7. CAPITAL PERFORMANCE AND RISK MITIGATION: THE CONTRIBUTION OF BASEL 2

By Stefano BERTI, Sara FORNAI, Antonio MARTUCCI

Abstract

The subject of this chapter is Basel 2 as an opportunity for SMEs under multiple aspects and the issues about rating. After an introduction that describes the role of the New Capital Accord as an opportunity to improve the enterprise management, the concepts of operational risk and loss events are pointed out. In particular the recommended procedures for mitigating the operational risk and preventing the loss events are analyzed, as well as the application field and the limits of the transfer of these modalities to the context of the enterprises and specifically of the SMEs. Then we will analyze the possible knowledge deriving – from the point of view of the SMEs management – from the work done by the Bank for International Settlements (BIS) and its first general effects. Then more specific subjects are faced: the development of an adequate environment for the management of the operational risk as well as the risk identification, evaluation, monitoring, mitigation/control and the role of supervisors and disclosure. Other related topics dealt with in this chapter are: the concepts of tangible e intangible assets and the role of processes and competences. These topics are faced in the view of the rules established by the EU for the SMEs, in order to manage credit in the context of Basel 2. The chapter ends with an integrated outlook of the business management: performance *vs* risk, compliance, knowledge..

7.1 Basel 2: an opportunity for improving the enterprise management modalities

As we have seen in the previous chapters, the topic of Basel 2 concerns SMEs and in particular their relationship with banks for loans. Focusing our attention on this can be correct but also limitative. Considered the great impact of the New Capital Accord, to limit ourselves to asking whether Basel 2 is a "*threat*" rather than an "*opportunity*" is in fact very restrictive.

The image on the right side can be interpreted either as "crisis" or as a "challenge"; in fact it derives from the mix of two ideograms, the first one means "threat" the other one means "opportunity".

We choose the second meaning and try to see what we can learn also from the great effort made by the International Bank System about the **operational risk** and the **loss events**: one of the most remarkable results achieved within Basel 2 in terms of knowledge production. In fact Basel 2 establishes some rules which can influence credit and for this reason it s very important to know how to manage them, but Basel 2 has produced a great amount of knowledge, which can be useful for the enterprises also independently of the fact that they can influence rating or credit cost. Operational risk and loss events are the first important topic from this point of view. Later on we will see if and how these considerations are related with the topic of rating a credit relationship.

The Bank for International Settlements (BIS) has analyzed the loss events occurred in 2003 in different international banks and has assessed these events as corresponding to the work of nine mil-

lion years per person (almost five times the period required for building the Pyramid of Cheops). We think that this can be enough to demonstrate that Basel 2 maybe is, first of all, an extraordinary set of knowledge.
Moreover, for example, the studies exclusively focused on the credit risk aims at determining the probability of default: therefore they represent a remarkable set of knowledge about what, among other things, can generate a crisis in a company, causing its inability to pay debts.
To find out how this can happen is obviously extremely important for every businessman.
Anyway, before proceeding, a methodological introduction about this chapter and the next two chapters is necessary:.

> *The reflections that we will report will raise a different interest according to the perspectives to be analyzed. If we observe the perspective of the medium-sized enterprises and of the aggregates of small-sized enterprises, we can see that their interest is direct and operational. Special attention has to be paid to public and local administrations and trade unions. If we analyze the perspective of the small-sized enterprises our reflections assume a more attenuated interest. They are generally more interested in training and, from the operational point of view; the interest can be focused exclusively on some specific aspects that affect the business context: the virtuous circuit of reliability-services or the importance given to the risk prevention.*

7.2 Operational risk and loss events

7.2.1 Definition of operational risk by near-miss

Some considerations about the operational risk and the loss events are specifically derived from banks, but in general, from these remarks we can deduce information useful also for the enterprise context.
The following is a possible definition of **operational risk**[1]:

> *"The operational risk is the danger that technological deficiencies, illegal or inadequate behaviours of human resources, mistakes/lacks in the productive processes or external factors can cause financial loss in the development of the enterprise activities and then have negative consequences on the enterprise's capital".*

Operational risk shows some features which differentiate it from the other risks identified within Basel 2. In particular, it is:
- involuntarily incurred in;
- not consistent with the risk-return logic;
- hard to identify;
- hard to measure and quantify.

Loss can occur or not: an appropriate prevention can certainly reduce the loss probabilities, but not completely exclude it. Anyway, certainly an adequate prevention planning can minimize the impact of negative events.

---
[1] Definition provided by the Basel Committee.

For what concerns risky activities, the analysis of an approach used for preventing the loss events – the so-called "*near miss*" – can be very interesting. It consists in eight points:

1. identification of a near miss;
2. dissemination of information and of the identified accidents;
3. classification and order of information by priority, distinguished in strategic and individual processes;
4. distribution of the right level of information to the appropriate channels;
5. random problem-analysis;
6. identification of possible solutions;
7. transfer of the actions to be undertaken to users and internal departments;
8. settlement of all the actions still open and completion of reports.

