



SME CODE OF CONDUCT

JUNE 2021



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Context

There were **5.9 million** Small to Medium-sized Enterprises (**SMEs**) in the UK in 2019, which represented over 99% of all businesses in number.

Contributing 47 per cent of revenue to the **UK economy**, small and medium-sized enterprises (**SMEs**) have a key role in boosting productivity – but need support to expand business and increase impact.

Around 80 per cent of **UK** companies **fail** within their first year and, according to the latest figures from the Office for National **Statistics**, only 42.4 per cent of **businesses** started in 2013 were still trading five years later.

According to Forbes, the most common reasons small businesses fail include a lack of capital or funding, getting the management team right, a faulty infrastructure or business model, and unsuccessful marketing initiatives.

COVID has certainly only added to these pressures. A recent survey of **SMEs** highlighted that 91% of businesses were impacted by the crisis, and only 8% had managed to pivot towards a new market.

However, GSA research indicates that those companies who are addressing these failures well are looking to grow their customers base in size and number within the IT and business services industry in the UK. A major barrier to their growth is that procurement continues to favour insiders, larger organisations and incumbents. These larger organisations know how to navigate complex processes, execute heavy tenders, and can afford the pitfalls of long and uncertain sales cycles.

In 2015 UK **Government** achieved its 25% aspiration for spend with **SMEs**. The current **target** for **Government** spend with **SMEs** is 33% by the end of the current Parliament in March 2022, a revision of the previous end date of 2020.

The GSA proposes a Code of Conduct for the Industry to increase the success rate of **SMEs** and **Start-Ups**, to drive innovation into and aid the UK Economy and to enable the Government to meet its targets. And besides that, it's the right thing to do.

Characteristics of an SME and the challenges they face

By their very nature **SMEs** are small companies that typically have a unique and differentiated product or service offering. They are normally characterised by the belief that they are offering something that closes a gap in the market. Typically - they are agile, hungry, responsive and move fast, as they need to because their window of opportunity tends to be short and finances severely stretched. Due to their size or their start-up nature, their brand and market presence may not be very visible to their target customers. They are often innovative, disruptive, and creative and play a huge role in transforming lives and businesses – sometimes it is behind the scenes and we do not even know a particular **SME** was responsible for a big change in our everyday lives.

However, for an **SME**, dealing with larger enterprises as potential clients or partners puts their culture and operating style against orthogonally opposed corporate cultures that expose huge differences and blockers to establishing beneficial relationships and transacting for mutual value.

These larger enterprises have global procurement departments that run lengthy and onerous sourcing processes from identifying potential suppliers to awarding contracts. Over recent years many have rationalised their supplier bases to favour a small panel of preferred / tier 1 supplier organisations to achieve strategic, operational and commercial efficiencies – it makes it really challenging to get onto these enterprises' supplier databases and catalogues. Terms and conditions are typically large in number and legally very complex, with onerous commercial and financial terms including payment, liabilities and penalty regimes. These often scare and preclude many smaller organisations from raising their profile and bidding for work with large enterprises. Governance, vendor management and contractual compliance is also typically rigid and fixed within larger organisations, requiring significant time and investment.

But things are changing, many organisations have identified that their processes, culture and ways of working are stifling innovation and precluding start-ups and SMEs from discussions, procurements and partnerships. In response – they have been developing exec level sponsored supplier engagement and supply development programmes targeted at improving and optimising all aspects of their supplier facing engagement and transacting.

Recommendations for a Code of Conduct

The GSA believes the strategic sourcing profession needs a code of conduct to follow when dealing with or working with SMEs that provides a “minimum standard” that ensures enterprises and their potential/interested SME suppliers have a common point of view on what “good practice” in this area looks like.

This Code of Conduct provides guidelines on how to work with SMEs based around five key pillars:

- **Procurement**
- **Contract and commercial terms**
- **Relationship Management**
- **Governance**
- **Culture**

This Code of Conduct is also intended for SMEs to use and share with prospects, partners and clients.

