

## 12 Impediments to business cooperation

The previous two chapters analysed the problems facing firms currently involved in cooperative arrangements and the reasons for cooperation failure. In this chapter, the spotlight switches to those firms not involved in business cooperation. We pose the question: why do some firms avoid cooperating with others? Is it the case, for example, that most firms simply believe they do not need inter-firm cooperation? How many firms are potentially interested in cooperation but are put off by their perceptions of problems associated with cooperative business arrangements?

The answers to these questions are of interest to a number of groups in the community. To try and understand the major impediments to business cooperation, the study targeted those firms which had never adopted a cooperative business arrangement.

A total of 310 firms answered the relevant survey questions asking firms to nominate up to three reasons for never adopting a cooperative arrangement. The choices offered were the same as for cooperation problems and cooperation failure discussed in Chapters 10 and 11. The links between impediments, problems and failure will be discussed throughout this chapter.

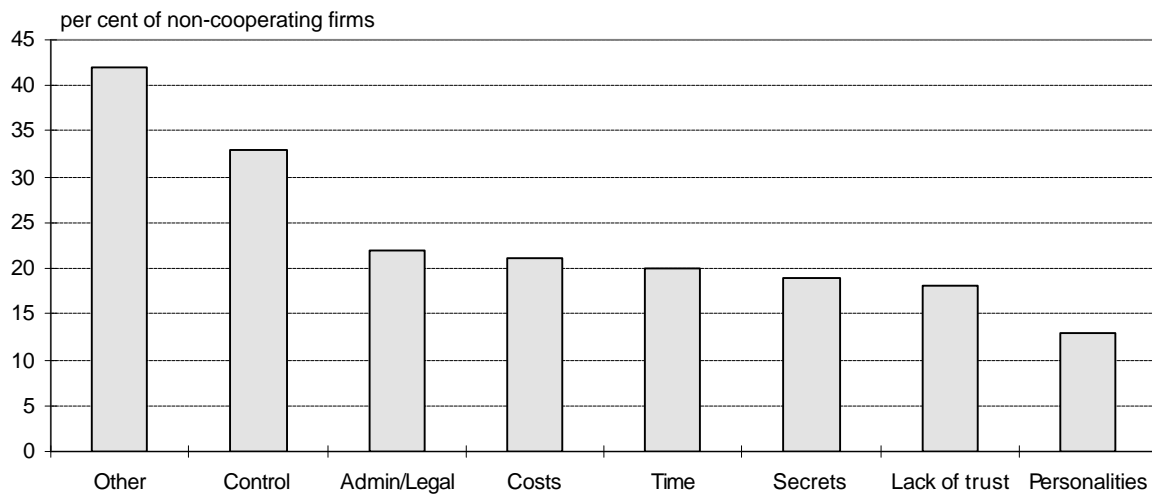
In the following sections the factors impeding firms from entering cooperative arrangements are discussed first at the aggregate level (Section 12.1). This is followed by firm characteristics to see if certain types of firms fear specific problems or are prone to avoiding cooperation all together (Section 12.2). The chapter is summarised in Section 12.3.

### 12.1 Why firms do not cooperate

#### 12.1.1 *All industries*

The reasons for never adopting a cooperative arrangement are shown for all respondents across all industries in Figure 12.1. There are two outstanding impediments to cooperation: the loss of control and a collection of ‘other’ reasons. Each of the remaining impediments are nominated by around 20 per cent of firms, except for personality difficulties which is scarcely rated.

The fear of losing control is clearly the biggest individual reason why non-cooperating firms have so far avoided linkages with other firms. The wish to remain independent and retain complete control of their business operations are the issues at stake. This may be of particular concern to firms which have owner-managers, and/or to firms which have grown from small and uncertain beginnings through their own good efforts and without having to rely on others at any stage.