Risk prevention, mitigation and control are then basic elements of the entrepreneurial and managerial action and businessman can draw benefits from them, especially with the support of a skilled consultant (an aspect that we will extensively treat in Chapters 8 and 9).

7.2.2 The incidence of processes and human resources: results of the analysis of the loss events in the banking context

The Bank for the International Settlements (BIS) has identified seven categories for the operational risk:

- *Internal fraud.*
- *External fraud.*
- *Employment and work safety.*
- *Customers, operational procedures and products.*
- *Material damage.*
- *Interruption of operation and malfunctioning of the Information Systems.*
- *Execution, delivery and product management.*

Each of these categories has been further divided into 20 subcategories. Some examples

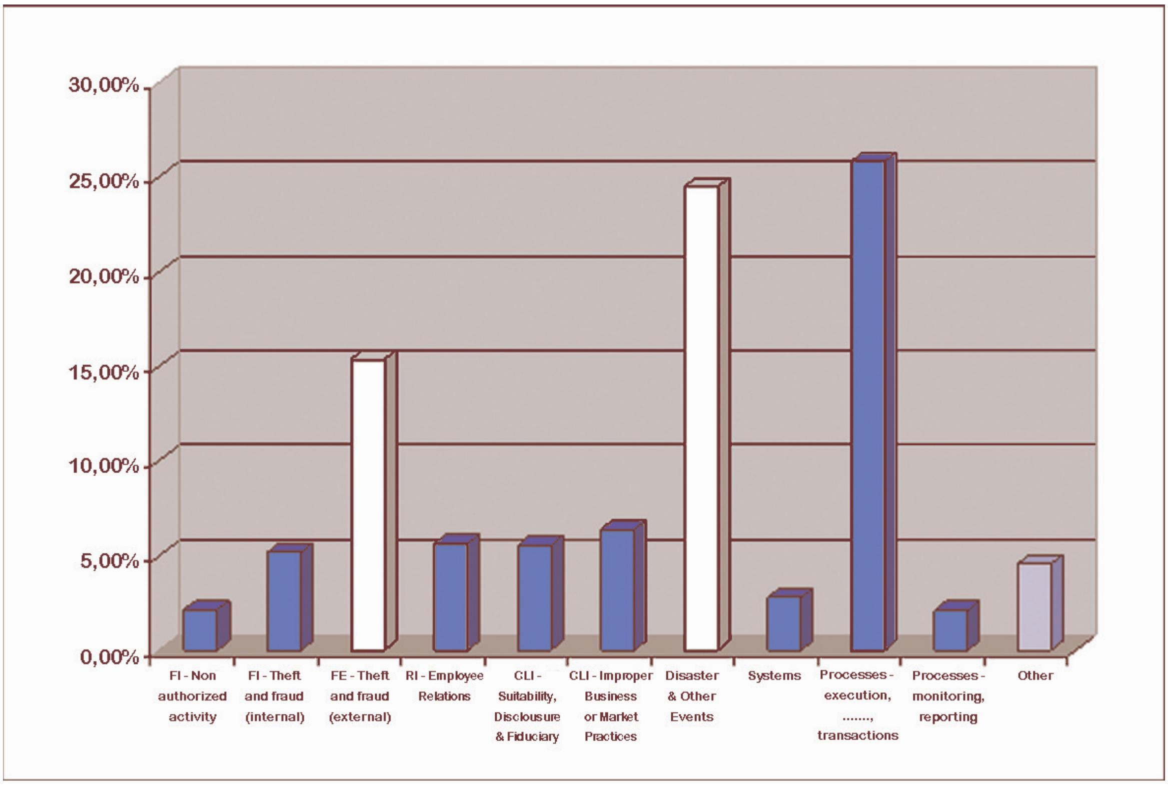
- **Internal fraud** - examples: intentional variation of data, removal of goods and values, individual operations based on confidential information.
- **External fraud** - examples: theft, falsification, disguising, software piracy, emission of bad cheques.
- **Employment and work safety** - examples: compensations claimed by employees, breach of safety rules, civil liability.

Afterwards the Bank for the International Settlements has promoted several studies for quantifying, in percentage terms, the importance of each category, as shown in Table 7.1. Contrary to expectations (about the fact that theft and fraud would be the greatest occurrence considered Basel 2 banking context), the main incidence is recorded by "material damage", in special way by damages connected with "catastrophic events". If we consider the overall category, we can see that the highest percentage is recorded by "processes".

