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THE STRATEGIC MANAGEMENT OF EXPORT CONSORTIA:

An analysis of
the experience of UNIDO
in Morocco, Peru, Tunisia and Uruguay



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



**Industrial Policy and Private Sector Development Branch
Programme Development and Technical Cooperation Division**

The Strategic Management of Export Consortia

**An analysis of the experience of UNIDO
in Morocco, Peru,
Tunisia and Uruguay**



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION



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This study was commissioned by the United Nations Industrial Development Organization Vienna and coordinated by Fabio Russo, Senior Industrial Development Officer, Industrial Policy and Private Sector Development Branch (PSD), UNIDO and Ebe Muschiali, UNIDO consultant. The authors' contact details are: Donatella Depperu Donatella.depperu@unicatt.it (CERSI – Centro di Ricerca per lo Sviluppo Imprenditoriale, Università Cattolica del Sacro Cuore), Fabio Antoldi – Fabio.antoldi@unicatt.it (ALTIS – Postgraduate School of Business & Society, Università Cattolica del Sacro Cuore) and Daniele Cerrato – daniele.cerrato@unicatt.it. (Dipartimento di Scienze Economiche e Sociali, Università Cattolica del Sacro Cuore). The views represented in this report are solely those of the authors and do not reflect the position of UNIDO. The authors wish to thank the following UNIDO consultants, who have contributed to the preparation of the case studies included in chapter II: Gilles Galtieri, Carlos Lopez, Alejandro Siles and Taoufik Chaabane. They are especially grateful to Michele Clara, Industrial Development Officer, UNIDO PSD and to Nuria Ackermann, UNIDO intern, for detailed comments on the draft paper.

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EXECUTIVE SUMMARY

This paper analyses the strategic management of export consortia in developing countries. The internationalisation of small and medium-sized enterprises (SMEs) is attracting growing interest as it is considered an important means of enhancing their long-term growth, profitability and chances of survival. Furthermore, at country level, increasing exports is considered to have positive effects on economic growth and employment levels. Given the relevance of internationalisation as a driver of competitiveness at both micro and macro level, policy-makers are interested in setting up appropriate systems of incentives and support services that can enable firms to grow and be successful in foreign markets.

Although in an increasingly global world the international activities of small firms from developing countries is growing as a result of greater subcontracting with foreign firms, SMEs suffer from a number of major internal barriers to export relating to their limited endowment of resources and capabilities to meet the challenges of the new business environment. This is particularly true of SMEs in developing countries, where relatively few entrepreneurs have international experience or a high level of management education. In comparison with those in developed countries, firms in developing economies have fewer managerial resources and fewer private or public support services, both of which factors negatively affect their ability to go international. Consortia of SMEs can facilitate the solution of export problems and make it possible to loosen the constraints related to the investments needed to penetrate foreign markets.

An export consortium can be defined as *'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'* (UNIDO, 2003). Export consortia are specific network arrangements, based on domestic collaborative relationships. They generally involve SMEs characterised by complementary and mutually enhancing offerings, and can be sales or promotion oriented. Network relationships are important sources of resources and capabilities and especially smaller firms' leverage on networks to mitigate the limitations arising from their size or inexperience and gain access to technological, production or market resources.

The paper builds on an empirical analysis of nine export consortia promoted by UNIDO in developing countries between 2004 and 2007: four in Peru, three in Morocco, and one each in Tunisia and Uruguay. Data were collected by means of interviews with the consortia managers and entrepreneurs.

Capitalizing on its long experience in SME cluster and network development, UNIDO has developed a comprehensive programme to help developing countries and transition economies establish export consortia. UNIDO assistance focuses on the following areas: supporting the creation of export consortia; capacity building for public institutions that

promote or regulate export consortia; capacity building for private sector institutions that provide assistance in the establishment and operation of export consortia; skill development for export consortium managers.

The paper is structured as follows. In Chapter 1, building on a review of academic literature, we discuss the factors affecting internationalisation of SMEs and the role of inter-firm networks in driving the paths of SMEs' foreign expansion.

In Chapter 2 the empirical evidence on which the paper builds is presented in detail. After describing the UNIDO programme for export consortia and the methodology of the empirical investigation, each of the nine case studies is presented looking at six elements: a) Strategic alignment; b) Consortium strategy; c) Organisational structure; d) Resources and competences; e) Governance; f) Performance measurement.

These basic elements of strategic management of export consortia are discussed more in depth in Chapter 3. In this chapter we develop a framework for analysing the management of export consortia and also describe some tools that can help firms to formulate and implement effective consortium strategies and monitor performance. We analyse the main activities related to the setting up and management of export consortia, specifically focusing on the following elements:

- (a) Managing the strategic alignment of member firms;
- (b) Formulating consortium strategy;
- (c) Designing the organisational structure;
- (d) Leveraging on strategic resources and distinctive competences;
- (e) Enforcing corporate governance and leadership;
- (f) Measuring consortium performance.

(a) A critical activity for the success of consortia consists of assessing and promoting the *strategic alignment* of member firms. It must be assessed at the time the partners are selected (before the consortium has been started up) and then continuously monitored at every stage of the consortium life-cycle.

Aligning the competitive strategies of independent businesses turns into developing a shared vision of their future international activities that makes explicit the reasons underlying the alliance and the advantages that each member can obtain from it. In the start-up stage of export consortia, the task of assessing strategic alignment is usually carried out by an external 'network facilitator', namely associations of firms, public agencies, and other public or private agents. Specifically, in the export consortia included in our analysis, UNIDO played the role of network facilitator in collaboration with local public and private institutions. The difficulty with which a shared vision can be developed, and a strategic alignment reached and sustained over time, is affected by a number of factors such as: number of partners involved in the alliance; homogeneity of the member firms (in terms of industry, size, and stage of internationalisation); degree of complementarities/competition of their production.

(b) With regard to *strategy formulation*, UNIDO experience shows that export consortia can improve their profitability, achieve productivity gains and accumulate knowledge through various types of strategies and joint actions that are not directly related just to export marketing. Consortia are vehicles for building social relationships and social capital that can be exploited not only at the international level, but also in domestic markets. Indeed, upgrading and enterprise modernization measures can also be facilitated through cooperation between SMEs, since normally the basic requirement for successful implementation of competitiveness-enhancing processes are investments in services (quality, traceability, certification, electronic accounting systems, innovative packaging, process improvements, production management, etc.) and in production equipment and technologies. Normally these investments are not affordable for individual SMEs, but may become within their reach through joint financial collaboration in the framework of an export consortium.

Consortia members pool together their resources for the joint acquisition of equipment, supplies and services (marketing, logistics, training, technical advice, etc.) and thus achieve, as a group, increased bargaining power that allows them to obtain products and services at better conditions. Furthermore, permanent information exchange between associated SMEs on, for instance, production and human resources management practices contributes directly to collective company upgrading.

Therefore, beyond promoting export, another strategic objective becomes increasingly important and, in some cases, dominant: upgrading and strengthening of the organisational and managerial structure of member firms. This is particularly relevant in developing countries, in which firms are characterised by less managerial expertise, and fewer organisational resources and staff than their counterparts in developed countries.

Empirical evidence shows that consortia are characterised by different combinations of the two strategic objectives of 'upgrading managerial and organisational structure' and 'internationalisation'. The strategic objectives of consortia may change over time as a result of the changing interests and priorities of the member firms as well as the different stages of the consortia life-cycle. In general, an 'upgrading' objective may be more common and relevant for smaller firms and represent the first result to achieve from collaboration. On the other hand, a greater pressure for increasing the degree of internationalisation could arise once firms have achieved a certain level of development, in terms of managerial and organisational structure.

(c) Designing the *organisational structure* of an export consortium is another critical activity. It encompasses a number of choices affecting the *macro-structure*, i.e. the identification of the activities to be carried out at consortium level and of those that will continue to be performed by member firms, and the *micro-structure*, i.e. the identification of the organisational units of the consortia and their roles, tasks and responsibilities.

Different options can be identified in terms of distribution of activities at consortium vs. firm-level. They can be represented as a *continuum* ranging from a '*light*' structure where the consortium does not have (or has only to a very limited extent) its own staff and resources, because all of the responsibilities and tasks are distributed among the individual firms, to a '*hard*' structure where the consortium is delegated several strategic activities by member firms and so can rely on more significant resources.

(d) The competitiveness of export consortia depends on the set of *strategic resources and distinctive capabilities* developed and spread at both consortium- and member- firm-level. Our analysis shows that the benefits of consortia are particularly relevant in terms of development of intangible resources. In all of the nine cases, consortia contributed to the enhancement of reputation at both firm- and consortium-level. The development of a 'common identity' is generally mentioned by member firms as a relevant result achieved thanks to activities such as the creation of the consortium logo, brand, and website, the development of common promotional materials (for example, brochures, CD-ROMs, and so forth) and a number of marketing actions jointly implemented. Development of new business contacts in both domestic and international markets and increasing technical and managerial know-how are two further areas in which the contribution of the consortia has proved important. The development of 'relational capital' encompasses relationships not only with customers, but also with public and private institutions, which are at the basis of the acquisition of financial resources. In fact, relationships with national institutions are fundamental for the acquisition of financial resources. Generally, such external funding is in the form of co-financing of over 50% of costs of projects.

(e) The *governance structure* and mechanisms of the consortia also play a critical role in enhancing the strategic alignment of member firms and promoting their commitment. In order to achieve equilibrium among the interests of member firms, an effective involvement of all of them in the decision-making process is necessary. All of the partners are therefore expected to participate directly to top management bodies. Usually, in the very early stages of a consortium life-cycle and, in general, when consortium activities are not very relevant if compared to the distinct businesses of individual firms (in term of organisational complexity and resources), the easiest way to favour participation is to involve all entrepreneurs in the Board of Directors. However, as the number of partners grows, more lean and effective governance bodies like an elective Board of Directors generally becomes the locus of strategic decision-making. In elective boards, some member firms are not represented and a formal set of rules about the decision-making process therefore becomes fundamental in fairly taking into account firms' interests. Furthermore, in case the management tasks at consortium level become numerous and complex, a consortium may decide to appoint a general manager, who is responsible for the strategic leadership of the consortium itself.

(f) Finally, in the paper we acknowledge that *measuring the performance* of an export consortium is not easy because, as in all grouping schemes, failure and success can have different meanings, and mere survival is often used as a measure of success. However, our analysis shows that relevant advantages can be identified in several areas. Specifically we argue that consortium performance has to be intended as a multi-dimensional construct: in a broader sense, the advantages for member firms are not limited to financial and market-based performance, but include a number of additional outcomes in terms of greater learning outcomes, increased reputation, higher relational capital and innovation.

In the conclusions we report the main results and draw some implications for policy makers:

- Even though support is key for the start-up and development of export consortia, it should be limited to a period of time. This is necessary to avoid the risk of a too high dependency of consortia on institutions that support them, which would reduce their capacity to define autonomously their own strategy and structure and to develop specific competencies.
- It should be taken into account that the needs of consortia are not the same in all stages of their life cycle. In the start-up phase they need a more *entrepreneurial-oriented* kind of support while in the development phase *managerial-oriented* support seems to be more effective. Institutions that support them should be conscious of this in order to supply different services at different times.
- Since a key factor for successful cooperation is the ability to communicate and interact, support to consortia should be oriented to the creation of conditions to make communication and interactions frequent and easy (for example enhancing mutual knowledge of member firms, organising meetings and missions where entrepreneurs of consortium members have the opportunity to discuss together, delivering short courses to develop not only common knowledge, but also mutual trust).

CHAPTER 1

THE ROLE OF EXPORT CONSORTIA IN THE INTERNATIONALISATION OF SMEs

1.1 Introduction: SMEs and international markets

Technological improvements, more efficient international communications and transportation, regional economic integration, and a number of trade agreements have dramatically changed the international business environment and contributed to the growth of international trade.

At macro level, increasing exports is considered to have positive effects on economic growth and employment levels. At micro level, exporting allows firms to pursue growth opportunities, diversify business risks, develop management capabilities, and increase profits (Ramaseshan and Soutar, 1996).

As international markets are becoming increasingly integrated and interdependent, virtually all firms, regardless of their size, industry or country of origin, need to develop a strategic response to international competition, and small and medium-sized enterprises (SMEs) have become aware of the importance of internationalisation as a means of enhancing their long-term growth, profitability and chances of survival (Morgan and Katsikeas, 1997).

In a global world, and especially in developing countries, the number of small firms engaged in export activities is increasing as a result of greater subcontracting between SMEs and foreign firms. On the other hand, global competition is also a threat because, as SMEs are no longer protected from foreign competition, they have to go international in order to remain competitive in their local markets. They therefore need to overcome their limited experience in international markets. This is particularly true in the case of SMEs operating in developing countries, as they are generally less experienced in exporting, especially to customers in developed nations. They suffer from a number of major internal barriers relating to their endowment of resources and capabilities to meet the challenges of the new business environment.

Exporting is generally the first stage of the process of internationalisation and, especially among SMEs, is considered the most common means of entering a foreign market because it involves a lower business risk, less commitment of resources and greater flexibility than joint ventures or foreign direct investment (FDI).

Much of the literature concerning the internationalisation of firms has traditionally focused on multinational enterprises (MNEs) or large, well-established firms in developed economies (Buckley and Casson, 1976; Dunning, 1981; Hymer, 1976). However, SMEs are now often forced to enter foreign markets, and their exporting activity is becoming increasingly relevant.

The internationalisation of SMEs is an increasing global trend in both developed and developing countries, and it has not only attracted the interest of academic researchers, but also raised questions among policy-makers. Governments are now interested in setting up appropriate systems of incentives and support services that can enable firms to grow and be successful in foreign markets. Government agencies and related organisations can help firms participate in international fairs and generally increase their export potential, as well as facilitate the solution of export problems. Secondly, it is increasingly acknowledged that firms can increase their export potential by leveraging on networks or collaborative strategies, and combining their resources, knowledge and experiences can lead to their more rapid internationalisation. Export consortia are typical examples of such collaborative arrangements, and understanding the impact of these relationships on the firms' international activities is crucially important.

1.2 Internationalisation of SMEs: Contributions from different theoretical perspectives

Research into exports and SMEs has addressed two main questions: What are the critical factors that affect the export performance of SMEs? What are the barriers to exports by SMEs?

In 1960, Stephen Hymer introduced the notion that foreign firms face an inherent disadvantage when competing with local firms in foreign markets. Firms operating in foreign countries have higher costs than local firms because of factors such as the lack of local information and market knowledge, unfamiliarity with the local culture and business environment, etc. (Hymer, 1976). This disadvantage is known as the 'liability of foreignness' (Zaheer, 1995). For this reason, the possession of firm-specific advantages is crucial for foreign expansion: firms need to accumulate and leverage on their firm-specific advantages in order to gain an advantage over local firms.

Using different theoretical perspectives, the internationalisation literature highlights the factors affecting the foreign expansion of SMEs, and shows how they can overcome the liability/disadvantages associated with it.

1.2.1 The incremental approach to internationalisation (Uppsala model)

The Uppsala model (or stage theory) is one of the best known models of business internationalisation. It was developed by Johanson and Vahlne (1977) on the basis of their analysis of four Swedish export companies. They introduced the concept of internationalisation as an incremental process, and argued that firms gradually go through different stages of international development that reflect their increasing knowledge and commitment to foreign operations (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977).

The model suggests that firms initially enter foreign markets that are comparatively well-known and similar to their own in terms of factors such as their economic development, political system, culture, business practices, legal environment, religion, language and education, and then gradually enter markets that are more 'psychically' distant.

The Uppsala model views a firm's experiential knowledge as the main factor reducing the uncertainty associated with foreign expansion (Andersson, 2004) and driving both the geographical scope and changes in entry modes. As a firm's market knowledge increases, it enters markets that are increasingly 'psychically' distant and, within them, progressively modifies its entry modes from exporting to the greater involvement required by alliances and subsidiaries. Market knowledge, which can be gained from experience with foreign activities, is therefore the key factor influencing the time and direction of international development. Only experience can reduce the uncertainty associated with international expansion and remove the principal obstacle to it (Leonidou and Katsikeas, 1996). From this perspective, internationalisation is perceived as an incremental process based on learning, and a number of studies support the incremental view of internationalisation (Bilkey and Tesar, 1977; Reid, 1983).

The stage model provides some guidelines for the internationalisation of SMEs and emphasises two key points:

- the knowledge of foreign markets as a key driver of internationalisation;
- the importance of the learning processes associated with internationalisation.

However, in the modern global economy, the universal applicability of the slow, incremental model of internationalisation has been questioned (Bell, 1995; Bell *et al.*, 2003). Furthermore, it does not seem to have sufficient explanatory power, especially in relation to the realities of developing countries, where SMEs may follow a different path of foreign expansion from the conventional model of internationalisation in developed countries (see Section 1.5). The stage model is perhaps too rigid and unidirectional, and assumes that firms have the time to accumulate key resources such as knowledge of foreign markets.

1.2.2 The 'born global' phenomenon

Empirical evidence about 'born globals' – companies that are international from their inception or shortly afterwards – have challenged the incremental view of internationalisation (Knight and Cavusgil, 1996; Madsen and Servais, 1997). These firms are also known as 'global start-ups', 'early internationalising firms' or 'international new ventures' (McDougall *et al.*, 1994). They develop entrepreneurial strategies to exploit international opportunities simultaneously in a variety of markets.

Many born global firms are rather small. They internationalise rapidly by developing international networks, relying on innovation, and offering customised products. Although studies of international new ventures (McDougall and Oviatt, 1994; Oviatt and McDougall, 1994; Reuber and Fischer, 1997) suggest a different approach to internationalisation from that proposed by stage theorists. Both build on a knowledge-based view of internationalisation: however, the Uppsala model focuses on market knowledge, whereas more recent studies emphasise the role of technological knowledge, and their examples of rapidly internationalising firms are especially drawn from high-tech industries such as software and biotechnology (Gassman and Keupp, 2007).

The key lesson we can learn from these two research streams is that a firm has to manage its technology-based and marketing resources in accordance with what is required by its foreign development. From a dynamic perspective, as companies go through different stages of internationalisation, they need to reconsider the sources of their international competitiveness. This highlights the importance of a firm's set of resources and capabilities as drivers of internationalisation.

1.2.3 A resource-based view of internationalisation

When analysing the factors affecting the internationalisation of SMEs, some studies rely on resource-based literature (Bloodgood *et al.*, 1996; Dhanaraj and Beamish, 2003). In the resource-based view, firms are collections of unique bundles of resources creating a competitive advantage. The set of firm-specific resources and competences (Wernerfelt, 1984) forms the basis of the strategic behaviour of a firm, and therefore its internationalisation choices, which can be interpreted as how these resources and competences are exploited on a broader scale. Resources are used to create idiosyncratic, inimitable capabilities (Amit and Schoemaker, 1993; Barney, 1991). Firms accumulate assets and expertise over time (Dierickx and Cool, 1989). Resource-based-view scholars argue that differences between firms in terms of resources and capabilities explain differential above-average performances within and across industries.

As the strategic management literature suggests, a firm's capabilities enhance its business performance by creating low-cost or differentiation advantages (Porter, 1985). Firms with a low-cost position outperform their competitors in producing and selling goods and services at lower costs. Firms with differentiation advantages emphasise producing goods or services that customers perceive as unique and for which are willing to pay a premium price. Firms from emerging economies generally adopt cost-based strategies because they possess comparative advantages related to low labour and raw material costs, and mainly rely on pricing when competing in the export market.

Resources range from physical and tangible, to intangible and knowledge-based resources. Any production factor or activity can be considered a resource. However, firms have to identify the specific resources that offer a source of advantage in the specific environment in which they operate.

Whether they are in developed or emerging economies, in order to survive and grow, firms need to exploit their existing firm-specific capabilities and develop new ones (Penrose, 1959). It is not only important to exploit existing capabilities, but also to engage in developing new capabilities (Teece *et al.*, 1997). A capability-based perspective emphasises a more dynamic view of competition by focusing on a firm's business processes rather than on its assets or resources (Helfat and Peteraf, 2003; Zollo and Winter, 2002). Resources are the basis of a firm's capabilities, whereas capabilities represent the way it unfolds its resources.

Entrepreneurial and management characteristics play a central role among a firm's resources (Sapienza *et al.*, 2006). Penrose (1959) pointed out that the relationship between resources and growth is mediated by effective management.

Top managers may represent some of a firm's most valuable and difficult to imitate resources. In small firms, the role of the entrepreneur, and his/her beliefs, attitudes and expectations, is critical and deserves special attention (Wiklund *et al.*, 2003). Westhead *et al.* (2001: 337) point out that '*the resources and capabilities mobilised by the entrepreneur have an important impact on the ability to enter export markets*'.

SMEs are often managed by their owners, and generally lack sophisticated managerial structures. This is particularly relevant in emerging economies, in which firms are characterised by less managerial expertise, and fewer organisational resources and staff than their counterparts in developed countries. SMEs are also mainly family-owned companies and, as their senior managers often have personal or family ties, their decision-making processes may not only be based on professional expertise, but also on familial considerations.

1.2.4 Internationalisation from a network-based perspective

Contributions drawing on network theory have provided new insights into the processes of internationalisation (Coviello, 2006) by highlighting that, in addition to the firm or entrepreneur, network relationships are also sources of resources and capabilities (Elango and Pattnaik, 2007; Hadley and Wilson, 2003; Johanson and Vahlne, 2003; Oviatt and McDougall, 1994). The network contacts of an entrepreneur, which generally derive from prior experience, enable firms to leverage on critical external resources (Chen, 2003; Zhou *et al.*, 2007), and, especially by smaller firms, are exploited to mitigate the limitations arising from their size or inexperience (Bell, 1995; Zou and Stan, 1998). The 'relational capital' - the resources and mutual benefits incorporated in a relationship between two or more parties (Dyer and Singh, 1998; Hitt *et al.*, 2006) - are therefore a key factor driving a firm's international expansion. Such relationships provide access to technological, production or market resources (Johanson and Vahlne, 2003). In addition, the members of a network might receive guidance from more experienced partners.

These research contributions have extended the traditional stage model of internationalisation based on 'learning by doing'. In fact they point out that collaborative arrangements or networks can help firms overcome the 'liability of foreignness'. Learning does not only take place within individual firms, but can also come *from* and be shared *with* partners, and so a company's international pattern of expansion may also be profoundly influenced by the set of relationships it is capable of developing (see Section 1.6).

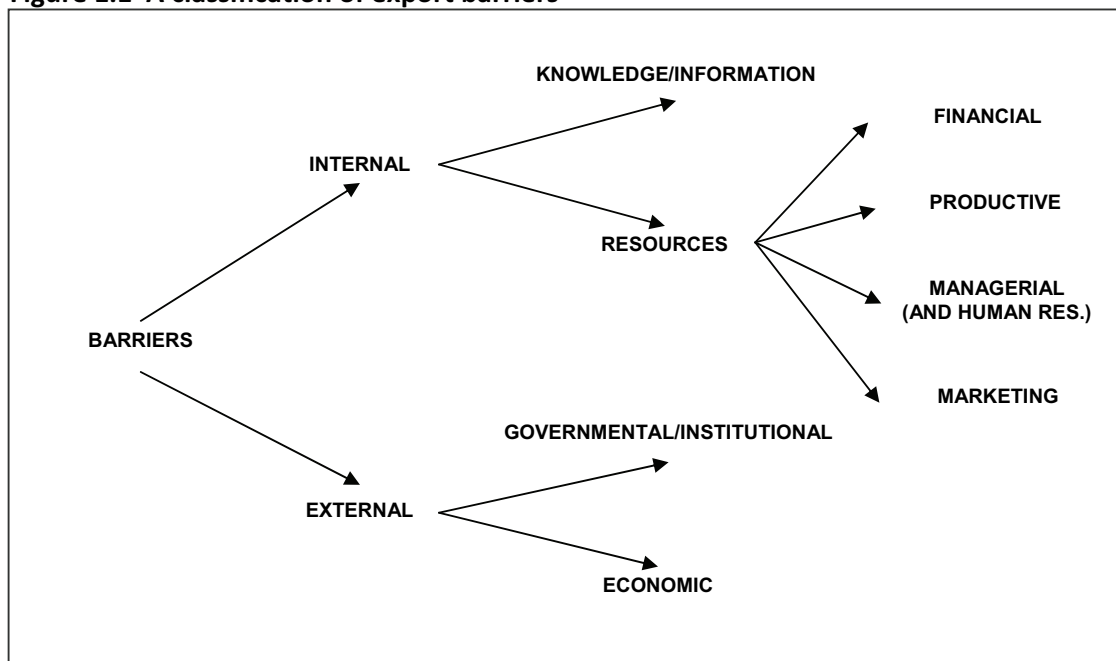
1.3 Barriers to SME exports: a classification

The international activities of small firms are generally constrained by the fact that they have fewer resources to invest in exploiting growth opportunities abroad. International business studies have identified a number of internal and external barriers that block or hinder them from initiating or increasing their export activities (Leonidou, 1995). These have been classified in various ways. Katsikeas and Morgan (1994) identified four groups: external, operational, internal and informational barriers, whereas Leonidou (2004) moved from the basic distinction between internal

barriers associated with organisational resources/capabilities and the company's export strategy and external barriers related to the home and host environment within which the firm operates.

Examples of internal barriers, which can be controlled by the firm to a certain extent, are financial constraints, inadequate administrative staff, and a lack of managers with international experience and a poor knowledge of foreign languages; external, and therefore less easily controlled, barriers include governmental restrictions, competition, and economic factors such as tariff and non-tariff barriers, or the lack of appropriate national incentives (Campbell, 1996) (Fig. 1.1).

Figure 1.1 A classification of export barriers



Adapted from Leonidou (2004: 283)

1.3.1 Internal barriers

Internal barriers can be divided into *knowledge* and *resource* barriers (Ortiz *et al.*, 2008).

a) Knowledge barriers

Knowledge barriers include:

- A lack of knowledge of potential export markets and difficulties associated with the identification of opportunities in foreign markets (Bilkey and Tesar, 1977). Too little information about the opportunities for a firm's products/services abroad is one of the major barriers.

It also has to be remembered that information on foreign markets is generally difficult and costly to obtain.

Brouthers and Nakos (2005) have shown that the international performance of SMEs is affected by the extent to which they take a systematic approach to selecting export markets: the more systematic the selection, the better the firm's performance. Constraints associated with market research also fall within this category.

- *A lack of knowledge of export assistance programmes and public incentives.* Public export incentives should be considered a secondary stimulus as they represent a merely external driver (Christensen *et al.*, 1987); management decisions should build primarily on a company's awareness of the benefits to be gained from exporting. *Ignorance of the financial and non-financial benefits associated with exporting* (Gripsrud, 1990);

- *Language and cultural differences.* These are among the most frequently mentioned barriers in the literature on exporting (Rabino, 1980; Bauerschmidt *et al.*, 1985; Leonidou, 2004). In comparison with domestic firms, exporters have to face a number of questions associated with differences in culture, ethical standards, the behaviour of customers and suppliers, and language and communication. Rather than international business experience, the gap a firm has to fill when going international is above all a matter of language, which is a major gateway to a more profound understanding of the culture of a foreign country.

b) Resource barriers

These are due the lack of resources related to a firm's functional activities.

Financial resources. A lack of financial resources has been identified as a key factor influencing the success/failure export ventures. These barriers are associated with a *lack of capital or credit to finance export sales* and a *lack of finance for market research*, as well as *difficulties associated with operating with different currencies and collecting payments abroad* (Ortiz *et al.*, 2008).

Production resources. Many SMEs do not have a strategic approach, but '*view exporting as a peripheral business activity, undertaken only if there is availability of production resources*' (Leonidou, 2004: 288). The barrier related to production resources is *insufficient production capacity*, which prevents a firm from devoting some of its production to export markets (Westhead *et al.*, 2002).

Marketing resources. Gaps on the marketing side may be associated with one or more marketing levers. Export barriers may arise from *difficulties in adapting products to the requirements of foreign markets* in terms of customer preferences, conditions of use, and so forth. Especially in the case of firms in developing countries intending to export to more advanced economies, the main obstacle is the *difficulty in meeting the quality standards required by foreign customers*, as customers in developed countries are generally used to higher quality than that offered by firms in developing countries. Furthermore, developed countries are characterised by stricter regulations, such as those related to customer health and safety. These oblige SMEs in developing country to make a number of product adaptations that may be excessively costly (Leonidou, 2004) or even impossible to achieve, given the firms' internal competences and resources.

A lack of adequate after-sales services, difficulties in selecting a reliable distributor, and a limited ability to communicate with foreign customers are other major barriers related to marketing resources (Kaynak *et al.*, 1987).

Managerial and human resources. Management skills and experience are crucial factors for internationalisation (Ibeh, 2003), and SMEs often lack appropriate and managerial resources. Managerial resources and capabilities involve the ability to create, maintain, negotiate and develop appropriate relationships with customers in export markets (Morgan *et al.*, 2004), as well as an ability to capture important market information. SME managers tend to focus on decisions relating to everyday questions and may neglect long-term strategic objectives and activities, such as analysing trends in international markets and developing new capabilities to enter new markets. As a result, SMEs find it more difficult to monitor the international marketplace and assess their strengths and weaknesses.

When analysing the factors guiding the internationalisation process, the characteristics of management assume a central role (Sapienza *et al.*, 2006): managerial competences are fundamental in order to seize opportunities for development abroad, manage processes and relationships in new contexts, and create routines that facilitate international operations (Hitt *et al.*, 2006; Westhead *et al.*, 2001). Although the role of an entrepreneur in defining strategies and orienting growth paths is still very important when an SME is seeking international development (Knight, 2001; Lamb and Liesch, 2002), there is an even greater need for organisational development and new roles inside the firm. The increasing commitment to foreign markets requires more people capable of handling international activities, and so there is a need to gain access to qualified personnel with the necessary competences. A lack of specialised human resources can be one of the main obstacles to foreign development. For this reason, difficulties in hiring personnel or organisations qualified to perform certain export-related tasks are significant constraints, and underline the fact that human capital is a critical resource for internationalisation.