**Figure 12.1 Impediments to cooperation, all industries**

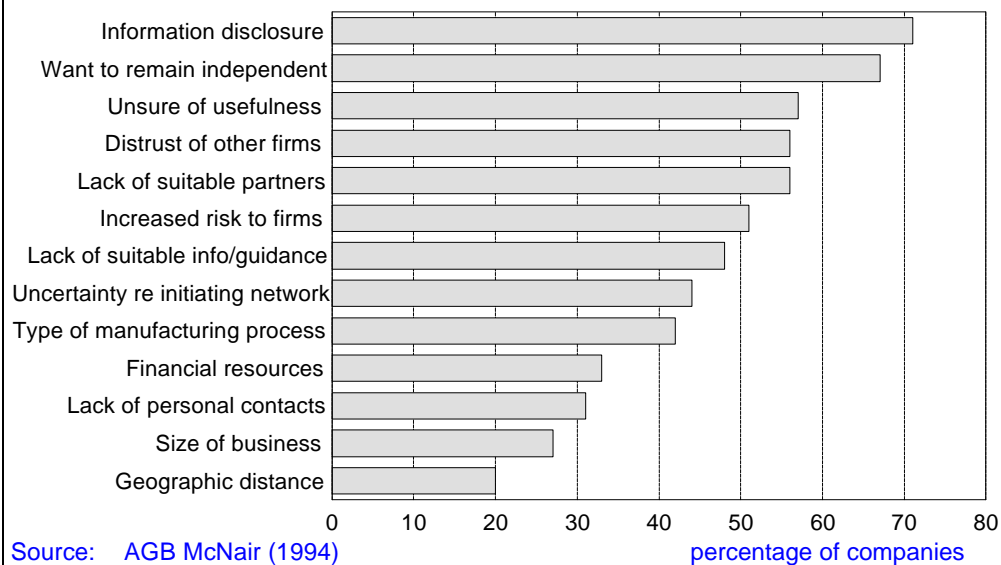
Source: BIE survey

Loss of control also figured prominently in a study of Queensland firms by Buttery (1993) and in the AGB McNair Business Attitudes Survey (1994).

Buttery found that the inability to have complete control was by far the most important factor worrying firms about alliances and networks. The 20 per cent of firms worried by control was at least twice the proportion of firms concerned with virtually all other issues.

Similarly, the AGB McNair survey on networking revealed that the desire to remain independent was the second most significant reason inhibiting firms from becoming involved in business cooperation (Figure 12.2). AGB McNair claimed there was a need to demonstrate that networking does not have to destroy independence. Interestingly, the most significant factor in the AGB McNair Study concerned information disclosure. This is not particularly prominent in our study.

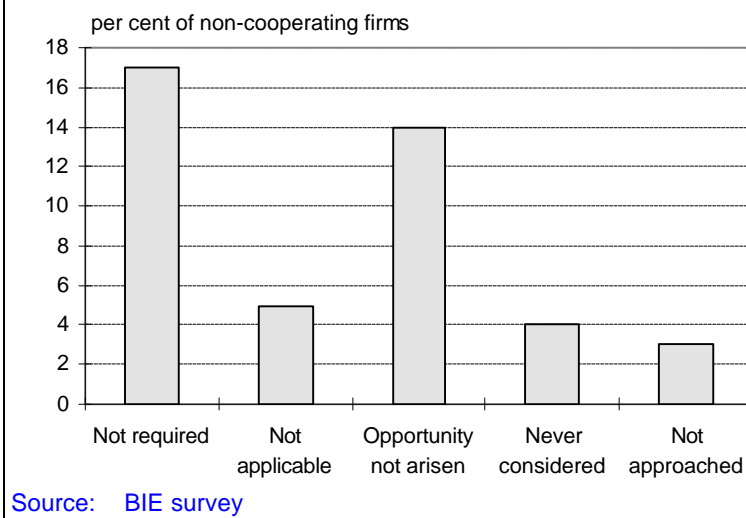
The effect of business cooperation on control was discussed in the previous two chapters. It is interesting to compare the realities with the perceptions of non-cooperating firms. Loss of control was in fact the most important reason (along with lack of trust) for firms *abandoning* their cooperative arrangements. This would seem to indicate that the fears of non-linked firms are supported by the facts. On the other hand, for firms with *existing* cooperative arrangements, loss of control was their least significant concern and only seven per cent regarded it as a major problem.