Level 1	Level 2	% (Value)
Material damages	Disasters or other similar events	24,21%
Process execution, transfer and management	Transactions	22,08%
External fraud	Theft and fraud	14,49%
Wrong work execution by employees	Employment	5,49%
Wrong work execution connected with business, customers and products	Wrong work execution connected with business or market	5,32%
Wrong work execution connected with business, customers and products	Information adequacy, trust	4,63%
Internal fraud	Theft and fraud	2,86%
Problems relating Information Systems	Systems	2,70%
Process execution, transfer and management	Monitoring and communication	1,80%
Internal fraud	Unauthorized activities	1,54%

Tab. 7.1 – Analysis of the main sources of operational risk.

Gathering similar categories, excluding the catastrophic events, we see an interesting distribution related to risk factors connected with processes and/or competences (see coloured lines in Fig..1).



In blue the loss due to events related to processes and/or competences

Fig. 7.1 - Classification of loss events.

7.3 What can we learn from the work done by the Bank for International Settlements about the operational risk?

7.3.1 Risk factors in SMEs

How banks can help us in our reflections to be applied to SMEs?
The first question is whether, in relation to the loss events, the banking context is so peculiar to exclude the possibility to apply to SMEs the some criteria used for it.
From the point of view of product "appeal", the banking system (like the goldsmith industry) is certainly undergoing one of the most critical situations, but, as we have seen in the previous paragraph, in the case of loss events, generally a strategic role is played by processes and by the mistakes made by people. This makes us think that, at least potentially, in the context of SMEs, the work developed for banks can be interesting.
In fact, the basic consideration is that these risk factors exist in every sector, even if each sector is characterized by its own specific loss risk factors. These factors can vary from one sector to another – frauds, environmental risks, risks connected with hazardousness of specific manufacturing, health risks – but the factors linked to the shortage of competences and to anomalies in the processes are always significant.

7.3.2 The role of processes and competences

For many years the topic relating processes and their improvement has been faced at theoretical and methodological and operational level, but it is still very hard to find in Italy and in many other European countries organizations which can really state to "*work by processes*" that is to say that aim at the process innovation for promoting their growth and/or their own repositioning in the market.
Many managers, overwhelmed by daily commitments, encounter serious difficulties in conceiving operational processes that require many years to be realized. Anyhow, entrepreneurs themselves have to face the increasing competition of other companies on the market and for this reason they would need to conciliate immediate solutions with deep changes, short-term results, and the long way to innovation and transformation that makes it possible to consolidate their own position and to grow. All this can be guaranteed by an innovation that will improve the use of technology, based on people as the *focus for constructing value*.
But the strong centrality of processes implies that enterprises make a correct mapping of them.
There are many tools for realizing this mapping: from traditional tools such as the simple use of "pencil and paper", to graphic tools based on the use of software packages such as Microsoft Visio or ARIS Business Architect (just for mentioning two interesting examples).

7.3.3 The role of certifications as professional acknowledgement

In a globalized environment where competition very often crosses the national borders, an increasingly important role is played by certifications as a shared professionalism acknowledgement.
(......)
The role played by a certification can be very important, especially in small and medium-sized enterprises, first of all because it gives the company the opportunity to show a more positive corporate image and generates a feeling of credibility; second because behind a certification there is much more. In fact a certified firm, being accredited by a recognized registrar can guarantee the conformity with guidelines which are universally accepted.

This someway guarantees also a correct business management and then certification is undoubtedly a useful tool for improving the image of a company.
Obviously certification is just a small part that represent the company, in fact it is necessary to consider that, even if there are different typologies of certification that can cover different scopes, they are just part of a much more complex system, based on manifold aspects and information that are not always evident.
Moreover the number of certifications that can be "maintained" by a company is limited, both for organizational and economical reasons.
The strength point of certification is the possibility to be seen as a kind of *technical-organizational guarantee* which can be helpful in the relationship between enterprises and banks or other credit granting organizations, as long as it is supported by consistent professional profiles and by a strong relationship with the credit granting organizations.
Besides the enterprise certifications, directly concerning the whole company, there are also personnel *certifications* aimed at accrediting different professional profiles within a company or even external consultants.
Among these typologies of certification, we mention **ADA Certification**[2], concerning several areas of activity, divided into competence units classified on the basis of knowledge and experience. Each professional figure is defined by areas of activity and consequently by a set of minimum skills and knowledge that a person must possess for being certified.

7.4 Management of operational risk and prevention of loss events: a lesson to learn

7.4.1 Le Recommended procedures in banking context and remarks for SMEs

The Bank for International Settlement (BIS) in a document "*Sound Practices for the Management and Supervision of Operational Risk*", has highlighted how banks should behave in order to face the operational risk events. This document, besides containing an historical-financial background, list ten principles that banks should observe. Some of these principles are specifically referred to the banking context, other can be extended to enterprises and particularly to SMEs, such as the three principles listed below (in the next sub-paragraphs we will analyse them in detail):

- to identify and evaluate the operational risk implied in every material, product, activity, process and system;
- to implement processes for a continuous risk monitoring;
- to introduce policies, processes and procedures for mitigating risks.

