

# DEVELOPING THE SCOTS PINE RESOURCE

## Collaboration Report



Report for **Highland Birchwoods**  
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*The English text was revised by Elspeth Macdonald and Ben Davis.*

## 1.0 - Context of the report

“Developing the Scots Pine Resource” is an EU funded Northern Periphery Programme Project that aims to stimulate greater use of Scots Pine in higher value end use markets as a basis for supporting forestry related enterprises. The project has partners in Scotland, Finland, Norway and Sweden.

A key project objective is encouraging greater collaboration between Small and Medium Sized Enterprises (SME's) as defined in EU terms, with a focus on small businesses of less than 50 employees including micro businesses of less than 10 employees in the forestry sector. Currently, recorded instances of SME collaboration in Scotland are extremely limited, particularly when compared to northern European countries.

Highland Birchwoods has conducted an initial online survey in Scotland to identify existing instances of collaboration; gather opinion on its advantages and disadvantages, and identify areas of opportunity that would benefit from working together with other organisations.

## 2.0 - Defining SME's and collaboration

**2.0.1 SME's** - Micro, small and medium-sized enterprises (SMEs) play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises.

However, they are often confronted with market imperfections. SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation. Therefore, support for SMEs is one of the European Commission's priorities for economic growth, job creation and economic and social cohesion.

A re-definition of SME's took place in 2003 and entered into force in 2005. The changes were intended to improve consistency and effectiveness and to limit distortions of competition amongst Member States.

Article 2 of Commission Regulation 2003/361/EC defines SME's as follows: -

The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total, does not exceed EUR 10 million.

Within the SME category, a microenterprise is defined, as an enterprise that employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

Generally speaking, SME's are characterised by:-

- *An owner manager who is closely tied to the particular business and often carries out the management tasks of the business*
- *Shorter lines of communication and less complex decision making processes*
- *Flexible adaptable and able to respond to niche opportunities*
- *Weak negotiating positions with suppliers and customers*
- *Operating in a local market*

**2.0.2 Collaboration** - There are many definitions of collaboration including those which once held negative connotations a generation ago, to a meaning, which is nowadays much more positive and a sign of creative energy. In a business context, there are a number of ways in which collaboration can be defined, but usually the collaboration involves: -

- a) An arrangement in which two or more parties, who may or may not have any previous relationship, work jointly towards a common goal
- b) An effective method of transferring know how among individuals which is critical to creating and sustaining a competitive advantage
- c) A conflict resolution strategy that uses both co-operation and assertiveness to seek solutions advantageous to all parties.

Typically, business-to-business collaboration happens in response to external pressures caused by a major change to businesses in the economic sector in question including; closure of a major market; increased dominance of an end customer or a rapid change to the overall fortunes of a sector. Occasionally however, collaborations occur where non-competing sectors recognise a completely new set of market opportunities and put joint market strategies in place to tackle those. We will look at one of these examples later on in the report.

Much has been written about the various levels of collaboration from the regional macro level to the inter-business collaboration amongst smaller companies at the local level. They can be summarised in terms of the characteristics described in Table 1 opposite.

**Table 1:** *A range of types of collaborative groupings*

Type of grouping	Form of collaboration	Reason for existence	Observation
Geographical	Spatial grouping either physically or at a regional or national level	The need to achieve economies of scale, reduce waste, reduce transaction costs	Typical of national or regional “clusters” and very common in most OECD countries. The Scottish Forest Industries Cluster represents one such grouping
Horizontal	Grouping within industry groups e.g. all furniture manufacturers	May be spatial or not and leads to economies of scale and process innovation	
Vertical	Groupings of adjacent stages in a supply chain	Achieving economies of scale and cutting transaction costs	
Lateral	Group members of similar businesses diversifying based on common activities or knowledge	Achieving new business opportunities through applied know-how	
Technological	Group members of similar businesses diversifying based on a common technology	Achieving new business opportunities through applied technology	
Focal	Grouping around a central (dominant) player, a customer or a research institute	Achieving economies of scale and reducing transaction costs	
Local network	Related to “geographical” these groupings are often more localised to within a smaller region		Typical of regional networks such as the Highlands and Islands Forest Industries Cluster in Scotland

The potential interrelationships between any of the groupings defined in Table 1 are very complex and often there are overlaps amongst the defined groups or there are sequential consequences, with one type leading to another in due course. Occasionally, businesses will work with one or more collaborative processes at the same time, as indeed one of the later case study’s shows.

Related industries generally share common resources such as technology, production processes, marketing capacity or end market or may indeed produce complementary products. Collaboration therefore offers access to new ideas and innovations as well as potentially identifying ways of controlling

costs or achieving greater economies of scale. Related industries (those playing a supporting role) tend to have broad-based expertise that often is outside that of the immediate sector. Typically this will include the research sector, finance, logistics specialists and so forth.

Finally and not included in Table 1 are two other external factors, which can influence the above groupings. Firstly, there is the role of the Government, which in any given country typically provides support for facilitation rather than intervention. This encourages industry to lead, creating the correct conditions to allow business to flourish and lead their own growth and development. Secondly, there is the role of chance brought about by for example, wars or economic crises such as have been seen in recent months, and this often tends to galvanise collaborative responses where all players realise “something has to be done” to protect or enhance their market.

## 2.1 - The Wider Economic Context

Towards the end of the 1980's, western economies were showing reduced growth rates and structural difficulties. Some countries had been suffering from recession conditions and there was a clear need to revitalise economies in the developed world. This helped to precipitate a rate of change in the world economy, which has accelerated rapidly such that the pace of innovation, market development, communication and information exchange is moving more rapidly year on year. In an age of rapid change and continued uncertainty it is vital to ensure that business strategies are forward looking and sustainable and that new opportunities are identified at an early stage.

The key trends of the recent past include the following key drivers: -

**2.11 - Globalisation** – in particular the emergence of markets in China and India and the higher share of revenue growth these countries will achieve compared to the so-called developed countries. There is also a shift already well documented, of labour intensive production processes shifting to lower cost economies where wages are still significantly lower. Raw materials and individual talent will be increasingly obtained from wherever the best available source may be. Processes, customers and supply chains fragment as work flows to where it is best done. As a result, effective collaboration becomes very important.

**2.12 - Demographics** - Population shifts will have a significant impact across the world, with Europe for example moving towards a significantly ageing population whilst the US will have a more favourable age profile, which will help to continue the pattern of economic growth.

**2.13 - Mass customisation** – The days of process driven, one size fits all products are declining and whilst price and quality still matter to consumers, there will be an ever increasing demand for personalised products and services which are customised to individual needs (real or perceived).

**2.14 - Knowledge management** – Inter-business i.e. within the supply network, and intra-business sharing and networking of knowledge, helps to promote innovation and continual change and improvement within businesses. Individual and group creativity and a willingness to share knowledge openly will become more important to businesses than it is to follow existing rules and processes. In order to achieve this progression, there needs to be important changes in mindset to see this change through, particularly in senior management in companies.

