

Overview

Some people see the business world as a jungle. Predators prowl, the weak die – each firm is pitted against each other in a relentless battle. This is, of course, a myth. Firms often cooperate with each other – albeit in a hard-headed calculating way.

We define business cooperation as special relationships between at least two firms that are beyond normal market transactions and have some permanence

This report is about this other, rather neglected, ‘law of the jungle’: business cooperation. We look at who cooperates ; how they do it; why they do it, and its impact on the bottom line. We also look at the problems. Finally we ask whether there are any implications for government industry policy.

This is a comprehensive study. We use information from over one thousand firms in five industries across Australia. We also spoke to federal and state departments, who run programs to encourage networks, to industry associations and universities.

The nature of business cooperation

We found that business cooperation is an important business strategy. While some business cooperation arises incidentally in the course of business, the majority comes into existence as part of an overall strategy. Business cooperation has become another strategic tool in management kit bags. It increases a firm’s capabilities and improves performance. But what is business cooperation?

‘Business cooperation’ is used in the report to encompass particular types of business linkages and networks. The relationships between firms can be thought of as ranging along a continuum from cursory and arm’s length in character to close and highly cooperative. This study tried to capture the various forms of cooperative relationships on this continuum. We define business cooperation as special relationships between at least two firms that are beyond normal market transactions and have some permanence. Cooperating firms work together for a common aim and share information and resources and/or jointly undertake tasks.

We identify two types of cooperation: ‘core’ and ‘marginal’. Examples of core cooperative arrangements are preferred customer and supplier agreements, joint ventures, partnerships and business networks. Marginal business cooperation includes such things as feedback and forecasting.

Around one-third of firms are involved in substantial forms of cooperation

The data and analysis in this report mainly relate to the core forms of business cooperation. Close to one-third of Australian manufacturing firms are currently involved in core forms of business cooperation. Up to two-thirds engage in *either* core or marginal forms. One-third of Australian manufacturers are not involved in any form of business cooperation. These firms apparently conduct all their business operations at arm’s length.

Which firms cooperate?

What sort of firms cooperate? What factors influence the tendency to cooperate? Do some industries have higher levels of business cooperation?

To examine whether there are any systematic differences between cooperating and non-cooperating firms, we looked at how cooperation varied with orthodox and easy-to-measure characteristics of firms. These are industry, size, age, growth rate, export orientation, product type, nature of technology, ownership and degree of competition.

The high tech industries, Information technology and telecommunications (IT&T) and Scientific and medical (Sci/med), have above average proportions of cooperating firms. The low tech Clothing and footwear industry has a below average level of cooperation. Other types of firms more likely to be involved in cooperative business arrangements are large firms, high growth firms, high tech firms, exporters and capital goods producing firms (Figure 1).

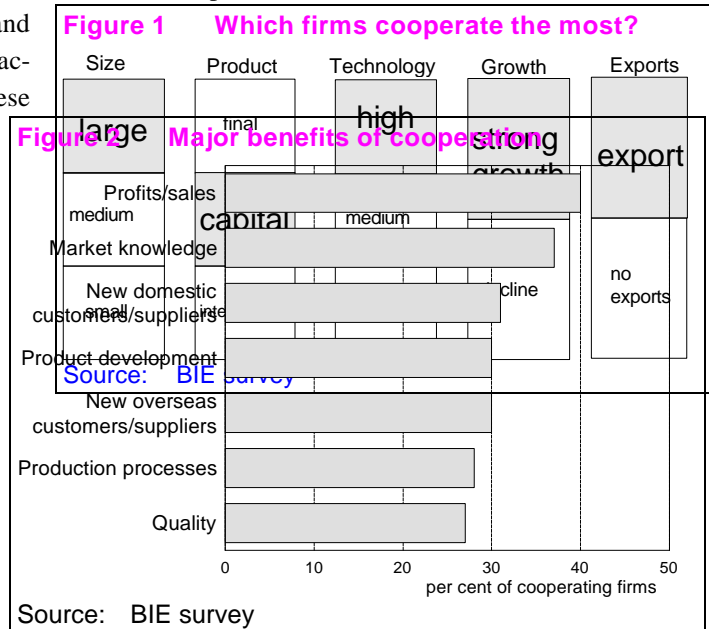
Putting these factors together indicates that cooperation is more relevant and more applicable to firms involved in producing sophisticated and complex goods (which are often exported). Fast and accurate information flows between these firms are vital, given the high rates of technological innovation, the importance of reputation and the high cost of product failure.

