

## 6 Overview of business cooperation benefits

The evidence from Chapter 2 is that most cooperative arrangements in Australian manufacturing are formed for strategic reasons. While some arrangements undoubtedly just come about as ‘a good idea at the time’, the majority are planned with the aim of bringing specific benefits to the firms involved.

Most firms involved with business cooperation manage to obtain *some* benefits across a wide range of areas. In order to try and discover the areas where cooperation is having its greatest impacts on firm performance, the focus of this and the following two chapters will be on the *major* and *critical* benefits which firms have indicated they are acquiring from their various arrangements. These major/critical benefits are the ones making the big differences and the ones which can really make it worthwhile for firms to form linkages.

The answers provided in the survey, and through face-to-face interviews, open up a vast array of possibilities for analysing the positive outcomes of inter-firm cooperation. The purpose of this chapter is to provide an overview of the different benefits available to cooperating firms and an indication of the ones which tend to be most important. To do this, we describe business cooperation benefits at very aggregated levels. Subsequent chapters delve more deeply into the question of how benefits vary for different firms and different arrangements.

In the following sections, the benefits are first compared at the all industries level (Section 6.1). This section also describes the ‘Benefit Index’ which is used to measure and compare cooperation benefits in this and subsequent chapters. Section 6.2 compares benefits across the different states while Section 6.3 looks at differences between metropolitan and regional locations. Section 6.4 summarises the chapter.