These and other principles require SMEs a series of competences for their application, among which:

- awareness of the risk importance in business;
- ability to correlate business planning and organizational development;
- ability to develop integrated development and organization plans;
- ability in integrated management: performance development and risk mitigation.

Therefore there is an increasing need for SMEs to acquire a new management mentality, based on the planning, within the company, of activities that are not much diffused yet in SMEs because of

[2] At present this certification, conforming to specific national provisions and regulations, in particular to the Legislative Decree 276/2003 and the Law 53/2003 is being implemented in Italy, in Tuscany Region (regional public administration).

their reduced size. Today instead businessmen should be aware that the company management cannot be based on intuitions or sensations. The complexity of the economic system and its fast changes makes it necessary to have access to a wide range of information regarding enterprises. This implies that enterprises, besides producing the documentation required by law (*balance sheets, statutes, constitution acts*, etc.), provide also programmatic documents, such as: *industrial plans*, *investment plans, financial plans, business plans*, etc.
This way SMEs could achieve new and better results, both in terms of revenues and of strategic communication management.

The Bank for International Settlements has identified four areas of interventions where the ten principles are to be placed[3].

7.4.2 Area 1 Principles – Developing an appropriate risk management environment

DEVELOPING AN APPROPRIATE RISK MANAGEMENT ENVIRNOMNENT.
(Principle 1) *"The board of directors should be aware of the major aspects of the bank's operational risks as a distinct risk category that should be managed, and it should approve and periodically review the bank's operational risk management framework".* *(Principle 2)* *"The framework should provide a firm-wide definition of operational risk and lay down the principles of how operational risk has to be identified, assessed, monitored, and controlled/mitigated. The board of directors should ensure that the bank's operational risk management framework is subject to effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff. The internal audit function should not be directly responsible for operational risk management."* *(Principle 3)* *"Senior management should have responsibility for implementing the operational risk management framework approved by the board of directors. The framework should be consistently implemented throughout the whole banking organisation, and all levels of staff should understand their responsibilities with respect to operational risk management. Senior management should also have responsibility for developing policies, processes and procedures for managing operational risk in all of the bank's material products, activities, processes and systems."*

The natural approach to prevention, mitigation and operational risk management is based on focusing attention on the most immediate and evident causes and dealing adjustment to regulations. In short, it is necessary to try and focus the attention on short-term supervision, if not against specific

[3] Bank for International Settlements, "*Sound Practices for the Management and Supervision of Operational Risk*". Principles are reported per areas, as in the original text.

events, as well as on emerging risk causes. If we consider these principles in the view of the considerations reported at the beginning of the chapter, we notice that their founding spirit is to focus the attention on the deepest causes of risk and on their systematic prevention.
Training about the topic of prevention is the key factor for its success; the action of prevention must be continuous and should move the attention on all possible indirect causes:

- non-rationalized and/or non-documented processes;
- not properly accurate manufacturing standards;
- specific, maybe excellent, competences in response to foreseen events, but not deep and integrated enough to provide proper response to accidents and guarantee continuous service evolution.

7.4.3 Area 2 Principles – Risk management: identification, assessment, monitoring, and mitigation/control

(......)

Operational risk is a typology of risk which proves to be different from other types of risk, especially because it is a "pure risk", that is, a risk that escapes any *risk-return relation* logic. Moreover, as we already said, even if Basel 2 refers to banks, operational risk is there in any activity and thinking it could be possible to completely eliminate it is a mistake that cannot be made. The greatest evidence of operational risk has to be noticed in operational costs, or better in their exponential growth against a loss. The best approach to operational risk is through four different stages:

1. *operational risk identification;*
2. *assessment;*
3. *monitoring;*
4. *risk mitigation/control.*

The first stage is **Identification**. To properly operate at this first stage it is necessary to have an overall view of the processes of the enterprise; for this purpose, it proves to be useful to map existing processes, deciding whether to turn to specific techniques according to the complexity of the business (we already dealt with this topic in the Subparagraph 7.3.2) or not.

> *In order to understand which are the risks at business can face are, a good starting point is represented by the documents relating operational risks produced by the Bank for International Settlements, which describe them in detail. A further useful passage in this first stage is the development of a common language related to operational risk that would allow avoiding comprehension problems in the different business sectors.*

The output related to this stage should be a list of risks, better if classified into different areas. To these, the so-called "catastrophes" should be added, that is to say, risks of extremely high impact but with low probability of occurrence.