These largely innovation-led trend changes were reached during the 1990's and have mainly been the consequence of the maturing of the traditional manufacturing sector (of which forestry and forest products is arguably one); the liberalisation of trade worldwide and the consequential increase in investment in R&D and new product development.

These changes have been mirrored by changes in state support policy, which have moved away from interventionist planned market development (as typified in the 1970's) to one where governments set the national priorities and facilitate the networking process on behalf of the growth sector industries (typical of the mid 1990's and currently).

**Table 2:** *Systemic and Market Failures and Policy Responses in selected countries (after Roelandt and den Hertog – 1999)*

<b>Systemic and market failures</b>	<b>Policy response</b>	<b>Focus of cluster-based policymaking in different countries</b>
Inefficient functioning of markets	<ul style="list-style-type: none"> <li>• Competition policy and regulatory reform</li> </ul>	<ul style="list-style-type: none"> <li>• Most countries</li> </ul>
Information failures	<ul style="list-style-type: none"> <li>• Technology foresight</li> <li>• Strategic market information and strategic cluster studies</li> </ul>	<ul style="list-style-type: none"> <li>• Netherlands, Sweden</li> <li>• Canada, Denmark, Finland, Netherlands, USA</li> </ul>
Limited interaction between actors in innovation	<ul style="list-style-type: none"> <li>• Broker and networking agencies and schemes</li> <li>• Provision of platforms for constructive dialogue</li> <li>• Facilitating cooperation in networks</li> </ul>	<ul style="list-style-type: none"> <li>• Australia, Denmark, Netherlands</li> <li>• Austria, Denmark, Finland, Germany, Netherlands, Sweden, United Kingdom, USA</li> <li>• Belgium, Finland, Netherlands, United Kingdom, USA</li> </ul>
Institutional mismatches between (public) knowledge infrastructure and market needs	<ul style="list-style-type: none"> <li>• Joint industry–research centers of excellence</li> <li>• Facilitating joint industry–research cooperation</li> <li>• Human capital development</li> <li>• Technology transfer programs</li> </ul>	<ul style="list-style-type: none"> <li>• Belgium, Denmark, Finland, Netherlands, Spain, Sweden, Switzerland</li> <li>• Finland, Spain, Sweden</li> <li>• Denmark, Sweden</li> <li>• Spain, Switzerland</li> </ul>
Absence of demanding customers	<ul style="list-style-type: none"> <li>• Public procurement policy</li> </ul>	<ul style="list-style-type: none"> <li>• Austria, Netherlands, Sweden, Denmark</li> </ul>
Government failure	<ul style="list-style-type: none"> <li>• Privatization</li> <li>• Rationalize business</li> <li>• Horizontal policy-making</li> <li>• Public consultancy</li> <li>• Reduce government interference</li> </ul>	<ul style="list-style-type: none"> <li>• Most countries</li> <li>• Canada</li> <li>• Canada, Denmark, Finland</li> <li>• Canada, Netherlands</li> <li>• Canada, United Kingdom, USA</li> </ul>

### 3.0 - Good practice in collaboration

At the outset it is important to state that “collaboration” is often an informal arrangement between like-minded participants, and the possible combinations of interests makes it very difficult to define all the possible issues to consider.

Nevertheless, a good basis for collaboration is founded on long-term interdependent business relationships, some of which may be spread throughout the whole supply chain and may include both the immediate players in the chain and the support functions to the chain or, “supply web”.

Collaborating partners regularly undertake efficiency reviews and explore value added opportunities within the company and within the supply chain partners. Ideas and concepts are readily shared; nothing is ruled in or out and participants are actively encouraged to think laterally, to challenge, probe and innovate.

Importantly, there is an early, shared strategic vision with shared goals and targets throughout the supply web with the aim of providing long term returns for all on a fair and equitable basis. Joint planning extends to supply and demand forecasting which extends to sharing sales and consumer feedback information, throughout the supply chain in order to inform production scheduling.

Mutual support and trust is *absolutely critical* to the success of collaborative ventures, with open sharing of resources, information, investment and profits. This trust of partners takes time to build and there is no set time by which it should be expected as it largely depends on the players involved. It is absolutely vital that time is taken in order to build this trust and mutual dependency. Often this is overlooked in the desire to meet some artificial time constraint (often caused by funding windows), but without the effort taken to build trust, it is too easy to walk away and the collaboration then falls.

Table 3 opposite compares and contrasts the experiences of a more traditional sectoral approach to business attitudes against the collaboration based approach.



**Table 3:** *Traditional sectoral approach versus collaboration-based approach*

<b>Sectoral approach</b>	<b>Collaboration-based approach</b>
Groups with similar network positions	Strategic groups with mostly complementary and dissimilar network positions
Focus on end product industries	Include customers, suppliers, service providers and specialised institutions
Focus on direct and indirect competitors	Incorporate the array of interrelated industries sharing common technology, skills, information, inputs, customers and routes to market
Hesitancy to co-operate with rivals	Most participants share common needs and constraints and are willing to discuss issues openly with competitors
Reluctance to share perceived sensitive information	Willingness to share internal cost information or to encourage access to technology or process systems held by a partner
Concern over competition rules and regulations	Avoids acting in a manner likely to interfere with the market but will not hesitate to act in a manner which develops the market
Dialogue with government often gravitates towards subsidies, protection and limiting rivalry	Wide scope for improvements on areas of common concern that will improve productivity and raise the level of competition  A forum for more constructive and efficient business to government dialogue
Looking for diversity in the current business model	Looking for synergy and new combinations, often from other sectors

As noted earlier, collaboration can involve different groupings of players, from the individual company through to national level groups as summarised in Table 4 below. Later in the country analysis section of this report we will look at each country in so far as it is possible, using the structure of Table 4.

**Table 4:** *Different perspectives on collaboration*

<b>Level of Analysis</b>	<b>Collaboration concept</b>	<b>Focus of analysis</b>
National level	Industry groups linking in a wider economic structure with shared agreed objectives	Specialisation patterns in a national or regional economy.  Need for innovation or new product development in products and processes at a large scale.
Sector level	Inter and intra industry linkages in the sector in the different stages of the production chain	SWOT and Benchmarking analysis of industries.  Exploring innovation opportunities.
Individual business level	Specialised suppliers around one or more core businesses (inter-business linkages)	Strategic business development  Supply chain analysis and management  Development of collaborative innovation projects

### 3.1 - Is Collaboration relevant for the future?

In a survey carried out in 2005 by the Economist Intelligence Unit, over 1,600 global company executives stated that “Collaborative relationships will “multiply and intensify” in the years ahead. A majority of executives agree that high quality relationships with outside parties will become more important as a source of competitive advantage over the next ten years. Collaborative problem-solving is expected to increase in volume, inside and outside of corporate organisations, as customers and suppliers become more involved in product development, as cross functional and cross border teams work together more frequently and as partnerships with other organisations proliferate.

## 4.0 - Collaboration and the Forestry Industry – Case Studies

From the foregoing sections, it is clear that collaboration as a concept is widely recognised and broadly interpreted depending on the level of engagement. Typically it involves the National, the Sector and the Individual Company level in its component parts. In this next section we will look at each of these at country level (Scotland, Sweden, Finland and Norway), focussing where possible on the SME collaborations that have taken place within the forest industry sector. The section will close with a synopsis of some of the lessons drawn from the chosen case studies.