1.3.2 External barriers

External barriers are those arising from uncertainties in international markets that cannot be controlled by firms since they are the result of the actions of other market players, such as governments and competitors. For example, strong competition in foreign markets is a relevant barrier. Poor economic conditions and unfamiliar business practices can be further important barriers to export. A number of important constraints to exporting activity may also come from governmental and regulatory issues of both home and host countries. From one hand, firms may suffer from the lack of government assistance and incentives for exporting as well as a particularly restrictive regulatory framework concerning export practices. On the other hand, foreign country regulation may result in a number of restrictions on firms that want to sell their products in their markets. Foreign countries may raise tariff or non-tariff barriers in order to create a favourable bias for indigenous firms. However increasing liberalisation is strongly reducing this type of barriers to export.

Understanding export obstacles has major implications for policy makers, who have to identify the areas in which exporters need greater assistance when arranging support services and incentives (Leonidou, 2004).

1.4 Management characteristics, organisational resources and SME exporting activity

Constraints in terms of resources and limited experience make international expansion more difficult for SMEs than for their larger counterparts, but SMEs have the potential to respond to market changes more flexibly than larger firms.

The international business literature has identified a number of variables affecting export performance, including the size and age of a firm, its technological level, the age and education of its CEO/management, etc.

Aaby and Slater (1989) identified four groups of factors affecting the export behaviour of SMEs: their characteristics (size, managerial commitment and perceptions), competences (such as technology, market knowledge, quality control, communication skills), export strategy (market selection, product mix, product development, promotion, pricing), and the external environment. Zou and Stan (1998) divided these into internal factors (export strategy, managers' perceptions and attitudes, the firm's characteristics and competences) and external factors (industry characteristics, and external and domestic market characteristics). In brief, the characteristics of a firm and its management, together with environmental factors, affect the export decision making and performance of SMEs.

Firm characteristics

Size and age have traditionally been used as variables explaining a firm's international activities, and many researchers have assumed that larger firms tend to be better international performers. *Firm size* is considered a proxy of the total resources available to the firm for internationalisation processes: larger firms have more 'slack' managerial, productive and financial resources, and can therefore meet the challenges of internationalisation more easily.

However, this view is not generally supported by empirical research. Studies of the relationship between firm size and internationalisation highlight the fact that being small does not *per se* constitute an export barrier and that, despite their fewer resources, SMEs can successfully enter foreign markets and reach high export levels (Bonaccorsi, 1992; Calof 1993). Calof's analysis of small and medium-sized Canadian firms showed that a firm's size only limits the number of markets served. In his study of a large sample of Italian exporting firms, Bonaccorsi (1992) found that size positively correlated with the propensity to export, and negatively correlated with export intensity (the ratio between export and total sales).

Analyses of the effect of the *age* of a firm and its export performance have led to controversial results. Some studies have shown a positive relationship between *experience in international markets* and export performance (Cavusgil and Zou, 1994).

Firms with *marketing-based competitive advantages* usually achieve greater export intensity. *Innovation* can have a significant positive influence on export, too. Technology is one of the key resources of a firm. In their study of the resource-based approach to export performance, Dhanaraj and Beamish (2003) found that technological intensity is a good predictor of export strategy which, in turn, had a positive effect on a firm's performance. Firms with lower levels of technology tend to focus on domestic or less demanding foreign markets.

Management characteristics

Research has also explored the relationships between a number of characteristics of decision makers and SME export performance (Mittelstaedt *et al.*, 2003; Cavusgil and Zou, 1994; Reid, 1983).

First of all, the *age* and *education* of decision-makers have been analysed as predictors of international success, although empirical evidence does not seem to show a clear relationship (Manolova *et al.*, 2002). Some studies have shown that management education and knowledge have a positive impact on export performance (Contractor *et al.*, 2005). Research has also indicated that decision-makers' motivations and attitudes to growth can affect a firm's international activities. Decision-makers play a crucial role in export activities, especially in the case of SMEs, whose limited size means that the entrepreneur himself is often in charge of export activities, and that there is a considerable overlap between him/her and the organisation. Strategic decisions in SMEs are typically made by one person, often the owner-manager.

Leonidou *et al.* (1998) divided the characteristics of management that affect export into four categories: general-objective (age group, educational background, professional experience); specific-objective (ethnic origin, language proficiency, time spent abroad, foreign travel); general-subjective (risk tolerance, innovativeness, flexibility, commitment, quality and dynamism) and specific-subjective (the perceptions of risk, costs, profits, growth and complexity).

Empirical findings show that a firm's export behaviour is influenced less by the objective situation than by the characteristics and perceptions of its management: educational level, foreign language and international skills, risk tolerance and resistance to change, as well as perceptions concerning export stimuli and barriers. Decision-makers need to be aware that the removal of an increasing number of trade barriers has today made entering overseas markets a viable means of pursuing faster growth and higher profits.

1.5 Patterns of SME international expansion

Internationalisation has been traditionally analysed in the context of mature developed economies, but today's economic environment is characterised by the increasing importance of emerging economies. This change raises the questions as whether, and to what extent, the conventional theories and models are suitable for explaining the patterns of international expansion of firms from such economies (Wright *et al.*, 2005).

Hoskisson *et al.* (2000) identified emerging economies with countries that have gained increasing importance over the years because of their large populations, rapid economic development and increased contribution to world trade. Despite differences between them, these included 51 high-growth developing economies in Latin America, Asia, Africa and the Middle East, and 13 transition economies in the former Soviet Union. Countries such as Brazil, Argentina, Mexico, India, China, Pakistan and South Africa are examples of emerging markets.

Such countries are characterised by rapid economic growth and institutional changes towards liberalisation and market-based mechanisms of organising economic activities (Hoskisson *et al.*, 2000; Peng, 2003; Wright *et al.*, 2005). Emerging market economies represent a subset of former developing economies that have achieved substantial industrialisation, improved living standards, and remarkable economic growth. By developing countries, instead, we mean low-income countries still characterised by limited industrialisation and stagnant economies. They include most low income countries in Africa, Latin America, and Asia.

In comparison with those in developed countries, the firms in emerging/developing economies have fewer managerial resources and fewer private or public support services, both of which negatively affect their ability to go international. However, their role in international trade is dramatically increasing, and empirical evidence shows that their internationalisation pathways may be more heterogeneous than those assumed by traditional models such as the stage theory (see section 2.2).

Traditionally, the internationalisation of a firm has been considered a process driven by learning about foreign markets: as a firm acquires greater experience and knowledge of foreign markets, it can develop its ability to market its products abroad and serve foreign customers as successfully as its domestic customers (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Involvement in internationalisation has been conceptualised as a result of greater competences and capabilities in marketing, selling and customer servicing activities, and a greater knowledge of international customers' preferences and trends. It has therefore been analysed in relation to downstream activities, especially marketing. The conventional model of internationalisation in developed countries focuses on the marketing of goods and services in foreign countries through exports (Kuada and Sorensen 2000).

However, globalisation has revealed the importance of a different way to international markets: in developing countries, an increasing number of firms go international by becoming contract manufacturers in a global value chain created and coordinated by a global MNE.

The two pathways are characterised by a number of differences (Fig. 1.2). We define the first as the *independent marketing-based pathway*: an independent firm gradually gains experience and knowledge of foreign markets and, by doing so, strengthens its ability to meet the needs of foreign customers and serve them as efficiently as it serves its domestic customers.

Fig. 1.2 Patterns of foreign expansion



In the second model, knowledge of foreign customers is not the key driver of internationalisation. Serving customers abroad is not crucial, because an MNE provides entry to foreign markets for the SMEs included in its global value chain. This pathway can be defined as an *export strategy based on incorporation in an MNE's global value chain* (Gereffi 1999; Humphrey and Schmidz, 2005). In this case, which is typical of firms in emerging markets, the key task is not so much the acquisition of more market knowledge, but the development of a sustainable competitive advantage, particularly in the area of manufacturing costs. The focus here is on upstream activity¹. Competitive advantages associated with marketing and customer relationships belong to the global player coordinating its value chain on a global basis. Relationships with distributors and end-users, as well as customer services, are controlled by the leading MNE from a developed country. Consequently, the global player in charge of the governance of a globally dispersed network of production/distribution plays a crucial role (Schmitz and Knorringa, 2000). The internationalisation of SMEs in this case is based on a production contract with a dominant firm: they would not be able to handle the whole export process on their own because they lack the required competences and capabilities.

¹ The difference between downstream activities and upstream activities is based on the value chain concept developed by Porter (1985). In Porter's model inbound and outbound logistics and production are classified as upstream, while marketing, sales and customer servicing are downstream activities.

Moreover, international activities do not necessarily start with exports. Many SMEs start going international on the inward rather than the outward side, and importing activities may subsequently have positive effects on exports (Depperu, 1993). Firms can acquire international experience by means of imports related to their production (Kuada and Sorensen, 2000), and this experience may be useful for subsequent export activity.

In conclusion, firms, especially those from emerging and developing markets, may follow different successful export internationalisation pathways depending on whether their international competitiveness is developed in relation to upstream or downstream activities – or both. Some firms achieve export success mainly through international competitiveness in upstream activities, particularly manufacturing; others develop core competencies in downstream activities, such as marketing and sales. Hybrid models can arise from combining the two: for example, when a firm has a dominant customer, but is simultaneously able to sell its products to end-users directly.

These two contrasting pathways cannot be compared in terms of which is better, as they may be suitable in different contexts of resources, management characteristics and external environments. However, it is important to identify the various internationalisation pathways of a firm because the differences may also have implications for policy-makers. The two models have different export barriers and different requirements in terms of resources and competences, and these are to be taken into account by governments interested in setting up incentives and support services.

Following a ‘contingency’ approach, it can be argued that a company’s international development is contingent upon a wide range of industry-, country- and firm-specific factors (Robertson and Chetty, 2000).

1.6 The role of inter-firm networks in the internalisation of SMEs

Network-based research has shown that the internationalisation of firms is largely driven by network relationships (Coviello and Munro, 1997), the establishment of which is even more important for SMEs because they face a variety of internal constraints mainly due to the lack of financial and managerial resources.

Business networks can be broadly defined as the relationships a firm has with its customers, distributors, suppliers, competitors and government.

Stable inter-firm networks allow their members to gain reciprocal access to resources controlled by their partners. By relying on resource sharing and the coordination of production processes, firms can achieve economies of scale and scope, and simultaneously avoid the disadvantages of full organisational integration, such as high coordination costs and less strategic flexibility.

In addition, by working more closely with other firms, an SME can access and share expertise, resources and knowledge in ways that would be impossible independently.

In particular, tacit knowledge is transferred in relationships and, as this requires direct and personal interactions, it is more likely to take place in highly cooperative relationships (Welch *et al.*, 1996). By developing networks, small firms can therefore obtain support for their activities in the domestic market. Moreover, cooperation has also proved to be beneficial for promoting exports by favouring both the beginning of exporting activities and improving export performance.

As discussed in the previous sections, the international activities of small firms are hindered by their limited endowment of resources and capabilities, and the fact that they cannot access comprehensive market research. Furthermore, in most cases it is not feasible for them to hire experts who can assist them in their internationalisation efforts. This is particularly true of SMEs in developing countries, where relatively few entrepreneurs have international experience or a high level of management education. In order to go international, they must not only overcome their own lack of managerial expertise and knowledge of international markets, but also the limited support they can expect from local governments.

The aim of network arrangements is to promote exports by creating different kinds of contacts and relationships between firms. For example, an export consortium may become a foundation stone for the establishment of long-term relationships by linking its member firms and external parties through a variety of formal and informal mechanisms.

A number of studies (Chetty and Agndal, 2007; Coviello and Munro, 1997) have shown that SMEs extensively rely on networks in pursuing international opportunities. Studies of the role of networks in the context of small firms indicate that they can overcome their limited internal resources by entering a network that provides access to external resources (Jarillo, 1988). In many cases, the international expansion of such firms is often motivated and facilitated by inter-firm ties and alliances (Coviello and Munro, 1995). Network resources also help SMEs to overcome the risks and challenges associated with foreign market entry decisions (Oviatt and McDougall, 1994).

Building on the social network perspective, the entrepreneurship literature has emphasised the importance of networks to small firms, particularly as a means of obtaining resources they would otherwise be unable to obtain (Starr and MacMillan, 1990). Small firms and new ventures acquire resources from social networks (family, friends and colleagues), which compensate for a lack of legitimacy and social acceptance (Aldrich and Zimmer, 1986). Entrepreneurs accumulate social capital in networks that support their pursuit of growth opportunities, including internationalisation. The information, knowledge and resources that may be useful to explore foreign markets are generally drawn from the formal and informal contacts that entrepreneurs establish outside their organisation.

Specifically, research into entrepreneurship in transition economies shows that social capital is an important determinant of resource acquisition (Manev *et al.*, 2005; Manolova *et al.*, 2006). Many of the competitive advantages of transition economies are based on network relationships (Hoskisson *et al.*, 2000). In developing countries, it can be reasonably argued that social networks are even more important because en-

trepreneurs face greater constraints in terms of both internal resources and environmental adversity. It is also necessary to consider the distinction between domestic and cross-border networks. In this paper, we specifically concentrate on the role of domestic inter-firm networking.

The definition of networks includes a variety of different coalitions. Ghauri *et al.* (2003: 731) makes a major distinction between horizontal and vertical networks: '*... we define vertical networks as co-operative relationships between suppliers, producers and buyers, aiming at a solution for marketing problems, improved production efficiency, or the exploitation of market opportunities... we define horizontal networks as cooperative network relationships among manufacturers who want to solve a common marketing problem, improve production efficiency, or exploit a market opportunity through resource mobilisation and sharing. Most of these initiatives are known as export-grouping networks*'.

Domestic collaborative relationships generally involve SMEs characterised by complementary and mutually enhancing offerings, and so collaboration enables the partners to develop higher value offerings for their customers. Export consortia are typical examples of horizontal networks, and make it possible to loosen the constraints related to the investments needed to penetrate foreign markets.

The internationalisation role of domestic inter-firm networks has been widely studied in the literature concerning industrial clusters. Industrial clusters and domestic alliances have been associated with some major sources of competitive advantage, such as:

- the ability to overcome limitations of scale and scope;
- greater flexibility in organising production;
- higher rates of innovation;
- access to scarce resources, and the sharing of resources and learning;
- specialisation and development of difficult-to-imitate capabilities.

However, the role of inter-firm domestic networks is strategic not only in the case of clusters, and a network approach can also be very effective in developing countries, where SMEs often lack a broad internal resource base.

Forming horizontal ties with other domestic partners may enable firms to solve a variety of internal export problems concerning the completeness and quality of the value proposition, organisational and financial issues, and a lack of information about foreign markets. However, as Ghauri *et al.* (2003) point out, there is no agreement on the key success factors: research results underline the fact that trust and learning processes are critical factors, but the development of effective networks is possible even if the entrepreneurs have had no previous relationships with each other.

The importance of networks in the development and competitiveness of SMEs has led many countries to promote SME networks. Public agencies can facilitate initial networking and the development of trust between members (Welch *et al.*, 1998). A government trade promotion agency is legitimated to act as a facilitator in helping firms to become aware that relationships can contribute to their goals. However, external incentives to create a consortium cannot replace the commitment and active partici-

pation of its members: a positive perception the outcomes that networking can produce is a necessary precondition for the emergence and development of effective networks.

1.7 Export consortia: an overview

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'* (UNIDO, 2003). Export consortia are some of the least studied internationalisation networks. However, they represent an attractive means of overcoming some of the barriers that make internationalisation difficult or impossible for many firms because they enable them to pool resources that may be scarce at firm-level and exploit economies of scale without losing flexibility. For this reason consortia are particularly suitable for smaller firms, whether they are going international for the first time or trying to increase their existing degree of internationalisation.

Consortia can be of different kinds, depending on their objectives and scope (research, purchasing, marketing, production). Vis-à-vis other kinds of networks, they are particularly helpful in the internationalisation process of SMEs because:

- They require relatively little financial investment;
- They are not expensive in terms of human capital;
- They are sufficiently loose (which means that partners can still decide and do many things independently);
- They can be managed in such a way that partners only need to participate in the initiatives they are really interested in.

The participation of SMEs in business networks and cooperative agreements is often limited by constraints in resources. For example, SMEs can also create joint ventures, but the money required to start up a new company and, even more importantly, the investment in human capital necessary for its initial development and subsequent control are frequently out of reach. Networks such as franchising usually have a medium-sized or large firm as the franchisor; however, although widespread, franchising can only be used in some specific businesses.

Other types of agreements and networks are often considered to be too tight because belonging to them greatly restricts the member firms' freedom to change strategy or make alliances with other partners to reach certain objectives, whereas consortia are loose enough to allow partners to define their strategy autonomously.

Lastly, participating in an export consortium does not usually involve taking part in all of its activities, and partner firms can often decide whether they want to be involved in a particular project or not.

For all of these reasons, export consortia suit the needs of SMEs very well.

According to UNIDO (2003), the benefits firms can gain from participating in export consortia are:

- Risk reductions;
- Improved profitability;
- Efficiency gains;
- Knowledge accumulation;
- Access to specific services and support.

Export consortia support the internationalisation process of their member firms mainly by supplying specific services that help them increase their sales abroad, become familiar with target markets, make their brands known, collect information, and so on. By pooling their resources, the members can cope with the transaction costs associated with international marketing, most of which are related to collecting information, and reduce other costs that they would otherwise have to sustain in order to be effective abroad (for example certification costs).

Services are crucial to consortia for various reasons:

- If they are insufficiently effective or efficient, there is no reason for the members to stay together, and so the quality and appropriateness of the services are key success factors and also potential sources of disruption;
- Partners find it useful to be part of an export consortium when they can exploit economies of scale. However, if there are not enough of them and they are free to decide whether they want to use a specific service or not, there is a risk that the advantages of scale may not be fully exploited. This is mainly true in the case of multi-sector consortia whose members come from very different industries. In order to avoid such a risk, the organisation of the consortium's institutional structure and management systems is very important.

Firms from developing/emerging countries are often small, lack financial resources, and do not have specific international competences. Participating in a consortium may therefore be a means of starting the internationalisation process and acquiring the skills and know-how necessary to operate successfully abroad. There are no data concerning the diffusion of export consortia in developing countries, but they seem to be relatively rare. However, as firms in developing countries lack international experience and knowledge of foreign markets, and consortia foster learning and the acquisition of internationalisation competences, the number of consortia can be expected to increase. It is therefore particularly important to understand the best practices in managing them.

UNIDO experience shows that export consortia can improve their profitability, achieve productivity gains and accumulate knowledge through various types of joint action that are not directly related to export marketing. Indeed, upgrading and enterprise modernisation measures can also be facilitated through cooperation between SMEs, since normally the basic requirement for successful implementation of competitiveness-

enhancing processes are investments in services (quality, traceability, certification, electronic accounting systems, innovative packaging, process improvements, production management, etc.) and in production equipment and technologies. Normally these investments are not affordable for single SMEs but may become within their reach through joint financial collaboration in the framework of an export consortium.

Consortia members pool together their resources for the joint acquisition of equipment, supplies and services (marketing, logistics, training, technical advice, etc.) and thus achieve as a group increased bargaining power that allows them to obtain products and services at better conditions. Also, when it comes to joint definition and elaboration of 'production regulations' necessary for obtaining quality certifications that represent huge gains in terms of value added, collaboration offers clear advantages. Furthermore, permanent information exchange between associated SMEs on, for instance, production and human resources management practices contribute directly to collective company upgrading.

The export consortia approach makes it possible to boost results of conventional company upgrading programmes, since cost reductions, economies of scale and replication effects can strongly widen the number of SMEs that benefit from modernisation measures. The same applies regarding Corporate Social Responsibility (CSR).

In recent years, there has been a growing trend among multinational companies at the top of the value chain to develop corporate policies that state which business principles should underlie their working procedures. Many transnational companies take responsibility for their own activities as well as for those of their suppliers. For SMEs in developing countries these new tendencies pose major challenges, since they are compelled by their foreign buyers to comply with social, technical and environmental standards in order to gain access to international supply chains.

Generally, firms grouped together in a consortium offer an excellent platform for upgrading measures that are embraced by the CSR concept, since they share similar objectives and can jointly make investments that individual firms could not make. Engaging with such firms may offer enhanced opportunities for learning and sharing best practices and for increasing understanding about what CSR means and entails. Often the term Corporate Social Responsibility is erroneously associated with philanthropy, charity or sponsorship, which is not very appealing for many SMEs in developing countries that are struggling to survive in the market place. However, to succeed in international markets it is becoming more and more important to understand that integrating economic, social and environmental imperatives into business activities can constitute an excellent business practice.

Export consortia represent powerful tools to strengthen the links along member companies' value chains and to increase their competitiveness. Furthermore, in an export consortium reinforcement of competitive advantages and mounting exports often go hand in hand with the expansion of the local market share. Growing employment creation in member firms and rising salaries of employees can be another outcome of cooperation between SMEs.

The development of export consortia can thus be seen as a policy tool for the development of specific industries and countries.

1.8 Features, strengths and weaknesses of export consortia

Export consortia can be classified on the basis of various factors (Bertoli and Bertuzzi, 1998; Depperu, 1996; UNIDO, 2003): scope, objectives, the sectors involved, the kinds of relationships among member firms, the location of partners, the size and number of partners, the targeted region, and the time-horizon of the alliance. All these factors are important and need to be considered, as they affect the behaviour of consortia and the managerial problems associated with them. Table 1.1 shows the different kinds of export consortia.

Table 1.1 A classification of export consortia

FACTOR	KIND OF CONSORTIA
Scope and objectives	Promotional vs sales consortia
Sectors involved	Single-sector vs multi-sector consortia
Relationships among partners	Consortia of competitors vs consortia of non-competitors
Location of partners	Regional vs multiregional consortia (and domestic vs International consortia)
Size and number of partners	Simple vs complex consortia
Targeted region	Consortia targeting a specific region vs consortia acting on a global scale
Time-horizon	Short-term vs long-term consortia
Ownership structure	Private vs public consortia

Although all of the criteria are important to understanding the main strengths and weaknesses of export consortia, objectives and scope are perhaps the most widely used as they distinguish promotional from sales consortia, two of the main types of consortia.

Promotional consortia are created to promote the products of their members, but do not engage in sales activity. For this reason, they are less complex than sales consortia, in which the objective of the alliance is to sell the partners' products in foreign markets.

Promotional consortia invest their financial and human resources in marketing, whereas sales consortia act as a distribution channel and have to invest more in order to set up a sales organisation.

Comparison of the strategic characteristics of export sales and promotional consortia reveals a number of significant differences that affect their management (Table 1.2).

Table 1.2 The strategic characteristics of sales consortia and promotional consortia

	SALES CONSORTIA	PROMOTIONAL CONSORTIA
Firms' commitment to the domestic market	High	Low or absent
Firms' commitment to cooperating in foreign markets	High	High
Areas exploiting economies of scale	Various	Various
Coordination costs	High	Low
Involvement of single entrepreneurs	High	Medium-low
Need for common quality standards among partners	High	Low

In developed countries, the members of an export sales consortium may also be strongly committed to cooperating with each other in the domestic market, whereas promotional consortia are often set up by firms that compete domestically and only want to cooperate to explore new foreign markets. Consequently, promotional consortia invest much less in the development of personal and social relations with partners than sales consortia in which the common goal is much stronger.

The experience of the export consortia promoted by UNIDO supports the view that internationalising role of consortia may be much more important in developing than developed countries. More specifically, the empirical evidence discussed in this paper (see Chapter 3) shows that both export sales and promotional consortia are vehicles for building social relationships and social capital that can be exploited not only at internationally level, but also in domestic markets.

One interesting finding of the empirical analysis is that different starting conditions and the different characteristics of member firms lead to consortia with different behaviours, thus making it difficult to classify them as in Table 1.2. This has to be considered when defining the strategy and selecting the partners of export consortia.

The differences between export sales and promotional consortia are also related to the types of economy of scale they can exploit. The potential for exploiting economies of scale is much less in promotional consortia: sales consortia can exploit economies of scale in terms of distribution channels, the sales force and brand names, whereas promotional consortia usually gain advantages simply by sharing costs (fairs and other travelling expenses). This underlines the greater commitment of sales consortia to cooperation, which also explains why their coordination costs are generally much higher than those of promotional consortia.

The last issue is the need for common quality standards. When the objective is promotion, firms can easily cooperate even if their competitive positioning is different in terms of quality. This is the case when many firms from different industries and with different strategies share the costs related to a visit to a foreign country during which they meet different customers or distribution agents.

However, common quality standards are a key factor in sales consortia as the partners are expected to aim their (complementary or competing) products at the same customers. This is even more important if they decide to share the same brand name and want to invest in developing a specific consortium image.

The many differences discussed above mean that sales and promotional consortia have to face different managerial and market problems. Sales consortia may suffer from:

- An incomplete or heterogeneous range of products;
- A lack of sales competences;
- Problems related to the skills and behaviour of the sales manager;
- The inadequate quality of the products of one or more partners that affects the image of all the others;
- Inadequate prices charged by one or more partners that negatively affect the value proposition of the consortium.

Promotional consortia may face difficulties because of:

- An inconsistent image, and differences in product quality and pricing, that prevent the promotion of the consortium as a whole;
- Insufficient resources invested in consortium activities;
- Differences in the interests and objectives of the partners in terms of geographical markets and target market segments.

Furthermore, export consortia may have to face problems arising from their internal complexity:

- The number of member firms;
- Differences among member firms;
- The balance of power among member firms.

The higher the number of members, the more difficult it can be to find a shared objective and manage the group (Barney and Griffin, 1992); the greater the differences among partners (mainly from a cultural point of view), the more complex it is to coordinate their activities within the consortium; the more balanced the power of the partners, the more difficult it can be to avoid struggles between them. 'Equal contributions from all partners' is considered to be one of the critical success factors for an alliance (Hoffman and Schlosser, 2001).

The main weakness of export consortia vis-à-vis other forms of cooperation arises from their loose ties. As the start-up of an export consortium does not require major investments, there is a risk that the partners may not put in as much effort as they should when the results are less than originally planned and problems arise because their strategic commitment and the risk of losses is quite limited. This is not the case with other types of export or cooperative agreements, such as foreign direct investments and joint ventures, which require much greater financial and organisational involvement.

Table 1.3 compares export consortia with other modes of entering foreign markets: export modes other than consortia, joint ventures, and foreign direct investments (FDI).

Table 1.3 Export consortia and other modes of entering foreign markets

Export consortia vs...	STRENGTHS	WEAKNESSES
Direct/indirect exports	<ul style="list-style-type: none"> • Shared financial resources • Access to partners' skills and know-how • Risk sharing • Exploitation of economies of scale (e.g. in advertising and promotion activities) • Greater bargaining power • Possibility of offering a full range of products 	<ul style="list-style-type: none"> • Less focus on what is relevant for the firm • Sharing resources, objectives and results
Foreign direct investments (e.g. foreign subsidiaries)	<ul style="list-style-type: none"> • Less investment • Lower risk 	<ul style="list-style-type: none"> • Less focus on what is relevant for the firm • Sharing resources, objectives and results
Joint ventures	<ul style="list-style-type: none"> • Less investment • Lower risk • Fewer constraints (in terms of strategic autonomy) 	<ul style="list-style-type: none"> • Less focus

Looking at the strengths and weaknesses of consortia in relation to other modes of entry, it can be seen that their strengths fit very well with the typical weaknesses of SMEs, which often have insufficient financial and human resources to participate in joint ventures effectively. Consortia give their member firms greater bargaining power when negotiations with international customers and suppliers, and enable them to share risks.

On the other hand, even when they operate in a single sector, they are sometimes not sufficiently focused on the specific objectives of any single partner.

CHAPTER 2

THE UNIDO METHODOLOGY FOR EXPORT CONSORTIA: NINE CASE STUDIES

2.1 The UNIDO Export Consortia Programme

Creating the conditions for consortia development is a demanding task. Owing to a lack of knowledge and weak institutional and regulatory frameworks, attempts to establish export groups of SMEs in developing countries often fail. As a result, external assistance may be critical for developing a sound export consortia programme. Capitalizing on its long experience in SME cluster and network development, UNIDO has developed a comprehensive programme to help developing countries and transition economies establish export consortia.

UNIDO assistance focuses on:

- *Supporting the creation of export consortia.* Groups of SMEs are identified and coached during the whole process of consortium development: identification of common objectives and consortium services to be provided, choice of legal form, development of the business plan and implementation of the first pilot promotional activities. UNIDO assistance is temporary and therefore includes the identification of technical and financial schemes that can support the longer term development of export consortia, and assistance in preparing requests for access to these schemes.
- *Capacity building for public institutions that promote or regulate export consortia.* This includes workshops and study tours introducing policy makers to the concept, improving the legislative and policy framework, and developing an incentive system.
- *Capacity building for private sector institutions that provide assistance to the establishment and operation of export consortia.* Business associations, chambers of commerce, export consultants, etc., are made aware of the benefits of consortia and learn how to support their establishment and operations through training, presentations by experts, study tours and benchmarking exercises.
- *Skill development for export consortium managers.* This includes the provision of information, workshops, discussion forums, best practice demonstrations, meetings with consortium promoters and demonstration projects showing how consortium participants can overcome distrust and undertake cooperative projects. UNIDO has assisted the creation of export consortia in various countries such as India, Tunisia, Morocco, Jordan, Uruguay and Peru and many other initiatives are ongoing world wide. The box below illustrates the UNIDO export consortia project in Morocco.