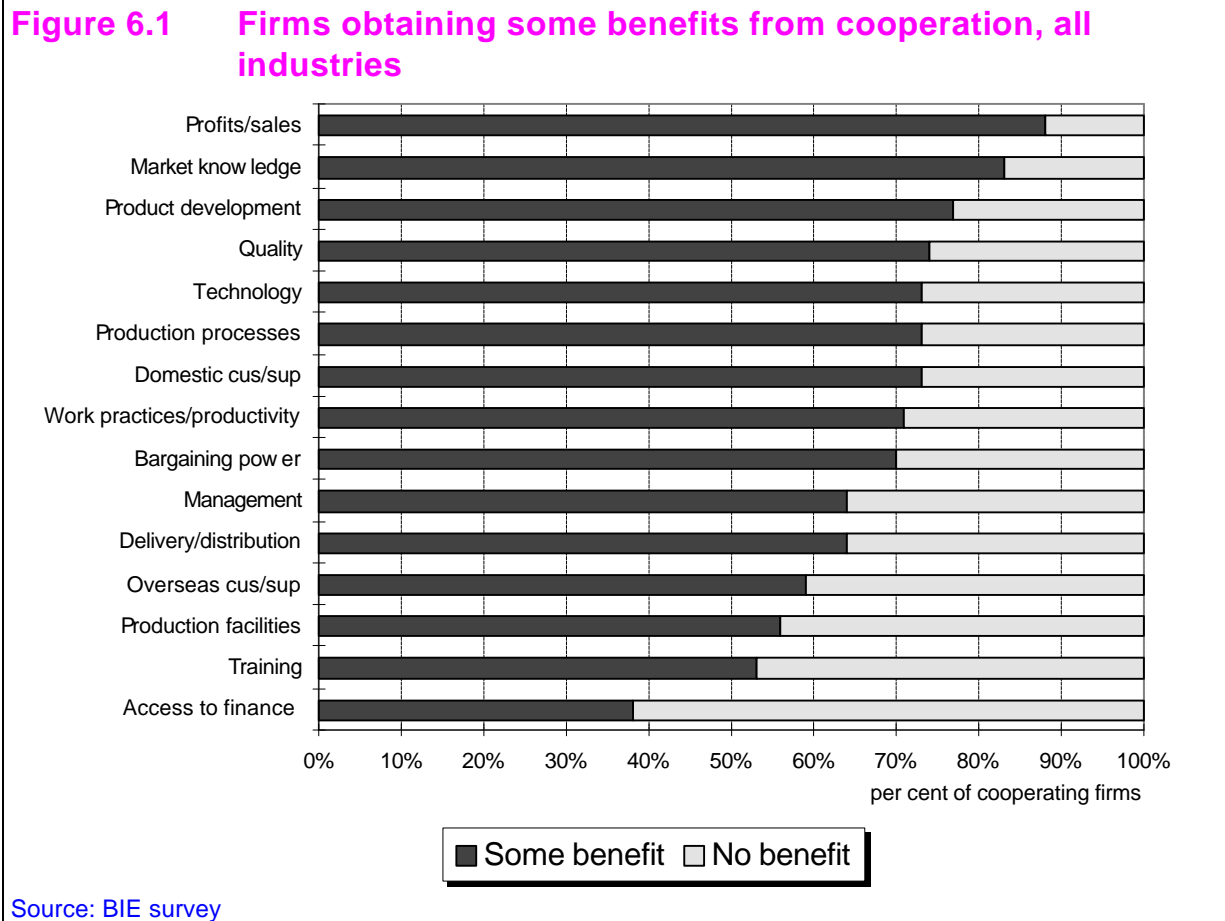
### 6.1 All industries

#### 6.1.1 Degree of benefits

In the survey, firms were given a list of fifteen possible benefits of cooperative business arrangements. The list was designed to try and capture benefits in a number of broad areas – increases in demand, production and distribution efficiencies, improved knowledge, product improvement and other strategic benefits. Those firms which stated that they were currently involved in linkages with other firms were asked to record whether they had obtained any of these benefits from their own cooperative arrangements and, if so, the degree of importance of the benefit (minor, moderate, major and critical).

As noted above, the focus of the results in this report is on the major and critical benefits of business cooperation. To place this in context however, it is useful to first examine the proportion of firms obtaining *some* benefits from cooperation as opposed to just major/critical ones. Thus, providing a respondent firm indicated it was receiving any form of benefit – whether minor, moderate, major or critical – it is assessed as receiving ‘some’ benefits from its cooperative arrangements. Secondly, it is then useful to observe the relationships between ‘some’ benefits and the ‘major/critical’ benefits.

In Figure 6.1 the proportion of cooperating firms obtaining some benefits and no benefits is shown for all fifteen benefit categories. The percentages indicate the proportion of linked firms obtaining benefits from their cooperative arrangements.



At least 50 per cent of cooperating firms are obtaining some benefits from their cooperative arrangements in each of the benefit categories (apart from access to finance). Virtually all firms (88 per cent) say they have increased their profits/sales and the vast majority (83 per cent) also say cooperation has increased their knowledge of their market(s). Around three-quarters of cooperating firms have obtained some benefits from product development, improved quality, new domestic customers/suppliers, access to technology and improved production processes.

Clearly, very high proportions of firms involved in business cooperation are finding it worth their while. The next question though is how many are obtaining really major benefits from cooperation, sufficient perhaps to have a large impact on their business as a whole?

Table 6.1 shows the rankings for the fifteen major/critical benefits alongside the rankings for some benefits as rated by the 525 firms with some form of cooperative arrangement. The rankings are broadly comparable between the two groups. Importantly those benefits near the top and bottom tend to be the same.

**Table 6.1 Comparative rankings of some and major benefits of cooperation**

	<i>Major/critical benefit</i>	<i>Some benefit</i>
Profits/sales	1	1
Market knowledge	2	2
New domestic customer/suppliers	3	7
Product development	4	3
New overseas customers/suppliers	5	12
Improved production processes	6	6
Improved quality	7	4
Access to technology	8	5
Increased bargaining power	9	9
Improved delivery/distribution	10	11
Improved work practices/productivity	11	8
Access to production facilities	12	13
Improved management	13	10
Improved training	14	14
Access to financial resources	15	15

Source: BIE survey

The outstanding difference is the benefits firms are receiving from new overseas customers/suppliers. This is the equal fourth most important major/critical benefit to cooperating firms but a lowly twelfth ranking benefit when the minor and moderate benefits are included.