### 4.1 - Scotland

**4.1.1 - National:** The Scottish Government has set out a Government Economic Strategy to focus the government, the public services and the key support actors in the Scottish economy. This focuses the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. This implies building a dynamic and growing economy that will provide prosperity and opportunities for all whilst ensuring a better quality of life for future generations. There is a National Performance Framework including five strategic and fifteen national outcomes. The strategic objectives are:

- *Wealthier and Fairer: Enabling businesses and people to increase their wealth and more people to share fairly in that wealth.*
- *Safer and Stronger: Helping local communities to flourish, becoming stronger safer places to live, and offering improved opportunities and a better quality of life.*
- *Smarter: Expanding opportunities for Scots to succeed through lifelong learning ensuring higher and more widely shared achievements.*
- *Healthier: Helping people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.*
- *Greener: Improve Scotland’s natural environment and the sustainable use and enjoyment of it.*

These objectives and outcomes now drive the Scottish economy at the broadest level and set the prioritisation of Government resources into the future. SME’s per se, have no role in directly setting these national priorities other than, through the right of an individuals election vote to empower a government to deliver their election promises.

**4.1.2 - Sectoral:** At the forest industries level, the state forest service, Forestry Commission Scotland (FCS), set out a Forestry Strategy in 2006, in conjunction with industry representation (through a number of Regional Forums, and with private sector industry engagement). This Strategy has been monitored and updated and in the latest implementation plan, 2011-13, a series of actions are laid out for over 70 partner organisations.<sup>1</sup> Such a breadth of targets and partner engagement is a considerable co-ordination challenge and FCS place a significant resource, emphasis and effort towards facilitation and engagement of the wider industry in order to deliver the wider industry objectives.

Three examples of sectoral forest industry collaborations include: -

**Timber Transport Forum** – Established in 2000 and continuing successfully since then, the Timber Transport Forum is facilitated by the private sector through a project officer. There are nine regional Timber Transport groups, seven in Scotland and one each in England and Wales, which help to bring together the timber industry with local and central government agencies. The forum aims, amongst other priorities, to help support reduced timber miles through inter-modal transport; sharing best practice amongst the timber transport players and supporting infrastructure in order to take pressure off the remote rural road network through investment in in-forest road extension and a series of agreed preferred route maps for road timber transport.

There is evidence of shared learning from other countries, in particular Finland where, amongst other initiatives, new route management technology was researched and the results disseminated to Scottish hauliers at a conference.

The Forum helped to establish an important collaborative initiative in South Scotland called LIFT (Logistics in Forestry Transport Ltd), and we will look at this example below in the individual company analysis.

The Forum oversaw the administration of a government investment fund which, over its life, invested over £14m in projects totalling £29m in hard and soft infrastructure in road rail and sea transport.

Whilst the outputs in terms of physical activities, are well documented, it is less clear what the overall programme impacts have been on individual businesses or indeed what might have happened in the absence of the initiative.

**Timber Development Programme** – Launched in 2007, the Timber Development Programme (TDP) is a £1m initiative, facilitated by FCS but chaired by the forest industry with representation from the wider industry including support functions such as research and also end users in the form of architects and specifier's.

The objective of the TDP is to promote stability in wood supply to the market; to encourage greater use of timber and timber products; to improve supply chain efficiencies and help improve the quality of the growing stock currently planted.

The four year initiative has produced some very useful original research and has published reports on "Sustainable Construction Timber" and "Designing housing with Scottish Timber" and held a number of dissemination events aimed at encouraging participation from SME's and the wider industry.

***Scottish Forestry Cluster and the Forest Industries Advisory Board*** - This important initiative has been in operation since the initial establishment of a Forestry Leadership Group in 2000. The Leadership Group and subsequent Board have membership drawn from some of Scotland's largest forestry company's. Interestingly, the repositioning from leadership Group to Advisory Board took place 8 years on from the initiation of the original initiative, at which time some of the personnel on the group were changed to bring greater focus to the deliverables and to give the private sector greater control over the leadership of the industry.

Projects and initiatives are being developed and prioritised by the new Advisory Board and they will be delivered by a mixture of public and private funding, with results disseminating to the wider industry. The Board will also set industry wide aspirational targets on the growth of the forestry sector in Scotland and will set performance monitoring arrangements to ensure these targets are met or are adjusted appropriately. Key to the success of the Board will be the extent to which it demonstrates the importance of the sector "in the round" in the wider Scottish economy.

Dissemination of the work of the Board to the SME sector is still work in progress. There are four Regional Clusters in place in Scotland, each with an independent facilitator. The regional groups are working closely with the SME sector and through a series of regular meetings, current issues of interest to the locality are discussed in an open and informal manner. The events are well attended and feedback on their effectiveness has been positive. Currently however, there is something of a disconnect between the work of the "high level" Industry Advisory Board, which sets overall strategy and direction for the economic direction of the Scottish industry and the regional groups themselves. The interface of "top-down" vs. "bottom-up" still needs to be resolved if the wider objectives are to be achieved. This same conundrum, that of engaging SME's in national strategic programming, is a common phenomenon in other sectors and is by no means an easy issue to resolve.

#### **4.1.3 - Individual businesses:** two examples are reviewed in this section:

***The Logistics in Forestry Transport Ltd (LIFT) Project*** - This business entity aimed to consolidate haulage resources, both in terms of supply and demand, so that participant SME's were given optimised collection and drop off routes with the subsequent final trial being used to demonstrate the benefits in terms of reduced road miles and fuel saved.

Interestingly the trading model behind the project specifically notes that there is potential for mis-interpretation that the business methodology would be open to challenges under the anti-competition laws, albeit LIFT simply acts as a broker for the supplier and the processor, and does not influence prices charged by either party.

With some difficulties along the way, in terms of software development complications and refusal to divulge commercially sensitive information in rate setting in particular, it was not possible to test out the system on a commercial basis.

The evaluation of the project doesn't discuss the potential ways of resolving such difficulties in the future and concludes in the Executive Summary, "collaboration and the pooling of resources to drive scale efficiencies is not a real prospect in the forestry sector at present". There is no comment as to whether

the right mix of players were engaged, whether the timeframe of the project was appropriate and whether sufficient time was allowed to build trusting relationships amongst the players.

The results of the trial are to be transferred by tender to a commercial partner who would live test and then publish the results of the work. The project is currently at the stage of being transferred to the commercial operator.

**Neil Sutherland Architects LLP (NSA) / MAKAR Ltd** - Neil Sutherland has built up an architectural design practice near Inverness, specialising in the design then delivery of contemporary architecture which is sustainable, healthy and fully integrated with its landscape. Between them these two closely related businesses support 15 people and Neil continues to challenge convention with his approach to business and his attitude to engagement with other businesses both vertically in the supply chain and horizontally amongst his peers.