In addition to country-specific support UNIDO offers global and regional training courses, including distant learning, and organizes study tours and expert group meetings to disseminate good practices.²

CASE STUDY: BOOSTING MOROCCO'S EXPORTS

Since 2004, UNIDO, the Moroccan Ministry of External Trade and the Moroccan Exporters' Association (ASMEX) have been developing export consortia through a project funded by the Italian Development Cooperation. A national awareness campaign for SMEs jointly organized with various associations and chambers has been conducted by UNIDO experts. Interested firms have been organized in groups and supported in the creation of consortia. As a result 15 export consortia now have legal status and nine are under development. More than 100 enterprises, accounting for 14.000 jobs and covering 10 sectors in six regions, are actively involved in the project.

All consortia have developed their promotional image (logo, leaflets and catalogues, web sites), negotiated preferential tariffs with service providers (raw materials, logistics, banks, insurance, etc.) and participated in trade exhibitions and commercial missions. Some of the consortia have also jointly undertaken a comprehensive modernization and upgrading process, including the organization of a shared training facility, the restructuring of compliance departments, the introduction of a strategic information system, and the development of new products.

Export consortia are considered by the Moroccan authorities to be an effective tool not only for market access but also for SME upgrading and modernization. Institutions such as the Agency for SME development (ANPME) and the Export Promotion Agency (Maroc Export) provide special assistance and grant preferential treatment to export consortia. In view of their importance to SME development, the Moroccan Government has introduced a dedicated fund for export consortia. The fund co-finances start up tools (leaflets, web sites, office equipment) and promotional activities (fairs, exhibitions and commercial missions) for new consortia for a three years period.

² Additional information is available at www.unido.org/exportconsortia.

2.2 Data collection and analysis

In this chapter, we present the empirical evidence on which this paper builds. Such evidence is based on an analysis of nine export consortia promoted by UNIDO in developing countries between 2004 and 2007: four in Peru, three in Morocco, and one each in Tunisia and Uruguay. Table 2.1 shows their main characteristics.

Table 2.1 Consortia profiles

	Country	Consortium	Year of foundation	Kind of consortium	Number of member firms	Size of member firms	Sector
1	Morocco	Mosaic	2004	Promotional	6	Medium-large (120-330 employees)	Textiles and garments
2	Morocco	Vitargan	2005	Promotional	6 cooperatives	Small and medium (17-69 employees)	Agribusiness
3	Morocco	Travel Partners	2006	Promotional	7 travel agencies	Micro-small (5-23 employees)	Tourist services
4	Tunisia	Get'IT	2005	Promotional	11 providers of ICT and Web solutions	Mainly medium-sized enterprises (5-100 employees)	Information and Communication Technologies
5	Peru	Muyu	2005	Promotional	5 artisan firms	Micro-small (5-20 employees)	Traditional handicrafts
6	Peru	Peruvian Bio Consortia	2006	Promotional	3	Small (21-37 employees)	Agribusiness
7	Peru	ACMC	2007	Sales	4	Small (35-53 employees)	Metal furnishings (production and machinery)
8	Peru	Ande Natura	2007	Promotional	5	Micro-small (5-20 employees)	Agrobusiness (organics)
9	Uruguay	Phyto Uruguay	2005	Sales	9	Micro-small (5-27 employees)	Herbal and nutraceutic

The data were collected by means of interviews with the consortia managers and entrepreneurs, and cover two levels of analysis: a) consortium; and b) member firms. Two questionnaires were used. The first was submitted to the top manager of each consortium and designed to collect data concerning its characteristics and history (year of incorporation, number and size of member firms, legal form and organisational structure, operational and promotional costs), funding and members' contributions, activities (main services and their evolution over time), objectives and strategies (targeted markets, marketing and promotional activities, etc.), relationships between the consortium and its members, and performance in terms of the opening of new markets for member firms and increasing export sales.

The second was submitted to the entrepreneurs, and collected information about the member firms. Specifically, the interviews shed light on the firms' activities and organisation (including international experience and competences, export intensity, the type and amount of foreign activities, characteristics of export staff), and changes in the firm's activities as a result of its consortium membership.

In the following pages each of the consortia is described, looking at the six elements:

- a) Strategic alignment;
- b) Consortium strategy;
- c) Organisational structure;
- d) Resources and competences;
- e) Governance;
- f) Performance measurement.

2.3 Mosaic

The Mosaic promotional consortium in Casablanca was the first export consortium ever created in Morocco and seems quite anomalous. Its peculiarity mainly lies in the composition of its members: six relatively large textile and garment manufacturers, all proud of their previous export experience.

They sell almost all their production abroad, have a good knowledge of international trade mechanisms and, in many cases, their commercial staff is fluent at least in French and English, and sometimes also in other European languages. All of them are managed by their owners.

They mainly export to Europe: France, England and Spain, but also Italy, Ireland and Belgium. Their customers are quite similar because they all produce for large international retailers and brand names.

It is worth noting that their products are highly complementary: «A» (330 employees) produces underwear and corsetry; «B» (195 employees) shirts and nightwear; «C» (140 employees) jumpers and knitwear; «D» (220 employees) pyjamas and children's wear; «E» (120 employees) knitwear; «F» (230 employees) parkas, anoraks and professional outfits.

The likelihood of any conflicts of interest in international markets is therefore very low.

Table 2.2 Member firms

Company	Products	Year of est.	Annual sales (€) .000 €	Employees	Exports (%)
A	Underwear, cor- setry, swim suits	2000	1.340	330	Export: 100% - GB:30% - FR: 40% - ESP:30%
B	Shirts, boxers, night wears, up- market	1984	760	195	Export: 95% - GB:70% - FR: 10% - ESP:10% - Belg:5% - Ireland: 5%
C	Night wear, chil- dren wear, sportswear	1986	1.3	220	Export: 100% - FR:70% - ESP: 30%
D	Professional out- fits and sports wear	1992	180	230	Export: 100% - FR:100%
E	Pull over and T- shirts for women	2001	1.875	140	Export: 95% - FR:80% - ESP:15% - GB & D:5%
F	Underwear for men, women and children	1997	62,5	20 (2004) 120 (2008)	Export: 100% - FR: 100%

a) Strategic alignment

The firms are clearly very homogenous in terms of size, sector and foreign market competences, but are highly complementary in relation to customers. This is a very favourable condition for developing shared consortium strategies because the profiles and the interests of the members are substantially aligned.

The group that launched the consortium in 2004 was not so homogeneous because it included other, even small, firms, but these soon realised that they could not follow the ambitious action plan supported by the larger firms and hence left the consortium. They have been replaced by stronger and better-structured members.

b) Consortium strategy

Given the experience of its members on international markets, the consortium's activities are subordinated to the autonomous strategic patterns of the individual firms. They do not consider the consortium as the main tool for their internationalisation, but as a means of fostering their individual competitive advantages in their markets (by improving their managerial competences, and increasing and leveraging on their strategic resources), further developing exports, and extending and diversifying their trading opportunities by means of new subcontracting and co-contracting activities.

For this reason, the efforts (and investments) of the consortium are essentially oriented simultaneously in two directions.

Downstream, it creates brand communications and marketing initiatives aimed at new prospects for their collective portfolio of products, for which the advantages of cooperating come from sharing the costs of producing promotional tools (for the firms and the consortium), participating in international trade fairs, and organising trade missions abroad.

Upstream, the consortium manages collective projects for the development of the internal processes and systems of the individual firms (for example, staff training in design, style and manufacturing processes, restructuring offices and departments, installing strategic information systems, guiding cost reduction programmes, and collectively negotiating better conditions from suppliers of goods and services). Here, the additional advantage of the consortium for the individual members lies in economies of scale, quicker and easier access to new external competences, and collective access to public funds.

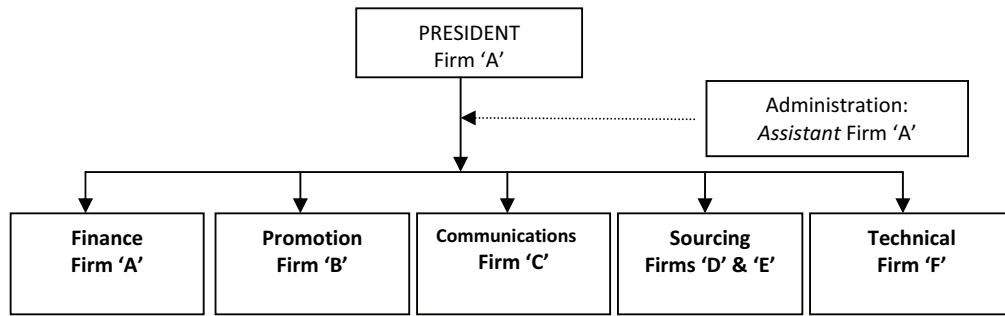
The formal strategic objectives for the consortium identified by the members are therefore:

1. to improve the competitiveness of its members;
2. to promote and develop its members' exports, and diversify their trading opportunities;
3. to develop its members' ability to propose creative finished products.

c) Organisational structure

The organisational structure of the consortium is still very light and has so far required few investments. The consortium has no common premises or dedicated offices because it relies on the physical and managerial resources of its members. All of its functions are headed by different member firms (Fig. 2.1) and Board meetings (currently one per month) are hosted by each of the firms in turn. This highly cost-efficient structure is perceived by the members as one of the main advantages of participating in the consortium.

Figure 2.1 The organisational structure of Mosaic



The management systems have been the object of internal development projects carried out by several members and co-financed with funds collected by the consortium from a number of supporting institutions, such as Maroc Export (Moroccan Centre for Export Promotion), ASMEX (Moroccan Exporters Association), and ANPME (National Agency for the Promotion of the Small and Medium Enterprise).

Nevertheless, given the amount of work generated over the last few months by the expansion of its activities (training, promotion, commercial, sourcing, etc.), the consortium is considering setting up a permanent structure, and new organisational and managerial needs are emerging.

A more binding and demanding stage in the consortium's life cycle is on the horizon, and will probably affect both corporate strategy and the business model. However, the introduction of this phase is conditioned by the availability of new financial resources from external sources, because the members are not yet oriented to funding the development entirely with their own resources. It is important to note that all the consortium's activities so far have been co-financed by national public institutions.

d) Resources and competences

Four years after joining the consortium, the firms judge that their competences have improved (particularly their technical competences and their ability to analyse international markets), and that their relational capital has also increased in terms of business contacts abroad. However, the main perceived benefit has been in terms of their corporate image in the eyes of both customers and suppliers.

e) Governance

The governance system is also very simple. The organisational chart clearly shows that all six members are involved in everyday management, and they have a formal half-day meeting once a month. By acting together – even with their 'light' structure – they strengthen the transfer of knowledge. The consortium is therefore a low-cost means of improving the capabilities of the firms. The mutual coaching of managers has been established by identifying branches, dividing tasks, and organising regular meetings. This has allowed the companies to take advantage of the group's internal expertise without the costs of hiring specific experts for specific needs.

The issue of always guaranteeing each member a fair and satisfactory balance between effort (in terms of financial and human contributions) and benefits has been solved by means of a flexible and highly pragmatic mechanism. The consortium has embraced a sort of 'variable geometry' paradigm based on the idea that not every firm needs to take part in every activity, and some can cooperate more closely on different projects.

The programme of activities is therefore decided by the firms on the basis of their main targets, and the members who are not interested in one specific action do not participate in it. Consequently, the consortium does not ask for a fixed annual contribution from its members but each activity is equally financed by the participants (who usually also benefit from public co-financing for that specific project).

The President of the consortium is the entrepreneur of the largest firm. It is worth underlining that he is also responsible for the industrial strategy branch of the Moroccan Association of Textile and Garment Industries (AMITH), which promotes and supports export consortia. This not only facilitates the follow-up of consortium development at national level, but also fosters relationships between MOSAIC and AMITH.

f) Performance measurement

After a few years of formal activity, the main results achieved by Mosaic are:

1. the restructuring of its member companies;
2. better positioning on the international market ;
3. establishing efficient, effective and economic competitive intelligence.
4. the average increase in exports of member firms has been more than 30% between 2004 and 2007; in the same period, exports of the Moroccan textile-garment sector have increased by 10%.

In general, the member firms are satisfied and Mosaic is now considered the model for the export consortia developed in Morocco.

More particularly, the members' perceptions of consortium objectives indicate that the strategic objective of improving the competitiveness of the individual firms has been more successfully reached than the others (to promote and develop members' exports, diversify their trade opportunities and direct members towards more competitive finished products). It is interesting to note that the two smallest firms (the most recent members) are less satisfied than the other four.

The tables below show a) the export performance of member firms; b) the contribution of the Consortium to enhancing member firms' resources and competences; c) member firms' perception of the Consortium achievements.

Table 2.3 Export performance of Mosaic's member firms

Mem- bers	Year of membership	Exports before joining the consortium or first year of adhesion		Exports in 2007		Change of exports (%)
		Exports(€) .000 €	Exports (% of turnover)	Exports (€) .000 €	Exports (% of turnover)	
A	2004	1.340	100%	1.785	100%	+33%
B	2004	760	100%	1.072	100%	+33%
C	2006	1.3	100%	1.2	100%	-7%
D	2004	178	100%	2.3	100%	NA*
E	2008	1.875	95%	NA	NA	NA
F	2004 -2008	62,5	100%	1.1	100%	NA**

*the exponential increase cannot be linked to the consortium

**the variation is not a result of the consortium because the company left and rejoined the consortium

Table 2.4 Contribution of Mosaic to enhancing member firm’s resources and competences

“Since our firm joined the Consortium...”	Remained the same	Slightly increased	Increased	Greatly Increased
- Our marketing competences have ...		X		
- Our administrative competences have ...	X			
- Our technical competences have			X	
- Our knowledge about foreign markets and customers has			X	
- The number of our customers abroad has		X		
- The number of our business contacts abroad has			X	
- Our image towards clients and suppliers has...				X

Table 2.5 Member firms’ perception of Mosaic’s achievement targets

Consortium’s strategic objectives	Percentage achievement according to firms						Average
	Firm A	Firm B	Firm C	Firm D	Firm E ³	Firm F	
To increase member firms’ competitiveness	100%	100%	100%	100%	80%	80%	93%
To promote and develop members’ exports and diversify their trade opportunities	90%	90%	90%	90%	80%	80%	87%
To direct members towards a competitive finished product offer	70%	70%	60%	60%	50%	50%	60%

³ E and F have recently joined the consortium

2.4 Vitargan

Vitargan is an export consortium that was set up in 2005 by six cooperatives of argan oil producers in the region of Essaouira, Morocco, who produce the oil for both cosmetic and alimentary purposes (Table 2.2). The consortium was created in the framework of a broader project financed by the European Union (in partnership with local economic development agencies) with the aim of favouring the production of argan oil in the area between the Essaouira and Agadir provinces and promoting the role of women in rural areas and their contribution to economic and social development.

Table 2.6 Member firms

COMPANY	Year of est.	Annual sales .000(€)	Employees	Exports (%)
A	1999	178	69	80% (France)
B	1997	114	54	80% (France, Italy, others)
C	2003	20	21	10% (France)
D	2004	73	60	10% (France, Germany)
E	2004	40	60	10% (France, Italy, Switzerland)
F	2005	9	17	none

a) Strategic alignment

In addition to reducing purchasing and service costs, the member firms decided to develop a joint packaging process and shared promotion, communication and marketing campaigns. Currently, each cooperative owns its own machinery, but they are now considering centralising the packaging phase by giving it directly to the consortium: in practice, the cooperatives would sell the oil to the consortium, which would then be responsible for packaging and marketing it. The member firms are now aligning their image and communication strategies under the consortium banner by creating leaflets and a website to promote the cooperatives.

b) Consortium strategy

The argan oil producers formed the consortium to achieve the following strategic goals:

1. to increase the production of argan oil for cosmetic and alimentary purposes;
2. to promote and evaluate a form of quality biological production;
3. to share purchases of raw materials, machinery and other sourcing activities;
4. to improve product marketing;
5. to develop a common image.

The consortium decided to focus primarily on the following foreign markets: Germany, Italy, Spain, France, Canada and the USA. In addition to national trade fairs and exhibitions, international promotion is managed by the Moroccan Centre for Export Promotion (Maroc Export), which has programmed a calendar of fairs and trade missions to promote all agro-food products, regardless of sector.

One of the most important of the consortium's activities is training. Various courses have been organised for the member firms: the valorisation of argan oil and its products, best production practices, and international trade and marketing. These basically led to a sort of production handbook that laid the basis for its international certification (ECOCERT).

c) Organisational structure

The organisational structure of the consortium resembles that of its member firms: it has a President (appointed for two years), a Vice- President, a Board of Directors (the consortium's decision-making body whose members are the Presidents of the six cooperatives), a Treasurer, a Vice-Treasurer, a Secretary and a Vice-Secretary. It also has an external Managing Director whose cost is directly paid by the members.

Regular meetings are held at the members' offices on a monthly or weekly basis as needed.

All of the firms contribute to covering 25% of the operating costs with their own resources; the remaining 75% (including promotion and product packaging costs) is covered by the EU argan Project. Basically, all of the main activities of the consortium are co-financed by the support institutions mentioned above.

d) Resources and competences

During 2006, the consortium developed a common identity and communication system, which is very helpful in terms of marketing and communication effectiveness, and has allowed the cooperatives to participate in a number of national and international trade fairs and exhibitions. In order to participate in the SIAL exhibition and in Montreal, Canada, as well as the ANUGA in Cologne, Germany, they created leaflets, brochure and a website.

In parallel with these activities, the Consortium also promotes initiatives in favour of female workers and the literacy of women in the region, and has promoted the role of women in the new Moroccan family code (Moudawana).

e) Governance

The marketing and commercial strategy is identified by the Managing Director and approved by the Board of Directors. However, although the members developed slightly more mutual confidence and openness two years after the establishment of the consortium, they are still reluctant to delegate decision-making powers. Decisions are taken by the Board of Directors, and the Managing Director underlines the slowness with which they do so. This clearly delays the definition of action plans, as well as the planning and organisation of national and international trade missions.

f) Performance measurement

The creation of Vitargan has allowed the member firms to obtain the following results:

- cost sharing, and further reduction of costs by means of centralised purchases and the use of joint packaging, which has allowed them to increase their production capacity;
- ECOCERT organic certification, which allows the produced oil to be further valorised;
- participation in the most important international trade fairs and exhibitions, with significant opportunities to meet other potential partners, customers and competitors in the global market;
- since the establishment of the Consortium, employment has increased by more than 78%.

Another important result is the increase in quality control procedures at each cooperative. This is perceived by the members as fully achieving the objective of valorising the quality of the oil produced, and they are also satisfied with the development of a common image, but they acknowledge that more has still to be done to improve their marketing. To this end, the consortium probably needs dedicated staff with experience in export processes, as well as new members to increase production in order to fulfil the increased market demand.

Finally, some further important considerations arise from the results of a survey of the cooperatives, which acknowledge that their marketing capabilities and knowledge of foreign markets have both improved since they joined the consortium. However, although they agree that their image has significantly improved in the eyes of customers and suppliers, the number of foreign customers and business contacts has only slightly increased, thus highlighting the need for a more structured organisation to help the process of export development.

The tables below show a) the export performance of member firms; b) the contribution of the Consortium to enhancing member firms' resources and competences; c) member firms' perception of the Consortium achievements.

Table 2.7 Export performance of Vitargan's member firms

Members	Year of membership	Exports when joining the consortium		Exports in 2007		Change of exports (%)
		Exports(€) .000 (€))	Exports (% of total sales)	Exports(€) .000 (€)	Exports (% of total sales)	
A	2005	7,3	10%	6,5	10%	0
B	2005	2,0	10%	6,0	10%	0
C	2006	0	0	0	0	0
D	2005	12,20	80%	143	80%	0
E	2007	4	10%	NA	10%	0
F	2005	143	80%	100%	100%	20%

Table 2.8 Contribution of Vitargan to enhancing member firm's resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
- Our marketing competences have ...			X	
- Our administrative competences have ...	X			
- Our technical competences have...			X	
- Our knowledge of foreign markets and customers has...			X	
- The number of our customers abroad has...		X		
- The number of our business contacts abroad has...		X		
- Our reputation and visibility have...				X

Table 2.9 Member firms' perception of Vitargan's achievement of targets (%)

Consortium's strategic objectives	Percentage achievement according to firms (%)						Average
	A	B	C	D	E	F	
To increase the production	80%	90%	70%	80%	80%	80%	80%
To create value through an organic and quality production	100%	100%	100%	100%	100%	100%	100%
To pull purchase of raw material, equipment and other inputs	50%	80%	80%	80%	80%	100%	78%
To ensure a better marketing of products	50%	80%	60%	60%	60%	50%	60%
To develop a joint image	70%	70%	70%	80%	80%	80%	75%

2.5 Travel Partners Morocco

Travel Partners Morocco (TPM) was the first service export consortium created in Morocco. It was officially founded in 2006 with the support of the UNIDO- Foreign Trade Ministry's project. It is constituted under the juridical form of a 'Interest Economic Grouping', and consists of seven travel agencies from the Casablanca area (Table 2.3).

Table 2.10 Member firms

COMPANY	Year of est.	Sales 2006 (€) .000 (€)	Employees
A	1997	3.900	20
B	2001	3.393	15
C	1997	1.964	8
D	2002	715	6
E	2006	545	5
F	2000	725	5
G	1994	5.375	23

The firms decided to unite in order to become a point of reference for the promotion of Morocco and position themselves among the leaders of the sector at national level. They are now the third group in terms of turnover on the Moroccan market, and aim to reach a position of co-leadership.

a) Strategic alignment

TPM is an export consortium grouping seven competing travel agencies that offer more or less the same services and have the same market positioning. In addition to the objective mentioned above, the member firms aim to improve their negotiating and purchasing power, develop their competitive positioning and chances of durability, establish a sort of benchmarking system, and develop knowledge-sharing routines.

Marketing strategies and trade missions are planned by common agreement looking at the most strategic countries (such as the UK, Germany, France, Spain, the USA and Russia) and the chance of entering new and untapped market niches such as 'golf tourism'.

b) Consortium strategy

In order to achieve its main goals, the consortium has decided to focus on the following strategic objectives:

1. to improve the competitiveness of its members;
2. to develop their product offer;
3. to be open to international markets and enter new foreign markets;
4. to strengthen knowledge of the firms and create an image of town travel agencies following certain principles and ethical norms.

c) Organisational structure

The consortium has adopted a collegiate management system, in which the main tasks have been divided among four operational commissions:

1. **Purchases** (airline companies, suppliers, insurance companies, etc.). The mission of this commission is not only to obtain the best purchasing conditions possible for the travel agencies, but also to create a group of trustworthy business suppliers.

2. Communications

This coordinates all the communication and promotion actions of the consortium and its members, including a website, CD-ROM and leaflets.

3. Human resources

The main objective is to develop a common training plan for the managers and employees of the member firms in order to increase their professionalism. It is intended to externalise the HR function in the future.

4. Exhibitions and trade fairs

On the basis of a joint promotion and commercialisation campaign, this commission is responsible for preparing the members' participation in foreign missions and meetings with foreign tour operators.

More specifically, each commission is at the service of all of the member firms, which see the division of tasks as one of the most important advantages of the consortium.

The consortium does not have its own premises, and meetings are held in rotation at the offices of each member. There is an annual membership fee to cover the consortium's operating costs, and each firm participating in an activity pays a further fee to cover its costs.

d) Resources and competences

First of all, since its establishment, the consortium has developed some useful communication and promotion tools for presenting its members' offer, such as a catalogue and a website now under completion. Furthermore, TPM has designed a consortium logo that strengthens the competitive position of the firms also in new foreign markets. This greater presence has also led to an improvement in negotiating power, allowing the consortium to reduce purchasing costs and draw up a 'black list' of less reliable/more expensive suppliers.

Another distinctive competence concerns HR management, for which the consortium is designing a system aimed at standardising HR policies for all of its members.

All of the managers of the travel agencies agree that being part of the consortium has improved their internal market positioning and provided a source of mutual information exchange to enable them to confront new markets better. These benefits are facilitated by the commissions, which favour recourse to specific actions and competences only when needed for a specific action/project.

e) Governance

In 2007, TPM hired a part-time Managing Director (coordinator), who is directly financed by the consortium's members, and responsible for organising the weekly meetings and pushing the different actions provided for in the action plan.

f) Performance measurement

It is difficult to analyse performance after such a short time span, particularly as the aim of the consortium is to promote services rather than export products.

Moreover, as the firms directly record their own sales and do not attribute them to the consortium, it is difficult to evaluate the increase in revenues due to the consortium's action.

Nevertheless, it is possible to identify three main successes:

1. the presentation of a common image/identity;
2. greater visibility on the national market;
3. access to new markets (new countries and new untapped niches).

The member firms are increasingly involved in a common action plan and have already established a solid group among themselves.

Finally, in terms of members' perceptions, most firms agree that their image and competitive positioning has improved among both customers and suppliers, but they feel that they are still too little open to new foreign markets and need to do more in this regard, as well as in developing the offer of new services.

The tables below show a) the contribution of the Consortium to enhancing member firms' resources and competences; b) member firms' perception of the Consortium achievements.

Table 2.11 Contribution of TPM to enhancing member firm’s resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
- Our marketing competences have ...		X		
- Our administrative competences have ...		X		
- Our technical competences have...			X	
- Our knowledge of foreign markets and customers has...			X	
- The number of our customers abroad has...		X		
- The number of our business contacts abroad has...			X	
- Our reputation and visibility have...				X

Table 2.12 Member firms’ perception of TPM’s achievement of targets (%)

Consortium’s strategic objectives	Percentage achievement according to firms (%)							Average (%)
	A	B	C	D	E	F	G	
To increase member firms’ competitiveness	30%	20%	50%	60%	40%	NA	50%	42%
To develop the offer	20%	20%	10%	0%	0%	NA	0%	8%
To access new national and international markets	0%	0%	0%	0%	0%	NA	0%	0%
To strengthen the image of member firms	30%	60%	70%	70%	60%	NA	60%	58%

2.6 Get'IT

Officially founded in 2005, Get'IT was the first promotional consortium constituted in Tunisia, in the Information and Communication Technologies (ICT) sector, one of the fastest growing industries in the Country over recent years. The Consortium now has eleven member firms.

The foundation of the consortium was really the fruit of a previous one-year period of cooperation that started informally as a common journey of six firms interested in running internationalisation activities financed by the National Fund for the Access to Export Markets (FAMEX). This led to them formally establishing a real consortium, encouraged and supported by UNIDO in partnership with the BMN (Bureau de Mise à Niveau), the upgrading and modernization department of the Tunisian Ministry of Industry, Energy and SMEs. The decision to formalise the alliance was mainly based on developed trust, and these firms have remained with the consortium since then.

Now, three years later, there are 11 differently sized members, an increase that can be considered a clear sign of success. They are all providers of ICT services, but with little competition between them. There is no overlapping of markets and, as they offer a wide range of different services, their products are quite complementary: «A» (5 employees) is a consultancy firm specialised in webmarketing; «B» (35 employees) offers IT systems and mobility solutions; «C» (100 employees) specialises in consultancy, development and the integration of ERP (Enterprise Resource Planning) and other solutions for enterprises; «D» (40 employees) offers information, web and communication solutions; «E» (20 employees) offers IT outsourcing and communication services; «F» (22 employees) offers web, multimedia and training services; «G» (20 employees), offers web design training and development services; «H» (the largest firm, with 120 employees) offers a wide range of IT services, including management consulting; «I» (20 employees) provides IT solutions for business intelligence and decision-making processes; «J» (45 employees) provides consultancy, telecommunication, assistance and security services; and «K» (100 employees) manages a call centre and offers telemarketing services and hotlines.

Given the lifecycle of ICT firms, they are relatively old: six have been operating for more than 10 years, three for between five and 10 years, and only two are younger. In comparison with other firms in services industries, most of them can be considered medium-sized firms.

Table 2.13 Member firms

COMPANY	Year of est.	Annual sales (€ .000 (€))	Employees
A	1999	110	5
B	2004	490	35
C	1993	3.000	100
D	1990	2.400	40
E	2006	NA	20
F	1998	500	22
G	2002	NA	20
H	1998	2.500	120
I	1999	450	20
J	1992	2.200	45
K	1998	1.500	100

a) Strategic alignment

The success of the consortium's strategy is above all proved by its aggregational capability: the number of firms increased from 6 to 11 in just three years.

They fit well in terms of designing and developing a common consortium strategy because of the nature of their business. The 'networking rationale' works particularly well, for several reasons:

1. All of the firms belong to the same ICT industry, which has a particular technology-oriented culture and language (technologies, by the way, that support communication and integration).
2. There is little competition between their products because the members are highly specialised in different fields and market segments.
3. 'Networking' (the linking of multiple specialised nodes by means of relational and information flows) is familiar to them as it is the theoretical basis of many of the solutions they implement for their customers. It is a common model of organisation for ICT firms, and it is a basic concept for all of the digital and web-based technologies they use. 'Networking' is therefore part of their DNA and their business model.

b) Consortium strategy

The main strategic objectives of Get'IT are:

1. to combine members' efforts to promote market acknowledgement of the competitiveness of the group as a whole;
2. to promote Tunisia as a site of new technology outsourcing and trustworthy provider of ICT services;
3. to promote the exports of member firms by means of collective action;
4. to enrich the global offering of the firms by leveraging on complementary and diversified solutions in ICT industry.