The next stage is **Assessment**. This is one of the most important stages, because making mistakes in the assessment of a loss means exposing to possible, even substantial, and losses. The assessment of the operational risk can be made according to different reading keys:

- *qualitative assessment*;
- *quantitative assessment*.

Even if it is a very important stage, it is not free from problems that might affect the assessment itself. The first problem is connected to the fact that some sorts of operational risks, especially those classified as catastrophes, are difficult to quantify; the second problem is connected to the rarity of some operational risks: it can therefore be difficult for enterprises to quantify something which is extremely rare and of which they are not clearly aware.
The assessment stage, in its turn, is divided into two strategic steps:

- *identification of the probability of occurrence of each operational risk*;
- *assessment of expected loss.*

> *Theoretically, it would be always necessary to have recourse to quantitative assessments, using statistic and maybe complex techniques that would however require the intervention of experts in this field.*

We are now at the **Monitoring** stage. This stage is realized with the support of technological instruments in order to monitor the enterprise processes. The question is what has to be monitored at this stage? To answer this question, we have to refer to the *near miss technique*, introduced in Paragraph 7.2.1: most part of the operational risk is anticipated by a series of abnormalities defined as "weak signals" that somehow anticipate the loss itself. These weak signals are seemingly "just missed incidents" that might represent an important *risk indicator*.

The last stage is **Risk Mitigation/Control**. At this stage it is necessary to choose the best approach according to the information coming from previous stages; actually, some sorts of operational risks are "controllable", other can just be "mitigated".
By way of example, we provide a simplified approach scheme, shown in Figure 7.2.

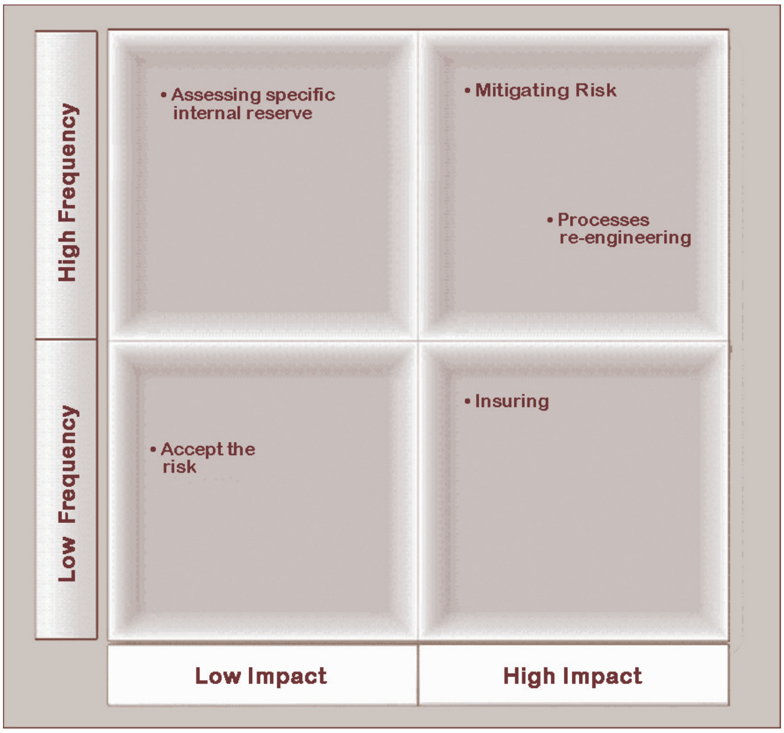


Fig. 7.2 - Illustrative scheme of the approach to operational risk.

7.4.4 Area 3 and 4 Principles – Roles of supervisors and disclosure

(....)

The role of the supervisors meant as surveillance instead of authority appears specific in terms of given market sectors. Obviously with all due respect to their importance in the overall context.

But it is absolutely necessary for SMEs to play a reference role in the processes of approach to Basel 2, essentially for two reasons:

- on the one hand, there is the complexity of Basel 2, that completely penetrates the organization of the enterprises;
- on the other hand, there is the quite remarkable amount of opportunities offered by Basel 2 (access to better credit conditions, partly detaching from economic circles, which helps improving business performances).

In a situation as the one shown here, it is evident that it is impossible for SMEs to manage alone this situation.

We will reinterpret the “supervisor” as a reference figure in the management of the impact of Basel 2 on the structure of SMEs. It is a task in which trade unions and also specific professionals take part.

Considered the weigh of this task, it is important that these professionals are certified: in order to guarantee a standard level of useful competences for SMEs.

But which professional can actually play this reference role?

Our answer is represented by the Basel 2 Consultant, described in terms of competences and relations in the following chapter.

ROLE OF DISCLOSURE.
(Principle 10) *“Banks should make sufficient public disclosure to allow market participants to assess their approach to operational risk management”*.