Examples of collaboration are built on the basic philosophy that building better quality homes, in terms of design, performance, comfort and low running costs requires innovative construction approaches, not just the inherent skill set to deliver new technological developments, but also involves an element of risk during the proving phase of these technologies. Both NSA and MAKAR have actively engaged with the research institutes in Scotland in order to test out and evolve new construction and design methods.

NSA have actively pursued opportunities for collaboration, perhaps without realising that this was what they were doing, and much of this is the result of the natural relationship building skills of the proprietor. This has meant he has been able to positively engage with larger non-SME processing and manufacturing businesses in terms of material supply and product innovation. From the non-SME's perspective, the prospective relationship with NSA/MAKAR offers the generation of new ideas and innovative practices, sharing risks and developing new products, without diverting major internal resources to pursue new product development.

NSA also practices horizontal collaboration amongst similar architectural practices in order to strengthen the market demand for innovative timber based housing solutions both from the consumer's perspective and also to stimulate demand in the supply chain.

## 4.2 - Sweden

**4.2.1 - National:** The Swedish Strategy for Sustainable Development was published in 2003/04 focussing on the development of a Sustainable Economy, which means that social and environmental concerns need to be recognised as well as purely economic. Similar concerns are identified, although there are still signs of more interventionist policies in terms of providing financial assistance to business rather than facilitating businesses to help themselves. The strategy makes a strong commitment to lifelong learning and to the promotion of environmentally driven growth. It makes a continued commitment to the policy of supporting research institutes to grow and develop. Much of the recent innovation actions at the national level are focused on strategic programmes for key industries, a better structure for seed financing, focused R&D investments in engineering, life sciences and natural sciences combined with measures to strengthen the industrial institutes and innovation activities in SMEs.

The recent recession has hit Sweden hard as it was traditionally an export-oriented economy, principally to other European countries. Strong investment in research, education and innovation has given Sweden a highly skilled population, with a high proportion of the workforce taking knowledge-intensive jobs. The key industries include: engineering, which accounts for 50% of Sweden's output and exports; IT; steel; motor vehicles; biotechnology and the pharmaceutical industries. Sweden also retains its traditional industries such as forestry, paper and pulp.

Sweden's proportion of GDP spent on R+D is amongst the highest in Europe ranging in recent years between 3.6% (2007) and 4.3% (2001), consistently twice that of the European average, and nearly 10 times that of Scotland, which in 2008 recorded an R+D spend of 0.48% of GDP. The business sector accounts for three-quarters of R&D: companies largely fund their own research but receive some contributions from the central government and abroad.

**4.2.2 - Sectoral:** An example of a broad sectoral collaboration in Sweden occurs between companies within the processing industry, Örnsköldsvik municipality and universities and colleges and is something completely new to Örnsköldsvik. This form of collaboration occurs within a physical location, the Processum Technology Park<sup>2</sup> and has established clear goals and allocated resources offers huge opportunities for making use of the strong development potential in the pulp and paper industry. The level of knowledge of process chemistry, process engineering and process control in the companies in Örnsköldsvik is unique and internationally renowned. Processum Technology Park functions as a driving force for the promotion of new development opportunities, mainly alongside the core activities of the member companies.

The basic concept was to look at the current forestry model in Sweden, which revolves around paper and cardboard, pulp and sawn timber and the bi-products of the processes, which generally find a market as fuel. A direct analogy can be drawn with the petrochemicals industry that, in the 19<sup>th</sup> century produced mainly kerosene, and today produces over 2000 different products from refined crude oil.

The Processum facility brings together a range of active players to develop the concept of a biorefinery, which is established to process scarce resources in an environmentally friendly way. The objective is to increase the value added output from wood fibre used by the "conventional" industry, extending the application and use of niche products into a whole range of other sub sectors including:-

- *Natural food agents, cholesterol reduction additives; diet agents and antioxidants; thickening agents*
- *Chemical polymers; emulsifying agents and mould protection*
- *Fluid retaining medicines and lubrication medicines*
- *High absorbency tissue products*
- *Fish food and manure soil improvers*

The combination of partners involved in this physical collaboration is drawn from the conventional forest industries sector; house manufacturers, organic chemists, the R+D sector and laminated panel producers.

A second example in Sweden is the so-called "Packaging Arena", which again is based on a physically clustered site in the Karlstad Region of Sweden. Their goal is to become a world-class leader for all

things related to sustainable packaging development. Their website<sup>3</sup> states “the Packaging Arena is an environment for consumer-driven packaging development. We cooperate, collaborate and bring together companies and specialists from across the industry, worldwide. Through unique services, access to leading experts and advanced development environments we create packaging development in the world. ??

We are a membership organization and our member companies are in the chain packing in the development process, including materials in manufacturing, printing, design, retail and research. A traditionally strong position in the pulp and paper industry and the printing industry combined with world-leading research makes the Packaging Arena into a natural gathering place for packaging development.

In order to develop future packages we offer unique services based on the latest knowledge. We adapt our mission and methods to the needs of our customers. Our services help customers with their development while we develop new knowledge that drives the packaging industry forward.

The Packaging Arena’s vision is to create the most innovative environment for consumer-driven packaging development in Europe. Our goal is that consumer awareness and sustainability will be the drivers in the creation of tomorrow’s packaging.

**4.2.3 - Individual businesses:** An example of a “Focal Collaboration” is described in long-term research carried out by Karolina Andersson<sup>4</sup>. The supplier group Trä 50 is a group of furniture manufacturing suppliers to Ikea who saw possible business advantages in collaboration. It was a group of SME’s who wanted a change, by collaboration on equal terms.

The move coincided with a requirement by Ikea to cut supplier lead times by 50% so this was the driver to the initial collaboration, although other initiatives later flowed from this.

According to Andersson, the initial group of eight companies met at seminars a few times a year, in all they had 12-15 seminars in the project. Each company hosted at least one seminar, which went on from morning until lunch the following day. They started out visiting the production facilities of the hosting company. The rest of the seminar was held in a conference hotel. Each seminar had a main subject, with a guest lecturer. Depending on the subject, customers (mainly Ikea) or suppliers could also be invited. But it was not only the main subject that was discussed.

The companies seldom focused on the same areas at the same time, and it was important that everybody felt that their field of interest was brought up. The project manager urged them to work hard at the seminars but also in between. The evenings at the seminars were very important - a time for socialising, getting to know each other better and having a good time. It was one of the most important activities according to the project manager. Having time to relax and talk about other things than work is essential to make a group tighter, especially a group where they are almost competitors.

The management’s involvement is very important for the success of the project according to the project manager and the MDs were always present at the meetings and seminars. A few specific nominees represented each company, often not just the company MD or owner. Depending on the subject in focus, others could join too. The production managers were for example present when production issues were



being discussed. However, the involvement of the employees should have been more intense according to the project manager and the failure of getting the employees more involved was one of a few setbacks.

The attendance at the seminars was always high. There was seldom anyone missing – a success factor and a pleasant surprise for both the project manager and the coordinator.

The initial objective, that of lead time reduction, was challenging for some of the companies for whom base production and productivity data was not available. Non-attributable time studies quickly identified a number of areas of improvement and although the target objective of 50% reduction was not achieved, a very creditable 35% reduction overall was achieved.