However, these results should not be taken to imply that business cooperation is not occurring elsewhere. They only indicate a greater tendency for some firms to engage in cooperation. Smaller, low tech firms, for example, may not be *as likely* to cooperate with other firms but many *are* in fact involved in cooperative arrangements.

How do firms cooperate?

How do firms cooperate exactly? With whom do they cooperate? Do firms mainly formalise their cooperative arrangements or are they happy to do business on an informal basis? How many coop-

erative arrangements do they have?



Most cooperative arrangements involve just two firms

Over 80 per cent of cooperative arrangements involve just two firms (for example, a firm working closely with one of its customers or suppliers). Almost 90 per cent of coop-

erating firms have at least one of these single partner arrangements and two-thirds cooperate *solely* on this basis. The other one-third of firms have multi-partner, or network-type, arrangements.

Firms cooperate fairly evenly with customers, suppliers and other firms

Firms cooperate fairly evenly with customers, suppliers and 'other firms' (such as competitors and distributors). About 60 per cent of cooperating firms have customer arrangements and 55 per cent have arrangements with both suppliers and 'other' firms. Around 45 per cent of cooperating firms have linkages with more than one of these groups.

Interestingly, there is little difference in the proportions of cooperating firms with formal arrangements (usually involving a legal contract) and informal arrangements (based on trust and reputation). Around 75 per cent of firms have formal arrangements while 70 per cent have in-

formal ones. Almost half have *both* formal and informal arrangements.

Just over one-third of cooperating firms have linkages with firms located overseas. Approximately 20 per cent of firms have arrangements with both overseas and domestic firms.

What does all this cooperation with different parties add up to in terms of numbers of arrangements per firm? Approximately 30 per cent of firms cooperate on the basis of one key arrangement only, almost half have two to four arrangements and 25 per cent have five to ten cooperative arrangements. The average number of arrangements per firm is close to three.

Benefits of cooperation

Virtually all firms receive *some* benefits from cooperating with other firms. This is only to be expected. In order to discover the areas where business cooperation is having its greatest impacts on firm performance, we focused only on the *major* and *critical* benefits.

Around 75 per cent of cooperating firms obtain major or critical benefits from their cooperative activities. The two most common benefits are increased profits and/or sales and enhanced market knowledge (Figure 2). The fact that profits/sales heads the list demonstrates that many firms are able to judge clearly the positive impact of cooperation on order books and profits.

75 per cent of firms get major or critical benefits

Market knowledge is mainly an unanticipated spin-off of cooperative activities. Firms do not take the trouble to strike up cooperative arrangements just to learn about their markets. They have other more concrete things in mind, but by linking with other firms they gain invaluable knowledge. This and other spin-off benefits (improved production processes, improved quality, and product development) are a feature of most cooperative arrangements.

Some benefits are actively sought and others are spin-offs

The next most important benefits are the ‘market-related’ aspects of business cooperation – gaining *new* customers and suppliers both at home and overseas. This firmly highlights cooperation as a central business strategy in accessing new markets and finding key suppliers.

Business cooperation is often used to improve or develop new products, which is at the heart of many firms’ innovation activities. Firms also obtain significant benefits from technology access and better production processes.

Taken as a whole, a larger number of firms enter cooperative arrangements for market-related reasons. Cost and efficiency factors, while important to many firms, take second place overall.

Firms benefit from both market-related gains and production efficiency improvements

Different firms, different benefits

Just as some firms are more likely to cooperate in the first place, some firms are more likely to obtain key benefits from their cooperative arrangements. Not surprisingly, there is a strong relationship between the benefits of cooperation and the tendency for different firms to form cooperative arrangements.

Thus, the firms most likely to benefit from business cooperation activities are:

- IT&T and Scientific/medical firms
- large firms
- exporting firms
- high tech firms.

Firms with a high reliance on exports in turnover are *particularly* likely to obtain high benefits.

The four leading benefits of cooperation for large, exporting and high tech firms are the same for all three. These are increased profits/sales, market knowledge, new overseas customers/suppliers and product development.

There is a strong relationship between the benefits of cooperation and the tendency to form arrangements

The impact of cooperation on efficiency is significant for some firms. Clothing and footwear firms, for example, rate improved production processes as the most important cooperation benefit. They also see improved work practices and quality as leading benefits.

Young firms too obtain major benefits from improved production processes. Firms are apparently more focused on developing linkages to assist with their basic operational procedures in the early years. They aim to be competitive by producing as efficiently as possible.

The major message coming from the study is that all firms can get something from cooperative arrangements. While some firms may not gain as much as others, business cooperation nevertheless appears to be a worthwhile exercise for most participants.

Benefits vary by arrangements

So much for the firms, but what about the types of arrangement?