The strategic focus on promotion is confirmed by the fact that 80% of the consortium's budgetary resources are dedicated to promotional activities, such as collective participation in international fairs in Europe; the organisation of and participation in technical and professional conferences and forums in France and Tunisia; trade missions abroad; collective marketing and communications (the development of a common website, the creation and launch of a collective brand).

The target markets for the first three years were originally France (because of the language), and then Italy and Germany. However, the members have also promoted their products in the domestic market by stressing their ability to supply integrated solutions.

c) Organisational structure

The consortium has always had a very light and 'soft' structure, absolutely consistent with the intangible and virtual nature of its digital business.

The organisation and management of specific promotional activities are outsourced to an external office that provides coordinating and organisational services to Get'IT. Its general management is in the hands of a Managing Director elected by the entrepreneurs. There are no professional managers or dedicated staff, and the consortium does not have any assets.

Given this absence of a 'hard' structure, there are no management systems specifically developed or dedicated to the consortium, only those of the individual firms. The only exception is a future common customer relationship management (CRM) solution that the members now want to implement in order to manage the consortium's main asset: the relational capital built up over three years of promotional activity and contacts.

d) Resources and competences

The most important resources added by the consortium are the additional financial resources received especially from FAMEX and recently also from the Fund for the Development of Competitiveness (FODEC) as contributions to the internationalisation process. Many of the consortium's activities are co-financed by FAMEX (up to 70% of the total eligible costs) and, more generally, public funds account for 40-60% of the consortium's budget. These funds would never have been accessible to the individual single firms: there is clear synergy in acting together rather than separately.

However, as it is a promotional export consortium of relatively skilled and independent firms, the contribution of its strategy and policies to the individual firms in terms of new tangible resources or functional competences (administrative, technical and marketing) is less important or even negligible. It mainly contributes intangible resources, particularly knowledge, relational capital and image. In the eyes of its members, the consortium benefits the individual firms mainly in terms of knowledge of international markets and relational capital (business contacts and partnerships, and agency contracts with fundamental ICT providers).

Furthermore, in line with the strategic objective of *'enriching the global offer of the firms by means of complementary and diversified ICT solutions'*, the establishment of a recognised and highly visible brand and image is one of the consortium's main achievements: many customers in Tunisia and foreign markets recognise Get'IT and its members as reliable partners in the ICT domain, offering a wide range of competences and qualified human resources.

e) Governance

Given their many opportunities to collaborate in providing ICT services, the relative differences between the member firms do not constrain or hinder cooperation.

The elected Managing Director holds office for one year, and there is no Board of Directors because all of the chief executives of the member firms participate in planning strategies, and designing programmes and budgets. Moreover, possible problems are avoided because of the consortium’s highly participative governance system: every action is discussed and directly approved in advance by the member firms in a context of sharing, intense and direct dialogue, and little formality.

In terms of financing, each firm makes a fixed low-level contribution to cover overheads, and specific activities are equally financed by the participating firms and generally co-financed by public funds.

f) Performance measurement

As in the case of all promotional consortia, it is difficult to measure the impact of consortium activities on the individual firms directly. However, in comparison with the situation before the consortium’s foundation, there have been significant increases in the revenues (an average 30%) and export performance of all of the firms, which acknowledge that the network has created virtuous ‘export dynamics’ in terms of the establishment of best practices, an openness to international markets, and a better understanding of customers and their needs.

The table below shows the contribution of the Consortium to enhancing member firms’ resources and competences.

Table 2.14 Contribution of Get’IT to enhancing member firm’s resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
- Our marketing competences have ...	X			
- Our administrative competences have ...	X			
- Our technical competences have...	X			
- Our knowledge of foreign markets and customers has...			X	
- The number of our customers abroad has...			X	
- The number of our business contacts abroad has...			X	
- Our reputation and visibility have...			X	

2.7 Muyu

The export consortium Muyu, which was founded in 2005, consists of five micro and small handicraft firms based in Cusco, Peru, all of which make and sell handmade products associated with Peruvian tradition.

They are substantially similar in size, have similar profiles, and their production is complementary insofar as all of the products are consistent in style but different in type, use and value (Table 2.4).

Table 2.15 Member firms

COMPANY	PRODUCTS	SALES 2007 (\$) .000 (\$)	EXPORT SALES/ TOTAL SALES 2007	EMPLOYEES 2007
A	Garments and accessories in alpaca leather	35	30%	6
B	Alpaca wool garments	70	93%	12
C	Sculptures in silver	50	10%	10
D	Ceramics	40	70%	6
E	Loom-made tapestry and covers	10	2%	9

Despite their small size, the consortium allows them to promote sales abroad (especially in the USA and Europe) using selected distribution channels to reach customers interested in Peruvian-style goods.

a) Strategic alignment

The short history of this consortium provides some interesting examples of the progressive alignment (or misalignment) of the firms involved.

The founding of Muyu in 2005 was actually the result of previous cooperation among the members, although this started with a larger number of firms. The roots of the consortium lie in a first group of ten small Peruvian firms participating in an artisan aid programme supported by national institutions. Seven of these subsequently created a formal network assisted by a special programme of the Peruvian Ministry of Labour, and started to strengthen their promotional activities on the USA and European markets until six decided to found Muyu which, one year later, was formally converted into an export consortium supported by UNIDO. However, one of the members decided to leave in 2007 because of irreconcilable differences with the other members about sharing the costs and revenues of one particular event organised by the consortium, thus leaving the present five. This reduction in the number of firms is probably the price that the original group had to pay for the progressive strategic alignment of its members in a more effective network.

The various exits of the five firms in distinct stages of the lifecycle of the alliance obviously have their own specific explanations, but can be traced back to two fundamental causes: a lack of mutual trust and conflicts relating to the firms' different visions of the network's common strategy and governance.

According to the current members of Muyu, both of these problems have now been solved. The level of mutual trust has been gradually reinforced during the course of the numerous activities undertaken by the consortium in its first three years. Furthermore, the consortium has now formalised its strategy, formulated its mission, and identified strategic objectives at consortium and individual firm level. It has also adopted a formal set of rules to regulate the functioning of the consortium and inter-member relations.

Alignment is also currently assured by selection criteria: all of the members are expected to produce at quality standards that satisfy export demand and have experience in exports.

b) Consortium strategy

The strategy of Muyu is essentially focused because, although conceived and developed in accordance with modern concepts and forms, all of its products are strongly characterised by their ethnic profile and customers' preferences must be consistent with Peruvian culture and tradition.

Production is therefore oriented towards a narrow international segment of customers.

The strategic positioning of Muyu is very clear and well summarised in its formal mission: *'to satisfy the functional, ornamental and fashion needs of demanding markets through handmade products, styled according to ancestral Peruvian tradition, but proposed in modern forms'*.

It should be noted that 'typical Peruvian style' and 'locally handmade artisan manufacturing' are fundamental to the consortium's competitive strategy, and drive all of its promotional policies and actions. In many other situations, such elements may substantially limit the internationalisation of small firms but, in the case of Muyu, they become location-specific strategic resources capable of reinforcing the competitive advantage of the firms and the consortium in their markets.

With regard to the core promotional activity of the consortium, the formal strategic market objectives of Muyu are:

1. to increase the competitiveness of its member firms by organising their offer and ensuring effective trade promotion;
2. to achieve better positioning and larger market shares in both the domestic and international markets;
3. to position the consortium's brand 'Muyu Peru' as a symbol of quality.

However, in addition to its commercial objectives, the consortium also has internal objectives that are more centred on the development of the individual firms and the efficiency of the entire network:

1. to plan and implement product innovation rationally;
2. to increase productivity and standardise the production of member firms;
3. to develop competences and managerial tools for strengthening the financial performance of member firms, in order to improve their profitability by means of improved cost efficiency and increased sales.

The choice of a focused strategy is also reflected in its distribution policy: the consortium uses selected channels specialised in handicrafts mainly aimed at the USA and European markets (Germany, Holland, Belgium, Spain). Although to a lesser extent, it also promotes its products in Chile and Bolivia. In foreign countries, the products are usually sold in museums, art galleries, boutiques, and the shops of fair trade associations.

The consortium's main marketing and communication activities are participation in specialised trade fairs and presentations of their product range inside showrooms.

c) Organisational structure

In line with the small size (and limited resources) of its members, and its nature as a promotional export consortium, Muyu does not have its own premises or offices.

d) Resources and competences

The consortium's financial resources come directly from the members, each of which contributes to the budget in two ways: a fixed and equal annual amount to cover operating cost, and specific contributions to the costs of individual activities or projects (such as participating in trade fairs and missions, etc.), which are equally divided among the firms actually participating.

Through participating in the consortium, member firms increased their capability of promoting their own products jointly on international markets.

The consortium also fostered inter-organizational learning and knowledge sharing.

The learning outcomes are particularly relevant in two areas:

- the development of the collections and the set up of the product catalogue;
- the creation of a shared database of suppliers and customers.

e) Governance

The consortium is managed by a Steering Committee of three people. One entrepreneur acts as coordinator, selected by the others because of her extensive export experience, her knowledge of handicraft markets, her competences, and her public relations skills. Another entrepreneur is the treasurer. Finally, there is a General Manager external to the staff of the member firms.

There are thus two key elements in the structure of this consortium: the clear presence of a leader among the peers, and the existence of a professional manager, albeit part-time.

However, the system of governance provides for the full participation of all members in strategic decisions. The five entrepreneurs of the consortium meet twice a month in the offices of the different firms in turn. They discuss all questions on the basis of an agenda and make joint decisions that respect the formal internal rules of the consortium, which govern its general functioning and relations among its members.

Beyond respecting the rules, the commitment and participation of the members is another substantial achievement. Organising and participating in collective activities, sharing problems and discussing how to face them, has built up a high degree of trust among the entrepreneurs. This mutual trust has also been indirectly favoured by the natural integration of their production activities, because this has greatly reduced the possibility of conflicts of interest or opportunistic behaviour, and demonstrated the synergistic advantages of cooperation. Customers (especially international customers) prefer negotiating bundles of products from the different firms through the consortium, instead of seeking single supplies from each one.

The rotation of firms in hosting consortium meetings encourages visits to the headquarters of the other members and, in general, there are no restrictions on visiting the offices of the other firms, which leads to intense communication and the exchange of information.

f) Performance measurement

The enhancement of the firms' marketing and promotional competences is one of the main outcomes of the participation in the consortium. The average increase in exports has been of 235% in two years.

In addition, firms also benefited from:

- an easier access to technical assistance and training programs promoted by public and private institutions;
- an improved market reputation.

The tables below show a) the export performance of member firms; b) the contribution of the Consortium to enhancing member firms' resources and competences; c) member firms' perception of the Consortium achievements.

Table 2.16 Export performance of Muyu's member firms

Member	Sales 2005 .000 (\$)	Exports 2005 .000 (\$) and (%)	Sales 2007 .000 (\$)	Exports 2007 .000 (\$) and (%)	Change in sales (estimate)	Change in ex- ports (estimate)
Firm A	25	- (0%)	70	65 (93%)	+180%	+93%
Firm B	17	11,9 (70%)	40	8 (70%)	+135%	0%
Firm C	20	- (0%)	50	5 (10%)	+150%	+10%
Firm D	50	17,5 (35%)	10	0,2 (2%)	-80%	-33%
Firm E	15	3 (20%)	35	10,5 (30%)	+130%	+10%

Table 2.17 Contribution of Muyu to enhancing member firm's resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
1. Our marketing competences have ...			X	
2. Our administrative competences have ...		X		
3. Our technical competences have...			X	
4. Our knowledge of foreign markets and customers has...			X	
5. The number of our customers abroad has...		X		
6. The number of our business contacts abroad has...			X	
7. Our reputation and visibility have...			X	

Table 2.18 Member firms' perception of Muyu's achievement of targets (%)

Consortium's strategic objectives	Percentage achievement according to firms (%)					Average (%)
	A	B	C	D	E	
To increase member firms' competitiveness	70%	80%	70%	60%	80%	72%
To gain better positioning and market share in domestic and international markets	80%	70%	70%	70%	80%	74%
To position Muyu as a high quality brand	70%	70%	60%	60%	70%	66%
To plan product innovation	70%	70%	70%	60%	70%	68%
To increase productivity and standardise members' products	70%	70%	70%	60%	70%	66%
To develop managerial competences and tools	80%	70%	60%	60%	70%	68%

2.8 Peruvian Bio Consortia

The members of Peruvian Bio Consortia were selected in mid- 2006 by the Peruvian Institute of Natural Products (IPPN): they started as five firms offering products to industrial and consumer markets (especially products with functional characteristics), but two withdrew shortly afterwards for different reasons. The remaining three are: «A» (established in 1980), «B» established in 1985, and «C» established in 2001 (Table 2.5).

They are now planning to recruit new members on the basis of specific selection criteria, including the unanimous agreement of the three remaining founder members.

These are all family owned and run, and two have significant export experience. The main target markets are the USA, Europe and, residually, Japan.

Table 2.19 Member firms

COMPANY	PRODUCTS	SALES (\$) .000 (\$)	EXPORT SALES/ TOTAL SALES	EMPLOYEES (2008)
A	Liquid and dry plant extracts for cosmetic use; functional food, oils and personal hygienic care products	650	60%	21
B	Natural nutritional and cosmetic products	1.085	10%	37
C	Nutritional products (dry herbs, fruits and vegetables)	950	90%	27

a) Strategic alignment

As agriculture product processing firms, the members compete in the same markets and distribution channels for sales and supplies. However, in order to avoid possible conflicts of interest, the group has evaluated each firm's competitive advantage and established the individual product portfolios that will be promoted by the consortium.

b) Consortium strategy

The 'vision' of Peruvian Bio Consortia can be summarised as follows: *'To be a consolidated consortium with a solid resource base, leading innovation within the sector, protecting the environment, and generating economic development'*.

As said above, the consortium has planned a product offer that complements that of the individual firms, each of which has chosen a specific product line for consortium promotion. In this respect, the significant export expertise of the three firms makes an essential contribution to penetrating target markets.

The main functions of the consortium are to promote the firms and their products; prepare advertising and promotion materials; organise participation in international fairs and exhibitions and other pro-export activities such as business missions; organise training courses; and establish partnership agreements with other organisations.

c) Organisational structure

The consortium's structure is extremely simple; the meetings of the Board are held on the premises of firm 'A', whose representative is also President of the consortium.

It has been agreed to make capital contributions to the consortium only when a specific activity has been or needs to be carried out; the costs are to be divided among the member firms. Peruvian Bio Consortia therefore has no equity in its balance sheet.

d) Resources and competences

The main impact of the consortium and its most important resource concerns the improved image and reputation of the member firms, which are conscious of the greater negotiating and market power that belonging to the consortium has given them. Moreover, Peruvian Bio Consortia has managed to position itself as the leading consortium in Peru in the natural products sector. Because of this and its dynamism, the members' representatives are often invited to give talks at conferences, especially to describe their experience in the organic products market.

e) Governance

All of the member firms have their own acknowledged leaders and their roles are very well integrated within the consortium. There is a significant information exchange and knowledge sharing. Member firms also know each other's production facilities and help each other with production when necessary. Decisions are made on the basis of a simple majority.

f) Performance measurement

Despite the difficulties in determining whether the good performance of the member firms in 2007 can be directly attributed to the consortium, there is no doubt that Peruvian Bio Consortia has favoured their negotiating capacity as individual firms and as a group.

It is estimated that their mutual support in promoting orders generated about USD 80,000 of indirect exports. Firms' sales increased by an average of 20% while employment has increased by an average of 9% in one year.

Furthermore, the consortium has favoured the members' pro-export activities, particularly in terms of their participation in international export fairs in South America (Brazil), Europe (Switzerland) and the USA.

Another result is the fact that the consortium has become the leading consortium for natural products in Peru, which has made it a role model of co-operation for other firms in the sector at various congresses and exhibitions. In March 2008, it came second in the 'Export Production Chain' category of a national corporate social responsibility competition.

In terms of their perceptions of the consortium's achievement of its strategic goals, all three firms agree that they have a good position in the eyes of supporting institutions and, particularly, that export promotion activities abroad has substantially increased. They are also quite satisfied with the negotiating power of the consortium on international markets.

They still have to achieve a sustained increase in exports, but this is to be expected given the consortium's young age.

In terms of the member firms' resources and competences, they have experienced major improvements in marketing and technical competences, as well as in their image among customers and suppliers.

There has been a moderate increase in their knowledge of foreign markets and customers, a moderate increase in the number of foreign customers and business contacts, and a moderate increase in the proposals presented to potential new international customers.

The tables below show a) the export performance of member firms; b) the contribution of the Consortium to enhancing member firms' resources and competences; c) member firms' perception of the Consortium achievements.

Table 2.20 Export performance of Bio Consortia's member firms

Members	Sales 2006 .000 (\$)	% Export	Sales 2007 .000 (\$)	% Export
Firm A	998	7	1.085	10
Firm B	750	70	950	60
Firm C	500	70	650	90

Table 2.21 Contribution of Bio Consortia to enhancing member firm's resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
8. Our marketing competences have ...			X	
9. Our administrative competences have ...	X			
10. Our technical competences have...			X	
11. Our knowledge of foreign markets and customers has...		X		
12. The number of our customers abroad has...		X		
13. The number of our business contacts abroad has...		X		
14. The number of business proposals presented to potential new international customers last year...			X	
15. Our reputation and visibility have...		X		

Table 2.22 Member firms' perception of Bio Consortia's achievement of targets (%)

Consortium's strategic objectives	Percentage achievement according to firms (%)			Average (%)
	Firm A	Firm B	Firm C	
To strengthen the Consortium's bargaining power in international markets	50%	40%	50%	47%
To develop an organizational structure to manage the Consortium	35%	35%	35%	35%
To link the Consortium with support institutions	100%	100%	100%	100%
To increase promotional activities abroad	60%	70%	50%	60%
To increase member firms's exports	30%	30%	30%	30%

2.9 APMC

APMC Industrial Group is a sales promotion consortium of metal and engineering firms founded in mid-2007 by the Peruvian Ministry of Production (PRODUCE). The firms brought together their production facilities and more than 15 years' experience in the sector with the aim of offering a greater variety of customised quality products at competitive prices.

The member firms are vertically integrated from the design phase to the production of moulds and the finished products, thus ensuring full quality control. This integration also allows them to increase production easily and reduce lead times.

Table 2.23 Member firms

COMPANY	PRODUCTS	SALES 2007 (\$) .000 (\$)	EXPORT SALES/ TOTAL SALES (2007)	EMPLOYEES (2007)
A	Metal furniture, interior design for private and business use	1.000	10%	53
B	Design and production of machinery for the metal furniture sector	170	5%	18
C	Decorative elements, metal furniture and metal carpentry tools	285	10%	15
D	Metal furniture for exhibitions (display stands and similar)	500	30%	35

Their product positioning on the local market is consolidated, and the products are sold nationally to well-known public and private firms. They established their position not only by offering quality products, but also by demonstrating their reliability in business transactions. All of them have exporting experience: one exports directly, the others indirectly.

a) Strategic alignment

The member firms belong to the metal and engineering sector, and are located within the industrial park of Villa del Salvador, the only industrial district in the city of Lima and a role model for similar initiatives throughout the country. They have similar production facilities, and can therefore make similar products to increase their overall exportable offer, and they also have significant direct and indirect export experience and managerial competence to support their development.

b) Consortium strategy

The consortium's strategic vision states that it aims to be *'solid and professionally managed, to contribute to the country's social and economic development, and to attain a strong position in national and international markets by developing new products and markets, using appropriate technological resources in order to offer quality products under its own brand and international certifications'*.

It has a capital of USD 35,000, and is dedicated to promoting the member firms and the joint sale of their products. The main target markets are Latin America (especially the Andean region), where the firms have the greatest experience.

The main functions of the consortium can be summarised as follows:

- the joint promotion of the firms and joint sale of their products;
- the creation of promotional materials and marketing campaigns, such as participations in international trade fairs, trade missions, and meetings with potential commercial partners;
- training activities;
- the establishment of partnerships with other cooperative institutions;
- participation in local public calls for tenders.

Furthermore, the consortium exploits its participation in trade fairs to promote its members' products especially among wholesalers, retailers and importers.

c) Organisational structure

After developing a strategic plan, it was decided to establish an organisational structure in which each entrepreneur would be responsible for a specific function: 'A' for Institutional and Public Relations; 'B' for Projects; 'C' for Administration; 'D' for Marketing and Sales. The entrepreneur of company 'A' is also the consortium's President.

After the increase in local sales and the decision to export, the entrepreneurs decided to hire a Managing Director for the consortium; the selection process is currently ongoing. The consortium's operating costs are paid proportionally by the member firms as needed. In line with this, the consortium's meetings are held in the offices of one of the member firms in order to reduce costs.

d) Resources and competences

As a result of the consortium's activities, the firms have improved and intensified their promotional strategies in foreign markets, especially their participation in international trade fairs starting from South America.

Domestic sales in 2008 increased by 100% from about USD 300,000 in 2007. Although the full impact of these efforts has not been seen yet, the prospects are encouraging.

The consortium is more established in the local market, especially in terms of calls for tenders, and the joint actions of the four members have led to significant improvements in the overall product quality of the firms as well as in their mutual and self-confidence.

In particular, the image of the consortium is seen as an important resource that also benefits the individual firms.

e) Governance

All of the entrepreneurs have leadership skills, which are highly complementary with one another. At the end of the strategic planning process, they acknowledged the need for a consortium manager, who is currently being sought. Furthermore, they know each other's production facilities very well and are likely to cooperate and help each other with production.

The shares in the consortium are divided proportionally among the members. Group membership is closed, but the consortium establishes partnerships with local companies for specific projects.

f) Performance measurement

Throughout all of its activities, the consortium has pursued two main goals: to strengthen the group's identity and image, and increase foreign market penetration. However, its young age (almost two years) means that the results achieved by the member firms have so far mainly concerned local markets, in which the consortium has doubled its sales. Employment has increased by 75%.

Export promotion activities started in 2007 (before then only one of the firms was carrying out pro-export campaigns) and are progressing quite rapidly despite the absence of public financial support, with the consortium about to enter neighbouring markets such as Bolivia and Ecuador. The firms are also collaborating with the Ministry of Production in a programme aimed at creating a network of suppliers.

The firms' perceptions concerning the achievement of the consortium's strategic goals are that they have managed to increase production to fulfil emerging market demand, and develop managerial capabilities especially with respect to foreign sales development. However, they still need to acquire greater negotiating power on international markets, and improve the organisational structure of the consortium in order to make its management smoother.

In terms of resources, competences and contacts, most of the firms agreed that their technical and marketing capabilities have increased, and that their image has improved among customers and suppliers. However, the number of new foreign business contacts has only slightly increased, and the number of customers in foreign markets and the firms' administrative skills remain largely unchanged.

The tables below show a) the export performance of member firms; b) the contribution of the Consortium to enhancing member firms' resources and competences; c) member firms' perception of the Consortium achievements.

Table 2.24 Export performance of ACMC's member firms

Members	Sales 2006 .000 (\$)	% export	Sales 2007 .000 (\$)	% export
Firm A	390	10	1.000	10
Firm B	85	5	170	5
Firm C	205	10	285	10
Firm D	170	20	500	30

Table 2.25 Contribution of ACMC to enhancing member firm's resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
16. Our marketing competences have ...			X	
17. Our administrative competences have ...	X			
18. Our technical competences have...			X	
19. Our knowledge of foreign markets and customers has...			X	
20. The number of our customers abroad has...	X			
21. The number of our business contacts abroad has...		X		
22. The number of business proposals presented to potential new international customers last year...			X	
23. Our reputation and visibility have...		X		

Table 2.26 Member firms' perception of ACMC's achievement of targets (%)

Consortium's strategic objectives	Percentage achievement according to firms (%)				Average (%)
	A	B	C	D	
To strengthen the Consortium's bargaining power in international markets	20%	20%	20%	20%	20%
To develop an organizational structure to manage the Consortium	30%	20%	20%	30%	25%
To link the Consortium with support institutions	50%	50%	50%	50%	50%
To increase production according to market demand	70%	50%	50%	70%	60%
To develop capacities in managing, administration and international trade	60%	40%	50%	60%	53%

2.10 Ande Natura

ANDE NATURA is an export promotion consortium that was established in June 2007 that is now made up of five family owned and run companies with a differentiated offer within the aromatic herb and organic food sector (Tab. 2.7). It was founded by three firms, but firm 'A' (which was established in 2004, and has an equity capital of USD 18,000 and annual sales of about USD 40,000) is the only one left among the founders: the other two were essentially NGOs more interested in developing educational programmes than entrepreneurial activities. These differences in strategic vision determined their exit.

Table 2.27 Member firms

COMPANY	PRODUCTS	SALES 2008 <i>forecast</i> .000 (\$)	EXPORT SALES/ TOTAL SALES 2008 <i>forecast</i>	EMPLOYEES (2008)
A	Aromatic herbs, filtered infusions	100	20%	12
B	Green and black tea	40	10%	9
C	Sacha inchi oil, jams and cereals	15	6%	2
D	Local potatoes as snacks	3	10%	4
E	Organic coffee, annatto and palillo colourants	33	98%	40

a) Strategic alignment

All of the member firms have an agro-industrial profile and operate in the organic food sector: the production base is therefore the field, and processing takes place inside the region (or is outsourced).

The products are not in direct competition as they originate from different plants, vegetables and herbs, and range from filtered infusions to oils, crisps and jams among others. They thus complement the consortium's portfolio and improve the overall offer, making it attractive for customers because of its quality and export potential.

Individuality is respected: each firm's brand is promoted, and each firm handles its contractual forms of buying and selling independently. ANDE NATURA acts as an umbrella brand, and is used for all promotional activities and materials. Each partner brings its own expertise and knowledge to the group to analyse prospective foreign markets. The target markets (the USA and Europe) are the same for all of the participants, and they aim to exploit all of their previously established business connections.

The consortium has its own strategy and, in 2007, with the help of PROMPERU (an export promotion institution), it joined the officers responsible for operative market plans (POMs) of different countries, including Japan, the USA, Brazil, Chile and Bolivia.

Finally, as the products are organic, they can more easily benefit from higher prices because of their better quality, and target more customers in the Fair Trade niche market.

b) Consortium strategy

The mission of the consortium is summarised as '*an association linked to growing markets, developing quality food products, supporting the organic food production*

chain, and promoting the sustainable use of resources through the adoption of agro-ecological practices'.

Furthermore, the consortium has a general objective (to establish a self-sustainable export consortium of organic food producers in the south-east macro-region of the country) and some specific goals:

1. to develop an environmentally sustainable export offer of products derived from aromatic, oleaginous and tuberoses plants, and Andean corns;
2. to improve the revenues of member firms by means of exports, and transfer the benefits to the production base by applying the principles of fair trade;
3. to develop the technological and organisational characteristics needed to satisfy the requirements of the organic products sector in the global market;
4. to promote sustainable productive bases, grow varieties of species for which there is a market demand, and reduce the costs of the certification process.

Moreover, the consortium also has some managerial objectives: to develop the managerial capabilities and tools necessary to develop new markets; strengthen the financial aspects of member firms; and improve profits by increasing sales and reducing operational costs.

The currently estimated achievement rate is 80%.

c) Organisational structure

The consortium is managed by a 'Junta Coordinadora' (or Management Board) consisting of one representative of each firm: a coordinator, three associate managers, and a treasurer. The initial leader and coordinator of the group has been chosen as the coordinator on the basis of his experience in market-related issues and business ties with one of the NGOs that sponsored the creation of the consortium. The good interpersonal relationships among the entrepreneurs (all of the firms have a sort of 'open-door' policy) also favour the smooth management of the Consortium's activities.

d) Resources and competences

Although their administrative competences have remained the same and the number of customers has only slightly increased, the technical and marketing capabilities of the member firms have increased since the consortium was founded. This means a better knowledge of foreign markets, an improved customer image, and the establishment of more business contacts.

e) Governance

The meetings of the consortium take place on a weekly basis in the offices of company 'C'. The agenda is fixed during the previous week's meeting, and decisions are always made unanimously. In accordance with the consortium's regulations, fines are quickly levied for not attending these meetings.

Mutual trust and confidence in the other group members have progressively developed as a result of the development of joint activities. One important factor in improving trust has been the development of a diversified and complementary portfolio of products. Customers usually prefer to deal with an organisation selling a variety of different and innovative products: this has been clearly understood by the members of Ande Natura, who consider it an important competitive strategy that is facilitated by the fact that they act together from the same promotional platform. Their pro-export actions are financially supported by the contributions of public export promotion institutions such as PROMPERU and DIRCETUR, as well as the NGO IMAGEN.

Internal regulations have also played a very important role in problem solving, helping to avoid the situations of potential conflict that can arise inside a consortium.

f) Performance measurement

As of June 2008, the consortium's results included:

1. an estimated 85% increase in the sales of the member firms for the period 2007-2008 due to joint promotion and larger sales volume;
2. an increase in pro-export activities
3. an increase in contacts with prospective customers as a result of participating in the most important international fairs for the food industry (eg. Brazil, USA, Switzerland and Barcelona);
4. an improvement in outsourced services as a result of the more efficient exchange of information among the firms that produce aromatic plants;
5. the creation of opportunities to develop new brands and products;
6. a reduction in the marketing costs of each firm, primarily due to the consortium's actions;
7. stronger relationships with public and private institutions, as analysed by the Regional Executive Committee for Exports (CERX);
8. the creation of new jobs within the firms, which have achieved an annual growth rate of 5% that is likely to increase further with the expansion of exports.

All of the firms agree that the ANDE NATURA brand has been successfully promoted, and that the consortium's market power has been strengthened on international markets. However, the consortium must still achieve a competitive position on international markets, which will require more work together with the development of an organisational structure to facilitate Consortium management.

