

Prior to the consortium’s creation, intermediaries had a monopolistic position. Only 7% of products were sold directly to end users. Isolated artisans lacked bargaining power. Raw materials were sold to them at a high price and the final product was purchased from them only slightly above cost price. No true commercial strategy existed and products were not promoted abroad. CO.D.EX.ART addressed these problems by developing a comprehensive promotional campaign for its members. A catalogue of the different designs has been produced. A website and a CD ROM present the entire range of crafts produced by members ([www.codexart.com](http://www.codexart.com)). Contacts are being sought on national and international level.

The diagnostic study found that only 11% of artisans had received professional training and that their tools were often simple and outdated. Additionally, the crafts produced were almost identical. Individual artisans used the same design and no attempts at innovation were made. Quality was not considered a priority. Production methods leading to quality improvements were disregarded.

To address the need for skills upgrading, CO.D.EX.ART is organizing training courses for its members. These are not only aimed at assisting artisans to specialise, but also at transmitting new techniques and encouraging innovation. Every new design or model will be registered with the Moroccan Office for Industrial Property. Computer training and internet courses are intended to assist the access to information relevant for the sector. CO.D.EX.ART is also attempting to improve the quality of products. Production methods leading to quality improvements are jointly being developed and a quality certification for artisans’ products is being introduced. A new product range has already been developed.

With 95% of the wood utilized, thuja wood, is the main input in marquetry. Due to a lack of suitable equipment and ineffective working methods, thuja wood was being wasted during production. The availability of Thuja wood was decreasing and artisans were beginning to face



supply problems. The depletion of local raw materials was accelerated by the constant influx of new artisans. To halt the depletion of thuja wood, CO.D.EX.ART is attempting to identify renewable wood sources and, as mentioned above, is introducing improved production methods. In cooperation with local authorities, the consortium is also planning reforestation and the promotion of the thuja forests.

The final objective of the consortium, and notably one of the most important is the strengthening of ties among artisans as well as the development of relationships with public and private institutions. The diagnostic study revealed that occasional subcontracting was the only type of cooperation found among artisans. No community spirit existed and hardly any information exchange took place. Therefore, artisans only received very limited information on exhibitions and trade fairs as well as on possibilities to obtain finance. CO.D.EX.ART is encouraging members to solve problems related to quality and price jointly and to increase their bargaining power vis-à-vis clients by operating collectively. Through the consortium newsletter, a feeling of belonging to a community is to be fostered and information exchange is enhanced. CO.D.EX.ART is also strengthening its relations to local and national institutions and thus ensures the representation of its members in events relevant to the sector. In addition, it is creating links to European distribution channels for crafts.

## Case Study 4. The Brazilian Textile Consortium Flor Brasil\*

In 1998, Brazilian SME support institutions organized a training course in Italy for 15 enterprises from Brasilia that produced knitwear, working clothes and beachwear. All firms were producing for the domestic market but were finding it difficult to compete with the traditional brands of Rio de Janeiro (the city that dictates fashion trends in Brazil) and thus to grow.

During the training course, the participating firms learned everything related to the commercialization of their products, from how to plan their collection to how to design their store. In addition, they met with Italian SMEs and observed that these were able to develop a high quality product, with an attractive design, ahead of their competitors. Due to good accessibility to information on markets, trends, consumer demands and distribution channels, Italian SMEs were able to commercialize their products in many countries. The 15 Brazilian firms noted that the Italian SMEs were in fact very similar to them. In addition to the similarity in size, the level of production technology was comparable. The main distinguishing features were the differences in design and the firms' access to information. The Brazilian firms thus decided to prioritize these two aspects in their future operations. During the training course, the Brazilian firms were asked why they did not export more bikinis: a specific Brazilian product with a nice design. At that time, however, the firms had not considered the possibility of exporting.

Upon return to Brazil, the 15 firms tried to implement what they had learned in the training course and from their Italian counterparts. They began to plan ahead, to involve their clients in the development of collections and to give more importance to their joint catalogues. The entrepreneurs became aware of the wide range of assistance provided by APEX, the Brazilian Agency for the Promotion of Exports. Since the group's products had been well received among local clients, they considered the possibility of exporting them.

After having conducted research on the possibility of penetrating foreign markets, the firms created the consortium Flor Brasil and began their export activities. They improved the quality of their products and attempted to make their designs more uniform. Jointly, they participated in trade fairs in Italy and France, which served as a valuable learning experience. Today, Flor Brasil exports to Europe and the United States and has an estimated export turnover of US\$1 million for 2003.

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\*This case study is taken from the book "A primeira exportação a gente nunca esquece" prepared for APEX. The book is published at Qualitymark editora Ltda, Rio de Janeiro, Brazil.

## Case Study 5. The Argentinean Consortium of Small and Medium Meat Producers

In the context of its Italian-funded project “Recovery of the Argentinean Industrial Sector—Upgrading of SMEs to Foster Access to Markets and Credit”, UNIDO is providing technical assistance to a group of meat producers in the Province of Santa Fe. It is supported by two NGOs, which have experience in the development of the meat sector in Santa Fe. Both NGOs receive funding from the Italian Government and the Inter-American Development Bank.

Forty-eight meat producers have agreed to join the project. The assistance provided so far included the establishment of a consortium and the upgrading of members’ products in terms of quality, productivity and safety in order to improve their access to foreign markets. More specifically, the activities being carried out comprise:

- The development and implementation of a common system for good quality, production, hygiene and safety practices;
- Piloting a traceability system and a platform to conform to European Directive 178/2002, which lays down principles governing food and feed in general, and food and feed safety in particular;
- The creation of a scientific panel to review traceability practices in Argentina
- Benchmarking with European meat producers, with respect to quality, productivity and safety;
- The elaboration of a statute and drafting of a business and marketing plan for the consortium;
- Negotiations with several potential investors and buyers in Europe interested in contracting the consortium.

## Annexes

A number of annexes are included on the CD ROM provided with this guide. These comprise detailed descriptions of issues discussed in the main body of the guide as well as examples of certain documents mentioned throughout the text. It is hoped that these documents can serve as useful examples for the actors involved in consortia development.

The documents included in the annexes are for illustration purposes only and are not to be used as strict models. As mentioned in the main text, the precise requirements with respect to the documents of incorporation will vary among countries. Concerning the drafting of the Statute and the Shareholders' Agreement in particular, users should thus consult professional legal advice in the country in which the consortium is to be created.

The following documents can be found on the CD ROM:

- Example of the Statute of a Consortium
- Example of a Shareholders' Agreement
- Italian Law 317/91
- Example of a Questionnaire to Identify Interested Firms
- Example of a Questionnaire to Identify the Activities to be Undertaken by the Consortium
- Example of a Questionnaire on the Management of the Consortium
- Guide to the Business Plan





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