Does it make sense to include this purpose within the context of SMEs? Is it worthwhile to improve the transparency of standard communications, as those connected to certifications or necessary to ask for bank credit, in order to include also something wider and deeper, as risk approach?

The answer is definitely “yes”, for some very good reasons:

- Basel 2 provides for qualitative assessment instruments for the estimation of the Probability of Default (PD) – the probability that a loan will not be paid back by a determined enterprise – which we have already treated in Chapters 2 and 3 that obviously affects credit cost.
- The bank has to operate on the basis of the “*principle of prudence*”, which substantially implies that what is not known is negative: in practice, the absence of certainty is today as influent as a negative certainty.
- More in general, transparency is a main value in an Internet dominated world, a value people are increasingly getting accustomed to; beyond the technical aspect, a limited visibility of what regards risk management in an enterprise is perceived negatively in terms of relations and, consequently, in terms of trust.
- Finally, even if transparency brought to negative interpretations of the enterprise, it could anyway determine the conditions for a “*soft landing*”: taking drastic decisions now for avoiding

even more drastic decisions in the future; in some ways, it represents a defeat, but it is definitely better than a rout[4].

7.5 Overall credit relationships between SMEs and banks for the purpose of obtaining loan financing

The European Union has specified six basic rules for helping SMEs to navigate through the credit process[5] (Fig. 7.3).

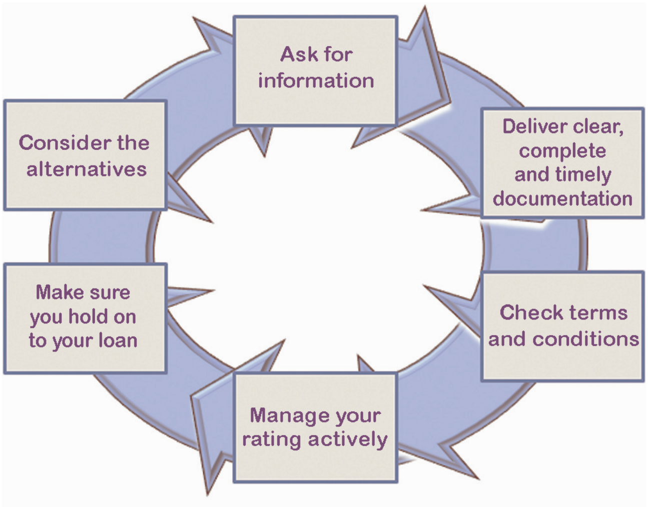


Fig. 7.3 - The six basic regarding the overall credit relationship.

(.....)

The scope of the topics treated makes it clear why it is necessary to face the credit relationship on the whole and not only numerically. For this purpose a growth in the management and relational methods is necessary. We will face in detail this subject in the following paragraph, mostly addressed to medium-sized enterprises and trade unions.

7.6 The integrated view of the business management: performance vs. risk, compliance, knowledge

7.6.1 Governance, prevention, competences

In order to understand the extent of Basel 2 related knowledge in the context of enterprises (in general) and to provide operational contributions for a better management of SMEs (in particular), we need a more accurate picture. The general scenario of current tendencies within complex organiza-

[4] "Defeat" in detail is a military term referring to the tactic of bringing a large portion of one's own force to bear on small enemy units in sequence, rather than engaging the bulk of the enemy force all at once. This exposes one's own units to a small risk, yet allows for the eventual destruction of an entire enemy force. This distinguishes it by the "rout".

[5] Source: "*How to deal with the new credit culture*" (published in http://europa.eu). In Chapter 8 we will see the relation between these rules and the impact of Basel 2 on the competences and behaviours of the different actors involved in it.

tions shows a growing attention for all those topics referred to an integrated *view of the enterprise*. From a merely civil law definition[6], that see the enterprise as an organized system of resources oriented to the achievement of a common purpose, the interest is now increasingly shifting towards the actual integration of all these resources. Some examples of this new vision of the enterprise[7] are:

- **Governance** in general, that is the processes and the whole of decisions that define expectations, assign power or verify the performance: governance, which is increasingly seen from an integrated point of view, also in organizations in which normally there are not entrepreneurs with a comprehensive view of all that their enterprises need.
- Some specific variables, in particular
  - increased importance of topics related to **risk prevention, mitigation and management**[8];
  - increased awareness of the **role played by people and knowledge**: this is of particu-lar interest for SMEs in which it is necessary to learn how to delegate in order to grow.