To begin with, the more intensely a firm cooperates, the greater are the benefits. Intensity is measured by formality, number of firms in the arrangement and number of arrangements.

Firms focussed on formal arrangements are far more likely to receive major/critical benefits than those with informal ones. As well, the more arrangements a firm has, the more opportunity it has to obtain benefits across a diverse range.

The more intensely a firm cooperates, the greater are the benefits

Multi-partner linkages, such as AusIndustry's business networks, appear to provide higher benefits overall than arrangements with single partners. Firms in networks may be more focused on prospective benefits and have generally put their arrangements together with very specific objectives in mind. They place a strong emphasis on accessing new markets. A notable feature of

single-partner arrangements is that they are much more likely than multi-partner arrangements to result in improved production processes.

Other than the intensity of arrangements, benefits also vary according to the nature of cooperation partners. We find little difference in the *magnitude* of benefits obtained through relationships with customers or suppliers or other firms. Some substantial differences do however occur in the *nature* of the benefits.

Customer and supplier arrangements offer similar levels of benefits, but different types

The results show more of a tendency towards efficiency benefits in supplier links and market benefits in customer links. Firms with supplier arrangements get the greatest benefits out of improved quality and technology access. Firms with customer linkages benefit most from market knowledge and new customers and/or suppliers (both domestic and overseas).

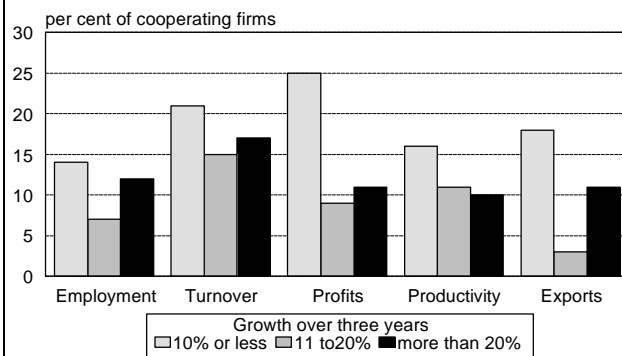
Australian firms which form cooperative arrangements with firms overseas are much more likely to obtain major benefits from cooperation than those which rely solely on linkages with local firms. The most important benefit for firms with overseas arrangements is the opportunity provided by cooperation to access new customers and suppliers overseas.

All in all, the greatest determinant of whether or not a firm will receive high benefits from cooperation is an *overseas focus*. This focus is manifested either as exporting or as an explicit cooperative link overseas.

Firms with overseas linkages obtain high benefits

Performance and competitiveness

As well as measuring the broad benefits of cooperation, we examined the impact of cooperation on firm performance and competitiveness. We assessed five performance measures (turnover, profits, productivity, exports and employment)

Figure 3 Performance improvements from key arrangement

Source: BIE survey

and four competitiveness measures (technology, quality, pricing and customer service).

These measures were assessed for each firm's most important, or 'key' cooperative arrangement.

Overall, business cooperation plays a significant role in improving the performance and competitiveness of Australian manufacturing firms.

Looking more closely at these impacts:

- almost three-quarters of cooperating firms have increased their turnover;
- over half have posted higher profits;
- between 40–50 per cent of firms believe their key arrangement has had a positive impact on both productivity and employment; and
- 55 per cent of exporters have achieved higher exports.

A majority of firms experienced positive impacts in seven of nine performance/competitiveness indicators through cooperation

The magnitude of the performance impacts provides a clearer indication of the effects of cooperation (Figure 3). For example, one in six firms has experienced an increase in turnover of more than 20 per cent over three years as a direct result of their key arrangement.

While some of these impacts may seem relatively minor in percentage terms it should be remembered that we are talking about the direct impacts

of only one cooperative arrangement. As the average cooperating firm has three arrangements, the overall effect of cooperation on firm performance will be greater.

Cooperation with customers and with overseas and interstate firms has the most favourable impacts on turnover and profits. Large firms and high growth firms are also more likely to perform better in these areas. High growth firms and IT&T firms are the most likely to increase exports through their key cooperative arrangements.

Business cooperation also improves a firm's competitive position. A majority of firms have used their key arrangement to improve their technology, quality and customer service, while 40 per cent increased their price competitiveness.

Problems, failures and impediments

Cooperation seems to work well for most firms that try it. Or does it?

The problems of cooperation are outweighed by benefits by a big margin

As well as looking at benefits, we also examine some of the negative aspects of business cooperation. What problems are firms experiencing with their cooperative arrangements?