The marked variation is explained by the fact that a large number of Australian firms have little or no involvement with export markets or overseas firms and therefore are obliged to indicate ‘no benefit’ in the question on cooperation benefits. However, those firms which *are* involved with overseas markets are apparently obtaining disproportionate major/critical benefits from finding new overseas customers/suppliers as a consequence of business cooperation.

Four of the leading five benefits are the same for both groups. This underlines their critical importance as reasons for business cooperation. Profits/sales, market knowledge, new domestic customers/suppliers and product development will come up time and time again (along with new overseas customers/suppliers) as the most important benefits for cooperating firms.

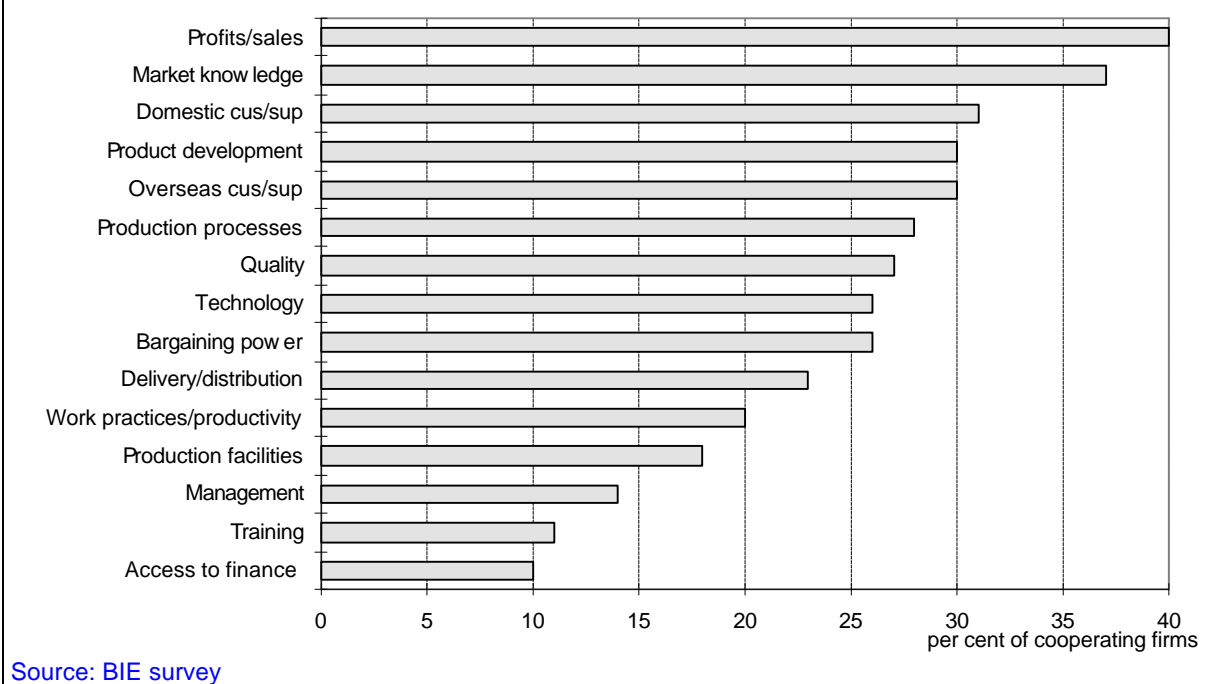
Throughout Part B of this report the discussion of benefits will focus only on the major and critical benefits of business cooperation. This allows us to unearth the key reasons why firms are entering cooperative arrangements and to ascertain the relative importance of particular linkages.

### **6.1.2 Major benefits of cooperation**

Around 75 per cent of cooperating firms obtain major or critical benefits from their business cooperation activities. Moreover, 65 per cent obtain at least two types of major/critical benefits, 56 per cent obtain at least three and 35 per cent obtain five or more. These are impressive figures and provide a very solid base in support of the concept of business cooperation.

