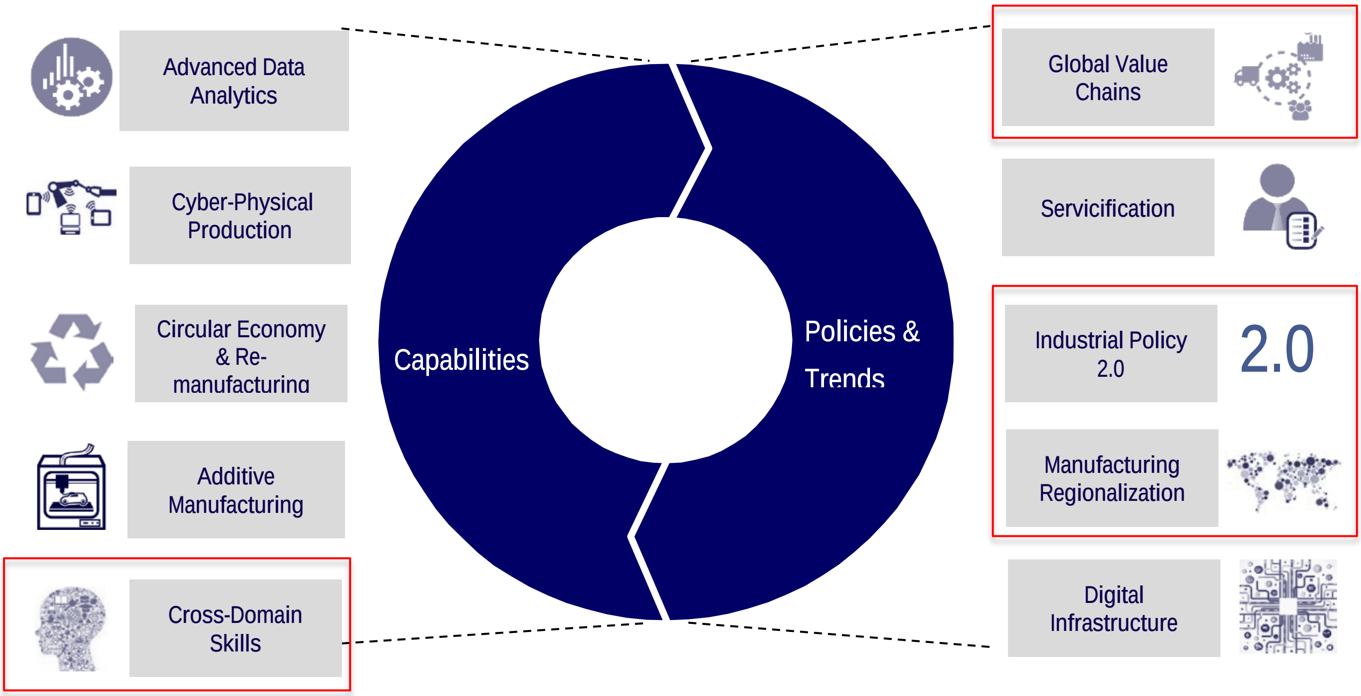
Case 13

Pilot Czech Supplier Development Programme in Electronics and Automotive

Drivers of the Future of Manufacturing



Source: World Economic Forum Global Agenda Council on the Future of Manufacturing, Whiteshield Partners framing

Executive summary

1. Challenge Confronted

The Czech Republic had been one of the most **successful locations in attracting foreign direct investment** (FDI) after the fall of communism in the 1990s, but relatively **few benefits potentially connected with FDI had been felt in the local economy.** Multinational companies (MNCs) drew little of their inputs from Czech suppliers. The **local content figures were extremely low** even in sectors where the Czech Republic has strong skills and traditions, such as automotive and electronics. An effective mechanism was required to widen FDI benefits to the local economy. There was a need to strengthen local suppliers' capacities so that they would have the **capacity to cope with EU single market forces in the near future** and succeed in becoming internationally competitive following enterprises' isolation from world markets and comparative advantages under central planning.

2. Solution Used

The Czech government implemented a pilot **National Supplier Development Programme** in 2000-2002. The programme focused on developing and **promoting linkages between MNC inward investors and local small- and medium-sized enterprises** (SMEs). The programme was **demand-driven** and aimed at improving the competitiveness of Czech SMEs to the **level required to enter global value chains (GVCs)** by becoming suppliers to MNCs. A related objective was to develop a local world-class supplier base. A dozen MNCs were involved throughout the project and 45 SMEs received targeted training based on needs uncovered during business reviews.

The **Supplier Development Programme was implemented by CzechInvest**, the Czech investment promotion agency. It was designed by the World Bank Foreign Investment Advisory Services and funded by the European Union pre-accession PHARE Programme. The programme was built on the experience of the United Kingdom and Ireland. A team of two UK advisers joined the CzechInvest team for the pilot phase to ensure transfer of experience and build implementation capacity.

3. Lessons Learned

1. Government leadership is essential, but **MNCs should press for such programmes** as a positive alternative to local content policies. An important first step for the **public sector is to select and develop an agency to manage the programme** and coordinate all the other bodies necessary for its effective implementation. High-level political and industrial ownership of the programme is required to maximize programme impact.

2. **Work closely in partnership with MNCs.** A dozen MNCs were actively involved in the preparation of the project and its implementation as **members of the steering committee.** They played a key role in mapping potential suppliers and identifying skill gaps. The MNC nominations were based on their internal market analysis and information from the CzechInvest supplier database.