As a general point, the proportion of firms experiencing major problems with their cooperative arrangements tends to be much smaller than the proportions of firms obtaining major benefits.

On average, the likelihood of a firm obtaining major benefits in its business cooperation dealings is around two and a half times greater than its chances of encountering major problems. In addition, the chances of firms obtaining two or more major benefits are four times greater than the chances of experiencing two or more major problems. These are important findings and firmly place in context the 'costs' of cooperation.

Those who experience the greatest problems usually experience the greatest benefits

Interestingly, firms with the most problems usually obtain the most benefits. Large firms, exporters, firms with overseas linkages and firms with many arrangements fall into this category. These firms tend to regard cooperation as a natural way of doing business. They have a greater commitment to linkages. They expect and receive significant benefits from cooperation and in return have to face considerable problems along the way.

Additional time commitments stand out as the major problem. Almost two-thirds of firms report some difficulties in finding the extra time to manage cooperative arrangements. A second group of problems affect around one-half of cooperating firms. These are concerns about the financial costs and disclosure of commercial secrets, administrative and/or legal matters and personality difficulties. At a lower level, around 40 per cent of firms have some cooperation problems relating to loss of control and lack of trust.

Additional time commitments stand out as the major problem

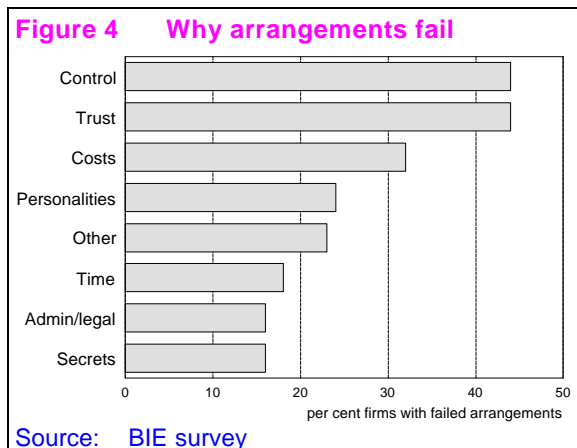
In the hectic world of modern commerce, the scarcity of time obviously preys on the minds of managers. At the other end of the scale firms are apparently not over-concerned about trust and control – two aspects sometimes seen as important barriers to business cooperation.

It may be, however, that a lot of the time taken up by cooperative arrangements goes towards building trust and trying to maintain control. Thus, trust and control do not appear as major problems because firms work hard to overcome any problems which arise.

Lack of trust and loss of control are the two outstanding reasons for cooperation failure

This hypothesis receives support when we turn to look at the reasons for ‘cooperation failure’ – situations where problems become so large and unmanageable that firms are forced to abandon a cooperative arrangement (see Figure 4). Lack of trust and fear of losing control are the two outstanding reasons for cooperation failure. The only other notable major cause of failure is the high financial costs of the arrangement.

The inability to trust linkage partners and fear of losing control both relate to uncertainty and uneasiness in dealing with other firms. Some of this may be due to mismatching of firms or a failure to establish basic communication channels. Whatever the explanation there is a clear lesson from failed arrangements for firms already involved in, or about to embrace, business cooperation. They need to work hard on trust and sharing partnership responsibilities.



Interestingly, around three-quarters of firms which have previously abandoned cooperative arrangements are currently involved in other cooperative arrangements.

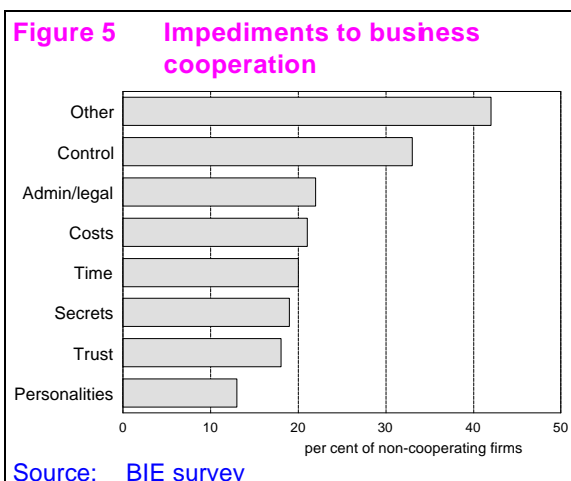
Around one-third of Australian firms are involved in core forms of cooperation. It is clear that cooperation offers significant benefits. So why don't more firms have cooperative arrangements? To gain an insight we examined the reasons why firms had not established arrangements.

We found that fear of losing control is the biggest single impediment to cooperation (Figure 5). The wish to remain independent and retain complete control of business operations are the issues at

stake. To the extent it is a major reason for linkages failing, this fear is somewhat justified.

