

## 14 Policy implications and recommendations

Two facts stand out. Many firms cooperate. And they obtain large benefits from doing so. But so what? Why is this relevant to industry policy? After all, if linkages and networks are beneficial to firms, then firms will surely adopt them as business strategies. This would leave no role for government.

We think there are three major gaps in this argument, which create a niche for government action:

- When governments try to develop industry they use a tool box of policies and apply these to some raw materials. Linkages add another tool to this box. This helps to achieve the objectives of industry policy. As well, a group of linked firms may be a useful *target* (or raw material) of many industry policies, rather than individual firms or whole industries.
- Firms, like people, are imperfect. They sometimes lack information and skills. Many SMEs may fail to form worthwhile links because they don't know how to forge them or they don't know about their benefits. Governments may be able to help.
- Markets don't always work well either. They may be inefficient, hampered by regulation or not exist at all. Markets where information is traded suffer special problems, because buyers don't always know what is useful or true information. Governments can help set up markets, establish standards and other institutions that allow markets to work, or provide substitutes where markets cannot work well.

However, these failures offer only the *potential* for government intervention. To be successful any program aimed at dealing with these problems must be easy to administer, cheap to the public purse and actually change the behaviour of the right firms. And in any case, the role of government is almost certainly limited to greasing the wheels of business networking, while leaving the fundamental decisions – the who, what, where and how of networking – to businesses themselves.

In this chapter we discuss how governments may find business linkages a useful policy tool, how the very existence of linkages can change the orientation of policy and why and how government should encourage such links.

### 14.1 Linkages as a tool

Industry policy is fundamentally about finding better ways of using our nation's resources. The government has all sorts of direct tools for doing this. Subsidies, soft loans, free information, new laws and regulations are all designed by government to directly achieve some change in how industry uses its resources.

But firms can also learn indirectly how to do things. Thus often industry policy aims to improve industry in a roundabout way. For example, take exports. The government has many programs aimed at increasing

exports. However, increasing exports may not be the *ultimate* goal of these policies, but a subsidiary one<sup>1</sup>. When firms export they are forced to be more productive: they learn from leading edge customers, must market ever more effectively, minimise inefficiency and increase their innovativeness. The export market is useful to firms because it is an advanced business school, where the learning is by doing. But it is this learning, not exports themselves, which is the final goal of the export policy. Accordingly, exports are themselves tools of industry policy.

So too with linkages. Linkages can:

- improve the overall business performance of firms;
- help gain access to new markets overseas and increase exports which in turn encourages efficiency gains;
- encourage innovation and technology uptake in firms; and
- improve management and business skills, though we think this is less important.

The implication of this is that policy makers and program designers need to be aware of the potential role of business linkages and networks in enhancing the success of industry programs.

However, there are potential problems if the government has a highly prominent role in creating linkages. Cooperation is something that firms will inevitably manage themselves. Successful cooperation requires that firms trust and feel comfortable with each other. The BIE survey showed that firms liked government to provide the backdrop – such as information – which makes cooperation an easier business strategy. But firms were less receptive to government as an active matchmaker. Too much push from government for linkages can undermine the careful, tentative steps firms take by themselves towards cooperation. Governments need to promote and make firm marriages easier – but not ride shotgun on the wedding limousine!

#### **Recommendation 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.**

## **14.2 What should industry policy be applied to? A new role for linked firms**

Whenever we think about anything, we sort our ideas in a conceptual framework. This helps us to think carefully about some things, while stopping us from seeing others altogether. It blinds us to some choices and solutions. We all know how frameworks can limit choices. Parents might say to children: ‘What would you like for dinner: liver, kidney or brains?’ The children are given a choice between the offal, but excluded from other options. Industry policy, like gourmet menus, also uses a framework that makes some choices

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<sup>1</sup> There is debate over the issue that exports are worth encouraging primarily because of their effect on the current account deficit, and Australia’s debt. The arguments for and against this proposition are beyond the scope of this report.

obvious while cutting off others. In particular, industry policy focuses on firms and industries. We design policies *for* firms and industries.