7.6.2 Evolution of methodologies

A reference model now internationally recognized as a basis for considerations on governance is the Balanced Scorecard (BSC) introduced by Kaplan and Norton in 1992[9]. It is a *performance management tool*[10], which began as a concept for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy. By focusing not only on financial outcomes but also on the operational, marketing and developmental inputs, the *Balanced Scorecard* helps to provide a more comprehensive view of a business, which in its turn helps organizations to act in their best long-term interests which make their measurability easier. The Balanced Scorecard invited the Management – entrepreneurs, at a general level, and managers for what regarded processes related competences – to keep under parallel control variables of short-term impact (i.e. expenses) and variables of medium-term impact (i.e. processes) on the performances of the organization. Nevertheless, the new perspectives of governance in complex organizations (Arezzo, November 2007[11]), go far beyond all this. According to these perspectives the management is required to contribute in keeping under parallel control, together with performance-related variables, also risk-related elements: *compliance*[12], knowledge and competences, be they internal or external to the enterprise but always at its disposal to allow its growth also in the medium-term (see Figure 7.4[13]).

---

[6] It does not exist a universal definition of enterprise. Normally a possible definition is drawn by the references contained in national legislations. These definitions are in their turn not always straightforward: for example, in Italy the Civil Law does not define enterprise but (Art. 2028) the entrepreneur and generally this definition is taken into account.

[7] Mainly analyzed in the field of big organizations but very interesting, from a practical point of view, as we will see, also for SMEs.

[8] References go from Basel 2 itself – extensively – to national laws, such as the new Italian Law on Savings, stating the higher responsibility of the Manager in Charge.

[9] Kaplan and Norton, "The Balanced Scorecard - Measures that Drive Performance", Harvard Business Review, 1992. In 1996 the authors shifted their attention to the measurement of strategic management, whereas the methodology was enriched by the integration with managerial processes, strategic alignment and communication.

[10] This term, of theatrical origin, is now commonly used to refer to performances and results in different fields, in particular business and training sector.

[11] In the work already cited.

[12] The action of complying and demonstrate this compliance with a standard or a regulation.

[13] The Integrated Governance Framework, elaborated from the model reported in the book quoted in Note n. 8, aims at highlighting both the relation among the four elements taken into account, and the equal dignity of the variable related to tangible capital as well as those related to the so-called intangible capital, which will be treated in Paragraph 7.2.2. The use of the symbol of the Tao (Yin and Yan: "shady place" and "sunny place" of a hill) intends to represent

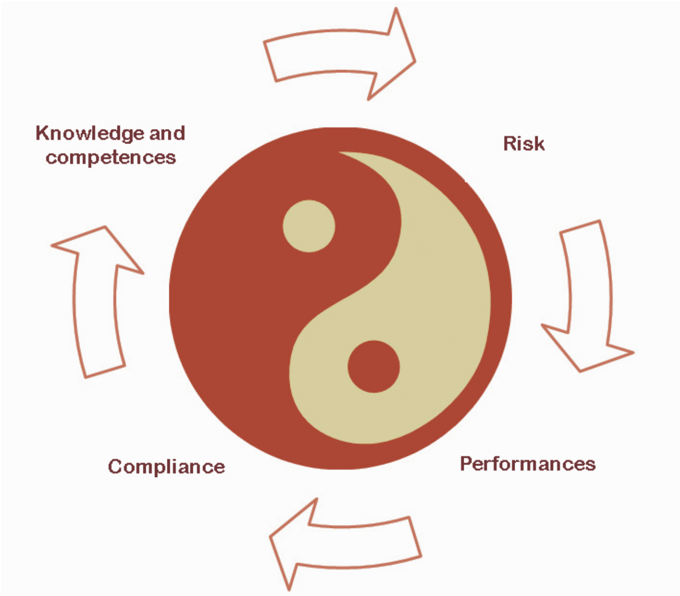


Fig. 7.4 - La visione integrata della governance.

Moreover, these new perspectives require involvement of competences in processes when dealing with the management of big enterprises and different and more flexible methods than the traditional ones when dealing with SMEs. In this case, numbers are fundamental! Nevertheless, numbers depend on an endless quantity of facts that in turn allow obtaining and strengthening the results and avoiding losses after unfortunate events which had not been foreseen or had been underestimated as source of risk for the company. It is undoubted that events like Basel 2 involve all business processes, because, even if they refer directly to economic-financial elements, they do involve the enterprise as a whole in a long-term perspective.

7.6.3 The evolution of competences

The evolution of governance models and methodologies implies a parallel evolution of competences. In this sense, current tendencies at European level and in the field of training provide the context elements useful for the creation of a structured proposal of adequate skills for specific needs.