Fear of losing control is the biggest single impediment to cooperation

Over 40 per cent of firms which have never adopted a cooperative arrangement cited a variety of ‘other’ reasons for their behaviour.



For about half of these firms inter-firm cooperation is ‘not required’ or thought to be ‘not applicable’. However, the other half of this group could be amenable to business cooperation given the right circumstances. These firms stated that the opportunity had not arisen or they were waiting to be approached, or indeed they had never considered cooperation as a business strategy.

Role of external assistance

Many cooperating firms did not realise how large the benefits of cooperation were until *after* they had formed an arrangement. This suggests that some of the non-cooperating firms miss out on a valuable business strategy through ignorance about its benefits. They may also be ill informed about *how* to form a worthwhile cooperative arrangement, or find it hard to *identify* the best possible partner.

These information requirements are all potential avenues for government assistance. Governments can also take a more direct role in assisting firms through, for example, financial assistance or matchmaking activities. They can also provide

facilitators to ‘kick-start’ cooperative arrangements.

External assistance has positive impacts on business cooperation

Governments and other agencies such as industry associations already provide various forms of informational and direct assistance to help firms with linkages and networks.

Firms receiving help with their cooperative arrangements, from either governments or industry associations, are much more likely to benefit than non-assisted firms.

Conclusion

The evidence presented in this study indicates that business cooperation works well. It is clearly beneficial to firms. It improves their capabilities and competitiveness. We believe there is a role for governments in ‘greasing the wheels’ of business cooperation by encouraging the development of inter-firm linkages and business networks. Accordingly, the report makes a number of recommendations about the government’s approach to business cooperation.

For the most part, business cooperation can be best encouraged through the provision of better information for firms. Most of the initiatives outlined below belong in this category. However, we believe there may also be scope for new direct assistance measures to encourage the development of one-to-one cooperative arrangements.

Recommendations

- 1 In designing and marketing industry programs, policy makers and program designers/deliverers should take into account the potential role of business linkages and networks as means by which the program objectives can be assisted.
- 2 In encouraging further business cooperation, the government should consider providing information to firms. Information can help address the information deficiencies identified in the study, can reach a

- wider audience and is preferred by most firms. There is a weaker basis for some form of direct assistance aimed at one-to-one cooperative arrangements.
- 3 In support of the Business Networks Program, AusIndustry should supplement its information material about the program with new data highlighting the many benefits of networks. The role of network facilitators needs to be marketed if they are to become acceptable to a wider range of firms.
 - 4 AusIndustry should develop a new program to promote one-to-one cooperative arrangements between firms and their customers, suppliers and others. This *Business Linkages Program* would emphasise information dissemination. There might also be a limited role for direct assistance.
 - 5 The first component of the AusIndustry *Business Linkages Program* should be a new information program. The program would mainly aim to disseminate information to firms on the benefits of one-to-one cooperative arrangements and provide information and advice on forming closer relationships with customers, suppliers and others.
 - 6 A second component of the new *Business Linkages Program* could be the provision of consultant advice to suitable firms about a business cooperation strategy. This would include the development of a 'cooperation plan'.
 - 7 A third component of the new *Business Linkages Program* could be advice to firms on how to form and maintain 'best practice' one-to-one cooperative arrangements.
 - 8 There should be close liaison between AusIndustry and Austrade on aspects of the new *Business Linkages Program* which relate to exporters, and Australian firms with overseas customers, suppliers or distributors.
 - 9 AusIndustry should seek the cooperation of other major industry assistance agencies – industry associations, business organisations and business advisers – in designing and implementing its new *Business Linkages Program*.
 - 10 It is envisaged that the financial arrangements for assisting firms under the *Business Linkages Program* would involve a government subsidy along the lines of current NIES enterprise improvement programs. However, the government could also consider introducing a 'contingent reimbursement scheme' to fund elements of the program.
 - 11 AusIndustry and Austrade, in conjunction with industry associations and business organisations, could consider expanding their efforts in identifying partners, business opportunities and markets for SMEs interested in business cooperation. They could develop and disseminate more comprehensive listings of opportunities through electronic programs such as *BizLink*.
 - 12 The government could consider creating an electronic 'cooperation network' linking all the key cooperation assistance agencies. The network would provide a forum to monitor and exchange up-to-date information relating to matchmaking, opportunities, case studies, financial assistance, training and so on. In addition, the government could assist the spread of inter-firm cooperation by encouraging computerisation in SMEs and providing information to firms on available electronic

networks and other relevant on-line services.