**Figure 12.2 Factors inhibiting networking**

Even those cooperating firms in the survey which have abandoned linkages for control reasons have maintained their faith in the benefits of business cooperation. In most arrangements firms are obviously able to manage the independence issue reasonably comfortably, and only occasionally does it get out of hand.

For non-cooperating firms, the key message might be that while some will have to give up a degree of independence when forming linkages, the reality is that loss of control is not a major problem for the majority of cooperating firms.

Over 40 per cent of non-linked firms cited a variety of 'other' reasons for their behaviour (Figure 12.3). This comprised:

**Figure 12.3 'Other' impediments to cooperation, all industries**

- 17 per cent which consider cooperation is 'not required';
- 5 per cent which considered linkages not applicable to their firm;
- 14 per cent which suggest no opportunity has arisen for inter-firm cooperation;
- 4 per cent which have never considered the option of linkages; and
- 3 per cent which have not formed links because they 'await approaches'.

It would be hard, and possibly inappropriate, to convince the first group of firms of the value of inter-

firm cooperation. Interestingly, however, over 20 per cent of non-linked firms could be clearly amenable to business cooperation given the right circumstances. In Figure 12.3 this includes those firms which said the opportunity had not arisen, the ones which had never before considered cooperation and those which are apparently waiting to be approached. These firms are broadly comparable to those firms identified in the AGB McNair study which complained of ‘lack of suitable partners’ and ‘uncertainty in initiating cooperation’ (Figure 12.2). All these firms are indicating they do not have closed minds and have a potential interest in cooperating in the future.

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 the benefits. They may also be ill informed about *how* to form a worthwhile arrangement or find it hard to *identify* the best possible partner.

This potential information breakdown is not, of course, just related to the more positive sides of cooperation. Non-linked firms might be surprised (or shocked) to learn of the number of firms encountering problems with the time required to manage cooperative business arrangements. In addition, non-linked firms may be surprised by the significance of lack of trust and financial costs as reasons for failed arrangements. As well as easing some of their fears and assisting opportunities for links, better information flows about the realities of cooperation could also emphasise the need to allocate sufficient time and financial resources to make the linkages work.

Informing firms of the true benefits and costs of business cooperation is a very important issue and one with implications for the role of government. These matters are addressed further in Part D of the report.