The tables below show a) the export performance of member firms; b) the contribution of the Consortium to enhancing member firms' resources and competences; c) member firms' perception of the Consortium achievements.

Table 2.28 Export performance of Ande Natura’s member firms

Members	Sales 2007 .000 (\$)	% Export	Sales 2008 .000 (\$)	% Export
Firm A	40	13%	100	20%
Firm B	27	0%	40	10%
Firm C	11	0%	15	6%
Firm D	2	0%	3	10%
Firm E	NA	98%	NA	98%

Table 2.29 Contribution of Ande Natura to enhancing member firm’s resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
24. Our marketing competences have ...			X	
25. Our administrative competences have ...	X			
26. Our technical competences have...			X	
27. Our knowledge of foreign markets and customers has...			X	
28. The number of our customers abroad has...		X		
29. The number of our business contacts abroad has...			X	
30. The number of business proposals presented to potential new international customers last year...			X	
31. Our reputation and visibility have...			X	

Table 2.30 Member firms’ perception of Ande Natura’s achievement of targets (%)

Consortium’s strategic objectives	Percentage achievement according to firms (%)					Average (%)
	A	B	C	D	E	
To strengthen the Consortium’s bargaining power in international markets	50%	40%	50%	50%	30%	44%
To promote the “Ande Natura” organic brand	70%	70%	60%	70%	70%	68%
To develop an organizational structure to manage the Consortium	30%	20%	20%	20%	10%	20%
To access national and international markets	20%	20%	20%	30%	20%	22%
To increase production according to market demand	80%	70%	30%	30%	90%	60%
To develop capacities in managing, administration and international trade	60%	40%	50%	40%	40%	46%

2.11 Phyto Uruguay

Phyto Uruguay was established in 2005 by Uruguayan SMEs in the herbal and nutraceutical products sector. The project was also supported by FUNDASOL, a non-profit association promoting Uruguayan firms, in cooperation with other institutions and programmes such as the Interamerican Development Bank (IDB), the Ecumenical Economic Development Cooperative Society (OIKOCREDIT), the Interamerica Foundation (IAF), the German Cooperation (GTZ), UNESCO, etc.

The consortium has nine member SMEs (Table 2.8): most are micro-enterprises, but company C has a much higher turnover than any of the others. These are about to be joined by three new firms.

Table 2.31 Member firms

COMPANY	PRODUCTS	SALES (\$) .000 (\$)	Employees (2008)
A	Foods	n.a.	5
B	Organic herbs	652	27
C	Cosmetics	1.892	67
D	Herbal and natural pharmaceuticals	230	10
E	Homeopathic products, cosmetics, veterinary hom. products and essential oils	10	10
F	Cosmetics	321	12
G	Aloe	38	7
H	Dietary products, functional foods, medicaments	n.a.	20
I	Vegetal extracts	60	5

None of the firms has an export manager and only a minority has dedicated sales staff. Their main distribution channels are retailers and wholesalers, pharmacies, perfumeries and, in one case, other cosmetic firms (as one member produces for other brands).

Except for one firm (with 9.4% exports), none had any previous direct export experience. They did not participate in international trade fairs, had no knowledge of international payment tools, and showed little compliance with international standards.

a) Strategic alignment

Target markets and the related promotional activities are chosen by the members sharing their previous experience and information. The current marketing strategies are oriented towards consolidating existing target markets (Italy) and developing new ones, especially in other EU countries and Latin America.

The consortium also has its own brand '*Phyto Uruguay*', which is also a trademark. The pro-export action taken by the consortium in promoting the member firms' products under the consortium's own brand means that the members can pursue the parallel promotion of their own products individually.

They are now taking advantage of their greater bargaining power as a group to develop the national market and are negotiating with large-scale Uruguayan retail buyers.

b) Consortium strategy

After implementing its first joint promotional activities (of which the most important was participating in the SANA trade fair in Italy), the group decided to organise itself as a sales consortium to market products on behalf of its members, and was then incorporated into a public limited company (or 'Sociedad Anonima') whose capital is equally distributed.

The main services provided (or to be provided) by the Consortium concern participation in trade fairs, the organisation of trade missions, the implementation of joint promotional materials (such as brochures in Spanish, English and Italian, and the website www.plantasmedicinales.org.uy), and finally a joint sales department.

As a sales consortium, Phyto Uruguay has branded a specific line of products with the name '*Phyto Uruguay*'. These belong to seven different product categories: raw materials (organic herbs, tea bags, aloe), essential oils (eucalyptus, mint, melissa, salvia, calendula, marcela, etc.), herbal extracts (marcela, pitanga, cedròn, etc.), natural cosmetics (creams, emulsions, gels, etc.), foods (aloe nectars, powdered proteins, etc.), nutraceuticals in tablets (dry extracts of grapes, mixed fruits, organic oyster calcium, etc.), and phytomedicaments in tablets (focus, garcinia, equinacea, etc.). This new line was then promoted abroad at international trade fairs in Italy, Germany, Brazil and Colombia, thus clearly indicating that the main target markets are Europe and Latin America.

c) Organisational structure

Weekly meetings are organised and held at Fundasol's offices. The consortium's operating structure is mainly financed by membership fees, a 3% commission on sales made by the consortium (although these have not yet started), and members' contributions for specific services and external support.

d) Resources and competences

In addition to exploiting and developing members' expertise in order to promote their products under its own brand, the consortium is willing to invest in quality improvement by implementing quality standards throughout the value chain and creating a joint research laboratory. Furthermore, the products of the Consortium will be certified as 'Bio-Phyto' by the Institute for Ethical and Environmental Certification (ICEA).

e) Governance

The group is managed by a President chosen from among the member entrepreneurs, who has the support of a secretary and external business consultants.

f) Performance measurement

One of the first results of consortium membership was promotion in foreign markets. Most of the firms' participations in trade fairs and missions have actually been made through Phyto Uruguay.

Moreover, the effective combination of upgrading and promotion activities implemented by the consortium are already having positive effects: Phyto Uruguay has recently signed a commercial agreement with an Italian customer.

The linkage between exports and upgrading seems to be very strong indeed. Almost all the firms have obtained or are obtaining international certification such as ISO 9001 and GMP (Good Manufacturing Practices). Moreover, as an effect of being part of the Consortium, they have all revised their packaging and increased their bargaining power with suppliers of goods and services. Almost all of them have also reviewed their products and their own promotional material, and the majority of them have invested in new equipment and technologies.

The impact of all this on export turnover cannot yet be estimated as the first promotional activities were undertaken during the last quarter of 2006 and, although one agreement has been recently signed with an Italian customer, its effects will become apparent on the turnover of 2008.

However, the global turnover of most members has increased by an average of 20% as an effect of the upgrading and grouping process, and half of them have increased their number of employees by an average of 19%.

CHAPTER 3

THE MANAGEMENT OF EXPORT CONSORTIA: A PRAGMATIC APPROACH

3.1 A framework for export consortium management

As discussed in Chapter 1, consortia have specific characteristics that make them different from other kinds of networks, mainly when the partner firms are SMEs. They therefore need a specific approach if their strategic behaviour and management is to be understood

In the following pages, building on a review of the literature and an analysis of the nine cases described in Chapter 2, we develop a framework for describing the management of export consortia; each of the elements is analysed in detail using a pragmatic approach. We also describe some tools that can help firms to formulate and implement effective consortium-based competitive strategies, and monitor consortium performance.

Managing an export consortium is not an easy task. Although consortia have some of the characteristics of their member firms, their management raises a number of additional problems due to the many hard and soft links among their members. Furthermore, as consortium initiatives may be beneficial to member firms to different extents (what is good for one or some member firms may not necessarily be good for the network as a whole), the formulation and implementation of consortium strategy are crucial: in particular, it must not clash with the individual members' needs and objectives.

The goal of an export consortium is to meet the strategic intentions of the individual firms by providing business opportunities in international markets (at both regional and global levels) by overcoming the constraints that SMEs may have because of their limited size. In this case, the solution chosen by the SMEs in order to tackle the internationalisation process is to gather their resources and build up a formal strategic inter-firm network in the form of a sales or promotional consortium.

On the one hand, there are a number of small firms with different histories, strategies and business models, as well as different sets of resources and competences. Here, *different* means not only of different kinds and complexity, but also at different stages of the life-cycle of the firms, which range from consolidated businesses to new ventures. Their international experience may also differ: although it is assumed that the members of an export consortium are at the first stage of internationalisation, their export experience may vary from considerable to none at all.

On the other hand, the competitive challenge for these firms is to make the most of concrete trading opportunities on foreign markets in order to develop their own businesses and, by doing so, sustain the economy of their own countries.

Their potential for success of course also depends on the existence of an international demand, the adequacy of their products, and their managerial capabilities.

From the very beginning of its life, it is essential to make the rationale of the consortium clear to all of its member firms, and to do so in the early stages of strategic planning. The gaps in resources and competences that the individual firms have to fill must be highlighted, and members must be aware they cannot fill them by means of stand-alone strategies.

From a management standpoint, the decision to set up a consortium always implies major choices in terms of strategy and organisation, which are summarised in Fig. 3.1.

The top of the figure shows the main features of the individual firms. The strategic goals and objectives, business models, resources and competences of each partner affect what can be expected from the alliance and the members' capacity to contribute to it.

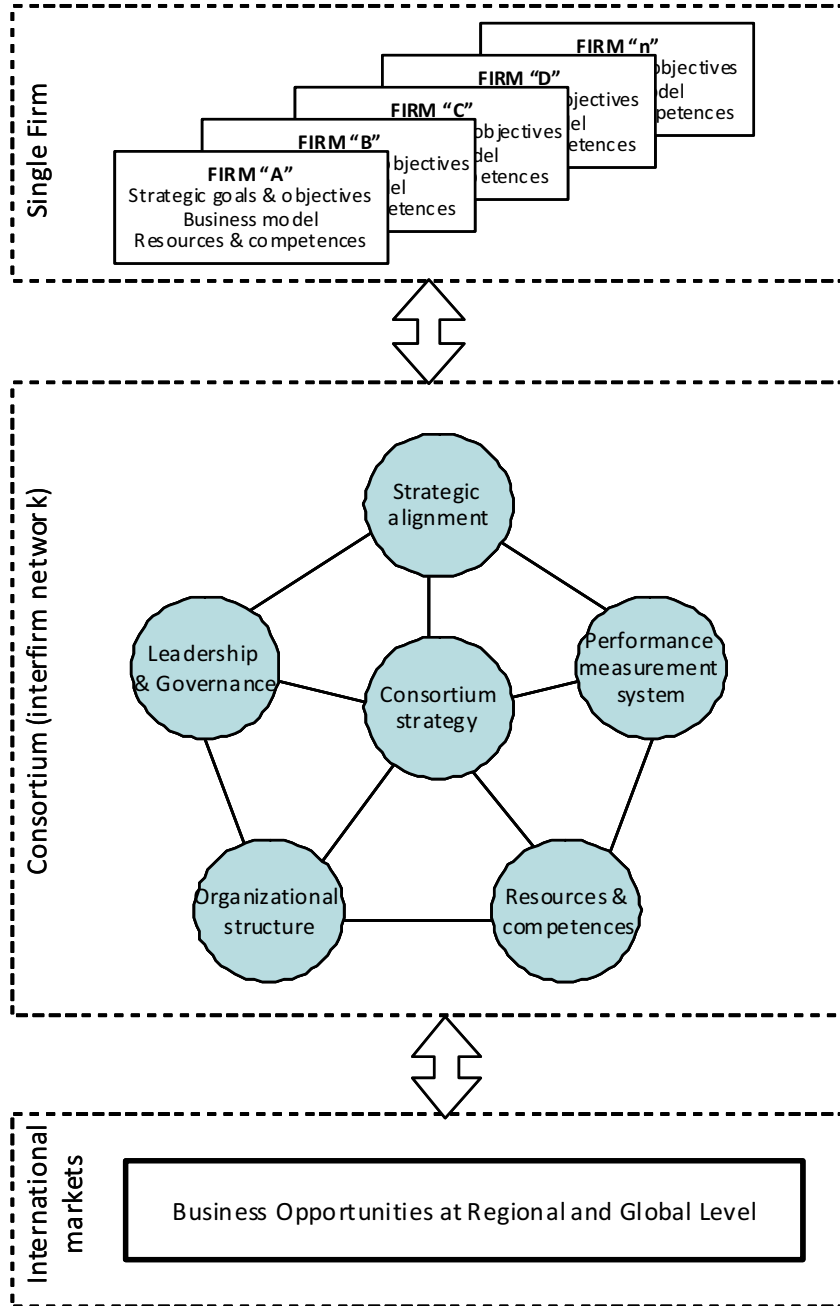
These elements have to be carefully analysed before the alliance is formalised in order to check whether a strategic alignment is possible or not, because problems in consortium management may arise from the lack of strategic convergence due to differences in the objectives of the member firms.

This happens, for example, when some partners wish to become stable players in a foreign market (and are consequently willing to invest resources in the alliance), while others may have a short-term perspective, such as seeing the consortium merely as an opportunity for selling temporary surpluses in production, and may therefore be unwilling to invest financial and human resources to develop the alliance over time.

The middle of the figure 3.1 on the following page shows the main areas that the strategic management of a consortium has to cover:

- Strategic alignment of member firms;
- Consortium strategy and actions;
- Organisational structure;
- Leadership and governance systems;
- Resources and competences.
- Performance measurement system.

Figure 3.1 A framework for analysing the management of export consortia



The aim of strategy is to define goals and how to reach them. The competitive strategy of an export consortium (i.e. the strategy formulated and implemented vis-à-vis competitors) should answer the following questions:

- What are the consortium's goals and objectives? How can they be measured?
- How will the consortium reach its goals and objectives, and with what timing? Through which activities?
- What will the consortium's value proposition look like? This question has different contents and meanings depending on whether it is a promotional or sales consortium (see Section 3.3);
- What are the gaps that will have to be filled (or the 'strategic needs' that will have to be met) in order to implement the formulated strategy successfully?

To answer these questions, it is necessary that the consortium scans the environment in an attempt to discover:

- What the competitive environment looks like and, above all, who are the competitors?
- What are the main barriers that will need to be overcome?
- What are the main environmental trends? These are important because they may affect consortium strategy over time.

One of the outputs of consortium strategy formulation is a set of gaps to be filled or strategic needs, which may be related to:

- Financial issues;
- Technological issues;
- Knowledge and capabilities;
- Human resources.

These needs will be satisfied differently depending on the characteristics of the firms: for example, the presence of at least one member firm with international experience could lead to the decision to make a representative of that firm the general manager of the consortium, whereas the top manager of the network should be hired from outside if none of the partners have any previous experience of foreign markets.

All of the factors in the middle of the model have to be consistent with the strategy of the consortium, as well as with the characteristics of member firms. The need to consider both makes this task even more difficult than it is within a single firm.

The consortium's performance will only be considered satisfactory if the strategy and operations fit the international business opportunities that the member firms want to pursue.

Measuring a consortium's performance can be rather difficult. Traditionally, the percentage of sales attributable to exports is the most largely adopted measure. However, the measures used to assess an individual firm's performance are not necessarily effective for networks.

Furthermore, measuring performance is crucial because the consortium strategy may be reinforced or changed on the basis of its results, and the way the individual member firms perceive the benefits and costs associated with the alliance may affect their own goals and behaviour, and consequently influence their alignment.

As Fig. 3.1 shows, there is not only a ‘top down’ relationship among the variables in the framework, but also a set of bidirectional relationships. This means that the equilibrium among all the factors depicted can change over time. In some extreme cases, such changes will affect also the set of members, leading to the decision to ask some existing partners to leave the network and would-be partners to join it.

The following pages describe each of the elements of the framework in more detail and analyse the main activities related to the setting up and management of export consortia:

- Managing the strategic alignment of member firms;
- Formulating consortium strategy;
- Designing the organisational structure;
- Leveraging on strategic resources and distinctive competences;
- Enforcing corporate governance and leadership;
- Measuring consortium performance.

3.2 Managing the strategic alignment of member firms

The strategic alignment of member firms is one of the key factors affecting the success of a consortium, and raises two different types of issues in the consortium’s life. First, alignment must be assessed at the time the partners are selected, before the consortium has been started; secondly, strategic alignment should be monitored at any stage of the consortium life-cycle after a consortium has been set up.

At the start-up stage, a preliminary assessment of the potential members should be made in order to evaluate whether, and to what extent, their strategic convergence is possible. The relevance of alignment is such that, if the would-be partners are too different, it is necessary to select only those that can be aligned.

In the case of SMEs, the task of assessing the *ex ante* strategic alignment is usually carried out by an external ‘network facilitator’ (McEvily and Zaheer, 2004), namely associations of firms, public agencies, and other public or private agents. Network facilitators foster collaboration among actors involved in networks such as consortia, because they help build trust among partners.

Specifically, in the export consortia covered by our analysis, UNIDO played the role of network facilitator. In some cases, UNIDO worked in collaboration with local public institutions. For example, this is the case of *GET IT* (Box 3.1), in which an important process of trust-building preceded the institution of the consortium. Similarly, support of the UNIDO Export Consortia Programme was crucial in the case of *Phyto Uruguay*, too. The first efforts of the *Phyto* consortium were focused on enhancing trust-based relationship among member firms and defining joint objectives, leveraging on the support of UNIDO Export Consortia National Expert and FUNDASOL (a non-profit asso-

ciation for the promotion of Uruguayan firms). In addition, *Phyto Uruguay* also benefited from the UNIDO Trade Capacity Building programme aimed at upgrading the technical and organisational structure of member firms. This programme played an important role in enabling the firm to develop an exportable offer complying with international standards.

Assessing strategic alignment is not necessarily the result of a rational and formal analysis. In the case of SMEs other factors related to entrepreneurs' values and culture assume much more relevance, and personal relationships do matter. However, a number of factors have to be taken into account when selecting member firms, which should be assessed in terms of:

- a) Their strategic medium- and long-term goals and short-term objectives;
- b) The time-horizon of their internationalisation process;
- c) Their business models and competitive strategy;
- d) Their resources and competencies;
- e) Their commitment to cooperation;
- f) Their organisational culture.

a) Strategic medium- and long-term goals and short-term objectives. The fit among the strategic goals and objectives of each member are crucial for the success of the alliance. Hidden agendas are the main risk, and some networks fail because the true goals and objectives of the partners are not what they declare. In such cases, one of the firms tries to obtain advantages to the detriment of the others, or relevant information is not shared, and the conditions are such as to prevent the network from achieving its objectives. Therefore trying to understand the real objectives of partner firms or would-be partners is necessary, and the 'network facilitator' is often in charge of this task.

b) The time-horizon of the internationalisation process. Problems of alignment can arise from differences in the firms' internationalisation time-horizons. If some firms want to go international very gradually and others very quickly, there can be difficulties in making decisions about timing and the amount of investments, the number and sequence of the new markets to enter, the expected results, and so on. In our empirical analysis, most small-sized firms are oriented to long-term internationalisation but this is not always the case. *Mosaic* is an interesting example from this regard. The strategic alignment among the member firms is high because they are all characterised by similar size and industry, large export experience and capability to operate in international markets. In addition, their strategic orientation is quite similar: all the firms are sub-contractors of international corporations and aim at developing their capacity to operate autonomously in international markets through the development of final products suitable for international customers.

However, the group of firms that launched the consortium in 2004 was not so homogeneous: it included other even small firms, but these soon realised that they could not follow the ambitious action plan supported by the larger firms and hence left the consortium.

They were then replaced by larger and more experienced members. As a result of this change in the composition, the firms have proved clearly very homogeneous in terms of size, sector and foreign market competences. They are also highly complementary in relation to customers. Therefore, the profiles and the interests of the member firms became substantially aligned, and this is a very favourable condition for developing shared consortium strategies.

c) Business models and competitive strategies. The fit among the parties of an alliance depends greatly on their business models and strategies. We can take the example of a group of firms from the same industry that decide to join forces in order to enter some foreign markets. In this case, alignment can be easily found if they use the same distribution channels, have similar quality standards, and their products are complementary so that a full range can be offered to international customers. However, it will be difficult if they differ greatly in terms of product quality, after-sales services, domestic reputation, etc. Another issue is related to the strengths and weaknesses characterising the parties' strategies: if these are the same, the alliance is not likely to work well; the best situation would be one in which the firms' strengths and weaknesses are complementary.

d) Resources and competencies. In this area the main question to address is whether and to what extent the resources and competences that an individual partner can commit to the network are enough to assure an integrated portfolio which is consistent with the selected strategies and the challenges of international competition.

As previously mentioned, the main reason for cooperating through a consortium is to pool resources and efforts to reach a goal that could not be reached efficiently by any of the firms individually. The alignment of resources is necessary in order to avoid the risk that one or more of the partners cannot invest as much as the others in the growth of the venture, thus leading to their exit from the alliance. Secondly, when selecting partners, it is important to check whether any of them can supply the key competences necessary to implement the chosen export strategy or whether these competences must be sourced from outside.

e) Commitment to cooperation. Commitment to cooperation is necessary because all the firms are expected to invest in order to support the consortium's start-up and growth. As pointed out by Wilkinson and Mattson (1994: 22), '*individual network participants must be committed to their development. No amount of government incentives, encouragement and exhortations will substitute for a clearly perceived logic of relationship formation by the parties involved and beneficial outcomes.*' If the commitment to cooperation is low, there is a risk that any alignment obtained will be highly unstable. This can be the case of an export consortium of firms from the same business in which some competitors join just because others do, and without a strong commitment.

f) Culture. Cultural differences can be a major source of problems in alignment. For example, on the basis of a survey of 138 firms, Troy (1994) found that 44% of the respondents gave the reason for alliance failure as 'cultures are too different'.

Company cultures are affected by various factors, the most important of which are their size, nationality, institutional structure and business models. We can therefore expect that an export consortium whose partners are similar as far as these factors are concerned will have fewer problems than one whose partners are very different. The culture of mainly small businesses is greatly influenced by the entrepreneur's education, professional background and values, which is why entrepreneurial characteristics should also be considered determinants of culture and, consequently, determinants of the strategic alignment of partner firms.

The case of Get 'IT shows that previous reciprocal knowledge among partners can help firms to align and share the same values. In this case the foundation of the consortium resulted from a previous one-year period of cooperation that started informally as a 'common journey' of six firms interested in running internationalisation activities financed by the Tunisian National Fund for the Access to Export Markets (FAMEX). This led them formally to establish a consortium, encouraged and supported by UNIDO in partnership with the Tunisian Ministry of Industry, Energy and SMEs.

The issue of alignment may also arise after a consortium has been set up, and create problems at any stage of the consortium life-cycle. The strategic alignment of member firms should therefore be continuously monitored. The factors analysed above can be used to check where problems come from, and provide suggestions about the need to involve new partners or exclude one or more of the existing members. As a consortium begins to implement its projects, various changes may take place within the member firms that can affect their growth patterns and their relationships with the other members, thus requiring changes in the make-up of the consortium itself. Alignment also needs to be taken into account whenever there is an opportunity to involve a new partner in the alliance.

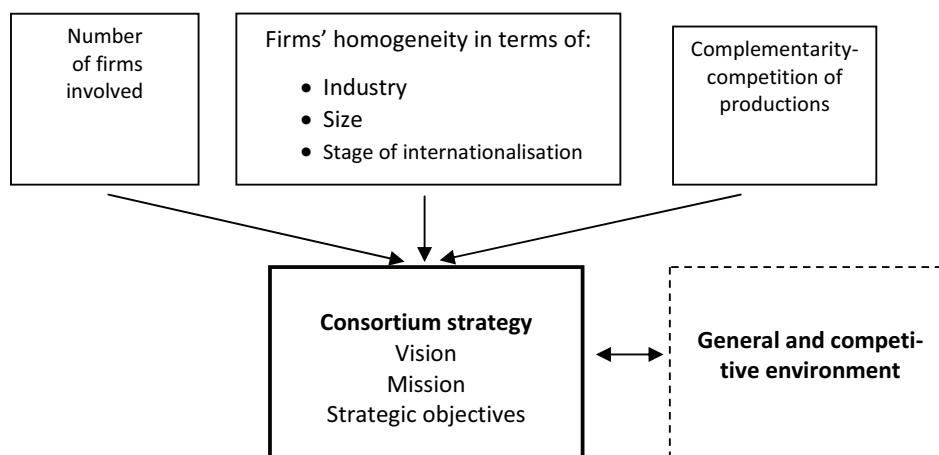
Aligning the competitive strategies of independent businesses means developing a shared vision of their future international activities that makes explicit the reasons underlying the alliance and the advantages that each member can obtain from adopting the network's competitive strategy. For example, *Peruvian Bio* has developed a clear vision that can be summarized as follows: *'To be a consolidated consortium with a solid resource base, leading innovation within the sector, protecting the environment, and generating economic development'*. Building a clear vision is crucial as *'companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world'* (Collins and Porras, 1996: 65).

According to Collins and Porras (1996), a well-conceived vision consists of two elements: a core ideology and the envisioned future. Core ideology defines *'what we stand for and why we exist'*, while the envisioned future is *'what we aspire to become, to create'*. The ability to develop a consortium vision is very important as it helps lead the partners towards shared goals, but it depends greatly on the presence of a leader: the entrepreneur of one of the partner firms or someone hired from outside to manage the consortium.

The ease/difficulty with which a shared vision can be developed, and a strategic alignment reached and sustained over time, is affected by the following factors (Fig. 3.2):

- a) The number of partners involved in the alliance;
- b) The homogeneity of the member firms in terms of:
 - industry;
 - size;
 - stage of internationalisation.
- c) The degree of complementarities/competition of their production;

Figure 3.2 Characteristics of member firms and their impact on consortium strategy



These three factors can make developing a consortium vision more or less difficult, and therefore affect the possibility of establishing an effective consortium strategy and setting objectives.

a) The number of firms involved in the alliance is important because it is a determinant of complexity. Consortia with a very high number of partners cannot usually involve all of them in discussions of strategy, and are managed in the same way as large organisations by means of a more complex organisational structure, the delegation of power to representatives, and so on. The larger the number of partners, the larger the number of potential visions and missions. During the start-up phase of a consortium, firms should therefore not be over-concerned if they cannot involve a large number of partners because, although this would clearly reduce the proportion of the costs and investments that each has to bear, it must be remembered that the costs of complexity are high and often underestimated.

In the consortia started up with the support of UNIDO, the number of member firms is rather low, as usually happens when small firms ally in developing countries. The size of consortium therefore is not a key issue today, but could become relevant in the future.

b) The degree of homogeneity/diversity within the network is important as it affects the ease of finding common missions and goals. Homogeneity must first be evaluated in terms of the industry or industries in which the firms operate because too much diversity may negatively affect the alignment of the members' visions. In this case, it is necessary to identify strategic business areas within the consortium as if it were a multi-business firm, and a specific strategy has to be formulated and implemented for each. Furthermore, a high degree of diversification in a sales consortium can be a problem when the partners are not complementary because, as one sales force cannot sell very different products aimed at different customers, substantial costs cannot be shared. In all of the cases analysed, firms in the same consortium belong to the very same industry or are vertically integrated. This factor keeps the level of complexity low. However, in the future, an increase in the degree of heterogeneity could be possible. At that point homogeneity should be taken into consideration as a selection criterion for admitting new partners in the alliance.

Differences in size can be an obstacle to formulating strategy because different visions and goals can be size-related, and different sizes lead to differences in terms of availability of resources. Size also has an impact on the ability to invest because smaller firms are likely to make smaller investments, and differences in the willingness to invest in the consortium can greatly affect the growth of the alliance. Furthermore, size affects the availability of human resources that can be dedicated to the alliance: a lack of dedicated human resources is a very frequent problem faced by alliances of small firms.

Small firms also generally lack sophisticated competences, particularly in the area of internationalisation. Alliances of small and larger firms can be positive because of their complementary nature but, if their competences are too different, there is a risk that they may not work together effectively. Small firms can therefore limit the goals and objectives of larger ones, and *vice versa*.

Finally, larger firms tend to have a shorter-term orientation, whereas very small and small firms are more oriented towards investing in long-term goals; this must also be taken into account as it can greatly affect alignment.

The *stage of internationalisation of member firms* is another factor that must be considered. Some shared goals are easy to define if they are more or less in the same phase, but this may be more difficult when they are at different stages. It is true that less internationalised firms can learn much from more experienced partners, but the point is whether more internationalised firms can obtain any benefit in return, which can be the case if the less internationalised firms supply complementary products and services, have developed innovations that make the consortium's value proposition more appealing, or can supply the network with resources that are scarce or difficult to develop.

c) The last element to consider is the degree of complementarity/competition among member firms. A high level of complementarity can be considered positive for aligning the vision, mission and goal of a network, but differences in products, quality and image have to be managed in order to provide a complete and appealing value proposition. *Get'IT* is a good example of complementary services supplied by 11 partners that are in the same industry but with different products.

Defining a consortium strategy when its partners' products are highly competitive can be more difficult but, if the partners are small and do not have the capacity to compete internationally on their own, they can develop a shared vision of the future and, consequently, a network strategy. In this case, a focus strategy is likely to be more successful than one with a broader scope (see Section 3.3 for a detailed analysis of consortium strategy). This is the case of *Travel Partner*, a consortium among domestic competitors that cooperate to be competitive at international level.

Consortium strategy is influenced by the external environment, and closely related to the consortium's vision, mission and strategic objectives. Hax and Majluf (1991:47) point out: *'The mission of the business defines the competitive domain in terms of business scope (products, markets, and geographical locations), as well as unique competencies that determine the key capabilities of the business'*, and Carpenter and Sanders define mission as a *'declaration of what a firm is and what it stands for – its fundamental values and purpose'* (Carpenter and Sanders, 2008: 46).