But industry policy might also be usefully designed for and applied to other organisational forms. We have found that networks and other firm linkages blur the boundary of firms and even industries. We could treat such groups of linked firms as single entities and deliver programs to them<sup>2</sup>.

An example of what we mean might help. Think of how governments deliver services to firms. Small firms can be costly for governments to access, particularly on a regular basis. Multi-firm cooperative arrangements, such as the AusIndustry business networks, provide an organisational form which could allow governments to deliver services to small firms better and more cheaply. For example, AusIndustry could provide the network with information on a new small business program. The network then diffuses the information to each of its members<sup>3</sup>. The scope obviously exists too for other government departments and agencies to market their programs and services at the business network level. Other areas of DIST or Austrade, for example, could often find it very effective to deal with the network organisation rather than individual firms.

### 14.3 Government assistance for business cooperation

Business cooperation works well for most firms that try it. It improves their capabilities and competitiveness. Yet, only one-third of firms have substantial cooperative arrangements. This might indicate a potentially huge reservoir of untapped opportunities for cooperation, particularly for SMEs. However, we do not suggest that *all* the remaining two-thirds forge relationships.

Readers may be surprised by this. It may seem obvious that if the firms that currently use linkages benefit from them greatly, then those not in linkages would fare likewise. Not necessarily so. The sort of firms that *select* linkages may be different from those that do not in a way that would affect the benefits of linkages.<sup>4</sup> Our survey results indicate the size of the benefits for firms currently in linkages – but they are an upwardly-biased guide to the benefits available to firms who are currently not in linkages. The only way to enumerate exactly the benefits of linkages would be to coercively assign linkages to randomly selected firms, and compare the outcomes with a control group. But what we observe in the market in no way resembles this form of controlled experiment. Firms with certain attributes favourable to linkages (complex goods, fluid markets etc) form such arrangements and benefit from them. Other firms, like the souvenir retailer in Chapter 3, have very good grounds for avoiding cooperative strategies.

**However, we think it likely that some firms do miss out on the benefits of linkages due to failures in markets and firms. Such firms would choose to link if:**

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<sup>2</sup> For example, Singapore devised development plans for clusters of firms, rather than for whole industries (MTI, 1991).

<sup>3</sup> Or AusIndustry could provide the information to a leading firm in the network on the understanding that it would diffuse the information to other network members.

<sup>4</sup> This problem is called the selection bias problem. Consider a more common-place example of this situation – education. Many people get benefits from education. For example, more educated people get higher wages. But should everyone study for a higher degree? The obvious answer is no. The people who obtain higher degrees differ from those who have not – people with certain attributes choose to study for higher degrees (they have a certain determination, intelligence etc). It is at least partly these attributes, rather than the degree itself, which lead to higher wages for this group. Forcing everyone to undertake additional training would be a waste of resources – and an unhappy experience for many.

- they had *credible* information about the benefits and costs of linkages (**information and firm failures**); and/or
- they could appropriate more of the benefits of their links (**spillovers**).

### *Information and firm failures*

As we explored in Chapter 3, firms are not all perfect. Some are myopic. They use simple rules of thumb to run their businesses and may be slow to change these rules. As well, information on the best rules may not be freely available, or its application may require skills that the firms do not possess. These inefficient firms may not die out very quickly (or costlessly) and/or markets may not develop to provide the information needed. In this case, governments *may* have a role in providing information or demonstrating the benefits of linkages.

We discovered evidence of ignorance of the benefits of linkages:

- Many of the benefits of business cooperation arise unexpectedly as ‘spin-offs’. Firms usually have specific aims when they enter cooperative arrangements and have expectations about corresponding benefits. But it is the additional spin-off benefits of working closely with other firms that surprise many firms. Most commonly these involve market knowledge, improved production processes, product development and improved quality.

- Firms not in linkages were deeply concerned about the loss of control that might occur if they entered a cooperative arrangement (Chapter 12). In fact, loss of control is not a significant problem for ongoing linkages (Chapter 10). The fear may be based on misperceptions.