The major and critical business cooperation benefits are discussed below. For convenience, the use of the word ‘major’ in describing benefits will henceforth include both the major and critical benefits.

**Figure 6.2 Major benefits of cooperation, all industries**



The measurement of major benefits across all industries, as shown in Figure 6.2 will serve as a ‘benchmark’ against which benefits in different arrangements and firm types can be compared. In such instances the concept of the ‘average’ firm will often be employed to describe the proportion of firms receiving a particular benefit at the all industries level. For example, we might say that 34 per cent of Clothing and footwear firms obtain a major benefit through cooperation in the form of increased profits/sales, compared to a figure of 40 per cent for the average cooperating firm.

As profit-seekers, a major reason why firms are becoming involved in linkages is to try and achieve outcomes which will improve their profitability. Looking at the leading benefits in Figure 6.2, the fact that increases in profits/sales heads the benefit list (40 per cent of firms) shows that many firms are able to see very clearly the impact of cooperation on their order books and profits.

Increases in profits/sales will feature as the most important cooperation benefit more often than not for different arrangements and types of firm. The important relationships between inter-firm cooperation and profits/sales are explored more comprehensively in Chapter 9.

Sometimes business cooperation can have quick and significant impacts on a firm’s profitability, but in other cases firms may be developing linkages with longer-term profitability in mind. In these situations, cooperation can help a firm move through the processes towards the ultimate rewards. The other leading benefits of cooperation show how firms utilise close relationships in other vital areas to help contribute to improving the ‘bottom line’.

Market knowledge is a close second as a major benefit of business cooperation (37 per cent of firms). Firms use their relationships with customers, suppliers and other firms to learn about the market in which they operate – how they can do things better or how they can exploit market opportunities. Working closely with customers and suppliers and understanding their needs is a good grounding for the future success of a firm.

The fact that market knowledge ranks so highly is interesting and should be regarded as a very positive side-effect, or ‘spin-off’, of business cooperation. Whereas most firms go into cooperative arrangements with a definite financial outcome in mind (as in profits/sales), relatively few would see learning about the market as a major reason for cooperating<sup>1</sup>. It is a benefit which is part and parcel of working closely with other firms and which will usually arise incidentally in accompaniment with other benefits. The importance of spin-off benefits arising through business cooperation will be taken up in the discussion of firm types and different arrangements in Chapters 7 and 8 respectively.

Improved profits/sales and market knowledge stand out as the two leading benefits of business cooperation. There is a noticeable gap between market knowledge and the third and fourth ranked major benefits, new customers and suppliers at home and overseas (31 per cent and 30 per cent respectively). These two benefits represent the exploitation of the kind of market opportunities which may be at the ‘development’ or ‘planning’ stage in the market knowledge category. The level of the benefits indicate that the ability to find *new* customers and/or suppliers is a very strong reason for undertaking cooperative arrangements.

Product development (30 per cent of firms) rates about the same as new customers/suppliers on the benefits scale and says something about the enterprising nature of firms involved in business cooperation. The objective of improving products or developing new ones is at the heart of a firm’s innovative activities and product development will be often used as a proxy for innovation benefits throughout this chapter – along with improved production processes and access to technology. Other benefits such as improved work practices/productivity, delivery/distribution and even market knowledge may well also have significant innovation elements.

One of the innovation indicators, improved production processes, is the sixth ranked major benefit for all industries, followed by improved quality. It will be recalled from Chapter 4 that quality of their products was rated by around 60 per cent of cooperating firms as their most important competitive advantage. It seems that a relatively high proportion of firms are using business cooperation to further enhance this selling point for their products.

Both improved production processes and improved quality can be seen more as operational or production efficiency benefits, as opposed to the higher ranked market-related benefits of new domestic and overseas customers/suppliers.