A consortium's mission defines its identity and its main purpose: e.g. opening up foreign markets for local firms and making them international players by leveraging on one or more sources of competitiveness. In the case of Muyu, for example, the mission has been defined as follows: *'To satisfy the functional, ornamental and fashion needs of demanding markets through handmade products, styled according to ancestral Peruvian tradition, but proposed in modern forms'*.

Together with a shared vision, a shared mission helps build consensus about consortium strategy and management at the beginning of its life, and maintain it later on. A clear and widely understood vision and mission allow member firms to understand and execute consortium strategy and make it easier to take strategic decisions; they also inform key (internal and external) stakeholders about where it is going. The mission and vision of a consortium are therefore fundamental to the formulation of its strategy, and reinforce the strategy itself.

Strategic objectives are medium- to long-term objectives that *'provide a bridge between the vision and the strategy'* (Carpenter and Sanders, 2008: 49). They need to be quantifiable so that they can be compared with actual results and allow the consortium to assess the extent to which its strategy is satisfying the aspirations expressed in its vision and mission. Typical long-term objectives may be:

a) for a promotional consortium

- the number of contacts with international customers;
- the number of countries visited;
- the number of other business networks joined;
- the number of contacts with large-scale distributors abroad.

b) for a sales consortium

- the revenues made abroad;
- shares of individual foreign markets;
- profits;
- overseas reputation and image;
- the number of foreign customers.

Formulating an effective strategy requires a profound understanding of the external environment, which can be broadly seen as encompassing a variety of economic and socio-political factors or, more narrowly, as a firm's market arenas. It is simultaneously a source of threats and business opportunities, and so knowledge of industry- and firm-specific factors is critical in order to understand what competitive positions member firms can achieve and to determine what strategies are viable.

Box 3.1 The strategic alignment of *Get'IT* member firms

Officially founded in 2005, *Get'IT* was the first IT consortium set up in Tunisia. It now consists of eleven firms operating in the field of Information and Communication Technologies (ICT), which has recently been one of the fastest growing industries in the Tunisian economy.

The consortium was founded as a result of a previous one-year experience of cooperation that informally started as a 'common journey' of six firms interested in running internationalisation activities financed by the National Fund for the Access to Export Markets (FAMEX). This led them to set up a real consortium, which was encouraged and supported by UNIDO, in partnership with the Tunisian Ministry of Industry, Energy and SMEs. The firms decided to formalise their alliance mainly on the basis of mutual trust.

Although they are all providers of ICT services, the partners are quite heterogeneously sized, and there is little competition between them because their markets do not overlap. Furthermore, their products are complementary as they offer a broad range of services.

The success of the consortium's strategy is demonstrated above all by its aggregative ability, which led to number of members increasing from six to 11 in just three years. Their 'networking rationale' works particularly well for a number of reasons:

- a) All of the firms belong to one industry – ICT – which has a particular technology-oriented culture and language (technologies supporting communication and integration);
- b) Given the specialisation of the member firms in different fields and segments of the market, there is very little competition among their products;
- c) Finally, 'networking' is a quite familiar concept: a) most of the solutions the firms implement for their customers are a result of collaboration; b) network-based organisational models are very common among ICT firms; and c) networking is a basic concept for all digital and web-based technologies. Hence, 'networking' can be considered as a key feature of the firms' business models.

3.3 Formulating consortium strategy

Like other cooperative ventures, consortia need a strategy that is independent from, but consistent with those of the member firms. Formulating a consortium strategy requires an understanding of the network's competitive environment, particularly in the case of a sales consortium.

Two main perspectives can be identified:

- Strategy *content*;
- Strategy *process*.

The former perspective emphasizes objectives and activities of the consortia. Specifically, from the experience of the consortia in developing countries, it emerges that internationalisation is not the only strategic objective. In fact, consortia also focus on the objective of upgrading and strengthening the organisational and managerial structures of member firms, thus enhancing their competitiveness in the domestic markets, too. From the *process* perspective the focus is placed on the steps leading to the formulated strategy and its implementation.

3.3.1 Consortium strategy from a content perspective

In terms of content, the competitive strategy of a consortium (especially a sales consortium) is very similar to that of any individual firm wishing to enter international markets. This means that a 'business idea' (Normann, 1977) has to be developed as a result of the answers to the following questions:

- What is the consortium's value proposition in its target international markets?
- Who are the consortium's products and services aimed at? And how will the consortium deal with its customers?
- What activities will the consortium carry out? And how will they be conducted?

Each of these questions requires an answer that will contribute to shaping the consortium's international competitive strategy.

As a consortium is the result of an alliance of already existing firms, the range of products it can offer in the international arena is not difficult to define. First of all, it is necessary to list all of the partners' products and decide which are most suitable for the target foreign market(s).

Formulating a consortium strategy is a circular process because the choice of products is affected by the choice of the target foreign market and *vice versa*.

Before deciding which products to sell abroad, it is necessary to analyse potential overlaps, which are highly likely if the consortium's members are also competitors. In this case, it is necessary to decide whether or not the consortium will sell the same products made by different producers.

For example, as agriculture product processing firms, the members of *Peruvian Bio* compete in the same markets and distribution channels for sales and supplies. However, in order to avoid possible conflicts, the group has evaluated each firm's competitive advantage and identified the product portfolios that will be promoted by the consortium.

Table 3.1 shows an example of an 8-firm consortium and assumes that eight products make up a complete range of products. As can be seen, despite the number of partners, it is necessary to complete the range by including products from outside firms in order to satisfy all the needs of the specific market. It is therefore not just a question of the number of firms, but the extent to which their products integrate with each other to create a complete and consistent offer.

Table 3.1 Assessing members' production

PRODUCTS	PARTNER A	PARTNER B	PARTNER C	PARTNER D	PARTNER E	PARTNER F	PARTNER G	FROM OUT-SIDE
Product 1	■			■			■	
Product 2	■							
Product 3								■
Product 4								■
Product 5		■				■		
Product 6		■		■		■		
Product 7			■	■				
Product 8					■			

Table 3.2 reports the application of this tool to the case of *Ande Natura* and shows that there is no overlap among partners' products.

Table 3.2 Assessing members' production in the *Ande Natura* case

PRODUCTS	Firm 'A'	Firm 'B'	Firm 'C'	Firm 'D'	Firm 'E'
Aromatic herbs, filtered infusions	■				
Green and black tea		■			
Sacha inchi oil, jams and cereals			■		
Local potatoes and snacks				■	
Organic coffee, annatto and palillo colourants					■

In the case of a multi-sector consortium, overlaps are less important because they are less likely. However, it is still necessary to select which products will make up a range that is attractive to foreign customers.

Problems can arise if the partners' sectors are too heterogeneous and their products can be aimed at many different customers, rather than a specific group. When this happens, different business ideas have to be developed in the same way as in multi-business organisations.

Products can only be selected if the consortium has a clear enough idea of the needs of the customers it is trying to reach and can link these to its value proposition, which consists not only of products, but also of services and other commercial conditions (prices, payment terms, etc.). The value proposition addressed to specific customers has to be complete, internally consistent, and attractive.

As far as completeness is concerned, it is essential to select products and services that can effectively challenge competitors satisfying the same customers' needs. In addition, consistency is a key factor. For example, the quality standards of the partners must be very similar in the case that different products are offered (such as in multi-sector consortia with complementary products) or the products must cover all market segments. This has major implications for the consortium's price policy, which will play an important role in positioning it vis-à-vis the competition.

Here, a distinction must be made between *business-to-consumer* (B2C) and *business-to-business* (B2B) consortia, in which the process of identifying customer needs is rather different. Business customers are much more aware of their needs and, consequently, of the kind of products and services they want to buy (which is why they may ask for tailor-made products). Such customers pay much more attention to the competences of the partners rather than their actual products.

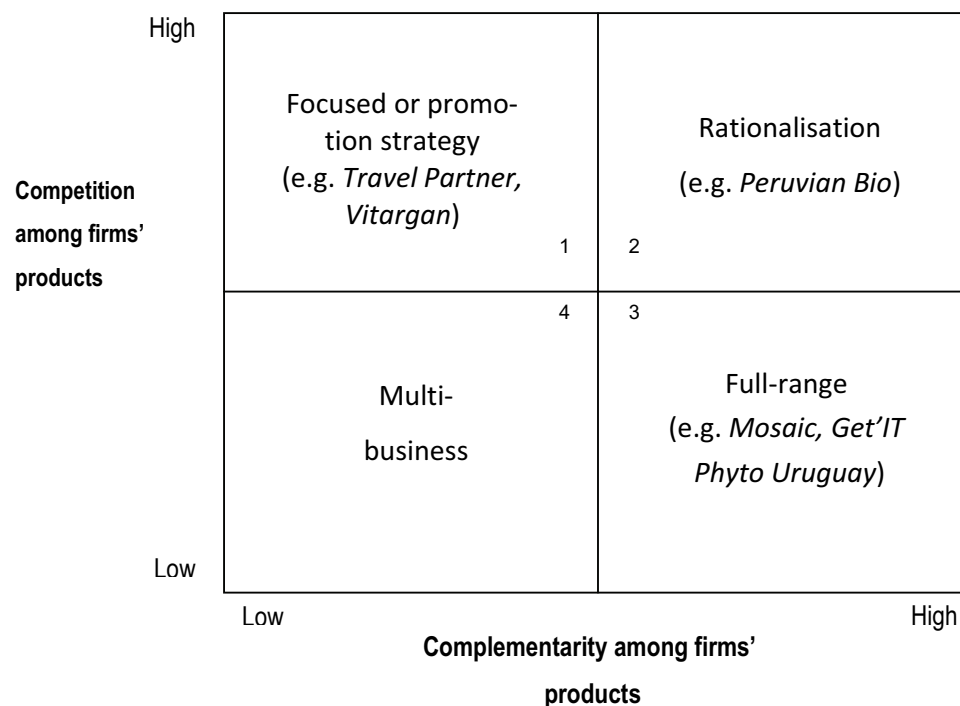
In the cases of promotional consortia, member firms represent the 'target' of the strategy of the consortium. In other words, member firms can be seen as 'internal customers' to whom the services offered by the consortium are addressed. The 'product range' of a promotional consortium is therefore an array of services mainly aimed at the member firms themselves. This is the case of most consortia examined in this paper as they have started their activity as promotional alliances and perhaps in the future they will start to sell their member firms' products. These services can also be offered to other stakeholders outside the network as it is in the case of Muyu. The consortium has performed a number of activities for member firms, such as education programs whose objective is to improve knowledge and competencies of member firms. Muyu also wants to play a role in enhancing the development of technical competencies of local firms, and it has also started up a non-profit association to support the local community.

Figure 3.3 shows that four consortium strategies can be identified on the basis of two variables: degree of *competition* and degree of *complementarity* among member firms' products. *Quadrant 1* shows the case in which the partner firms are not complementary but direct competitors, which leads to two possibilities. The first is that the consortium merely supports member firms' sales abroad through generic promotion: all of the partners have the same chance of benefiting from the international activities, and can compete as desired in the foreign markets. *Travel Partner* is an example of a promotion strategy.

This consortium groups seven competing travel agencies that offer more or less the same services and have the same market positioning. The alliance among them has been possible as they are so small that they could not compete effectively abroad on their own, while, according to most of entrepreneurs, by jointly operating through the consortium, their image and their competitive positioning have significantly improved vis-à-vis both customers and suppliers.

The second is a '*focused strategy*' in which the partners limit themselves to a specific area of cooperation and thus avoid the possible tensions raised by their being competitors (even if only in the domestic market): for example, firms from the same industry could cooperate in a specific geographical market or supply products to specific customers, while competing in other markets or segments. This strategy can be successful when the firms are small and have no chance of going international by themselves, but the typical problems associated with this strategy are related to information sharing as some firms may be concerned about the possible opportunistic behaviour of the others. *Vitargan* falls within this case: member firms are all argan oil producers that decided to jointly carry out a number of activities in order to achieve economies of scale in specific stages of the supply chain.

Figure 3.3 Taxonomy of different consortium strategies



If the partners are competitors but their products are also complementary, they can adopt a rationalisation strategy (*quadrant 2*) by very carefully selecting their products and services in such a way as to avoid overlaps and deliver a broad range. The main problems of this strategy arise from the likelihood that not all of the partners will contribute equally in terms of products, and this could lead some of them to underestimate the benefits of the alliance. *Peruvian Bio* can be considered as an

example of rationalisation strategy because the members compete in the markets of natural nutritional and cosmetic products, but these products show a certain degree of complementarity.

A full-range strategy may be more appropriate for consortia whose products satisfy the different needs of some specific customers and whose main strength is complementarity (*quadrant 3*).

Consortia of this kind need to combine their partners' products to develop appealing value propositions, and will probably have to compete with many competitors, each of which may specialise in a particular set of products or needs.

Completeness should be their main strength because they can offer their customers the opportunity to deal with just one entity rather than many individual suppliers. As mentioned above, a key factor in successfully implementing this strategy is the good alignment of the partners' product quality and prices. *Mosaic* member firms, for example, are very homogenous in terms of size, sector and foreign market competences, but are highly complementary in relation to customers.

Finally, a consortium whose partners' products are neither complementary nor competing (*quadrant 4*) can implement a multi-business strategy whose main risk is related to the degree of differentiation.

The main problem of consortia of firms from different industries (or which supply products whose quality, prices and image are very different) is to identify shared objectives and formulate a strategy that fits the needs of all of the partners. This situation is very similar to that of a multi-business firm in which synergies are not necessarily exploited and different strategies are required for different strategic business areas.

None of the consortia examined can be an example of such multibusiness strategy, not only as a result of the choices they made, but also because all of the consortia are rather young. In the future some of them might attract firms from other businesses: in that case a multibusiness strategy would become necessary.

Box 3.2 The strategy of *Phyto Uruguay*

Phyto Uruguay was established in 2005 by Uruguayan SMEs in the herbal and nutraceutical products sector. The Consortium groups nine SMEs. In the majority of cases they are micro-enterprises, though one of them significantly surpasses the others in terms of turnover. Besides these nine firms, three new ones are now joining.

The current marketing strategies are oriented to the consolidation of the present target markets, being Italy, and the development of new ones, especially other EU countries and Latin America. Moreover, the consortium has its own brand, which is also a trademark. Beyond the promotion of the member firms' products under the consortium's own brand '*Phyto Uruguay*', the member firms are able to pursue a parallel promotion of their own products individually.

After the implementation of its first promotional joint activities (the main was the participation in the SANA trade fair in Bologna, Italy), the group decided to be organised as a sales consortium to market the products on behalf of its members, and was then incorporated into a public limited company (a 'Sociedad Anonima') with a capital distributed in equal shares.

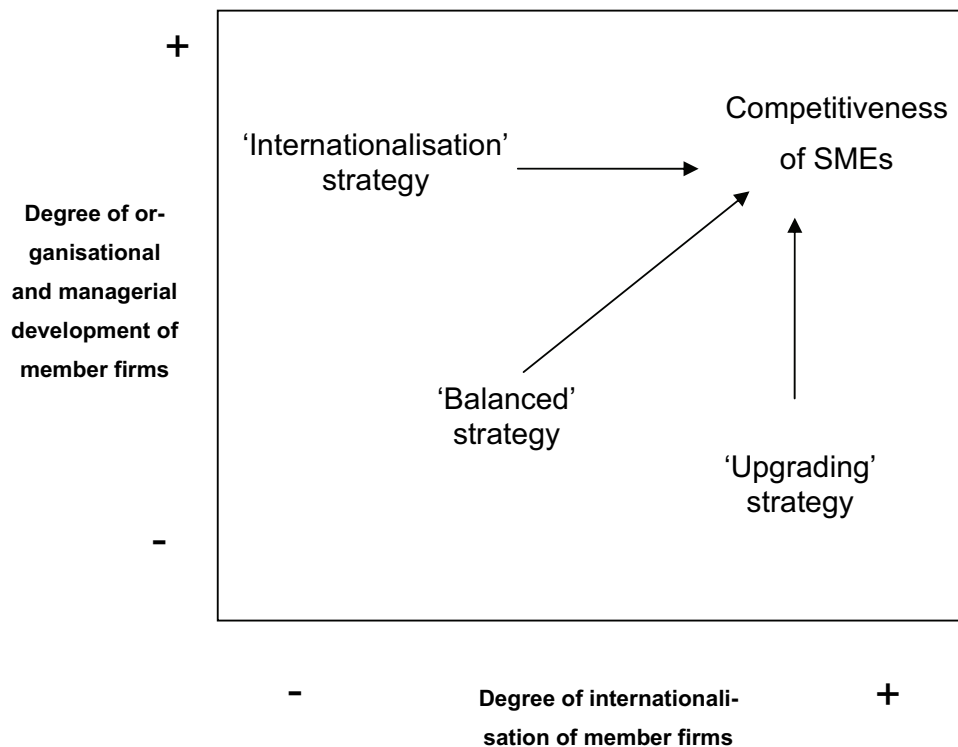
Hence the main services provided or to be provided by the Consortium concern the participation in trade fairs, the organisation of business missions, the implementation of joint promotional materials (like brochure in Spanish, English and Italian, as well as the website www.plantasmedicinales.org.uy), and finally a joint sales department.

As a sales consortium, *Phyto Uruguay* has branded a specific line of products with the name of '*Phyto Uruguay*'. These belong to seven different product categories, from raw materials (organic herbs, tea bags, aloe), essential oils (eucalyptus, mint, Melissa, salvia, calendula, marcela, etc.), herbal extracts (marcela, pitanga, cedròn etc.), natural cosmetics (creams, emulsions, gels etc.) foods (aloe nectars, powder proteins etc.) to nutraceuticals in tablets (dry extract of grapes, mixed fruits, oyster organic calcium, etc.) and, last, phyto-medicaments in tablets (focus, garcinia, equinacea etc.). This new line was then promoted abroad through the participation at international trade fairs in Italy, Germany, Brazil and Colombia.

Strictu sensu export consortia are networks for promoting internationalisation of member firms. However, in developing countries another strategic objective becomes increasingly important and, in some cases, dominant, i.e. the upgrading and strengthening of the organisational and managerial structure of member firms. As discussed in chapter one, this is particularly relevant in emerging economies, in which firms are characterised by less managerial expertise, and fewer organisational resources and staff than their counterparts in developed countries. Figure 3.4 shows the ‘two-sided’ strategy of export consortia in developing countries on the basis of their prevailing strategic objectives.

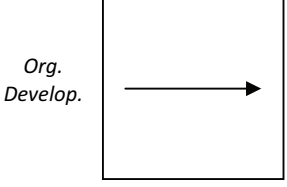
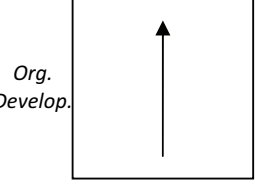
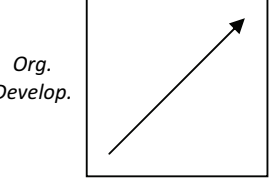
The empirical evidence shows that consortia are characterised by different combinations of the two strategies that we have defined as ‘upgrading’ and ‘internationalisation’. We can identify three groups of consortia corresponding to three strategic archetypes: beyond ‘upgrading’ and ‘internationalising’, a third group encompasses those consortia whose strategic objective is a balanced mix of the two.

Figure 3.4 The two-sided strategy of export consortia in developing countries



In Fig. 3.5 the nine consortia covered by our analysis are positioned on the basis of their prevailing strategic objectives.

Figure 3.5 Archetypes of export consortia on the basis of their prevailing strategic objectives

<p>'Internationalisation' strategy</p>  <p><i>Org. Develop.</i></p> <p><i>Internationalisation</i></p>	<p>'Upgrading' strategy</p>  <p><i>Org. Develop.</i></p> <p><i>Internationalisation</i></p>	<p>'Balanced' strategy</p>  <p><i>Org. Develop.</i></p> <p><i>Internationalisation</i></p>
<p>Get'IT, Peruvian Bio,</p>	<p>Vitargan, Ande Natura</p>	<p>Mosaic, Travel Partners, Muyu, APMC, Phyto Uruguay</p>

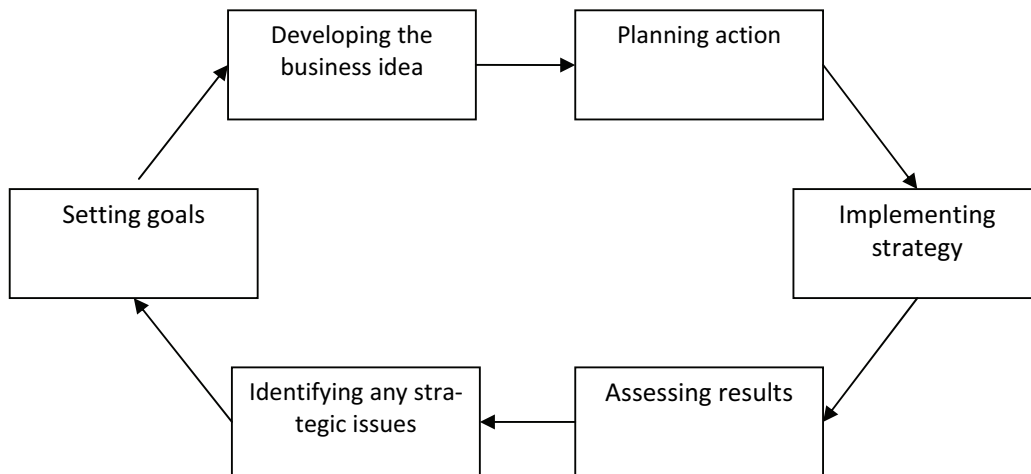
It is important to point out that the strategic objectives of consortia may change over time as a result of the changing interests and priorities of the member firms as well as the different stages of the consortia life-cycle. In general, an 'upgrading' objective may be more common and relevant for smaller firms and represent the first result to achieve from collaboration. On the other hand, a greater pressure for increasing the degree of internationalisation could arise once firms have achieved a certain level development in terms of managerial and organisational structure.

3.3.2 Consortium strategy from a process perspective

The process perspective generally focuses on the following steps (Fig. 3.6):

- Setting goals;
- Developing a business idea;
- Planning action;
- Implementing strategy;
- Assessing results;
- Identifying any critical strategic issues.

Figure 3.6 The strategic planning process



The development of the business idea should lead to action plans for its implementation. In the case of consortia of SMEs, the output of strategy formulation will not be a strategic plan *strictu sensu*, but one or a set of action plans. Strategic plans come from the formulation of the strategy of large organisations, but do not fit the much more flexible and less structured characteristics of SMEs, which tend not to have a formalised process of strategy formulation, but react to environmental changes in a highly entrepreneurial manner. This can of course be a very positive approach, but it may also be a weakness because a network needs a certain degree of formalisation and an explicit strategy in order to obtain consensus and achieve shared goals.

Consequently, even a consortium of SMEs needs an explicit and at least partially formalised process of formulating strategy. Its output is represented by action plans that describe the decisions made, and establish the timing and resources necessary to implement them.

The main contents of action plans are:

- Specific objectives,
- The actions to be taken to achieve them,
- The timing of each action,
- The resources it is necessary to use/invest.

An action plan of a promotional consortium may list what actions have to be taken to participate in a series of foreign fairs, which fairs will be selected for the next three years, what promotional activities will be carried out to support the consortium's products abroad, and how much money will need to be invested.

For example, in 2007 Muyu defined a set of actions to reach the objective of improving the competitive positioning of member firms and being perceived as quality producers. These actions include:

- Participation in fairs;
- Realization of some points of sale;
- Development of a joint image;
- Development of new products.

In the case of a consortium that has not yet been founded, it is good practice to develop a consortium business plan: i.e. a written document used to assess a specific entrepreneurial project in order to decide whether or not to implement it, and under what conditions. Writing a business plan is not only useful for deciding whether or not to set up the consortium, but also provides an opportunity for the would-be partners to work together, share their visions and ideas, and discuss the future of the network. This can help develop consensus and, in addition to defining the business idea, can identify gaps and financial needs.

At least in logical terms, the formulation of a strategy is followed by its implementation: '*Strategy formulation is the process of deciding what to do; strategy implementation is the process of performing all the activities necessary to do what has been planned*' (Carpenter and Sanders, 2008: 12). However, its formulation and implementation are often so interrelated that it is impossible to say which comes first. Strategy is sometimes not formulated at all, but the result of many independent but consistent decisions that allow a strategic path to be identified. It may be the result of a rational and formal planning process based on an analysis of internal resources and capabilities and the external environment, or it may emerge over time as a result of a number of unplanned decisions and actions suggested by operating activities.⁴

If there is an explicitly formulated strategy, it is good practice to assess actual results and compare them with the formulated goals and objective, which is easy when the goals and objectives have been clearly quantified and can therefore be objectively measured. Any differences arising from the comparison are important for deciding whether to confirm or redefine the existing strategy. They can also be used to identify any critical network issues that require the setting of new goals and the updating or total reformulation of the strategy.

Even though consortia supported by UNIDO in developing countries generally consist of small and very small firms, the need to enhance cohesion and commitment by participants has led them to formulate an explicit strategy, at least as far as positioning in the market is concerned.

⁴ Mintzberg (1987) identified a number of aspects of strategy starting from a basic distinction between *intended strategy* (i.e. the initial plan) and *realised strategy*: i.e. the strategy actually implemented. The difference arises because only part of the realised strategy is a result of deliberate decisions and action, the rest comes from choices that were not deliberate but emerged through action.

3.4 Designing the organisational structure

Having decided on the strategy to implement, a consortium can shape its *organisational structure and management systems*.

In general, the organisational structure is the framework that management adopts in order to divide tasks and responsibilities, deploy resources, and coordinate the activities and decisions of employees at all levels. However, designing the organisational structure of an export consortium must be implemented at two distinct levels:

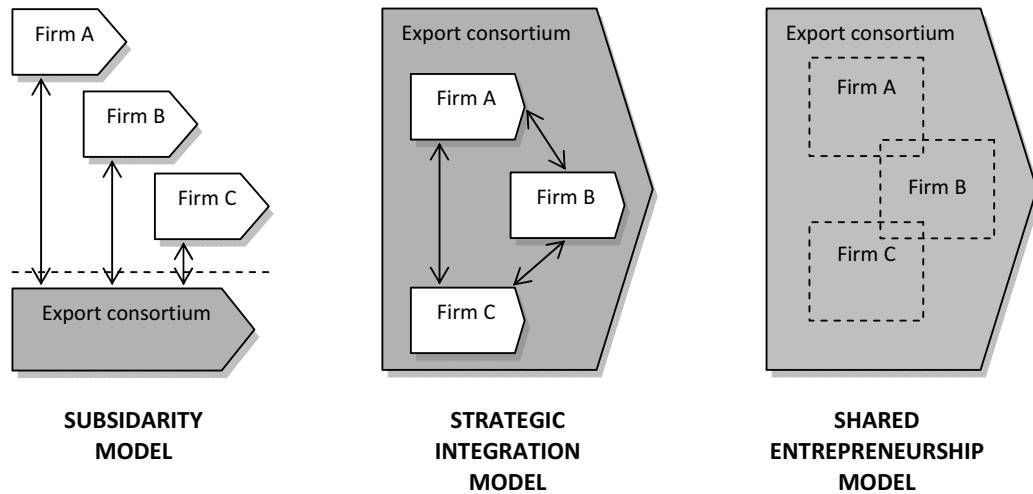
- 1) the first step is to design its *macro-structure* by identifying the activities to be carried out by the consortium and those that will continue to be performed by member firms: this defines the organisational boundaries of the consortium;
- 2) the second is to design its *micro-structure* by identifying its organisational units and their roles, tasks and responsibilities, following a logic of division and specialisation.

These two elements merit separate analysis. The shape of the *macro-structure* is essentially the organisational consequence of the rationale underlying the inter-firm collaboration and depends on the aim that has generated its birth. As in any business network, the business activities of an export consortium can be allocated at two hierarchical levels: the level of the individual firms and the level of the consortium. The design of the macro-structure is intended to draw the organisational border between them and define which activities are to run at which level. On the basis of this distinction, and the related organisational borders, export consortia may take different forms depending on their different models of cooperation. When the members are large and strong, consortium strategy seems of minor concern and only ancillary to the autonomous internationalisation strategies of the individual firms. In other cases, the consortium's strategy is of primary importance because of the weaknesses of the individual firms and their need to cooperate in order to succeed in foreign markets.

In relation to the distinction between the activities assigned to the consortium and those remaining the responsibility of the member firms, three main models of consortium macro-structure can be identified: the *subsidiarity model*, the *model of strategic integration* and the *model of shared entrepreneurship* (Fig. 3.7).

They are alternatives, but can also represent evolutionary stages within a process of change due to a shift in cooperation among the firms from a short-term, merely utilitarian logic to a more institutional, long-term strategic orientation.

Figure 3.7 Main forms of macro-structure for export consortia



The *subsidiarity model* considers the consortium an additional organisational level of the individual member firms. The principle of subsidiary states that strategic decisions are better be taken at the lowest possible level, and so it is the individual member firms that dominate the strategy-making process: in brief, firms continue to run their own businesses autonomously in the pursuit of their individualist goals, but share some common projects inside the consortium. In other words, business at consortium level is mainly an additional activity and a further opportunity for entrepreneurs, certainly useful for corporate development but not strictly necessary for their firm to survive in the market.

This implies that there are links and exchanges of information, resources and competences between the individual firms and the consortium, but there are few (if any) among the member firms themselves, whose interactions are minimal and there is little or no integration of their original businesses. This is, for example, the case of *Mosaic* where partner firms are rather independent, but share the objective of improving their competitiveness.