So we cannot assume that firms will always know what benefits to expect from cooperative arrangements. Apart from hearing about the benefits, firms may also gain from other types of information about business cooperation. They may be interested in cooperation but not know how to form closer ties with their customers or suppliers. Alternatively, they may be looking for a joint venture or alliance but do not know how, or where, to find good partners. They might also lack information on where the best (or most appropriate) business or market opportunities happen to be. And critically, information markets may not always develop to meet these needs.<sup>5</sup> Governments *may* be able to help provide some of this information or activate information markets.

### *Spillovers*

Spillovers occur when some of the benefits of certain activities by firms affect other firms and individuals that are not directly involved in that activity. The classic example is R&D. A firm might invest many resources in an innovation, only to find other firms copying the idea. The firm may fail to invest in such innovation unless it can capture most of the benefits. Such spillovers could affect the incentives for linkage formation.

In *Networks: A Third Form of Organisation* (BIE, 1991) it was suggested that there may be grounds for government support of networks because of such spillovers. However, there may also be grounds for support in *some* single-partner linkages too. Imagine, for example, two large companies (A and B) which are fiercely competing with each other. A wants to improve the productivity of a supplier, S. The supplier provides inputs to both A and B. A would transfer the skills and information to S if it obtained a certain share of the benefits of the productivity gain. However, A knows that B will free-ride. They will also secure cost reductions from S, so that A would have no competitive advantage vis-à-vis B. It may be very difficult to coordinate an agreement between A and B to jointly form the supplier linkage. A potential productivity gain is lost.

However, the firms we surveyed did not indicate lack of appropriability as a major impediment in forming one-to-one linkages. For this reason we suspect that spillovers from *single-partner linkages* are small, and that this would be a fragile basis for government support of linkages.

### *Policies*

We have established *some* grounds for government intervention. But this is a relatively weak condition. Many other questions have to be addressed:

- Should this take the form of information, and or direct financial assistance?
- Should it be permanent or temporary?
- What sort of firms should it target?
- What sort of linkages should it target?
- What are the costs of having a policy relative to doing nothing? After all, while firms and markets can fail, so too can governments. What are the risks to the public purse of pursuing any interventions?

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<sup>5</sup> See BIE (1993b, pp24ff) for a description of some of the problems affecting information markets.

Encouraging further business cooperation by providing **information** has a number of advantages. In this study we found that firms do not always have the information they need to form, maintain or strengthen business links. In addition, firms believe that governments can best assist business cooperation by providing information rather than direct forms of assistance (Chapter 13). Moreover, providing information allows governments to reach a larger audience cheaply while leaving it up to individual firms to form closer relationships. Most would argue that this is how things should be in a market economy.

The basis for **direct** forms of assistance – financial assistance, matchmaking services, training in linkages, provision of brokers or facilitators to “kick-start” cooperative arrangements – **is less strong**, especially for the simple one-to-one linkages. Direct assistance is more costly and is unlikely to reach as many firms. As well, it is hard to design assistance programs that aren’t used by firms who were going to form linkages anyway. If programs don’t target firms well, they dissipate most of their resources without changing firms’ behaviour. In addition, we noted in Chapter 12 that a major impediment to business cooperation is the fear of losing control. This is not an issue which governments can easily address through direct assistance.

But two possible exceptions exist:

- There are stronger grounds for direct support of networks of SMEs. Firstly, such networks are a fairly novel form of organisation in Australia. If they succeed, then the demonstration of the benefits of this form of organisation is a public good, which cannot be appropriated by the networked firm (a spillover). As well, such arrangements can be difficult to establish without an impartial outsider – a role that the government can exercise through hiring an independent private sector consultant. Thirdly, the coordination problems of determining the appropriate levies for firms making up a network can be very high, especially in early ‘untrusting’ stages of a network. By reducing the costs of start-up, the government may weaken these coordination costs. Fourthly, potentially networking firms may know little about the qualities of the consultants who present themselves as network facilitators. Governments can signal quality by certifying a group of adequately trained consultants. Finally, if governments coordinate such networks they can potentially pool information about how best to manage networks and improve future network performance. Most of these arguments suggest an active, but temporary, role for government in helping network formation.
- Talk is cheap, but not always credible. We indicated that there were potentially large information failures. The solution looks easy – simply *provide* the information. But information is not always credible, even if it is true. There may be grounds, therefore, in subsidising an activity in order to demonstrate its real benefits to the user. There would also be grounds in this case for reclaiming the costs of such demonstration afterwards – but that can be administratively difficult. It is an issue we return to later and in Appendix G.

We think there is some basis for varying the mix of direct and information assistance depending on the nature of the linkage. Arrangements more towards the ‘soft’ end of the cooperation continuum (see Chapter 2) are most suitable for information programs and low levels of facilitation (through, for example, NIES or industry associations). Alternatively, there may be a role for direct assistance for ‘harder’ forms of cooperation with their greater complexity and need for more financial commitment by partners.

We think that firms can be encouraged to cooperate more by providing them with better information. Most of the policy initiatives outlined below aim to provide information to firms. However, we believe there *may* be scope for new direct assistance measures targeted towards firms involved in one-to-one cooperative arrangements.

## Recommendation 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.**

### **14.3.1 Promoting network arrangements**

Industry policy already promotes inter-firm cooperation. Current policy mainly aims to encourage cooperative arrangements among three or more firms. The major program is the Business Networks Program, which the government announced in *Working Nation* in May 1994<sup>6</sup>.

Approximately one-third of cooperating firms are in cooperative arrangements involving three or more firms. On average, firms are more likely to benefit from such networks than from one-to-one arrangements. Firms in networks get larger benefits from new domestic customers/suppliers and from market knowledge (see Chapter 8). These findings lend support to the rationale behind the Business Networks Program.

AusIndustry could promote the Business Networks Program to firms by drawing on the results of this study to highlight the benefits of multi-firm cooperative arrangements. According to non-cooperating firms, the most important role of governments in the area of business cooperation is, in fact, to provide information on its benefits (see Chapter 13). AusIndustry now has a lot more data to meet these requirements.

AusIndustry could put together a package of information to show the types of benefits available to cooperating firms, the impact of cooperation on overall firm performance and a number of case studies of successful networks. A reasoned explanation of the many benefits and other positive aspects of networking would help allay concerns some firms have with the idea of firms being ‘pulled together’ and the involvement of facilitators.

A central feature of the Business Networks Program is the use of a private sector facilitator or broker (funded and certified by government) to assist firms in forming and developing the networks. However, we found that many firms are sceptical about the idea of governments providing specialist brokers to help form networks.<sup>7</sup> Non-cooperating firms identified this as the least preferable form of government assistance for business cooperation, with less than half of these firms agreeing with government involvement in this area (see Chapter 13). Whether this comes mainly from opposition to the facilitator concept or a lack of knowledge about the facilitator’s role is unclear.

The reliance on network brokers might result in some resistance to AusIndustry’s efforts to establish large numbers of new networks. The government needs to be aware of firms’ scepticism. They may need to overcome adverse perceptions of their role. It would be helpful if AusIndustry supplemented its Business

<sup>6</sup> Other network programs include the Food Industries Networking for Asia Export Program, the Rural Enterprise Networking program, and Austrade’s export networks.

<sup>7</sup> In fact, the current Business Networks Program is effectively *delivered* by the private sector. The brokers are in the private sector. They are either private consultants or appointed to host organisations, such as industry associations (see Appendix E). However, there is a perception by some firms that the government is directly delivering the program.



Networks information material with a clear exposition of their role in network formation. It may also be worthwhile getting the facilitators together to work out how to market themselves better.