### **6.1.3 The Benefit Index**

In order to keep the analysis of benefits well focused and to aid comparisons, the discussion of major benefits in the remaining sections of this chapter will concentrate on *only the seven most important benefits* for each type of arrangement or firm characteristic.

The ‘Benefit Index’ (BI) for the top seven major benefits will be commonly employed as a basis for comparison. This is simply the total number of firms which have indicated they have received major/critical benefits for the leading seven benefit categories (in a particular arrangement or type of firm), divided by seven to give an average benefit ‘score’.

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<sup>1</sup> The mail survey did not ask firms what motivated their cooperation. However, in our face-to-face interviews we explored firms’ major aims in cooperating. Whereas profits/sales emerged as an influential motivator, market information did not.

Thus we can use the Benefit Index as a shorthand measure for summarising the extent to which particular firms (or firms in particular arrangements) are benefiting as a result of cooperation<sup>2</sup>. It is a simple, yet accurate, means of making comparisons. For example a group of firms with a BI of 35 can be said to be benefiting more from their cooperative arrangements than another group with a BI of 28.

The Benefit Index across all industries is 32. This will be commonly used as a basis for comparison to measure the extent to which the benefits for a firm type or a specific cooperative arrangement differ from the average.

As will be observed, the focus on the top seven benefits associated with a particular arrangement or firm type will mean that the three lowest ranking major benefits in Figure 6.2 will generally not feature in the analysis. This is not to say of course that business cooperation benefits relating to finance access, improved training and improved management skills are in some way trivial; after all, significant numbers of firms are saying they do receive *some* benefits in these areas (Figure 6.1).

In a relative sense, however, firms are indicating that these factors are very seldom the *main* outcomes from being involved in business cooperation (although of course they will be for some firms). It is likely, in fact, that finance access, improved training and management skills are often unanticipated spin-offs from involvement in cooperative arrangements, rather than key aims at the outset.

## 6.2 Benefits by state

To a large extent, state characteristics simply reflect the relative importance of the industries and different firm types within their borders. Thus, while it is interesting to inspect the benefits of cooperation at the state level, caution should be exercised in attributing state differences to intrinsic or inherent state characteristics (and particularly so with the small number of firms involved in some cases<sup>3</sup>).

The major benefits of cooperation for firms in each mainland state are shown in Figure 6.3. There are, of course, substantial differences in the number of cooperating firms in the states and this needs to be borne in mind when making comparisons.

The two largest states, with their extensive and relatively diffuse industrial bases, have similar benefit patterns in terms of both benefit types and their degree of importance. As would be expected, these patterns also closely shadow the national patterns.

Interestingly, both states have lower than national average figures for the two leading benefits, increased profits/sales and market knowledge. Victorian firms in fact, fall below the national benefit averages for all but improved production processes and improved quality. Both of these factors are associated more with the efficiency side of cooperation rather than market access. Firms in NSW fare only slightly better, having three benefit levels on line with national data (new overseas customers/suppliers, product development and improved quality).

The three smaller states provide considerable variety in benefit types and especially in their degree of importance. Increased profits/sales and market knowledge are still entrenched in the top two positions. For