At European level, *Lisbon Strategy*[14] and the following related Acts highlighted highly important aspects, here roughly summarized with the mere purpose of detecting a structured training proposal:

-
- centrality of *key-competences* for the planning of training courses that would allow the diffusion of professional behaviour, initially only distinctive but progressively extensively diffused at a collective level, aimed at guaranteeing the supervision of processes and the improvement of the resources starting from human resources;
- increasing relevance of *cross competences* and processes of *continuous improvement in the professional behaviour*, aimed at promoting a profitable dialogue between different professionals and at directing professional behaviour towards the "creation of values" through processes natu-

---

this equality of dignity in an ever-changing situation without letting one of the elements prevail on the others. The use of the Tao was spread by the management of the Association Total Quality: for a certain period, it has been even watermarked in the ISO 9000/94 norms.

[14] About this topic, see http://europa.eu/scadplus/glossary/lisbon_strategy_it.htm.

rally enriched by cross competences and interdisciplinary needs. We mention by way of example that emerging standards at European level as regards IT professionals[15], determine as an essential formative element[16], among the others, the certified acquisition of a different kind of knowledge not related to IT, that is:

  - *Organization and IT,*
  - *Economics,*
  - *Project Management,*
  - *Presentation and Communication Techniques,*
  - *Legal and Ethic Issues;*

- unavoidability of cooperation between different organizations (about 2/3 of about 50 thousand millions euro of the Seventh Framework Programme for Research are calculated for the item "*Cooperation*").

7.6.4 Tangible capital and intangible capital

This was all generated by a deep change in the economic context, with the gradual abandonment of transition economics towards relational economics: no longer "*giving products-taking money*"[17] but "*co-production of value*".
A characteristic of the relation-based economics is the increasing importance of the three factors mentioned:

- cooperation;
- relational ability;
- ability of influencing the surrounding environment.

Business is not limited to the mere exchange of money for goods but is originated and grows through a continuous process in which relational skills, customer care, ability to share goals and organization recover and develop their vital importance. These evolutional aspects of the enterprise represent a great opportunity for SMEs, if they are able to develop also other aspects that, in this sense, acquire an increasing importance:

- services; according to Norman, the product is a *frozen service* (or better a "capitalized service)[18];
- ability to explicit and share implicit knowledge.

(....)

It is not without reason that the current socio-economical context is referred to as "*knowledge society*", characterized by some main elements:

- communication and share of knowledge are the fundamental instruments for development and business;
- information and communication technology are qualifying factors;

---

[15] Ci si riferisce in particolare ad EUCIP European Certification of Informatics Professionals www.eucip.com.
[16] Included in the *Core Syllabus*.
[17] Or similar, as there are many different wordings in different countries.
[18] Just think about commercial advertisements for excellence products: cars, and how they are presented not through their intrinsic characteristics but through the added value they can give to the standard of living of the people who buy them. The same consideration can be however made about almost any product: Normann, for example, focused its attention on Ikea furniture.

- successful business strategies are "win-win" strategies, in which the good sale produces value for both the seller and the customer and constitutes the basis for the realization and the development of long-lasting relations cemented by a trust-based relation.

This tendency appears particularly relevant in Europe that does not have neither a dominant position for what regards raw materials or basic research nor a work cost structure that would allow it to compete with emerging countries in terms of mere prices. Competing in terms of added value without dominating the field of raw materials means essentially competing in terms of knowledge. The more crucial is for business sharing knowledge and experience, the more relevant becomes being able to understand them completely in their specific and deep meaning and to transmit them in a language tailored to the characteristics of the interlocutor.
(....)
Staking deep knowledge and use it in the perspective of service[19] with the customers and their collaborators can determine three important results:

- let them deeply perceive the value of what is being offered;
- start up that "trust-performance" virtuous circle that lets the customers accept the elements that for us turn out to be strategic for the cost containment and that somehow imply their participation in the production of value (for example, in a supermarket the customer is the one who goes and takes goods from the shelves; there are farms that directly sell fruit still hanging in trees[20]);
- influence their future choices, highlighting reliability.

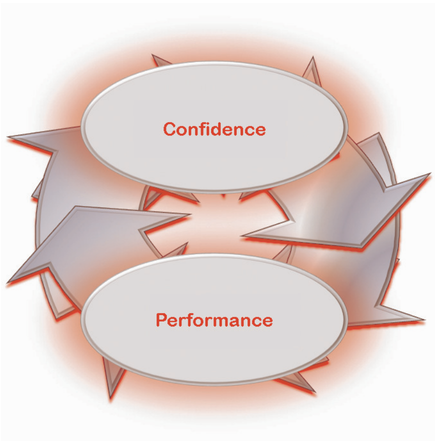


Fig. 7.5 - The "trust-performance" virtuous circle.

And this is now the key path for the development of all enterprises in Europe, whatever the size, location or locations, the sector.

[19] Conrad Hilton, founder of the famous Hilton hotel chain, used to say: "*see everything but never watch it, hear everything but never listen to it, always serve and never be servile*".

[20] Every increase in the performance has to be integrated with operational risk mitigation: in the example, from shoplifting to the use of ladders.