### **Recommendation 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.**

### **14.3.2 A new program for one-to-one cooperative arrangements**

The bulk of business cooperation in Australia involves just two firms. Over 80 per cent of all cooperative arrangements are ‘one-to-one’ affairs. Almost 90 per cent of cooperating firms have these single-partner arrangements. Two-thirds of cooperating firms have *only* these forms of arrangement. Most involve a close relationship with a key customer or key supplier. Other one-to-one business cooperation may involve distributors or transport operators, or may be in the form of joint ventures and partnerships.

All firms have customers and suppliers. We have found that those firms which form a *close* relationship with their customers and/or suppliers can reap significant benefits. These include increased profits, better market knowledge, increased quality, new product development and improved production processes.

Despite their dominance, and their value to the economy, these one-to-one forms of cooperative arrangements have not so far received the same degree of support from governments as multi-firm arrangements. From a practical viewpoint this is not surprising as customer-supplier relationships occur in some form in every firm. Yet the very number of customer-supplier relationships in Australian industry means there is a large potential for governments to make a difference in the way firms conduct their relationships with others. Recent studies undertaken by the Australian Manufacturing Council (AMC 1994, AMC and McKinsey 1994) support this. These emphasised the value of linkages with customers and suppliers in driving innovation and export performance and helping the spread of best manufacturing practices.

In promoting these forms of business cooperation, the main issue is not principally about bringing firms together to form new ‘partnerships’ (as in the Business Networks Program), but about helping firms to improve existing relationships and produce better outcomes. Of course some firms *are* interested in forming one-to-one cooperative arrangements with entirely new firms and this matter is taken up below.

In view of their overall importance to firms, AusIndustry should develop a new program to promote the benefits of *close* relationships with customers and suppliers (and others such as distributors). The new program (we will call it the *Business Linkages Program* to distinguish it from AusIndustry’s network program) should be solely focused on one-to-one cooperative arrangements and would run in parallel with the existing Business Networks Program. Under the new program, firms would be supported principally through information provision, and *possibly* via some direct forms of assistance.

### **Recommendation 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.**

### *Providing information for one-to-one links*

The two forms of government assistance *most* wanted by non-cooperating firms are information on the benefits of cooperation and information on how to form closer relationships with other firms (see Chapter 13). Accordingly, the majority of non-cooperating firms would probably welcome a program which included these features.

The main objectives of the information elements of the program would be:

- To accumulate information on the key aspects of one-to-one cooperative arrangements, drawing on this study. Case studies, that give a ‘warts and all’ treatment of cooperative arrangements, would also provide concrete evidence of the value of such links.
- To demonstrate to firms how single-firm cooperative arrangements can enhance their capabilities, competitiveness and performance and help them overcome specific barriers.

Showing firms the many advantages of cooperation would also be aimed at allaying negative perceptions about strategic outcomes. The major reason non-cooperating firms do not have substantive linkages, or are not in networks, is their fear of losing control over their business operations (Chapter 12). Owners and managers of firms need to be convinced that some sharing of their responsibilities and control is more likely than not to enhance the firm’s prospects.

Convincing firms to embrace cooperative arrangements will not be achieved by brochures alone. Firms want to see the ‘experts’ come to them and provide face-to-face briefings and explanations. This offers a personal touch and is also more likely to grab their attention. There are a number of fora which would be appropriate for reaching interested SMEs through seminars and demonstrations. For example, Chambers of Commerce, the Australian Institute of Management and the Company Directors Association have members from diverse industries and would all be suitable hosts. Industry associations too would of course be good for targeted discussions.

AusIndustry/NIES can also look to some of its existing programs to disseminate information and provide advice on one-to-one cooperative arrangements. It has direct access to many SMEs through these programs.

In promoting cooperative arrangements, it may be undesirable for AusIndustry to try and promote only formal business cooperation. Currently, there is a fairly even split between formal and informal arrangements in Australian manufacturing. Some firms have clear preferences regarding formality. Younger and smaller firms may wish to start with informal arrangements before trying more complex formal arrangements. At the same time, firms should know that the likelihood of benefiting from cooperation appears to be much greater when they are involved in formal arrangements (see Chapter 8).