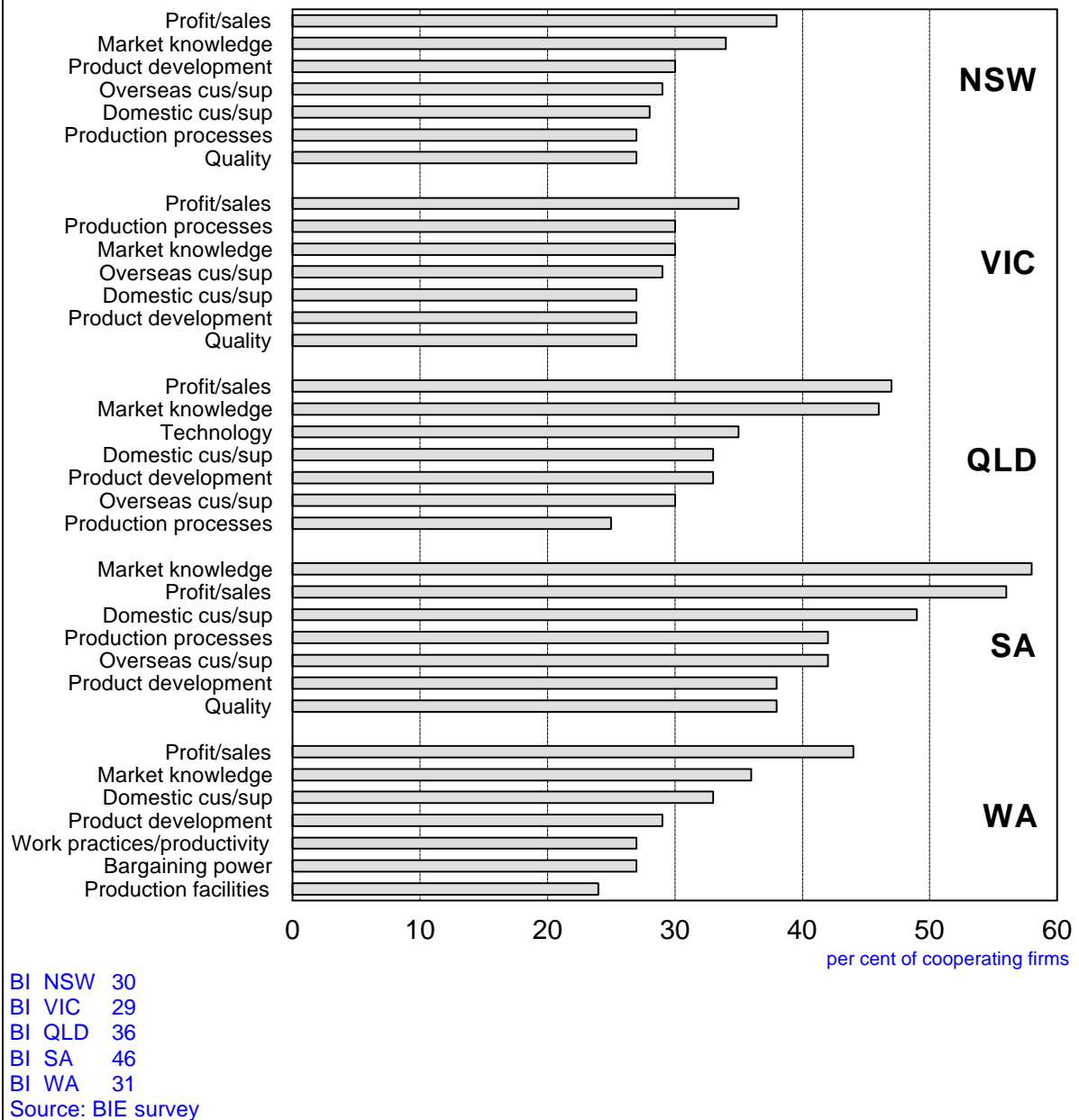
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<sup>2</sup> In around 95 per cent of cases, the relative importance of a particular BI against other BIs accurately reflects the relative differential using all 15 major benefits. That is, the comparison of benefits across different arrangements and firm types has not been distorted by using only the seven most important benefits.

<sup>3</sup> This comment is of course equally valid to the 'state sections' in subsequent chapters.

both South Australian and Queensland firms there is virtually an equal level of benefit in these two areas as a result of forming linkages.

**Figure 6.3 Major benefits of cooperation, by state**



Close to 60 per cent of cooperating firms in South Australia obtain major benefits from increased profit/sales and market knowledge as a result of inter-firm cooperation. These exceptionally high degrees of benefits are continued in all other major benefit areas for South Australian firms, with an equal tendency towards market and efficiency benefits. The proportions of linked firms benefiting are well above national figures. The BI for South Australian firms is 46, compared to the average BI of 32.

