

Key note speech by Peter Lundberg, President of SOFF, CZ EU Conference, “Increased role of SMEs in the European Defence and Security supply chain” May 28, 2009.

Excellencies, ladies and gentlemen! It is a great honour for me to be invited as a speaker to this conference. I would like to thank the Czech Presidency for the invitation and for all the practical arrangements and preparations which have been done in an excellent way.

Being the last speaker among three always represents a challenge. With the two very knowledgeable and experienced speakers ahead of me there is of course the risk that everything of importance has already been said. Anyway, I will stick to my manuscript and there could be issues which could be subjects for later discussions. So, if you listen carefully----- you might find something.

The theme of this conference is: “SMEs in the supply chain”. I think that it is a very good initiative by the Czech Presidency to address SMEs and supply chain issues as one of the priorities. Especially today when the financial crisis is striking hard Small and Medium Sized companies in the supply chain are very much exposed.

Maybe we should clarify that when we talk about SMEs in the supply chain we normally mean subcontractors for hardware, software and services on different levels, second tier, third tier etc. But, there are also examples where you can find SMEs on top level and even with bigger companies as subcontractors. I.e. you will find that SMEs are operating through the whole supply chain.

Since some years back the expression SME, Small and Medium Sized Enterprise, has become a very popular buzzword among policymakers, governments and agencies. There are many good reasons for that. The SMEs are to a big extent drivers of new technology and innovation.

Small companies are normally also much more adaptive to changes and to new trends and they can easily shift direction and strategy in order to achieve results. The same is not always true for bigger companies which have to manage change and transformation in a much slower and more bureaucratic process.

This has generated a lot of political wording and many initiatives in order to support the development of SMEs and exploit their special characteristics. But so far with limited results even if there are some quite promising initiatives like for example the Small Business Act and EDA's initiatives..

However, there has not been so much talk about the SMEs in the supply chain and what it means to be a subcontractor. Thus, it is excellent that this conference is putting its focus on the special situation for these SMEs who are part of the supply chain.

I would like to comment the use of the acronym "SME" for a certain type of company. I think this is sometimes making us a little confused. Just because you are an SME it doesn't mean that you are similar to all other SMEs.

SMEs can work as producers of end-user products, they can be innovators for new technology and new products quite often as spin-off companies from academia, they can be subcontractors and they can be providers of different types of services. The only thing in common is their size but otherwise their business environment varies significantly.

A SME in the supply chain probably shares the same concerns as many big subcontractors operating in the supply chain but has less in common with SMEs for example doing innovation and research. What I am saying is that we should also recognize the situation for subcontractors as a whole when we discuss the supply chain.

I would like to provoke you a little. SMEs are creative, innovative, efficient and agile etc. But it is a myth that SMEs are the main drivers of research and technology development.

Big companies are by far providing the major part of R&T which is financed by industry. Big primes are also the main customers to SMEs in the supply chain. I say this in order to underline the fact that the bigger companies are extremely important for the SMEs, their development and their business environment.

The right attitude to this must therefore be to recognize that there is a strong interdependence between big companies working as primes and SMEs in different phases of research, innovation, development, supply chain etc. This fact should of course not prevent us from keeping focus on the important value of SMEs at this conference.

I am representing the Swedish Security and Defence Industry Association, the major Swedish association for security and defence. My views and experiences will for that reason be based on the viewpoint from a national association. However I will try to address the challenges and opportunities for SMEs in the supply chain from four different perspectives;

- The SME's perspective
- The prime contractor's perspective
- The public procurement agencies perspective
- The national defence industrial association's perspective

Let me start with what I think are the challenges for a small and medium sized company in the supply chain.

Being an SME means that you are small, that you have limited resources and that you are vulnerable in many ways. Financing in general, payment schedules, manpower, possibilities to sustain long periods for marketing and negotiations without contracts etc. are issues which hurt a small company harder and faster than a big company.

Being an SME probably means that your focus mainly has to be on next month's business and survival and not so much on strategies for long-term development. If you add the specialities of the supply chain, --- i.e. being a subcontractor ----, to these realities, it is easy to understand that SME companies are lobbying for better understanding and development of existing business behaviour and procurement frameworks.

I would also underline that it is important for SMEs to come together and to get organized. Big companies normally have a lot of power and resources and are quite able to lobby for their own cases. This is not the case for a small company.