#### **Recommendation 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.**

#### ***A ‘cooperation plan’***

While many firms could benefit from an information program, there are also some direct ways by which firms can be assisted with their one-to-one linkages. These will often be more appealing to owners and managers as they are given the chance to see how things might work for their particular firm (rather than at the abstract level).

The important point for AusIndustry/NIES to get across to firms is that cooperative arrangements can be an important strategic option. Firms should consider this option in any planning exercises.

One way of assisting firms would be for AusIndustry/NIES to sit down with owners and managers and develop a business cooperation strategy. A key element of this would be a *cooperation plan*. The aim of such a plan would be to build a firm’s relationships with its most important customers and/or suppliers. In some cases, other key links such as distributors could be included.

The idea would be to examine the firm’s current value chain and the nature of its relationships with other firms. The consultant adviser would assess what opportunities there might be for firms working together, sharing information, sharing resources or jointly undertaking tasks – and how these opportunities could benefit the client. Non-cooperating firms may be particularly receptive to this, as they nominated training in linkage formation as the most favoured direct form of assistance (Chapter 13).

The *cooperation plan* would:

- relate to the firm’s key relationships (customers, suppliers, distributors);
- outline what outcomes the firm would like to see from building closer relationships; and
- devise a strategy for forming or enhancing cooperative arrangements.

The plan would be a blueprint for action. But it would require the firm to implement the plan with its own resources. It may not be suitable for the smallest firms with limited resources and limited potential gain. Medium to larger firms are more likely to have thought about business cooperation and be ready to form arrangements – but need some help to get things moving.

AusIndustry/NIES could also use the ‘plan of action’ in the NIES enterprise improvement program as a vehicle for cooperation planning. Currently NIES helps firms to develop a ‘plan of action’ to begin a change process in their businesses. This plan could be extended to take on elements of the *cooperation plan*.

#### **Recommendation 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’.**

### *‘Best practice’ cooperative arrangements*

A variation of the cooperation plan, but which could be included as part of a business cooperation strategy, would be for AusIndustry/NIES to provide advice and disseminate information to firms on how to form and maintain *best practice* one-to-one cooperative arrangements.

Think of all the ingredients of a good customer supplier linkage. How do you form such an agreement? What exactly should it specify? What ‘milestones’ should you have? What should be the duration of the link? How will you exchange information? What goals should you set? The information could give a comprehensive guide to these questions, which firms could adapt to their own needs. It would cover formal and informal arrangements. The box provides an example of how this might work.

#### **Box 14.1 Hypotheticals: finding out about best practice**

*Jack and Jill run a small manufacturing company. They have five major suppliers. They think these suppliers are OK. Jill is reading some NIES material and notices an advert for a program called “How to get the best from your suppliers”.*

*They obtain the information. It provides a detailed list of how to be a demanding customer. It tells them exactly what a best practice supplier would be providing to their business. They are shocked when they look at how their own suppliers measure up. Only one is really very good. Three are passable and one is poor.*

*They contact their suppliers and tell them that they want more. They tell them exactly what they want, and when they want it. Jack and Jill are even able to provide a few clues on how the suppliers might lift their game. Six months later, Jack and Jill are much happier with their suppliers and they have formed a much closer working relationship with them. Productivity and profits are up.*

Unlike the ‘cooperation plan’, it would not always be necessary for firms to bring in a consultant adviser to deal with the specific circumstances of the firm. Information alone might suffice. However, the option of seeking and obtaining expert advice through AusIndustry/NIES should be available to firms. One scenario would be NIES representatives visiting firms to sit down and discuss both the cooperation plan and what the firms should expect out of best practice suppliers or customers.

Although the concept of ‘best practice’ has become quite familiar around industry in recent years, we do not believe that we have reached the stage where firms are overloaded with relevant information. Firms can benefit from more information on *what best practices are*, and more information on *how to use best practice data* to their advantage.