In such cases, investments by member firms are generally low and the consortium's tangible resources are very limited. The contributions of the organisations of individual member firms, which act as delegates of the consortium, are therefore fundamental for its success. Commitment is also limited, as is shown by the high rate at which firms enter and leave the consortium on the basis of their short-term economic evaluations.

On the other hand, collective fund-raising is important to finance the development projects that are expected to generate significant returns for individual firms. In the *Mosaic* consortium there are no common premises or dedicated offices because it relies on the physical and managerial resources of its members; the organisational structure is very light and has so far required few investments.

The members of *Mosaic* are not yet oriented to funding the development of consortium entirely with their own resources as all the consortium's activities have been so far co-financed by national public institutions. This is likely to be a key issue for future success of the network.

The *model of strategic integration* represents a more intense form of cooperation among firms, with a greater delegation of key activities to the upper level of the consortium, stronger network interactions and communications, and a partial reduction in the strategic autonomy of individual firms. The consortium is not just an 'additional opportunity', but begins to be the common framework in which individual members' strategies can converge to ensure a better collective performance. The key word here is 'synergy' aimed at creating market benefits by sharing at least some business processes instead of working separately. An example of strategy integration macro-structure is *Get'IT*.

In fact, the consortium has a light structure, absolutely consistent with the intangible and virtual nature of its digital business. The organisation and management of specific promotional activities are outsourced to an external office that provides coordinating and organisational services to *Get'IT*. Its general management is in the hands of a Managing Director elected by the entrepreneurs. There is no dedicated staff or professional managers, and the consortium does not have any assets.

This model is usually adopted by firms that need more support for their internationalisation strategy because of their lack of resources and competences. Their choices and commitment should build on a medium- to long-term strategic assessment because the development of an effective model of integrated cooperation requires time and shared resources. In order to interact effectively and exploit synergies, entrepreneurs must first construct trust-based relationships in order to eliminate the threat of opportunistic behaviours and assure justice and commitment.

Two factors are often important to make this possible: the preliminary support of external consultancy organisations, and the opportunity to assess initial results together and enhance the belief in the success of the adopted strategy. In order to work together, it is strategically important to detect new opportunities and define the scenario in which they can be seized by leveraging on the strengths of all of the firms involved. In this regard, the role of the consortium's board is fundamental because it must act as 'meta-management' for all of its members.

The concept of 'meta-management' was originally proposed in the context of multi-business firms as a means of describing a particular leadership activity that is superordinate to the individual businesses and the managers of individual business units (Normann, 1977). Only later this concept was extended by analogy to networks of firms to indicate the development activities of collective strategies superordinate to those of the competitive strategies of the individual firms. It can still be affirmed that the ultimate responsibility for the competitiveness of member firms definitely lies with the individual entrepreneurs, but the consortium bodies are responsible for protecting the additional competitive advantage of the network.

Finally, the *model of shared entrepreneurship* is the most involving, demanding and formalised organisational form of cooperation in which all decisions concerning markets, products, processes and technologies are discussed and shared by the entrepreneurs, and all business activities are allocated on the basis of the firms' competences and excellences.

The firms work totally for the consortium, and so coordination inside the network must be very tight. Although proprietary borders still remain, the organisational boundaries between the firms tend to disappear. In some senses, the members tend to appear as different units of a single body rather than individual and independent firms. Being closely linked and fully integrated in the consortium framework, they act on the market as a single player. Firms may be still formally autonomous, but they have merged their value chains to serve a shared competitive strategy, and their success totally depends on that of the consortium.

Phyto Uruguay is an example of a shared entrepreneurship structure: member firms are highly integrated and have developed a consortium business idea for the implementation of which they act as if they were a unique firm. This is consistent with the fact that *Phyto Uruguay* is now a sales consortium.

In comparison with the subsidiarity model, the relationship between consortium and member firms is totally inverted in favour of the former. However, assuming that the consortium becomes a common venture for all its members, they need a single entrepreneurial vision and leadership. The requirements for this model are therefore the emergence of clear and strong internal entrepreneurial leadership and, consequently, the formulation of a strategy.

Once an export consortium's macro-structure has been designed, the next step is to define its *micro-structure*, which basically involves formally dividing the tasks and responsibilities entrusted to the consortium among the different organisational units and establishing the rules for coordinating decisions. The micro-structure is generally shown by charts that are static representations of the consortium's organisational units and divisions, and their hierarchical relationships. Even when there are many partners, this micro-structure is usually quite simple to design, particularly in the early stages of the consortium life.

The only complexity is related to the possible existence of different strategic business areas (SBAs), because each may require an independent business unit, and the number and nature of the activities exclusively entrusted to the consortium: the more extensive and more challenging the tasks at consortium level, the greater the organisational complexity of its micro-structure.

The possible options can be divided into two choices: a 'light' or a 'hard' structure. In the first case, the consortium does not have (or has only a very limited) organisational structure of its own in terms of staff and resources, because all of the responsibilities and tasks are distributed among the individual firms (as in the case of a subsidiarity macro-structure).

This is the case of *Peruvian Bio*, whose structure is extremely simple. Meetings of the Board, for example, are held on the premises of one of the firm partners, whose representative is also President of the consortium, and no investments have been made for dedicated personnel.

A hard structure lies at the other end of the *continuum* because the high degree of integration among the firms and the importance of the common upper level of the consortium (as in the case of a strategic integration or shared entrepreneurship macro-structure) mean that it requires its own staff and resources.

Export consortia of this kind usually have an articulated structure of business units and divisions, and hire their own executives and workers to whom responsibilities and decision-making powers are delegated.

Their activities have a greater impact of on member firms because a larger number of projects can be carried out. However, the successful implementation of this organisational solution requires a high level of commitment by member firms, which must trust the management competences of the consortium's staff.

Travel Partner consortium has adopted a collegiate management system, in which the main tasks have been divided among four operational commissions:

- Purchases (airline companies, suppliers, insurance companies, etc.);
- Communications;
- Human resources;
- Exhibitions and trade fairs.

More specifically, each commission is at the service of all of the member firms, which see the division of tasks as one of the most important advantages of the consortium.

The case of *Mosaic* is particularly interesting as the consortium is likely to experience a shift from a light structure to a harder one (see Box 3.3).

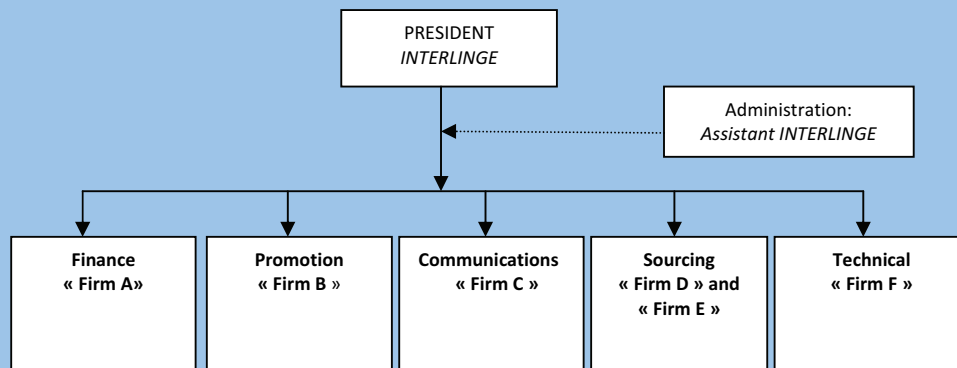
Box 3.3 The organisational structure of *Mosaic*

The promotional consortium *Mosaic*, which operates in Casablanca, consists of six medium-large textile and garment firms (from 120 to 330 employees), each of which prides itself on its previous export experience. They currently sell almost all of their production abroad and have a good knowledge of the mechanisms of international trade. In many cases, their sales staff are fluent at least in French and English, and sometimes also in other European languages. All of the member firms are directly run by their owners. Their products are highly complementary, which means that likelihood of internal conflicts is very low when facing international markets.

The macro-structure of *Mosaic* is very close to that of the *subsidiarity model*, which means that investments in its organisational structure have so far been very low and its micro-structure is still very light. There are no common premises or dedicated offices because the consortium relies on the physical and managerial resources of the members. In fact, different member firms are responsible for all its functions (see Fig. 3.8), and board meetings (currently once a month) are hosted by the firms in turn. This structure, which is highly cost-efficient, is perceived by the members as one of the main advantages of the consortium. The management systems are the result of internal development projects carried out by several members and co-financed by funds collected by the consortium

However, given the recent amount of work caused by expansion activities (training, promotion, sales, sourcing, etc.), the consortium is now evaluating whether it needs a permanent structure. Four years after its foundation, the emergence of new organisational and managerial needs are clear signs that the consortium is approaching a new stage of its lifecycle, involving new activities and opportunities, and this will require a new macro-structure (more similar to the model of strategic integration) and, consequently, a 'harder' micro-structure. All of this will probably also have effects also on corporate strategy and, more generally, the business model.

Figure 3.8 The organisational structure of *Mosaic*



3.5 Leveraging on strategic resources and distinctive competences

The results achieved by promotional or sales consortia are generally assessed in terms of marketing outcomes and sales (exports, the number of products sold abroad, the number of contacts with new customers, and so on). However, although less evident, another important factor is the advantage that cooperation can bring in terms of resources and the development of new competences.

All organisations – and consortia are no exception – have to consider the external environment when formulating their strategy, but internal resources and capabilities are also key factors. Resources are what a firm uses to create goods or services. Tangible resources are less likely to be a source of competitive advantage than intangible resources such as knowledge, reputation, organisational culture and marketing skills, because these are difficult to imitate or replace. Capabilities and competences refer to a firm's skill in using its resources, and come from the experience and expertise of employees or the procedures embedded in a firm's routines (Carpenter and Sanders, 2008).

Their importance is easily explained by the fact that not all competitors have access to the same resources and competences, and not all resources or competences enable a firm to develop a sustainable competitive advantage. Barney (1991) developed the VRINE model for analysing a firm's resources, and their association with competitive advantage. The VRINE model proposes that a firm can build a competitive advantage by leveraging on resources and capabilities that are:

- valuable in allowing a firm to seize opportunities or reduce threats;
- rare, because the more limited or exclusive the access to a resource, the greater the advantage of possessing it;
- inimitable insofar as they cannot be acquired by competitors or the cost of acquisition is too high;
- non-substitutable, which means that the benefit related to possession cannot be obtained by a competitor using a different resource or combination of resources;
- exploitable, because controlling a resource or capability does not bring a competitive advantage if it cannot be exploited: i.e. turned into value.

One important factor in a firm's endorsement of resources is the network of relations in which it is embedded. By working more closely with other firms, it can access, combine and share expertise, resources and knowledge, and co-produce additional knowledge in ways that would be impossible by acting independently. This is especially true of SMEs, which generally lack the resources and competences needed to be competitive in a global environment.

A number of studies have shown the use of networks by SMEs in pursuing international opportunities (Chetty and Agndal, 2007; Coviello and Munro, 1997; Coviello, 2006; Zahra, 2005). Networking is increasingly being seen primarily as a means of acquiring resources.

The significance of networks for SMEs is also due to the learning outcomes that come from participation in networks. SMEs not only learn *from* their partners (by accessing and acquiring the partners' knowledge and competences), but also *with* their partners, by developing new collective competences and resources as a result of the interactions that their common participation in the consortium implies.

Moreover, although enhancing cooperation for purposes of internationalisation, consortia can also create conditions for the effective cooperation of partners at domestic level: an increase in 'relational capital' is a major result that can not only be exploited abroad.

These conditions are:

- a strong commitment to cooperation;
- mutual trust among partners;
- the presence of a leader within the network;
- the alignment of partners;
- intense relationships;

and are more likely to exist when partner firms are not directly competing against each other or, even if they are competitors, when the benefits obtained from cooperation are much greater than the costs and problems associated with it.

Box 3.4 The resources gathered and developed by *Get'IT*

In the case of the Tunisian *Get'IT*, the eleven ICT firms forming the consortium benefited from a number of resources that they could not have developed alone. Belonging to the consortium gave them access to additional financial resources, especially from FAMEX (National Fund for the Access to Export Markets) and recently also from FODEC (Fund for Development of Competitiveness), for their internationalisation process. Many of the consortium's activities are co-financed by FAMEX (up to 70% of all eligible costs), and public funds represent between 40% and 60% of the consortium budget. Without the consortium, these funds would never have been accessible to the individual firms, a clear synergy in acting together instead of separately.

Furthermore, the consortium's contribution is mainly in the field of intangible resources, particularly knowledge, relational capital and image. As perceived by its members, the benefits of belonging to the consortium mainly come from their access to knowledge of international markets and relational capital (business contacts, business partnerships, and agency contracts with fundamental ICT providers).

In addition, and in line with the strategic objective of '*enriching the offer through complementary and diversified ICT solutions*', one of the main achievements of the consortium's first years of intense activities has been the construction of a clearly recognised and highly visible brand and image: many of its customers in Tunisia and abroad acknowledge *Get'IT* as an ICT partnership offering a large range of competences and qualified human resources.

Moving from a resource-based perspective (Barney, 1991), we can argue that a successful strategy can be pursued only to the extent that the consortium has the tangible and intangible resources to be competitive in the new markets. The management of a consortium has to make decisions about the financial resources, competences and skills necessary on the basis of the consortium's goals and objectives, and then identify those that the partners can already provide, those that it can develop, and those which will need to be brought in from outside.

In order to identify resources' gaps, a tool like that shown in Table 3.3 might be useful. It can also be used to map the necessary resources during the consortium's life, to decide whether new partners need to be involved in the alliance and assess would-be partners by looking at their fit with consortium needs.

Table 3.3 A tool for assessing a consortium's contributions and needs in terms of resources

NECESSARY RE-SOURCES	FIRM A	FIRM B	FIRM C	FIRM D	FIRM E	FIRM F	FIRM G	INTERNAL DEVELOPMENT	FROM OUTSIDE
Consortium manager			■						
Marketing competencies									■
Sales competencies	■		■	■		■			
Sales force								■	
Contacts with customers	■			■				■	
Brand name								■	
Financial resources	■	■	■	■	■	■	■		
Project management skills		■			■				

Problems in the management of a consortium can arise if the partners make different contributions in terms of resources and so, when this is the case, compensation mechanisms have to be introduced in order to avoid the risk of excessive tension within the alliance.

The Example in Table 3.3 shows an imbalance between the resources provided by partner G and those provided by all of the others. Partner G can only supply financial resources, whereas all of the other partners also offer business contacts and other competences and know-how. This could lead to some resentment if the financial resources supplied by partner G are equal to those provided by the others, especially if partner G benefits greatly from belonging to the consortium. In such a situation, it is necessary to ensure that the partners' contributions (also in terms of competences, management skills and reputation) are evaluated in such a way as to share total costs, thus allowing the partners who do not offer any specific competence to contribute equally to network activities.

If we look at case of Muyu, we can represent the main resources of the consortium as in Table 3.4.

Table 3.4 Muyu's resources and competences

RESOURCES	FIRM A	FIRM B	FIRM C	FIRM D	FIRM E	INTERNAL DEVELOPMENT	FROM OUT-SIDE
Consortium management				■			■
Marketing competencies							
Sales competencies				■			
Sales force							
Contacts with customers				■			
Image						■	
Financial resources	■	■	■	■	■		■

Empirical evidence on export consortia promoted by UNIDO in developing countries shows that the contribution of the consortia in the development of firms' resources is particularly relevant in the area of intangible resources, which play a fundamental role as sources of competitive advantage.

Table 3.5 summarises the main activities carried out by the export consortia for the development of intangible resources for internationalisation. We have classified resources into four categories: information, relationships, know how, image/reputation.

Empirical evidence shows that in all of the nine cases, consortia contributed to the enhancement of reputation at both firm-level and consortium as a whole. The development of a 'common identity' is generally mentioned by member firms as a relevant result achieved thanks to the following activities of the consortia: creation of a logo or a consortium brand, which is at the basis of the development of an integrated offer to the market; creation of the consortium website; development of common promotional materials (for example, brochure, CD-ROMs, and so forth) and a number of marketing actions jointly implemented. In a lower number of cases, a catalogue of consortia products and advertising on specialised magazines has also been realised.

Table 3.5 Intangible resources developed by UNIDO consortia

	Information	Relations	Know-how	Image and reputation
Mosaic	Creation of a shared database of customers and suppliers	Development of business contacts abroad, through participation in fairs and missions	Enhancement of technical competencies. On-the-job training activities for employees of member firms	Creation of the consortium brand and shared image (website, logo, brochure). Increase firms' reputation
Vitargan		Development of business contacts abroad, through participation in fairs and missions	Enhancement of technical and marketing competencies thanks to training activities. Increase of the firms' procurement competences. Attainment of the internationally recognised ECOCERT BIO certification	Development of a stronger and shared image thanks to common marketing and communication activities
Travel Partners	Enhanced knowledge transfer among partners about markets and suppliers	Access to new markets thanks to the arrangement of commercial missions	Development of competences in the areas of procurement and human resources management thanks to training activities	Enhancement of the common firms' unique image and external communication (website, logo, catalogue) . Higher visibility of member firms on national markets
Get'it	Development of a shared and integrated CRM (Customer Relationship management) system	Participation in specialised ICT Forums. Development of business contacts with the main international ICT providers		Development of the consortium brand and communication. Higher visibility of member firms on national markets.
Muyu	Creation of a shared database of customers and suppliers		Training activities for entrepreneurs and employees in the areas of strategic planning, communication, sales techniques, design, and technology	Development of the firms' common logo, website and promotional materials (CD-ROMs and catalogue) for foreign distributors
Peruvian Bio Consortia		Development of business contacts abroad, through participation in fairs and missions	Enhancement of technical and marketing competencies	Development of the firms' common identity (consortium's logo, mission and vision) and external communication (consortium's website, promotional materials and advertising)
ACMC		Development of contacts with other networks of SMEs within the country. Development of contacts with national public organisations		Creation of the consortium brand and development of the firms' common identity (website, logo, etc.)
Ande natura	Exchange of information on partners and suppliers	Development of business contacts abroad, through participation in fairs and missions. Stronger relationships with national private and public institutions.	Enhancement of technical and marketing competencies	Development of the consortium image (website, promotional CD-ROM) and brand
Phyto Uruguay		Development of business contacts and new national and international contracts	Ethical and environmental certification	Development of a shared brand for all firms' products. Communication activities at consortium level

In addition, two consortia – *Vitargan* and *Phyto Uruguay* – obtained an important environmental certification that contributed to increase the reputation of member firms in both domestic and international markets. Such certification is much more relevant if we consider that firms could not have received it by acting individually.

‘Relations’ and ‘know-how’ are two important areas in which the contribution of the consortia has proved important. In almost all cases consortia helped member firms establish business contacts with potential customers, in both domestic and international markets. The development of ‘relational capital’ encompasses relationships not only with customers but also public and private institutions, which are at the basis of the acquisition of financial resources.

As far as ‘know-how’ is concerned, a greater knowledge of foreign markets and the enhancement of marketing capabilities are two important achievements of the consortia. However, firms’ competencies have also been upgraded in other areas as a result of the participation in the consortia, such production and procurement activities and human resource management. Training activities for entrepreneurs and employees favored such a process of competence upgrading.

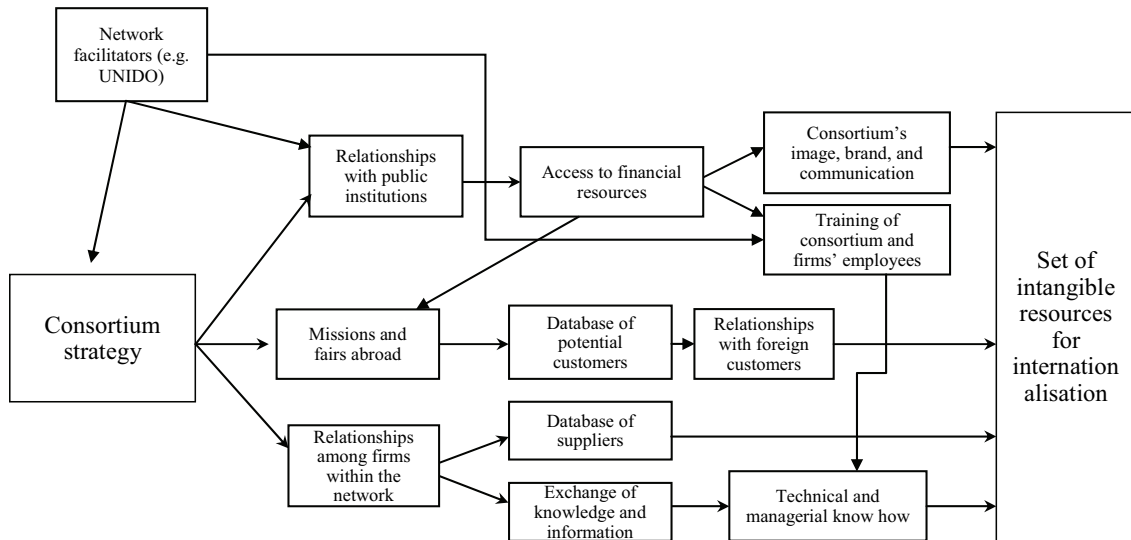
Finally, in five consortia, valuable results are reported in the area of the elaboration of databases of suppliers, customers, or competitors. Within the category ‘information’, we can also include the benefits for member firms in terms of flows of information and knowledge about markets, customers, and suppliers.

Beyond a static analysis of the resources that consortia contributed to develop, the empirical analysis also allowed us to shed light on the working of the consortia from a dynamic point of view.

A number of common traits seem to emerge from the analysis of the consortia activities as far as the development of intangible resources is concerned. These elements are shown in Fig. 3.9. Basically strategy and actions of the consortia build on three milestones:

- The development of relationships with national institutions that are fundamental to the acquisition of financial resources. Generally, such funding is in the form co-financing of over 50% of costs of projects;
- The organisation of fairs and missions abroad, which are the favourite means of increasing market knowledge and creating business contacts;
- The enhancement of collaboration within the network, which, in its turn, favours the exchange of tacit knowledge and information among member firms.

Figure 3.9 The role of export consortia in the development of intangible resources for internationalisation: a dynamic view



The following aspects of the consortia activities deserve particular attention:

- The central role of the investment in the development of relationships not only within the consortia (among member firms), but also outside them, i.e. in terms of linkages with public institutions;
- The importance of agencies and organisations that act as ‘network facilitators’ in the start-up stage of the consortia. In the consortia covered by our empirical analysis this role is played by UNIDO and goes far beyond the support to the initiatives of individual member firms, but is crucial in all of the stages of the consortia life cycle, from the selection of member firms, to the set-up of the organisation structure and governance mechanisms. In addition, UNIDO, and network facilitators in general, foster collaboration between consortia and the public institutions that finance the most of the consortia activities.

3.6 Enforcing corporate governance and leadership

The choice of the governance structure has relevant effects in reaching strategic alignment of member firms, promoting their commitment and maintaining it. Firms, in both the start-up phase and the subsequent development of a consortium, expect that all their specific interests are kept under careful consideration by the consortium and are finally satisfied. In fact, as it happens for any other inter-firm network, export consortia are 'multi-stakeholder' organisations because the interests of a variety of actors meet there, each of these actors holding a specific stake in the life of the organisation (Freeman, 1984).

The concept of stakeholder is therefore at the core of corporate governance (Freeman, 1984). In the case of export consortia, the primary stakeholders of the consortium are the member firms. They play a fundamental role in influencing its final performance and reaching strategic goals, at least for two reasons. First because the member firms influence the strategic decisions of the consortium. Second, because the trust the different stakeholders have in the consortium represents a fundamental resource. Trust permits the consortium to build a consensus on its goals and objectives.

In the field of management studies, the term corporate governance, in a narrow sense, means the whole set of choices regarding the configuration and the modes of functioning of firms' steering bodies. From a pragmatic standpoint it is clear that governance structure has the objective of addressing the following issues: who in the consortium has the right to take the strategic decisions (all of the partners, the Board of Directors or a General Manager?); who must take the leadership of the network in different stages of consortium lifecycle (the President of the Board, a General Manager or an external broker/facilitator?); the rules according to which decisions are made (the formal decision-making process); the criteria for the admission of new partners (and for the expulsion of existing partners); the mechanisms for sharing costs and benefits among member firms.

However, under a broader perspective, the term 'corporate governance' usually refers to all activities aimed at defining the organisation's goals (in the short, middle and long run) and their sharing among corporate stakeholders. The fulfilment of this equilibrium can be favoured not only by establishing norms regarding governance bodies, but also through the adoption of a negotiating practice among the actors that is characterised by transparency and dialogue, as well as through the adoption of a strategic governance system suitable for this purpose.

Under this broader perspective of analysis, hence, besides the issues specifically concerning the composition and functioning of governance bodies within the domain of corporate governance, we can also include issues such as the management of internal and external communication, and, more generally, the management of the relationships with the organisation's stakeholders (Bain and Band, 1996; Kendall and Kendall, 1998).

The link between strategic management and corporate governance materializes in many ways: (a) designing effective top management bodies; (b) assuring a real participation of the single member firms in the strategy-making process; (c) clearly communicating to these primary stakeholder the objectives, strategies and performance of the consortium; (d) assuring member firms power of control over all decisions and actions implemented by the consortium, (e) finally, adopting tools in order to monitor and measure customer satisfaction and participation.

The first two ways are particularly relevant and both concern the functioning of strategic apex of consortium. Top management bodies are assumed to carry out a very important set of tasks (Mintzberg, 1983): to analyse and monitor the environment in which the consortium operates; to elaborate the consortium's strategy; to allocate collective resources to the different programmes carried on by the consortium; to assess the congruence of the organisational design with the strategy, taking care of its ongoing adjustment; to manage the consortium's internal staff, evaluating its performance and planning its incentive; to represent the consortium towards internal and external stakeholders.

In export consortia, carrying out these tasks necessarily requires an effective involvement of member firms: in every stage of consortium life, all members must be fairly taken in account in the decision-making process and are expected to participate directly to top management bodies.

Usually, in the very early stages and, in general, when consortium activities are not very relevant if compared to the distinct businesses of individual firms (in term of organisational complexity and resources), the easiest way to do this is involving all entrepreneurs in the Board of Directors, which in effect corresponds to partners' meeting. In this case, all partners are always necessarily involved and have full evidence of how decisions are taken. But when the network grows and there is a larger number of partners, more lean and effective governance bodies such as an elective Board of Directors are necessarily those where strategic decisions are made. In elective Boards, some member firms are not represented and so the adoption of a formal set of rules about the decision-making process and the development of transparent monitoring systems become fundamental in order to guarantee firms' interests.

When the activities developed directly by the consortium are numerous and important, the Board's joint exertion of power may prove not very effective in facing managerial complexity. If the consortium develops a set of independent business activities compared to the individual firms' ones, it is necessary to provide it with a short chain of command, delegating some of the decision-making power to one or more managers. In this case the consortium can choose from different organisational solutions, comprised within a *continuum* ranging from the governance structure where the Board continues to be the strategic leader on one side, and a governance structure where instead a General Manager emerges as strategic leader, on the other side.

These two alternatives have significant differences with respect to the functioning and the power equilibria of the consortium.

In the first case the consortium can decide to maintain the strategic leadership completely inside, confirming the role of this collective body as a 'strong one'.

This is possible if the Board has a lean structure, if there is strong agreement among its components and a shared entrepreneurial vision (all these conditions are guaranteed only if there is a strong strategic alignment). In the consortia where the Board is very large, it is possible to create a more restricted inner collective body, usually named Steering Committee, in order to streamline the decision-making process. This choice is usually aimed at avoiding inefficiencies and delays typical of too large decision-making bodies.

This second body is usually chaired by the consortium's President, and is composed by a restricted number of advisors, appointed by the Board. Usually, the consortium's General Manager also participates, without voting rights, if this position is present. The Board can delegate to the steering committee a major part of the day-to-day (ordinary) management, which is usually jointly exerted by all members.

In alternative, the consortium can opt for a structure where the Board gives away part of its power to a manager, clearly hierarchically subordinated, who takes upon the strategic leadership (under the Board's control). This is the case of the 'managerial model', centred on the General Manager figure. It is up to the Board to appoint the General Manager, whilst it is up to him/her to choose the subordinate managers. The appointment of the General Manager of the consortium is an important decision related to the governance structure of the consortium.

Most of the analysed consortia do not have a General Manager, essentially because of their young age and their small size and complexity. However, in some cases, the need of introducing a professional manager at the top of the consortium structure is now emerging as the consequence of the development of their activities. In 2007, for example, the Moroccan consortium *Travel Partner* hired a temporary Managing Director (coordinator), who is directly financed by the consortium's members and is responsible for organising the weekly meetings and pushing the different actions provided for in the action plan. On the contrary, in Muyu the leadership has been taken by the entrepreneur of one of the member firms. She was chosen by the others because of her experience in the industry and in export activities, which was lacking in the other firms.

A key role in the management of a consortium is played by the consortium manager mainly where partner firms are not very active (Depperu, 1996), as he/she has to develop the 'business idea' and support the implementation of the consortium strategy as if he/she were the entrepreneur of the network. The pivotal role of the consortium manager is important in the start-up phase as he/she is the one who takes care of setting up meetings, pooling resources, developing ideas for the first steps of the network activity. Subsequently he/she is essential for the implementation of the network strategy, coordination of member firms' activities, solving problems including those related to partner conflicts.

Once again, trust is a key issue for the success of the consortium manager's activities, as for any other network. As Welch *et al.* (1996: 471) underline in their analysis of an export grouping scheme, '*a cornerstone of the role was the trust that members developed towards [the consortium manager]*'.

This solution recurs in the consortia where the managerial complexity requires highly qualified managers, tied to the organisation by an exclusive professional relationship.