The best way to obtain the right influence for SMEs is to work together with other companies and one way is probably to get organised through the industrial associations. Another way is to get organized in industrial clusters which will enable SMEs to combine skills and capabilities, to obtain increased financial strength and stronger negotiation power.

What should the big contractors recognize?

It is obvious that big companies and especially the primes need to recognise the value of a reliable and capable supply chain. This means that prime contractors have to be responsible for management of their supply chain, taking into account issues like competitiveness, quality and security of supply during a systems life cycle.

To apply special regulations which will restrict a prime contractor from an optimal sourcing will in the long run be contra productive for a competitive European defence industry. It is rather a matter of recognising positive incentives for smart sourcing.

Having SMEs in the supply chain gives many opportunities. They can provide flexibility, creative solutions and cost efficiency. Efficient sourcing also enables a big company to focus on core business and to reduce overhead structures leading to better flexibility and cost efficiency.

However, the primes have a big responsibility not to misuse its power and apply unreasonable terms and conditions on their SME subcontractors, ----- and to prevent “The not invented here syndrome”!

In hard times as the current crisis, there is a clear tendency of protectionism. Big companies tend to pull work back from external sources and nations are bringing work back home from plants abroad. This is short sighted and will in a longer run be damaging to a healthy and competitive industrial base.

What can you, --- representatives for EU, governments and procurement agencies do to support the development of SMEs?

The intention behind the European Union newly presented directives for defence procurement and the ICT is to create a more open and more competitive European Defence Equipment Market (EDEM) in order to strengthen the European Defence Industrial Base (EDTIB) which in its turn is a necessity for the European Security and Defence Policy (ESDP).

These intentions are good and will most likely give results in the longer perspective. If the model works it will be a natural generator for the prime contractors to apply a sound model for cross border subcontracting which will contribute to the development of competitive and capable SMEs in the supply chain.

For EU and governments to regulate how subcontracting of SMEs should be done by prime contractors is not a good idea, but there are many other means for the official authorities to support the process.

The first and probably most important thing is to safeguard that the new EU directive will be implemented and used in all member states in a harmonized and transparent way. There are many loopholes which could lead to national protectionism and misuse.

There are areas where concrete actions can be done from governments and authorities. I will give three examples:

- I am convinced that there will still be a lot of cost based and single source contracting also on the future EDEM independent of the directive. When using cost based contracts competition and transparency through auditing should be required by procurement agencies for all tiers of the supply chain below prime level.
- It is possible to allocate certain R&T funds for SMEs. Such funds should be used for all types of SMEs including them operating in the supply chain.
- Offsets. When offset is being required for a contract. It should be stipulated that a certain portion of the offset obligation should be directed to SMEs. Offset to SMEs could be done directly or via a prime contractor or subcontractors.

Finally a few words about what a national industrial association could and should do.

Some years ago the Swedish defence industry association was a club for a few big companies only. Today that has been changed totally. We recognized that without including the SMEs, all types of SMEs, you are not representative for the industrial and technological base you are supposed to work for. We have during the last three years established a strong policy for SMEs including an action plan for SMEs.

Our role is to be an advocate for SMEs when talking to external stakeholders like politicians, government and authorities but also when talking to our big member companies.

Especially the dialogue with the bigger companies is important and we can use the association for bringing big and small companies together. The Association represents a useful forum and meeting point for the companies, big and small.

I know that ASD, the European Aerospace, Security and Defence Association has the same ambitions regarding SMEs and supply chain on the European level as we have on a national level and we are step by step increasing our cooperation with ASD in this field.

The most important issue for SMEs is probably measures for increased market access including the possibility to reach the European and the global market. This requires money, networks and marketplaces. Industrial associations have an important role to facilitate and support access to new markets and partners for SMEs.

We have realized that it is much more important for the SMEs to share resource through an association than it is for a big company. For this reason we have now a manager fully dedicated to SME and supply chain matters employed in our secretariat.

Being a national industrial association means that you should also take the position of being a watchdog for a proper implementation of laws and regulations, like for example the REACH and the defence procurement directive.

As a national association we have an important role to support the members and specifically the SME members when implementing common important policy initiatives like ASD Common Industrial Standard regarding Ethics and Anticorruption etc. etc.

Finally let me conclude by once more thanking the Czech Presidency for arranging this conference and I hope that the next Presidency, which is Sweden, will be able to keep the importance of SMEs on its agenda.

Thank you very much for your attention.