The initial project had cost c SEK 8m, of which SEK 2.5m had come from the state, the balance from the companies. That subsequently led to further investment by the businesses of c SEK 40m.

Following the initial successful collaboration and the building up of mutual trust and confidence, the Trä 50 group took on two further initiatives: Partnership development at the strategic level with Ikea and; the development of group export opportunities outwith the Ikea company. The strategic partnership with Ikea was not without difficulty as there were tensions over potential favouritism towards certain suppliers. The export project started at the same time as the discussions with Ikea and a key criteria which gave group members confidence was that none of the companies was active in any of the chosen export market destinations. Three areas were chosen; part of Russia; Germany and Japan (where a company similar to Ikea operated). Not all the companies participated in the export initiative, and as it turned out, one of the larger lead companies had to back out and a second company was bought out by another business that was already trading in Japan.

Trä 50 arranged study trips to Norway, Japan, Poland, Denmark, Italy, Spain, and USA. They visited companies in each country, mostly furniture manufacturers but also manufacturers of machines etc. It was, according to the members and the management of Trä 50, important for them to see how the industry was managed outside Sweden. In some cases Trä 50 had things to learn and sometimes Trä 50 realised they had more knowledge.

The companies helped each other out during these years. If one had too much to do, others helped out and when a company had difficulties and others stepped in and gave them some work. They also engaged each other as contract manufacturers now and then. These were spontaneous, positive activities due to good relationships, effects that had not been expected at the outset.

The joint turnover for the companies was approximately 400 million crowns when Trä50 was founded. That figure was approximately 2 billion crowns in 2000 mainly thanks to the expansion of Ikea but the companies had also proven they are competitive. Thanks to the changes and the progress made by the companies, they got huge orders from Ikea.

There has not been much group action in Trä 50 since 2000-2001. The reasons are many, but one important factor was the economic downturn in the industry meaning that the MD's needed more time to focus on their own company. The companies also identified why they do not meet regularly any more. Key to that is group dynamics and that in the end it was not the same group of people any more and some key



individuals had moved on or retired. The study trips were no longer what they had been for the same reason and since the group had already visited many places the remaining personal interest was small.

This case study neatly illustrates the life cycle of a collaborative structure from galvanising the creation of the group through initial key demands placed on them by a major customer, to later a learning sharing, semi formal network of peer businesses not afraid to set ambitious targets, exchange information and move onto different challenges. Ultimately, as in all life cycles, enthusiasm wanes and people move on, but the companies that worked collectively are all the more successful for that collaboration and are still in touch at various levels.

## 4.3 - Finland

**4.3.1 -National:** The characteristic feature of the Finnish national sustainable development policy is a wide-reaching participation of various societal actors and parties both in the definition of the contents and implementation of the measures. At the same time, sustainable development has gradually become part of mainstream politics. International evaluations seem to indicate that Finnish policy is on the right track. Their approach is already referred to as the "Finnish model", in which broad-based, multi-stakeholder participation is combined with high-level political leadership. In the Finnish model, the Government, civil society *and business life* are engaged in an open dialogue on the creation of the sustainable development policy.

Since the late 1980's, Finland has tried to enhance the role of sustainable development in mainstream politics. The Finnish National Commission on Sustainable Development has been working continuously since 1993. Led by the Prime Ministers, it has brought into the limelight of national debate several important themes of sustainable development, acted as an interpreter between national and international sustainable development trends and supported the work carried out by various actors. A discussion forum open for the different groups of interests has also been seen as a valuable factor building up national integrity. What has been considered a particular value is the fact the very core of the Government takes part in the Commission's meetings to put forward their views and to respond to questions presented by society.

As a clear development trend in the sustainable development policy the social, cultural and economical aspects of sustainable development have increasingly gained foothold beside environmental considerations. In the planning of policy measures, mutual and mutually supportive interaction is expected.

The starting point for the national strategy work was quite ambitious: to prepare a genuinely national policy document that would take the opinions of various actors and parties in consideration and which would pay attention to all dimensions of sustainable development as fairly as possible. Through this work on a sustainable development strategy, an opportunity was created for the various parties to take part and have an influence on outlining future policy alternatives in interaction with one another. The national sustainable development strategy is proof of the preparedness of Finnish society to face new international and national challenges and has ensured the commitment of the various actors to work together.

**4.3.2 - Sectoral:** In 1996, after the severe recession of the early 1990s, the Finnish Government took the decision to allocate some ?500m from the sales of state property to research and development. Further to this decision, seven cluster programs were created as a new Science & Technology policy instrument, which was partly inspired by Porter's (1990) ideas. In all cluster programs, the rationale was to bring universities, research institutes, firms, and funding agencies into closer collaboration, whilst enabling concerted R&D efforts in support of long-term Science & Technology based competitiveness.

The largest of the cluster programs was Wood Wisdom (1998–2001), which covered practically all areas of research relevant to Finnish forestry and forest industries. Specifically, Wood Wisdom spanned the whole value chain from the production of raw materials to markets, in order to foster interdisciplinary collaboration among research groups and to enhance the market orientation of R&D efforts. Towards this end, Wood Wisdom contained a wide variety of basic and applied research projects, as well as product development activities, and even market studies.

The total funding of Wood Wisdom was about ?33m. The largest share of this (44%) was supplied by the National Technology Agency, which provided funds to applied technological research projects with a view towards commercial exploitation of new Science & Technology based knowledge. Industrial companies, too, made a significant contribution (33%) while the Academy of Finland (15%) funded basic research projects. The Ministry of Agriculture and Forestry (7%) and the Ministry of Trade and Industry (2%) also provided funds. This collaboration among several funding organizations was one of the groundbreaking features of Wood Wisdom.

For the purposes of administrative management, the 156 projects in Wood Wisdom were organized into four major research areas, which were further divided into 21 thematic groups and 34 research consortia. On average, the consortia contained about four projects with complementary objectives. The consortia were supervised by advisory boards, which consisted usually of about ten Science & Technology experts, industrial R&D managers, and representatives of funding organisations. The role of these advisory boards was to provide guidance to the projects and the later evaluation of results.

The program as a whole had a steering group of twelve members, most of whom were leading industrialists or representatives of funding organizations. This steering group provided strategic guidance to the program and helped improve coordination among the institutions involved. A program director was appointed, with the remit of proposing and implementing a range of measures (e.g. seminars) in support of improved coordination and effective use of resources.

More recently Finland has embarked on further forest industry clustering in response to significant changing market conditions particularly in the paper industry, which has been a hugely significant sector for the Finnish economy. Paper remains a remarkably usable medium, however, new turnover and profits have to be found outside of the traditional products. In establishing the Forest Industry Future cluster in 2008, it has been estimated that in the future half of the turnover of the forestry sector will come from new products and half from traditional products.

The goal of the Forest Industry Future competence cluster is to find new solutions for the industry and especially to support the growth of the small and medium-sized enterprises and to promote innovation and new product development. The underlying rationale for cluster group development is versatile

innovation, which combines both research and technology and business knowledge. The operation of the competence cluster is also heavily focused on national and global networking.