Outside the impressive figures for increased profits/sales and market knowledge, the major cooperation benefits for Queensland firms drop down to close to national levels – with the exception of access to

technology. Queensland is the only state to have this benefit listed in the top seven, and to have it ranked third at nine percentage points above the national average is very striking. The reasons for this may be revealed in the following two chapters.

Business cooperation benefits in Western Australia provide a similarly interesting story as the other smaller state, South Australia, but for different reasons. In WA, the interest is not the high proportion of firms obtaining major business cooperation benefits – the BI is only 31 – but rather the benefit types.

Outside the leading benefits is the 20 per cent of cooperating firms in WA benefiting from new overseas customers/suppliers as a result of cooperation. This is nine percentage points less than any other State and ten points below the national average. This largely reflects WA's relatively low export levels and low levels of cooperative arrangements with overseas firms (see Part A).

The other interesting point about inter-firm cooperation WA style, is the appearance in the leading benefits of work practices/productivity and access to production facilities. This may indicate more of a cooperation focus by WA firms on the production efficiency side of the equation, rather than seeing business cooperation as an opportunity for market expansion. This would help explain the relative lack of interest in overseas partners, although the proportion of WA firms benefiting from new *domestic* customers/suppliers is in line with the national average.

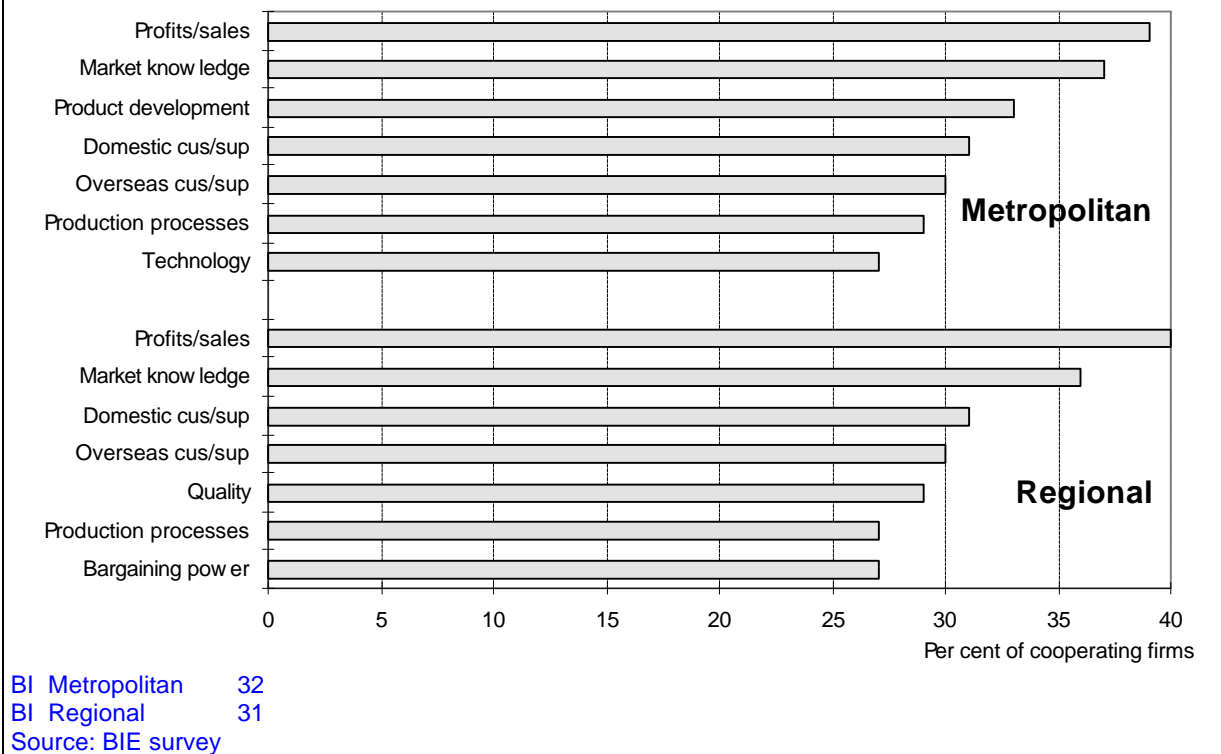
## 6.3 Benefits by metropolitan/regional location