#### **Recommendation 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.**

#### *Liaising with Austrade*

Some of the most significant benefits from business cooperation arise through overseas linkages. This shows itself in two ways – Australian firms who are in cooperative arrangements with overseas firms, and Australian exporters who have some form of cooperative arrangement.

Under the proposed AusIndustry *Business Linkages Program*, Austrade’s involvement will be vital in promoting cooperation with overseas customers or suppliers (and distributors), and in encouraging exporters to form cooperative arrangements. There would need to be close liaison between AusIndustry and Austrade relating to:

- promoting and encouraging cooperative arrangements;
- informing firms of the benefits of these arrangements;
- exchanging information on business cooperation opportunities; and
- directing firms to relevant areas of each others’ organisations for specific advice.

Austrade could also look at the *cooperation plan* and *best practice cooperative arrangement* concepts for possible use with its own operations and clients.

AusIndustry and Austrade have already developed a close working relationship in some areas (for example under the Export Market Planning Program). This will continue as the government more clearly delineates domestic and overseas enterprise assistance programs as a result of the Burgess Report.

#### **Recommendation 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.**

#### *Liaising with industry associations and other business organisations*

The information and advice program recommended as part of the new *Business Linkages Program* would need to extend widely across industries and types of firm. To be effective in spreading the word about the benefits of these arrangements, and encouraging participation, AusIndustry will need to work closely with other key agencies which provide business assistance to firms.

There are three key private sector groups which should be involved in the working relationship with AusIndustry. These are the various industry associations, the business organisations (such as the Chambers of Manufactures) and business advisers (including accountants). Many of these bodies and advisers already have good working relationships with AusIndustry. In addition, numerous industry associations and business organisations were recently announced as host organisations for brokers under the Business Networks Program.

These agencies may have a role in the design and implementation of any new linkage policy. Government agencies, industry associations and business organisations need to investigate and consider each others' relative strengths and weaknesses and devise 'horses for courses' strategies. Agencies which have a comparative advantage in particular aspects of business cooperation should make the running on those issues. For example, industry associations appear to have a better record in providing assistance relating to operational or efficiency outcomes, while governments are better in helping firms to access markets (see Chapter 13). If all these agencies cooperate with each other, then firms looking for expert knowledge on specific business linkages can be referred to the right organisation.

#### **Recommendation 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***

#### *Financing elements of the new program*

The recommendation relating to the *cooperation plan* involves consultant advisers meeting with firms and devising a strategy specifically suited to the client firm. The mechanism for providing advice on *best practice cooperative arrangements* could also include a consultant adviser.

It is envisaged that the financial arrangements for these proposals would be along the lines of current NIES enterprise improvement programs. That is, AusIndustry would subsidise the cost for firms of engaging consultants to help with their business cooperation strategies.

However, a more novel approach that could be considered is a 'contingent reimbursement scheme'. This would provide insurance for firms taking on consultants to devise business cooperation strategies. In essence it would involve the government offering a 'guarantee' to firms that seek to develop *cooperation plans* or *best practice cooperative arrangements*. The government would refund firms for the cost of engaging accredited consultant facilitators if the chosen strategy did not actually work well. The more novel approach is an attempt to design a policy which:

- Selected the firms who weren't going to form a linkage anyway, thus reducing costly transfers.
- Was largely self-financing. This seems appropriate when the grounds for intervention are demonstration effects rather than spillovers.

If the novel approach is not appropriate for the *Business Linkages Program*, the Bureau believes the contingent reimbursement scheme, and the principles underlying it, could nevertheless be applied to other industry programs.

Further details of this scheme are contained in Appendix G.

#### **Recommendation 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.

### ***14.3.3 Identifying partners, business opportunities and markets***

So far we have emphasised the value of promoting business linkages by providing firms with facts about the workings of cooperative arrangements and their many benefits. But government can play another key information role. They could assist firms that are interested in cooperation issues that fall outside ‘business networks’ or their traditional customer/supplier relationships.