Czech Supplier Development Programme in Electronics and Automotive

Dates: 2000 - 2002

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Key facts:

- Czech Republic has been very successful in attracting FDIs; however, few benefits have spilled over to local economy.
- A National Supplier Development Programme Pilot was launched to promote linkages between MNC inward investors and local SMEs.
- Close collaboration with the private sector was key to the success of the programme.
- Suppliers for the programme have been identified on the basis of potential rather than need.
- A process with business reviews and mentoring ensured process and product upgraded for local SMEs to qualify for the requirements of MNC inward investors.
- 15 companies had gained new business which they attributed to the programme, with these contracts worth $46 million.

3. **Focus on supplier companies on the basis of potential and not need**, and ensure that company management is committed to the process. Nominated and committed SMEs were provided with targeted business support.

4. **Establish a business review process** to analyse the totality of each business in the **context of global standards** and to establish its individual priority needs. Following comprehensive supplier quality audits based on the European Foundation of Quality Management (EFQM) benchmarking tool,

5. Help companies help themselves. **Customize, coordinate and simplify access to the appropriate assistance** to improve company performance in line with the EFQM reviews, and provide **hands-on practical mentoring support** to assist in applying such assistance to develop in-house skills. A series of regional trainings were developed and offered in cooperation with local technical universities. Individual consultancy advice was provided to the firms with biggest potential and improvement plan progress over several months.

Description of the Work Performed (proposal, not yet implemented)

A pilot SDP was established based on developing linkages with the MNC inward investors, and working with those companies. The **pilot lasted for 21 months** from November 1999. **MNCs were closely involved from the outset.** They were asked for their **nominations of companies** for the programme, as well as other sources being drawn on to identify companies with potential which had had no or little contact to date with MNCs; **200 companies were reviewed in detail, of which 73 were invited to participate** to achieve the programme target of 45 companies.

A two-day business review was undertaken in each of the 45 companies. This was based on the European Foundation for Quality Management (EFQM) model and looked at the totality of the business. In addition to focusing on the areas of performance of most importance to meeting MNC requirements, the aim was to get **participation/buy-in from company management** and convince them of the value of a process, which meant a major commitment of management time if it was to be worthwhile.

To this end a **twin track approach** was used, with **company management carrying out a self-assessment** using a simplified version of EFQM in parallel to a more in-depth review by external assessors. This was brought together at the end in a frank and open workshop, the main output of which was a short-term **(six months) self-improvement action plan.** It was essentially about helping companies to help themselves, working with company management to benchmark them against MNC world-class standards and competitive requirements, and to review the way forward for their business.

To **assist the companies** with the implementation of their short-term action plans, a **series of general workshops were held, focusing on the key areas for improvement** which had come out of the first round of business reviews. These tended to be in softer management skills and awareness rather than technical skills, and the two broad themes of the workshops were Strategy and Change, and Operational Efficiency.

At the end of the six months, a second round of one-day business reviews was undertaken, solely by the external assessors, with a view to gathering the information necessary to select 20 companies for the final intensive support phase. A selection system, which was as objective and transparent as possible, was established, balancing the measurement of the company's current performance and capability and the commitment and capacity for improvement shown between the two business reviews.

This **final phase** was the crucial stage in developing companies to internationally competitive standards and provided individually **tailored and targeted 1:1 support**, as opposed to the more general support given to that point. This was delivered by **appointing an individual mentoring team for each company, consisting of an EU expert lead mentor and a Czech independent consultant** (thus ensuring the transfer of skills and experience for future programmes, as well as giving the advantages of local knowledge and language). This phase lasted six months within the formal pilot, but continued thereafter. All the **business reviews and other support were free, but a small standard charge** (CZK 50,000, **or about $1,600 at the time) was made for all companies joining this part of the programme**, to establish the principle of charging in line with best EU practice – where similar support was normally provided on a matched funding basis. All companies in the programme continued to receive general support.

Key Outcomes

The Czech Supplier Development Programme succeeded in **strengthening local companies' skills** and enhancing the **benefits of FDI to local economy. Process and product upgrading** have been evident at the supplier level. Business reviews showed an increase in company performance in areas required to meet MNC requirements.

An evaluation undertaken 18 months after the end of 2000-2002 surveying all 45 companies participating in the pilot (with 42 responding) showed that **15 companies had gained new business** which they attributed to the programme, with these contracts worth **$46 million for the period 2000-2003**. Four companies had also found new customers abroad, and three companies had obtained contracts for **higher value-added content**. The **share of components sourced** from Czech companies by the MNCs participating in the programme correspondingly increased from a rate of 0%-5% at the start to 2.5%-30% by 2004.

Following the success of the pilot SDP in electronics, **the programme was replicated in three other sectors**. This expansion led to an increased focus on the local benefits of FDI in national policy-making, with CzechInvest playing a key policy advocacy role. The programme also informed the development of the follow-on Czech national cluster policy. Driven by supply-side improvements in export performance, the Czech Republic experienced significant **gains in global market shares in the late 2000s**. Export growth was driven by motor vehicles and machinery and electrical equipment sectors. Both have grown at double-digit rates over the past decade and have shown continuous improvement in product quality, although clearly there is room for further progress.

Drivers & Enablers

Supplier Development Programme

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Foreign Direct Investments

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- New business
- Higher value-added
- Higher share of local components

Barriers

- **Lack of** a developed business development **support infrastructure** for SMEs
- **Limited management capacity** and capability of SMEs