The benefits accruing to firms in metropolitan and regional areas do not appear to vary much at all (Figure 6.4). The overall benefits as measured by the BI are very similar and both groups benefit most in the same sort of areas.

Perhaps the key difference between the two groups is the absence of product development from the leading benefits of regional firms. The inclusion of improved quality and increased bargaining power in the leading benefits of regional firms, and their absence for metropolitan firms, is also interesting.

The regional firms in the survey are dominated by two industries – Engineering and Food – and explanations for the different benefits of metropolitan and regional firms may reflect this to a significant extent. However, other differences in regional and metropolitan firms may also play a role. The relation of benefits to firm characteristics, including industry location, is discussed in detail in the next chapter.



**Figure 6.4 Major benefits of cooperation for metropolitan and regional firms**

## 6.4 Summary

Virtually all cooperating firms benefit in some way from business cooperation. This is hardly surprising as there would be limited reasons to continue in a cooperative arrangement if there were no positive outcomes.

In order to discover the areas where cooperation is having its greatest impacts on firms, we focused only on the major and critical benefits. Around 75 per cent obtain at least one major or critical benefit from their cooperative arrangements, two-thirds get three or more and around 55 per cent get five or more.

Two benefits stand out for firms undertaking cooperative activities – increased profits/sales and increased market knowledge. Almost 90 per cent of the surveyed firms indicated that cooperation had a favourable impact on their profits and/or their sales - and 40 per cent said it impacted in a major or critical way. The data for market knowledge are very similar.

These two benefits will appear time and time again in subsequent chapters as leading outcomes. Interestingly they probably represent two different sides of cooperation benefits. Increasing sales and profits are very much intended benefits of business cooperation – firms enter into cooperative arrangements to improve the look of their balance sheets. Market knowledge, on the other hand, is for the most part an unanticipated positive side-effect, or ‘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 on their travels.

While market knowledge is the most obvious candidate for a spin-off benefit, others will often fall into this category. The phenomenon of anticipated and spin-off benefits in cooperative arrangements is taken up in the discussion of firm types and arrangements in the following two chapters.

For the other leading benefits of business cooperation, there are two prominent groups – market-related and production efficiency, or operational, benefits. The former consists of new customers and suppliers in Australia and overseas, while the latter includes such benefits as improved production processes and technology access. Other benefits with efficiency connotations are improved quality and better distribution.

Overall, firms are more likely to gain from the market-related benefits of business cooperation, with both new domestic customers/suppliers and new overseas customers/suppliers in the top five benefits. Improved production processes and improved quality are the leading efficiency benefits, ranking sixth and seventh in overall benefits.

The other leading benefit of business cooperation is product development (equal fourth overall). Improving products or developing new ones is at the heart of a firm's innovation activities and the importance attached to this benefit by cooperating firms is an important finding for those interested in the relationships between business cooperation and innovation. Other leading cooperation benefits which might have innovation elements are technology access, improved production processes, improved delivery/distribution and even market knowledge.

The purpose of this chapter was to provide an overview of the major benefits of cooperation – which benefits tend to be the most important and how many firms obtain these benefits. In view of the aggregated nature of the data presented, we did not seek to provide explanations for all the results. For the states, for example, different benefits are more likely to reflect different industries and different firm types rather than any inherent state differences.

The following two chapters dig deeper into these aggregate findings to explore what is occurring for different firm types and different forms of cooperative arrangements.