Firms may already have a business opportunity in mind and be seeking a joint venture partner or partners. Alternatively, a number of firms may have already formed an alliance and be looking to break into a new overseas or interstate market, but need some expert help on which market to target. Or a firm may have reached a growth plateau and be seeking a new business opportunity involving one or more other firms to shake up the firm and lift its performance.

Governments can and do help firms to identify potential export markets, to find joint venture partners with complementary resources and to advise firms of potentially lucrative business opportunities. The role of governments in identifying market and business opportunities for firms was very highly rated by non-cooperating firms (only slightly behind information on benefits and forming linkages). Interestingly, very small firms and young firms rated this as the *most* important role for government.

The message seems to be that government efforts in this area are worthwhile. It may be of course that not enough SMEs are being reached through existing government programs. There may be scope for AusIndustry to use better the network of Austrade, industry associations, business organisations, and business advisers to provide more useful information to these firms.

Linking with industry associations and other agencies will only be helpful if there is useful information to circulate. Governments could perhaps do better in preparing and updating data bases of potential cooperation partners or business opportunities. AusIndustry could, for example, build on the recommendation contained in the BIE evaluation of the Partnerships for Development program (BIE 1995) for:

A more effective comprehensive listing of the capabilities and interests of local firms...in support of enhanced brokerage and matchmaking services to foster the creation of business links with partners. (p.154)

AusIndustry could extend this idea to listings of firms’ interests in joint ventures, alliances, and consortia that would offer opportunities to interested partners. While examples of such ‘registers’ occur in some states, there is merit in extending these to national databases.

The government should consider disseminating such information on potential partners, business opportunities and markets through AusIndustry’s *BizLink* electronic information program. *BizLink* could also be an effective channel for some of the other information initiatives outlined above.

#### **Recommendation 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*.**

#### ***14.3.4 More effective use of information technology***

Fundamentally, government linkage policies aim to correct information deficiencies. They are about firms receiving correct and timely information on various aspects of the cooperation strategy – what are the benefits? how do firms form closer links? how do firms deal with legal and ethical issues? what are the essential elements of a cooperative agreement? So, information is central.

But age decays information – it can grow old and irrelevant. It can also be hard to find. And different agencies can speak in different tongues – so that Babel-like confusion reigns. This suggests that:

- information on best practice cooperation, and its effects should be up to date;
- firms should find it easy to obtain the information; and
- key government agencies, industry associations and others providing linkage services need to work closely with each other so that the information they provide will fit better together.

Electronic exchange and storage of information can help all three of these objectives. It has several advantages over printed material. It can move around large amounts of data more easily. It is easier to manage and store. It allows parties to instantly access and exchange facts and ideas.

Governments could create an electronic ‘cooperation network’. This would link government agencies, industry associations, business organisations and business advisers. 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. The network could include a ‘best practice’ bulletin board with a focus on making cooperative arrangements work better (see Recommendation 7).

Linking the assistance agencies electronically – networking the networkers – would improve information flows and help to ensure that firms cooperate more effectively. It would be a major step.

However, it would also be a major step to encourage as many SMEs as possible to access directly the so called ‘information super-highway’. This would link firms to information services from AusIndustry, industry association and business advisers. But more ambitiously it would open up opportunities for talking directly to other firms about strategies for improving their business, including linkages.

An example of soon to be available technology is the International Business Exchange (IBEX). Australia will be among the first countries to be linked to the US developed worldwide interactive electronic network designed to allow SMEs to do business around the world through their personal computers (AFR, 1995). Using personal computers and a modem, firms will be able to enter their company profile and information about the products they want to buy, sell or invest in. IBEX will then search and continuously match companies with which the user could do business. The potential business partners will then be able to use IBEX to negotiate their contracts.

The accessibility of SMEs to the information bahn goes beyond the government’s interest in promoting business cooperation. It cuts across other policies relating to information technology strategies. But from the narrow perspective of this study, there are two related steps the government could take which would assist inter-firm cooperation. These are to encourage computerisation in SMEs and to provide information to firms on available electronic networks and other relevant on-line services.



**Recommendation 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.**