There are seven geographical centres of expertise participating in the programme all of which have expertise and a mutually supportive forestry industry knowledge base. The international operator network of the Centres of expertise includes, forest industry corporations, universities, colleges, universities of applied sciences, and research institutes. In addition, the network has many new start and already globalised small and medium-sized businesses.

Priorities for research and development in the programme include: -

- *Tailored fibre supplies*
- *Wood chemistry and novel products*
- *Composites and “intelligent wood”*
- *Packaging*
- *Printed intelligence*
- *Measuring technologies and*
- *Enabling technologies*

Whilst the Forest Industry Future programme appears to have a focus on developing SME's, a further clustering/collaboration initiative in Finland, Forestcluster Ltd, focuses on high-level research as an essential requirement for new technology, innovations and applications in existing businesses, as well as emerging businesses. Forestcluster Ltd is one of six Strategic Centres for Science, Technology and Innovation in Finland and their research agenda is strongly linked to the needs of businesses. This interaction between end-users, companies and researchers creates opportunities for identifying new lines of research and research fields, and for risk-taking. All this is made possible in the research and innovation programmes that are the core of activities in Forestcluster. The programs also provide a platform for international co-operation.

Forestcluster priority programmes include:-

#### ***Intelligent and resource-efficient production technologies***

The goal is to develop radically new production systems that make the best use of resources and are energy-efficient so as to reduce capital intensiveness and improve the entire cluster's efficiency and flexibility.

#### ***Future Biorefinery***

The goal is to develop new ways to fractionate wood and thereby, enable the generation of new wood-based value chains.

#### ***Customer solutions for the future***

New attractive, customer-oriented and competitive products and service concepts will be developed, for example to meet the needs of printed communications, packaging, construction, decoration and new product fields such as chemical and energy products.

Both Forestcluster Ltd and Forest Industry Future are currently in existence although it is not clear to what extent they have common origins or share expertise or experience.

## 4.4 - Norway

**4.4.1 - National:** In its policy platform, the Norwegian Government pledged that it would follow an ambitious policy for the environment and for sustainable development. The Government wants Norway to play a leading role in these efforts in order to guide sustainable development efforts by the authorities, municipalities, NGOs, companies and individual people. It is also intended to mobilise support for joint efforts.

The Government was interested in a peer review of its sustainable development policy as part of the input to the process of developing the new strategy. Interestingly in spring 2006, the Swedish authorities were contacted and invited to contribute to the process. A group of experts with five representatives from Sweden and one from Uganda presented its report to the Norwegian Minister of Finance and the Minister of the Environment in March 2007. The report was partly based on a broad-based public consultation involving Norwegian organisations and research institutions, held in January 2007. It provided a useful and critical review of Norwegian policy and policy instruments, and made many proposals for improvements.

Norwegian institutions and voluntary organisations have been involved in several phases of the preparation of the strategy for sustainable development. At an early stage, they took part in a web-based consultation on how the work on the strategy should be organised and in January 2007, they participated in the two-day consultation held by the Swedish-Ugandan peer review group. In summer of the same year, a public consultation was held on the draft strategy and the set of indicators for sustainable development, and responses were received from 46 institutions and organisations. Many of them considered it very important that the Government had drawn up a new strategy and agreed on its focus and priorities and on Norway's goal of being a leading nation in environmental and sustainable development efforts.

**4.4.2 - Sectoral:** Forest and other wooded land cover a total of 12 million hectares, which amounts to 37 per cent of the area of Norway. The volume of growing stock has more than doubled since 1920, and was 650 million cubic meters in 1999. The net annual increment is 22 million cubic meters, while annual removals are 8-10 million cubic meters. Approximately 80 per cent of the forest area is in private ownership, divided among about 120 000 properties. This means that responsibilities and authority relating to forests are to a considerable extent in the hands of a large number of individuals.

The Norwegian Government have supported the development of a number of Norwegian Centres of Excellence (NCE's) and since 2007; around twelve NCE-clusters have been established across a range of sectors.

The NCE programme must make an offer to the best and most developed clusters in Norway, to clusters that have the best conditions for further growth through cooperation on innovation and internationalisation.

The NCE programme is open to clusters in all industries across the country. But the competition to become an NCE is heavy. There are many good potential sectors that could have the potential but far from all are permitted to become an NCE.

In order to become an NCE, an industrial cluster must have good resources and established competitive advantages which together open up the opportunity for further development.

- \* An NCE consists of a number of companies with activities within or related to the cluster's core activity.

- \* An NCE must also have knowledge, development and financial acumen to support the core companies' development.

- \* Within an NCE there must be shared interests among the businesses, related to functional dependency and/or shared challenges through collaboration.

- \* The networks becoming NCE's must be based on well-developed relationships between the operators.

- \* The operators must have a shared awareness of the group's importance for their own development. They must also have a vision of the cluster's further development.

- \* Before assignment of NCE status, meeting places, co-operation forums and networks for dialogue and co-operation between businesses must be established.

- \* The NCE cluster must also have an activity plan and be organised efficiently.

At this point in time, the forest industry sector is not a formal NCE but clearly the potential exists for it to do so at some point in the future. The description of a Norwegian NCE cluster is consistent with those found in other countries and the aims, objectives and potential benefits are similar.

## **4.5 - Common issues, common solutions, what can we learn from the case studies?**

Fundamentally, the engagement of industry groupings through sectoral clusters is increasingly commonplace in developed countries. Most of the countries examined in this review have forest industry cluster groupings, which to a greater or lesser degree galvanise the industry towards a common goal, increasing competitiveness and supporting innovation.

International research shows that industrial clusters lead to higher employment, greater economic growth, higher wages, improved productivity and more new start companies. Innovation in the form of new technology, new products and new services, more often have their origins within industrial clusters than in companies outside the clusters.

The evidence shown from the case studies is mixed but generally positive and the forest industry as a sector has demonstrated some positive gains from collaboration but undoubtedly could achieve more if the performance of other sectors is anything to go by.

SME's are the most predominant group of business types in the EU. More than 99% of all European businesses are SMEs and nine out of ten SMEs are micro enterprises with less than 10 employees. They provide two out of three of the private sector jobs and contribute more than half of the total value-added created by businesses in the EU.

As SME's are the growth engine of the future and the succession path through which larger businesses will emerge in future, their engagement with and development through collaboration, is an important means of accelerating growth potential, innovation and market development.

Collaboration at SME level offers a number of key advantages that would be impossible to achieve as individual businesses, many of which are brought out in the case studies.

- **People** – *Developing leadership skills and creating shared vision. Building skills within businesses by engaging the next generation of managers. Sharing staff amongst collaborating businesses to build experience.*
- **Markets** – *Sharing market intelligence or jointly purchasing it and developing joint market forecasts. Sharing product specifications and process intelligence to develop scale in new markets.*
- **Innovation** – *Engaging with the research providers to encourage applied research and development amongst collaborating businesses.*
- **Promotion** – *Shared market promotion through joint literature or joint presence at trade events.*
- **Performance** – *Constantly seeking to improve the performance of the collaborating businesses through benchmarking amongst peer groups and other businesses in similar sectors.*
- **Place** – *Potential for physical co-location to gather inputs; process and manufacture; utilise waste streams or distribute final goods to consumers. Physical proximity to enable effective collaboration between participating businesses.*

These are all potential wins for collaborating businesses, which will ultimately help to progress and drive the profitability of their enterprises forward at a pace that would have been unachievable as an individual SME.