Also in this case the Board formally remains the supreme government body, entitled to steer the consortium, to be exercised through: the direct involvement of Board members in the strategic process; the exercise of the power to appoint and evaluate the General Manager; the duty of the formal adoption of the strategy as well as the adoption of the estimated and final balance sheet.

Notwithstanding, the real ability of the formal government body strongly to influence decision-making will depend on how the institutional relationship between the Board and the General Manager develops.

The most frequent case is a sort of splitting of powers between the two distinct bodies at the apex, both 'strong', but with different competences. The government system is thus based on a dual structure: the Board is specifically committed to the planning of all institutional activities related to the consortium's mission; the General Manager is competent and responsible for all operational, technical, administrative, organisational and service production activities.

Managers with substantial delegate government power being present, the Board has only a less operative role, more focused on the strategy. In order to do so, the Board has to focus mostly on the strategic orientation of the consortium, on the evolutionary design of the project in the mid-long term, on the definition of goals, constantly engaged in guaranteeing the use of resources in accordance with the consortium's scope.

The Board/Manager diarchy works to the extent that the roles and the General Manager's discretionary powers are well defined. Otherwise, a potential conflict situation can emerge, where either a too invading Board ends up delegitimizing the Manager in front of the people that he/she is supposed to guide, or a too decision-making General Manager basically risks overriding the Board's prerogatives. Defining the Board's vision of leadership, designing an adequate structure and processes and finding the necessary resources for the management are three actions that help building the framework under which the relationship between Board and General Manager has to be seen. The design of these elements, indeed, helps to better clarify the roles of the two bodies, beyond what is formally established by the organisation's statute.

The role of pivot for the network can be played by either a member of the network or an external actor/facilitator. The former option can be positively seen as a partner of the consortium is supposed to have a strong commitment to the network. However, there is also some concern about this. As Welch *et al.* (1998: 72) maintain: '*A government trade promotion agency, as an honest broker, has legitimacy, whereas a group*

member is likely to find it difficult to organise and host such activities because of a perceived vested interest, especially if the group includes competitors'. According to them, the role of an agency as facilitator is a key factor, but the network development must come from the partners of the alliance.

The role of the facilitator consists of organising the activities needed to define the consortium strategy (set the agenda of meetings, identify the synergies to exploit), help the development of informal links among partners, help the development of links between the consortium, its partners and other entities that are relevant for the international activities of the consortium. If involved in the start-up phase, the facilitator can help define the rules according to which the consortium will be managed. This is a very important task.

Research on successful and unsuccessful alliances (Hoffmann and Schlosser, 2001) shows that the '*precise definition of rights and duties*' of partners is the most relevant factor of success of alliances, even in the functioning of governance system. This idea can be applied also to very simple rules. *Ande Natura*, for example, has a rule according to which those who don't attend a meeting have to pay a sum of money. Another rule has been set in order to avoid conflicts in the decisions regarding the kind of products that have to be produced within the consortium.

More generally, as in consortia each partner often has the same weight as the others, it is necessary to set up rules as to how decisions are made when partners don't agree. For example, in a multibusiness consortium a rule could be introduced according to which the majority of the firms from the same industry are responsible for decisions that impact their business, instead of simply accepting the rule that the majority of all partner firms decide for them.

Finally, cost-sharing mechanisms are another key issue. Some activities can be efficiently implemented only if a certain number of firms are involved in them. Other activities can be realized when a limited number of partners contribute to their cost coverage. For such issues, it is necessary to have a simple and clear rule, which avoids misunderstanding and the risk that the network does not bring the advantages for which it was established.

In the case of *Vitargan*, member firms share the costs of the activities in which they participate, covering 25% of them. The other 75% is financed through a financial support program. *Get'IT* operating costs, on the other hand, are covered by its member firms, which pay a fixed amount of money, while there are specific contributions to the costs of individual activities.

The issue of always guaranteeing each member a fair and satisfactory balance between effort (in terms of financial and human contributions) and benefits can be solved by means of a flexible and highly pragmatic mechanism. In the consortium *Mosaic* members have decided that each enterprise can choose whether to participate in a given activity or not and therefore the consortium does not ask members for a fixed annual contribution. Each activity is equally financed only by the participating member companies and usually benefits from specific public co-financing. In this way *Mosaic*

has embraced a sort of 'variable geometry' paradigm based on the idea that not every firm needs to take part in every activity, and some can cooperate more closely on different projects.

The programme of activities of the consortium is therefore scheduled and approved by the forms on the basis of their main targets, and members who are not interested in one specific action do not participate in it.

Another relevant issue is the definition of criteria for admission and expulsion of partners. It is relevant mainly when partner firms are direct competitors and when a new partner that could be involved in the network is a direct competitor of one of actual partners. The suggestion is to define clearly from the outset of the consortium's activities the circumstances under which a new partner may be admitted and to decide whether all partners have to be in favour of the admission.

As suggested for other kind of alliances, for consortia, too, it would be good to define from the start-up phase how the exit of a partner will be dealt with. This is necessary in order to avoid struggles when there are conflicts among partners and the decision about the exit conditions could prove more difficult than in times of peaceful cooperation. Moreover, whenever consortia are started up with support from an external agency, a crucial decision concerns the moment to withdraw from active involvement (Welch *et al.*, 1998). The choice of the withdrawal moment is difficult as it is not easy to understand when the group can be effective independently of the support received. On the other hand, a too tight control can have the effect of breaking informal links among partners. In fact, dependence on the facilitator is not a good thing for the consortium.

The experience of UNIDO seems to be very positive as far as the project to be developed and the start-up phase are concerned. Very small firms with no experience do not have the necessary skills and experience to formulate and effectively implement a cooperation strategy. UNIDO support has proved to be a key also in getting financial aid from public institutions. The issue of the risks related to the phase in which this support will not exist any more is still a 'question mark' as it has not been experienced yet. The hope is that the transfer of knowledge and best practices will help consortia to continue alone successfully.

Finally, in order to assure that governance system effectively satisfies the member firms, it is necessary to monitor their participation and satisfaction, always assessing the balance between benefits and costs. This particular issue is discussed more in depth in Section 3.8, dedicated to measuring and monitoring the consortium's performance.

In order to summarise some of the issues dealt with in the previous page, some interesting advices can be drawn from the Muyu case in Box 3.5.

Box 3.5 The evolution of trust among Muyu's firms and the governance system

The export consortium Muyu, founded in 2005, is actually constituted by five micro and small handicraft firms of Cusco, Peru. They all realize and sell handmade products linked to the typical Peruvian tradition.

Actually, when Muyu was founded in 2005, it was the result of a previous experience of cooperation among members, although the number of firms which originally started this route was larger. In fact the consortium derives its roots in a first group of ten small Peruvian firms that few years ago participated to a programme of aid to artisans, supported by national institutions. Later on, seven of them formed a formal network of firms, assisted by a special programme of the Peruvian Ministry of Labour, and started to enforce their promotional activities towards USA and European markets. Finally, in 2005, six of these firms decided to found the Muyu consortium, that after one year converted formally in an export consortium, supported by UNIDO. But not long after, in 2007, one of the founders decided to leave the consortium, because of irremediable differences with the other members about the sharing of costs and revenues of one particular event organised by the consortium. Therefore, there are now five members.

Of course the withdrawals of the five firms in distinct stages of the lifecycle of the alliance have specific explications. They may be traced back to two typical and fundamental causes: on one hand, the (tacit or emerged) lack of trust among some members; on the other hand the conflicts among member firms deriving from different visions about the strategy and the governance of the network.

According to the current members of Muyu, today these two causes have been definitively tackled. In fact the level of trust among members has progressively grown and been reinforced step by step, as a result of the realization of numerous activities of the consortium in these first three years. Furthermore, the consortium has formalized its strategy, formulated its mission and identified the strategic objectives, at either consortium level or single firm level. A formal set of rules has been adopted in order to regulate the functioning of the consortium and the relations among members, adequate to prevent conflicts. The alignment is assured also by criteria of selection of members: all the members are expected to produce with quality standards that meet the export demand and must have experience in export.

The consortium is now managed by a steering committee, composed by three persons. One entrepreneur serves as coordinator; she was selected by the others for her extensive experience in export, good knowledge of handicraft markets, competences and public relations. Another entrepreneur is the treasurer. Finally there is a general manager, external to the staff of member firms. So there are two key elements in the structure of this consortium: the clear presence of a leader, among the peers, and the presence of a professional manager (even if with a part-time job).

However, the system of governance assures the full participation of all the members to the strategic decisions. The five entrepreneurs-members of the consortium meet twice a month, in the offices of the different firms, in turn. In their meeting they discuss all the problems according to an agenda and take the decisions together, respecting the formal rules of the consortium.

The general functioning of the consortium and the relations among the members are regulated by an internal set of rules. However, beyond the respect of the rules, the commitment and participation of the members is also a substantial achievement of these first three years of life of Muyu.

The participation in collective activities and the constant sharing of common problems and discussion about how to face and solve them have built a high degree of trust among the entrepreneurs. This mutual trust among firms has been indirectly favoured also by the natural integration of their production, because it has dramatically reduced the possibility of conflicts and opportunistic behaviour among the firms and made the synergy of cooperation evident.

In fact customers, especially international customers, are more oriented to negotiate through the consortium bundles of products coming from different member firms, instead of searching for individual supplies of products of one of them.

The rotation of firms in hosting the consortium's meetings encourages the visit to the headquarters of the other members. In general there are no restrictions in visiting the offices of the other firms. There is an intense communication and information exchange among the firms.

Also the issue of the balance between contributions and benefits has been formally determined. Today the financial resources of the consortium come directly from each member.

They all contribute to the budget of the consortium in two ways: on one hand, through a fixed and equal annual amount of funds, aimed to cover the operative costs of the consortium; on the other, with specific contributions aimed to fund single activities or projects (like participation in fairs, trade missions, etc.) in which the members choose to participate. In this second case the costs are charged only to the members that take part to the event, in equal parts.

3.7 Measuring the consortium performance

Measuring the performance of an export consortium is not easy because, as in all grouping schemes, failure and success can have different meanings, and mere survival is often used as a measure of success (Welch *et al.*, 1996; Welch *et al.*, 1998).

Particularly in the case of promotional export consortia, measuring performance involves a multidimensional perspective, because there is no summary indicator, such as revenues or profits, capable of giving an immediate idea of the success (or failure) of the strategy.

Measuring performance is strictly linked to the process of formulating strategy because it is essential to make quantitative comparisons between targets and actual results, and then carefully analyse the findings in order to explain any gap.

Joining a consortium allows (or should allow) the development of competitive advantages (due to synergies, knowledge exchange, the development of network contacts, and so on) that a firm could not achieve by itself. The starting point for evaluating the functioning of a consortium is to assess the balance *over time* between the *contributions* firms offer and the *benefits* they receive. A firm's reason for belonging to a consortium is a function of the perceived 'net balance' between the sum of all the advantages or benefits that it expects to generate as a result, and the costs that its participation entails. It is also necessary to bear in mind that a sales consortium has costs and revenues, whereas a promotional consortium basically only has costs and so, especially in the case of the latter, member firms need to be convinced that the benefits are greater than the costs.

In a broad perspective, an analysis of consortium performance should include an evaluation of the level of *participation, commitment, and benefits/satisfaction*. Measures for these constructs can be defined as follows:

- a. **Participation:** the number of activities/projects in which a firm has taken part in relation to the total number of projects carried out in a given period of time
- b. **Commitment:** the financial and human resources that a firm has invested to co-finance consortium initiatives.
- c. **Benefits:** the overall level of satisfaction of the firm in terms of reaching the expected objectives.

This analysis should also take into account the differences between sales and promotional consortia. The key strategic objective of a promotional consortium is to involve its partners in its promotional activities and projects: there is no direct relationship between the consortium and external customers, because its services are mainly aimed at its members, and so better performance is closely related to the level of participation and commitment of its member firms.

However, it is important to remember that the number of years a firm has belonged to a consortium does not indicate success or commitment by itself: one firm may belong to a consortium for a long time but obtain poor results because of a lack of involvement, whereas another may participate briefly but very actively and achieve

such good results that it may even decide to leave because it is satisfied with its position.

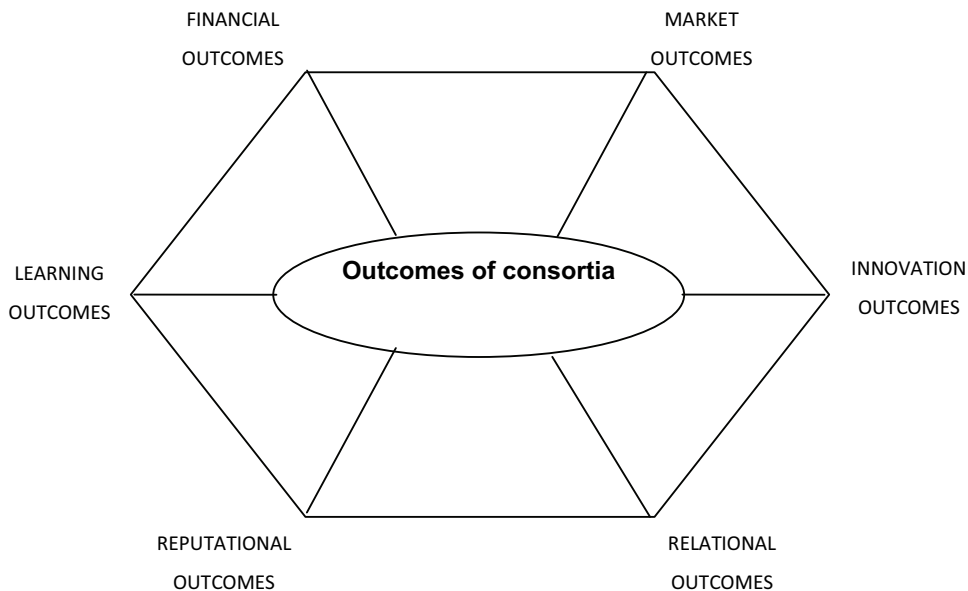
However, participating in a consortium's activities over time is a proxy measure of a firm's commitment to its strategy, and allows the firm to monitor better its strategic alignment. Nevertheless, it is obvious that some members are more committed than others, and also that some activities arouse more interest and participation than others.

Analysing the benefits that a firm obtains its consortium membership involves considering a number of factors, especially in the case of sales consortia. Performance is a multi-dimensional construct, and research suggests examining it in both financial and market/operational terms. In a broader sense, the benefits obtained and the satisfaction of member firms can be divided into six areas (Fig. 3.10):

- **Financial outcomes** are usually assessed using accounting-based measures (e.g. return on assets, return on sales, return on equity). In the *Vitargan* case, for example, an improvement in financial outcome derives from the lower purchasing costs due to the fact that member firms, having joint purchases, have a much higher bargaining power than when negotiating individually.
- **Market outcomes** can be captured by looking at export sales and their trends over time (export growth), and the number of new foreign countries served. *Travel Partners Morocco* members, for example, have obtained three main market advantages leveraging on cooperation:
 - common image/identity;
 - greater visibility on the national market;
 - access to new markets (new countries and untapped niche markets).
- **Learning outcomes** represent the benefits arising from a firm's acquisition and development of knowledge-based resources and competencies *from* and *with* the other partners. All of the managers of the travel agencies that are members of *Travel Partners Morocco* agree that being part of the consortium has improved their internal market positioning and provided a source of mutual information and knowledge exchange that enable them to confront new markets better.
- **Reputational outcome** is related to the increase in brand recognition of the individual members and the consortium as a whole, and is particularly relevant in promotional consortia. In many cases, joining a consortium allows member firms to adopt a common brand, which generally enhances their marketing capability. But these are not the only examples of reputational outcomes. In the case of *Phyto Uruguay* a relevant result for all the firms has been that of obtaining (or being to obtain) international certifications such as ISO 9001 and GMP – Good Manufacturing Practice (a worldwide recognized certification for the control and management of manufacturing and quality control testing of foods and pharmaceutical products).

- **Innovation outcomes:** firms receive important inputs to upgrade and innovate their range of products/services as a result of their participation in a consortium. It is sometimes necessary to redefine the value proposition in order to achieve greater strategic alignment among partners and create a more homogeneous consortium offer. The case of *Phyto Uruguay*, for example, shows that almost all of consortium partners have reviewed their products, packaging, and their own promotional material, and the majority of them have invested in new equipment and technologies as a consequence of their choice of allying.
- **Relational outcomes** are an additional measure: consortia are supposed to help firms develop new business contacts at home and abroad, and so it can be useful to measure their satisfaction with the business relationships developed through the network. Focusing on business relationships may also give a more comprehensive view of the performance of the member firms.

Figure 3.10 The outcomes of consortia



Mosaic consortium provides a good example of the multiple benefits associated with the participation in a consortium. Member firms have benefited from a number of advantages that can be summarised as follows:

- Participation in new fairs as well as the participation in traditional fairs with a more effective image;
- The setting-up of a common database of suppliers and clients;
- A higher bargaining power towards suppliers, in terms of: preferential tariff and price (as compared to individual companies) for the participation in fairs and trade missions, export insurance, and for the purchase other goods and services;

- The development of technological and market intelligence activities, which cannot be performed by individual SME;
- Mutual coaching and information exchange aimed at solving common problems;
- Establishment (thanks to the UNIDO support) of the consortium action plan and strategic work plan for member companies;
- The move from subcontracting to co-contracting through the establishment of a product development department.
- The increase in the profit for export activities (even though difficult to measure).

In order to implement a performance measurement system, it is necessary to consider the consortium's strategic business objectives and analytically weigh the activities it carries to pursue them.

On the basis of the objectives of the consortium, it is possible to develop a system of key performance indicators (KPIs) for the consortium as a whole, as well as for the individual firms, by defining a set of items that reasonably approximate the performance dimensions described above (Fig. 3.11).

KPIs must be measurable. Performance can be measured quantitatively on the basis of sales trends, the percentage of sales due to exports, profit, the number of employees, etc., or qualitatively on the basis of the degree of participation of member firms in the consortium's activities, their degree of satisfaction with the activities, etc.

The use of self-reported performance measurements is quite common in SME research for a number of reasons (Cavusgil and Zou 1994; Zou and Stan, 1998; Shoham, 1998). Profitability and other aspects of financial performance do not provide complete information about internationalisation, especially in the case of SMEs for which accounting measures tend to be less reliable than in larger firms, and financial performance does not necessarily reflect success (Kotey and Meredith, 1997). Moreover, SMEs tend to be very reluctant to disclose sensitive financial information.

Figure 3.11 shows some examples of possible KPIs related to the different objectives of an export consortium. Once they have been expressed in relative terms (ratios), they can be represented graphically for each firm in order to provide a picture of the balance (or imbalance) between benefits and costs. It is also necessary to bear in mind the difficulties of isolating the effect of consortium membership on performance, and so this largely depends on managers' perceptions. Respondents could be asked to agree/disagree with statements reflecting the identified items, which can make it possible to evaluate the extent to which a firm's participation in the consortium has made it possible to obtain greater benefits than those it could have achieved alone

Figure 3.11 Examples of consortium’s strategic objectives and corresponding KPIs

Consortium Strategy	Strategic objectives	KPIs	Performance Measurement System
	Access to larger and better financial resources	<ul style="list-style-type: none"> • <i>(Private and public) fund raising</i> • <i>Cost of capital</i> 	
	Development of new competences for single member firms	<ul style="list-style-type: none"> • <i>Portfolio of competences at the single firm level</i> 	
	Increasing of export sales for single member firms	<ul style="list-style-type: none"> • <i>Trend of single firm’s export sales</i> 	
	Increasing of export sales of the Consortium	<ul style="list-style-type: none"> • <i>Trend of Consortium’s export sales</i> 	
	Knowledge transfer among member firms	<ul style="list-style-type: none"> • <i>Cooperation</i> • <i>Network interactions</i> • <i>Shared projects</i> 	
	Development of new intangible resources of the Consortium	<ul style="list-style-type: none"> • <i>Brand awareness</i> • <i>Reputation</i> • <i>Value of intangibles</i> 	
	Development of relational capital for member firms	<ul style="list-style-type: none"> • <i>Number of new contacts (customers and others)</i> • <i>Number of visits</i> 	
	Consensus among members and stability of the Consortium	<ul style="list-style-type: none"> • <i>Membership turnover (enter/exit)</i> • <i>Degree of participation</i> 	

An analytical tool for assessing each initiative promoted by the consortium is shown in Table 3.6. Each action/project is identified by a name and classified as a collective activity involving all of the member firms (C) or a voluntary activity (V).

As shown in the table, various data should be collected for each activity (budget, amount of public funding, names of the participating firms, level of satisfaction). Firms would be asked to indicate their level of satisfaction in terms of achievement of their initial objectives. So doing, we would be able to measure:

- The average score for each initiative;
- The overall satisfaction of the firm for both each action and globally;
- The capacity of the consortium (over time) to satisfy member firms.

Table 3.6 Overview of activities carried out by the consortium

Activity	Type of activity	Starting date (mm/yy)	Budget (US\$)	Public funding in budget (%)	Participating firms				Average level of satisfaction (%)
					A	B	C	...	
1.									
2.									
3.									
4.									
5.									
...									

In a promotional consortium it is important to monitor the export performance of member firms over time, although it is almost impossible to isolate the effect of participating in the consortium. It may be useful to use a table such as Table 3.7. If necessary, a subjective estimate of the ‘consortium effect’ on export performance can be obtained by asking the firms to specify the extent to which they consider their export sales depend on consortium activities (e.g. by using a 5-point Likert scale in which 1 means ‘not at all’ and 5 ‘to a great extent’).

Table 3.7 A tool for monitoring the export performance of member firms

Firm	Exports before joining the consortium			Export in year +1			Export in year +2		
	Exports (US\$)	Exports (% of total sales)	Exports (vol)	Exports (US\$)	Exports (% of total sales)	Exports (vol)	Exports (US\$)	Exports (% of total sales)	Exports (vol)
A									
B									
C									
....									

Perceptual measures could also be adopted in order to evaluate the benefits from the participation in the consortium in terms of enhancement of individual firms’ resources and capabilities (see Table 3.8). Moreover, the improvement in network resources (‘relational capital’) and benefits in terms of greater ‘relational capabilities’ are particularly important, and can be captured by asking additional questions concerning the degree of interaction among member firms (within the consortium), and the development of new business contacts with suppliers/customers (e.g. as a result of the consortium supporting a firm’s participation in trade fairs and exhibitions).

Table 3.8 A tool for measuring the contribution of the consortium to enhancing member firms' resources and competences

Since our firm joined the Consortium...	Remained the same	Slightly increased	Increased	Greatly Increased
- Our marketing competences have ...				
- Our administrative competences have ...				
- Our technical competences have...				
- Our knowledge of foreign markets and customers has...				
- The number of our customers abroad has...				
- The number of our business contacts abroad has...				
- The number of business proposals presented to potential new international customers last year...				
- Our reputation and visibility have...				

Table 3.9 Member firms' perception of the consortium achievements (%)

Consortium's strategic objectives	Percentage achievement according to firms (%)					Average (%)
	Firm 'A'	Firm 'B'	Firm 'C'	Firm 'D'	Firm 'E'	
To increase member firms' competitiveness						
To gain better positioning and market share in domestic and international markets						
To position the Consortium as a high quality brand						
To plan product innovation						
To increase productivity and standardise members' products						
To develop managerial competences and tools						

Box 3.6 Monitoring the performance of the Muyu consortium

In the case of Muyu, a promotional export consortium consisting of five artisan firms in Cusco (Peru), it was possible to monitor and evaluate its global performance from 2005 to 2007 by applying a multidimensional system of measures: revenues and exports; employment; participation in consortium activities; degree of satisfaction of members with the achievement of original objectives; the development of new resources. As no single measure can give a fair and complete representation of consortium success, only their joint analysis allows a global evaluation.

Since its foundation, in 2005, Muyu has undertaken a large number of initiatives and any global assessment of the results must consider both the individual firms and the consortium as a whole.

First, the trends of the commercial results of the individual firms in terms of revenues and the percentage of export sales were monitored, although it is clear that changes in revenues and export cannot be considered a direct result of the consortium's activities because performance also depends on external conditions (the competitive and general environment) and the individual firms' strategies and actions. For example, one of the member firms reported a very bad performance mainly because of the crisis affecting its particular industry in the period 2005-2007.

Secondly, the benefits also included the generation of new employment indirectly attributable to the promotional activities of the consortium. These benefits significantly involved two of the five firms, one substantially maintained and another other slightly increased its workforce, the fifth reduced employment because of competition in textile markets.

CONCLUSIONS

International expansion is increasingly seen as an important means for enhancing competitiveness and economic growth of developing countries. However, such an opportunity is not easy to exploit. Firms in developing countries generally can rely on comparative advantages (mainly related to labour costs), but cannot count on a favourable competitive environment. In their domestic markets, in fact, they do not experience such intense competition and often their customers are not so demanding as those in developed countries. These conditions do not favour them in international competition as they are not pushed to develop unique competencies and resources, which results in lower competitiveness in foreign markets. They also suffer from limited international experience and management capabilities. Besides, given their smaller size, they lack financial resources.

Networking can be one of the ways to help firms from developing countries overcome their weaknesses. Through networks firms can pool their resources and combine their competencies and skills in order to face foreign competitors effectively. Consortia, among different kinds of cooperation, represent a suitable solution for different reasons: they are not too tight, leaving member firms room for the development of their own strategies, are flexible and do not require high investments. They could therefore become more popular even though they are not very widespread in developing countries today.

Building on an empirical analysis of a sample of export consortia from different countries and different industries, this paper sheds light on the key factors affecting successful cooperation among SMEs from developing countries.

International activities of member firms largely benefit from their participation in export consortia. Greater knowledge of foreign markets, a higher reputation vis-à-vis foreign customers, participation in fairs that were inaccessible before, and development of new business contacts abroad are some of the results that firms report they have achieved.

Benefits of cooperation are not only limited to the capacity for competing abroad. Consortia in many cases prove to be a means to develop intangible assets and social capital, which help their members become more competitive also in their domestic markets. The evidence of export consortia supported by UNIDO is that cooperation with the purpose of exporting often represents the starting point for cooperation at domestic level, too. This means that helping SMEs cooperate with the aim of competing abroad can be a way to help them become stronger also in their own countries.

If cooperation is a positive factor for the growth of SMEs from developing countries at both domestic and international level, a key issue is how to enhance cooperation. SMEs often find it difficult to cooperate spontaneously also because of the lack of those skills that are necessary for successful joint ventures.

The experience of developed countries shows that financial support can be a strong incentive to firms' cooperation, but also that financial support often does not push firms to develop their own capacity to finance joint activities and become independent. The risk, therefore, is that consortia stop working when there is no external support in terms of financial resources and that dependence on external support becomes too strong. This risk could be even higher for firms that are very small and are located in countries where the lack of financial resources is significantly relevant.

As a consequence, an effective way to support the creation and growth of networks like consortia is to provide them with managerial support as UNIDO does. We should also consider that, even though UNIDO does not supply any direct financial resources, its role as a 'network facilitator' also turns into a number of financial benefits. In fact, UNIDO helps consortia to develop relationships with national and international institutions that largely finance their projects. This is not a trivial issue, as the lack of financial resources represents a relevant obstacle to small firms' competitiveness.

Building on the UNIDO experience we can draw some important implications for policy-makers:

- Incentives to cooperation for export purposes should be increasingly used as they can be seen also as a means to enhance cooperation at domestic level and to obtain financial resources that small firms would not be able to obtain individually;
- Support by external players such as UNIDO seems to foster the development of managerial skills and capabilities that small- and micro-sized firms (mainly in developing countries) lack and that are necessary to cooperate successfully. Managerial support is therefore at least as effective as financial support (if not more);
- Personal and frequent interactions among firms are relevant for the development of trust, which is, in its turn, crucial for cooperation and cohesion of the network;
- As there is the risk that both financial and managerial support creates a sort of dependency, consortia should be aware from the very beginning that external support will not last forever.

If managerial support to cooperation through consortia is the tool to be used in developing countries to help their entrepreneurial development, questions arise about the *timing* of support, the *kind of managerial help* that should be supplied by outside players and the *kind of intangible resources* that consortia should primarily develop.

As far as *time* is concerned, a period of approximately five years seems to be compatible with the objective of supporting SMEs to develop long lasting skills and become independent of other players. As each project is different, some consortia could benefit from the external support for a shorter period of time, which should be defined according to their specific features. By five years, however, each consortium should find its own way of working, develop its own values and mission, define how to make decisions and so on.

Moving to the *kind of managerial support* to be supplied, we identify two phases in which entrepreneurial and managerial efforts are crucial: the phase in which the project is developed and partners are selected and the implementation phase. In the first one, support should primarily focus on helping member firms achieve a strong strategic alignment and define a joint strategy. In this phase firms mainly need '*entrepreneurial support*'. In the implementation phase '*managerial support*' is more relevant as members of consortia need to develop structures, systems, values that will be necessary for developing in the long run. Institutions that support the start-up and development of consortia should therefore be conscious of the need to adopt a more *entrepreneurial-oriented* approach in the first stage and a more *managerial-oriented* one in the second stage.

Finally, if we look at *the kind of intangible resources* that external support should help develop, they can be primarily identified in the '*relational capabilities*'. Frequent and open communication and interactions both among member firms and towards external actors are, in fact, necessary elements to successfully develop joint projects and activities, and share business ideas and resources.

The main limitation of this study is that the consortia covered by our empirical analysis started up only a few years ago. Further research should take into account consortia in a more mature stage of their life-cycle in order to shed light on the conditions for successful, long-lasting cooperation and the performance of member firms both at domestic and international level in the medium and long run.

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