The GSA will champion this and encourage all members to become “role-models” by adhering to the **SMEs Code of Conduct** and where possible exceeding that. It is a voluntary code, rather than mandatory. Those organisations who do adopt the Code can publish the GSA's SME Code of Conduct logo to signify their support for the code whilst also being invited and encouraged to share their improvements and evolutions in this area so that the GSA Code of Conduct remains relevant and ever-green. Where it becomes necessary to do so, the GSA will review any cases of non-compliance to the code by corporate members. If necessary, the GSA will highlight the issues and work with the organisation to identify improvement actions and make recommendations to address the issues raised. In the unlikely event that supporting member organisations refuse or are unable to comply with the code, they will no longer be able to use the GSA's SME Code of Conduct logo.

The GSA's SME Code of Conduct is intended to be complimentary to the GSA's Corporate Code of Practice and Professional Code of Conduct, as well as acceptance to adhere to organisation-wide behaviours and best practice approaches to all stages of the Global Strategic Sourcing Standard.

This is an evolving document and was last updated on 10 June 2021.

Culture

- Always enter a partnership with a win-win mentality.
- Ensure you share and align to the same values.
- Always be open, honest and transparent.
- Commit to doing your homework so you don't waste each other's time – research them rather than just meet them.
- Fully understand the objectives of each side – why does the start-up want this deal? What's in it for the client?
- Agree to provide a decisive response – “maybes” are damaging to start-ups.
- Be understanding and realistic of their time commitments for business development. Agree to provide quick feedback – regardless of the positivity of that feedback / the decision.
- Commit to develop a meaningful relationship with any start-ups you are interacting with.
- Be realistic and honest about the scope. Less is more.
- Have clear objectives from the outset not to waste their limited resources.
- If your company mentality is built internally and not invented here, then acknowledge this or disrupt before being disrupted.
- Adapt and increase your speed to that of your partner, so as not to stifle business change and innovation.
- Understand that their success will further fuel your success, so don't hold back on references.

Procurement

- Shorter RFP processes – these should take no longer than 4-6 weeks.
- Don't invite too many potential suppliers in to participate – be realistic and set expectations clearly. Be open and honest about the number of potential partners you are reviewing.
- Consider the resource implications (time and money) of inviting a 50-man SME in alongside a large global player
- Revise your selection criteria relating to number of employees, turnover, customer and accreditations, etc. You may be barring a perfect partner before you even get to discover they offer a technology or a service that would bring massive business advantage to you
- Change the due diligence process to make it far less onerous, far more focused and something that can be accommodated by start-ups and SMEs without unnecessary cost and overheads
- Develop RFP/RFI documents that are fit for purpose. For example, if service is not mission critical or in a production environment, ensure the security and testing requirements are appropriate, not just the standard that gets rolled out across everything.
- Consider shifting the focus from the customer setting implicit questions within any RFP / RFI to establishing business outcome questions or even better set out the situation and set a problem statement that offers SMEs the ability to demonstrate innovate & design.

- Consider running an interactive RFP process using digital tools rather than a paper-based exercise. Maybe the process could be reshaped into a design contest, where the aim is to establish the extent to which each problem statement can be satisfied and to select Winners of the Design Contest which may be invited to carry out an operational trial of their service and product.
- Devise flexible on-boarding processes for start-ups, for example IT review, procurement/sourcing, compliance, security, risk analysis, legal reviews.
- Re-evaluate current supplier frameworks and catalogues to allow inclusion of SMEs.

Contract and Commercial Terms

- Agree to shorter payment terms – never over 30 days.
- Review the need for exclusivity conditions. SMEs and start-ups need to grow their customer bases and reputation in the marketplace. They will not survive if limits are imposed.
- Simplified and Standard Contract Terms. More likely to be 6 pages than 200 pages. Work with GSA on developing its smart, agile contracting
- Terms that are cognisant of the size of the organisation and their scope of work, for example limits of liability, security, reporting etc

Governance

- Consider structures and frameworks that get the best out of start-ups and SMEs. For example: cohorts, funnels, accelerators, scale-ups, sandboxes.
- Re-evaluate your Governance requirements but still clearly define roles and responsibilities
- Streamline your corporate processes for start-ups.

Relationship Management

- Consider a specific interface (individual or team) dedicated to managing relationships with start-ups with processes designed for that.
- Create an innovation framework and SME communications platform that shares and disseminates your company plans, challenges and objectives.
- Hold regular briefings and business updates specifically for start-ups and SMEs.
- For SMEs who are delivering products and services to you – appoint a suitably empowered manager to act as their internal coach/sponsor.
- Encourage organisations to develop ideas, make propositions and maybe even provide prototypes. Consider convening hackathons, jams and meetups.