## 5.0 – Collaboration and EU Competition Rules

The potential complications of EU Competition policy have been cited on a number of occasions as a potential barrier to successful collaboration. Article 101 of the Treaty on the Functioning of the European Union ("Article 101") sets out the basis for agreements between businesses, decisions of associations of businesses and concerted practices (collectively referred to as "agreements") in connection with horizontal co-operation. A co-operation is of a 'horizontal nature' if an agreement is entered into between actual or potential competitors. In addition, the guidelines also cover horizontal co-operation agreements between non-competitors, e.g. between two companies active in the same product markets but active in different geographic markets without being potential competitors.

The assessment under Article 101 consists of two steps. The first step, under Article 101(1), is to assess whether an agreement between businesses is capable of affecting trade between Member States or has an anti-competitive objective or actual or potential restrictive effects on competition. The second step,

under Article 101(3), which only becomes relevant when an agreement is found to be restrictive of competition within the meaning of Article 101(1), is to determine the pro-competitive benefits produced by that agreement and to assess whether these pro-competitive effects outweigh the restrictive effects on competition.

The balancing of restrictive and pro-competitive effects is conducted exclusively within the framework laid down by Article 101(3). In the event that the pro-competitive effects do not outweigh a restriction of competition, Article 101(2) stipulates that the agreement shall be automatically void i.e., no adverse competition has been deemed to have taken place.

The application of the exception rule of Article 101(3) is subject to four cumulative conditions, two positive and two negative:

- *the agreement must contribute to improving the production or distribution of goods or contribute to promoting technical or economic progress, i.e., lead to efficiency gains;*
- *the restrictions must be indispensable to the attainment of these objectives, i.e., the efficiency gains;*
- *consumers must receive a fair share of the resulting benefits, i.e., the efficiency gains attained by the indispensable restrictions must be sufficiently passed on to consumers. Hence, efficiencies only accruing to the parties to the agreement will not suffice. For the purposes of these guidelines, the concept of “consumers” encompasses the customers, potential and/or actual, of the parties to the agreement; and*
- *the agreement must not afford the parties the possibility of eliminating competition in respect of a substantial part of the products in question.*

When these four conditions are fulfilled the restrictive effects on competition generated by the agreement are outweighed by its pro-competitive effects, thereby compensating consumers for the adverse effects of the restrictions of competition.

In the area of horizontal co-operation agreements there are block exemption regulations based on Article 101(3) for research and development and specialisation (including joint production) agreements. These Block Exemption Regulations are based on the premise that the combination of complementary skills or assets can be the source of substantial efficiencies in research and development and specialisation agreements. This may also be the case for other types of horizontal co-operation agreements. Interpreting the appropriateness of an individual agreement under Article 101(3) is therefore to a large extent a question of identifying the complementary skills and assets that each of the parties brings to the agreement and evaluating whether the resulting efficiencies are such that the conditions of Article 101(3) are met.

Consequently, breaching Competition policy through the act of business-to-business collaboration is by no means a certainty. Indeed the policy has been amended over the years and is currently under consultation for further amendment, precisely to take account of the positive aspects of collaboration and the benefits that this might ultimately bring to consumers.

## 6.0 - What can we learn from other sectors?

The issues affecting supply chains and the means to achieve improvement amongst the components of those chains, is not unique to any one particular sector. Learning from others and using common techniques applied to different sectors is the quickest and most efficient way of implementing best practice changes in a sector and the food and drink sector has been particularly active in this area in recent years.

A survey carried out by **SAOS Ltd** amongst over 250 Scottish Food and Drink businesses, concluded that over 75% of businesses viewed working with partners as essential to improve efficiency or create added value, whilst under half claimed to do this already. Three quarters stated that their goals were not closely linked to those of their supply partners and around a third stated that they have long term partnerships based on mutual trust, shared goals and shared benefits. In general, respondents to the SAOS Ltd survey believe that collaboration is a good thing to do but few do it well in practice. Importantly, those that do collaborate effectively see significant business benefits.

The **Institute of Grocery Distributor's (IGD) Food Chain Centre** has been in existence since 2002 with the specific intention of reconnecting farmers with valuable business techniques in use in other sectors elsewhere. The Food Chain Centre specifically spearheaded the sharing of information along the supply chain; to champion positive trading relationships, and to develop and test improvement techniques. By 2007, the Food Chain Centre had engaged with almost 2000 farm businesses and over 120 other food companies. Twenty-five exemplar projects were delivered and appraised reporting savings of £14m, much of which was repeatable in future years.

In its description of collaboration, the Centre notes that:

"We do not make a simple distinction between hard and soft relationships, where confrontational = hard and collaborative = soft. This is a common mistake and suggests that collaborative relationships are easy-going and cosy. In such a competitive industry, it would be a recipe for failure.

Instead, we believe that collaboration is the true, hard-nosed approach to business, simply because it is capable of delivering the greatest benefits. It is however a difficult option, requiring a disciplined approach. The partners involved should never become comfortable with the status quo, should set exacting and challenging targets and should drive continuous improvement together"<sup>5</sup>



The Food Chain Centre noted in their completion report in 2007, the following highlighted achievements: -

- *We examined 33 chains from farm to fork. We found that on average, 20% of costs in the food chain add no value.*
- *We set up a network of benchmarking clubs in fresh produce and promoted the benefits of benchmarking across all farm sectors. We also worked with partners to establish a network of services described by an international survey as the best in the world.*
- *We explored ways to provide information on consumer trends to help farm businesses.*
- *The businesses involved reported savings of £14.4m. On that basis the return on investment is 270%. Many of the savings are repeatable in future years and there were other benefits impossible to quantify.*
- *Between 2002 and 2006 the proportion of farmers benchmarking rose from 8% to 33% and involvement in business clubs from 2% to 10%. Farmers reported substantial benefits as a result: 52% say they improved their practices and 34% enjoyed better returns.*
- *Through the dunnhumby Academy at Kent Business School, farmers can now access the shopping habits of a million shoppers to test their business ideas. Our pilot group of farm businesses enjoyed an average sales uplift of over 10% from using this information.*
- *We produced a large collection of evidence and examples. These are available at no cost through the Food Chain Centre<sup>6</sup> website. This material forms the basis of a new Edexcel BTEC qualification.*

The Food Chain Centre model is currently being examined in a Scottish context with the real prospect that a Scottish equivalent “centre of excellence” will be set up. Its principal components are likely to be:-

- *A shared research and knowledge pool, which will make connections with industry and academia and will share consumer research widely throughout industry.*
- *A repository for evidence based on exemplar projects, demonstrating best practice in collaboration and delivering substantial benefit to those involved.*
- *A new set of Industry Initiatives to implement supply chain improvements at company level through individual company projects.*
- *A centre of excellence, which helps with the knowledge transfer process to wider industry and measures the outcomes and impacts.*

## 7.0 - Collaboration opportunities in the forest industries SME sector

By definition, collaboration ideas need to be generated by the businesses themselves and not imposed upon them by any outside influence, but it is clear that a number of opportunities have been successfully explored in other countries and other sectors.

So far as forest industry SME's are concerned, there are clear opportunities to collaborate in the following general areas: -

- *Market development and new market creation – woodfuel; the greater use of timber in construction.*
- *Market intelligence – shared access to new market data and consumer trends*
- *Joint promotion – of products and services*
- *Innovation – of new products and services through engaging research providers on a collaborative basis*
- *Benchmarking – to encourage best practice amongst collaborating businesses*
- *Joint skills and managerial development - through active engagement in the collaboration*

## 8.0 - Conclusions

Collaboration is a recognised business concept, which has considerable support from business leaders but variable uptake in practice. Evidence suggests that substantial benefits can flow to businesses collaborating whether they are SME's or non-SME's. Generally the collaboration leads to improved margins, greater innovation and expanded or new market penetration. The evidence in the case studies supports that conclusion. We can categorise some of the key features of successful collaboration as follows:-

### 8.1 - The trigger

Some collaborations start in response to a major threat to a business or group of businesses. For example closure of a major customer or loss of a particular export market. Sometimes these “shocks” are driven by external factors beyond the control of the industry sector in question.

Amongst all of the issues surrounding group formation, stay alert to the need to build the correct mix of group and team skills amongst participants so that the overall group dynamics are correct.

### 8.2 - Creating the vision

Achieving a long-term strategic vision for the partners in the collaboration is essential. Such long-term thinking usually signifies security of position and avoids the short term pressure to achieve a quick win which often comes at the expense of one of the partners.

Often, a high level vision has to be secured so that none of the participants feel threatened and all of them feel able to buy-in to the process. Once this stage has been reached and progression towards building trust has started, it is easier then to introduce new ideas, concepts and initiatives.

The agenda for the collaboration *must be* set by the businesses involved and aided by the facilitator and *not* the other way round. The control point within the collaboration has to lie with the businesses involved as it is they that are taking the initiative and taking the risks and also importantly taking commercial decisions which affects the direction of their enterprises and the people that work within them.

Retaining a focus on customers often helps collaborations through difficult challenges. Everyone in the supply chain has an interest in satisfying customers and retaining their loyalty so retaining that focus can help to cement partnerships through some difficult times.

### **8.3 - Don't expect too much too soon**

Time is critical to a successful collaboration. The partners involved need time to build mutual trust and respect and this cannot be forced or hurried. Social time as well as business time, is critical to build up the level of individual rapport amongst the players.

As in any classic "product" life cycle analysis, the collaboration generally has a start, (building up trust and agenda building), a middle (productive achieved outcomes and deliverables), and an end (tasks are achieved; members enthusiasm "burns out" or a new cohort of players take the reins). This is to be expected and is a healthy outcome and. in the authors experience involving a range of sectors, typically happens around year 8-10 of the collaboration.

### **8.4 - Make sure that there are win-win's for all**

Information sharing is an important feature of successful collaborations. Exchanging information gives all parties the same basis of understanding, which means that everyone is likely to arrive at similar conclusions. That is not to say that all information should be shared as there will be some sensitive details that should not be revealed, but in trusting relationships, companies share a high proportion of their data.

SME's and in particular the less than 50 employees category, have most to gain by collaborating. Typically, the proprietor is a key driver in the business but cannot easily carry out or be expert in all the aspects of marketing; innovation; product development; efficient manufacturing and so on. Shared learning within a peer group and mentoring from others more experienced in certain business aspects, will help to share risks, build capacity and confidence within the SME and will help the business create new relationships and improve overall profitability.

Cross-sectoral learning is important and quite often, the opportunity to learn from other best practice examples in totally non-competing sectors is missed on the basis that no one in the collaborating group realises that similar problems or opportunities have been resolved elsewhere. Part of the resolution of this problem lies within the need to share information at National level through the various sectoral groups.

### **8.5 - Don't get hung-up on formal structures**

Collaborations need not have a formal structure or a formal agreement in order to operate. In general it is best to have some agreement around the way participants enter into and exit from the collaboration, so that all parties can work in an atmosphere of mutual trust in the intervening period.

Independent facilitation is often seen as a critical feature of collaborations. Members feel reassured by knowing that no one vested interest is taking a dominant role in the partnership and that all views can be aired in an open and equal manner. The facilitation is often but not always, provided by funding from an external source, in particular government sources.

### **8.6 - Make it easy to collaborate**

Physical proximity often helps to cement the collaboration. Meetings are frequent, particularly early on, and being able to travel easily does help with the engagement process. Some of the businesses cited in the case study examples quoted earlier already operate in physical clusters so it is much easier for them to stay involved with the collaboration.

## **9.0 - Recommendations**

Collaboration is a much preached but less often practiced trend in modern day businesses. Critical to the success of future business development, it is particularly difficult to encourage in the SME sector as too often, the proprietor of the SME business has too many day-to-day issues to deal with to see the benefits of collaboration, far less put them into practice.

Collaboration is not an easy process and those who reportedly practice it often point out the difficulties of maintaining interest and creating challenging targets amongst the group members. Nevertheless, the evidence that has been found for forest industry SME businesses in this report and indeed amongst other sectors, suggests strongly that the prize to be gained from collaboration is most definitely worth the effort of getting there.

The missing ingredients are relatively simple to put into place but then require the considerable commitment of the collaborating businesses over a period of time that may extend to years. Long-term commitment and a shared vision are critical components to the success of any collaboration.

**Facilitation** – is a critical gap. Independent open-minded facilitation helps to open up debate and provide the pathway to a shared strategic vision amongst the collaborating businesses. The skill of the facilitator is knowing when to support and when to let businesses drive forward on their own so the input level of the facilitator will vary as time goes on. Typically, the cost of facilitation appears to have been borne by public agencies in various countries.

**Case Studies** – Developing and recording case studies, particularly but not necessarily exclusively all good examples, helps to demonstrate good practice which other collaborating businesses can observe and emulate. The creation of an easily accessed repository of these case studies would be a welcome development.

**Benchmarking** – Performance benchmarking assists participating businesses to see how they compare amongst their peer groups and enables them to improve performance and improve business profitability. Benchmarking systems are common place in other sectors e.g. food and drink, and can easily be adapted if necessary.

**Horizon Scanning** – New business opportunities evolve and develop at a rapidly increasing pace as markets are created and innovations are implemented. SME's in particular are not well placed to pick up on new opportunities until they have to some extent already become "mainstream". Adding the horizon-scanning role to that of the facilitator will help to cement the facilitator's role and would continue to provide food for thought for the collaborating businesses.

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<sup>2</sup> [http://www.processum.se/eng/press/filer/FOLDER\\_eng.pdf](http://www.processum.se/eng/press/filer/FOLDER_eng.pdf)

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