### **12.1.2 Impediments by state**

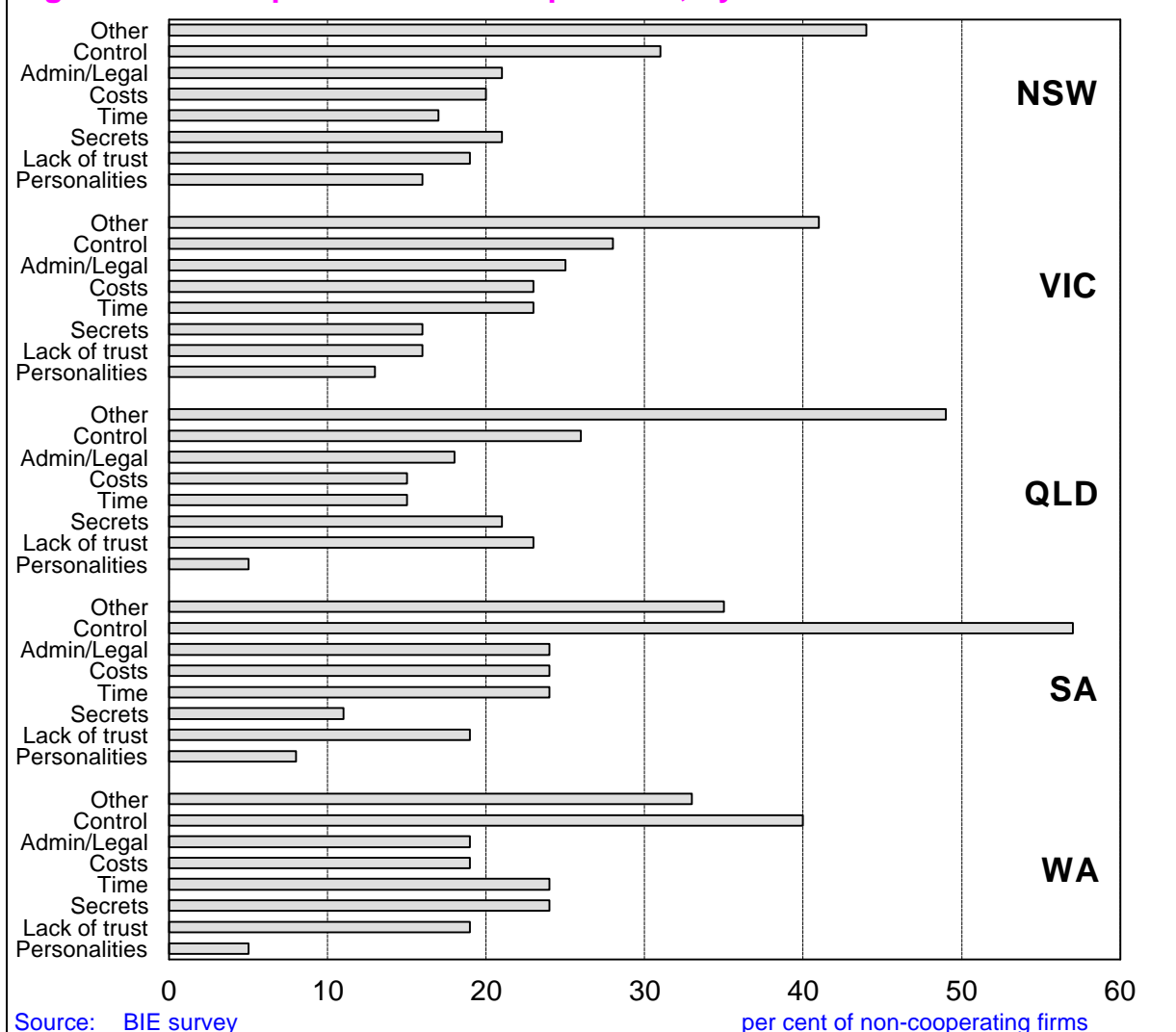
The reasons for not cooperating by firms in each state are shown in Figure 12.4. Some caution is required in interpreting the data in view of the small number of firms involved in some cases.

We found:

- The most important single impediment to cooperation, loss of control, appears to be particularly significant to firms in the smaller outlying states of South Australia and Western Australia<sup>1</sup>.
- It is possible that some firms located away from the eastern seaboard are somewhat more concerned about the potential threat to their independence posed by business cooperation. In practice, however, these concerns do not translate into particular problems for cooperating firms in either state. (See Chapter 10).

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<sup>1</sup> Although it should be noted that only 20 firms are involved in the case of Western Australia.

**Figure 12.4 Impediments to cooperation, by state**

- SA firms have the least concerns about disclosure of commercial secrets. This contrasts sharply with WA where these concerns are foremost. This reflects the situation within existing arrangements in WA.
- Queensland firms are relatively more concerned about lack of trust.
- The two largest states, NSW and Victoria, have fairly similar patterns. These emphasise problems of control, the administrative and legal burden and 'other' reasons.

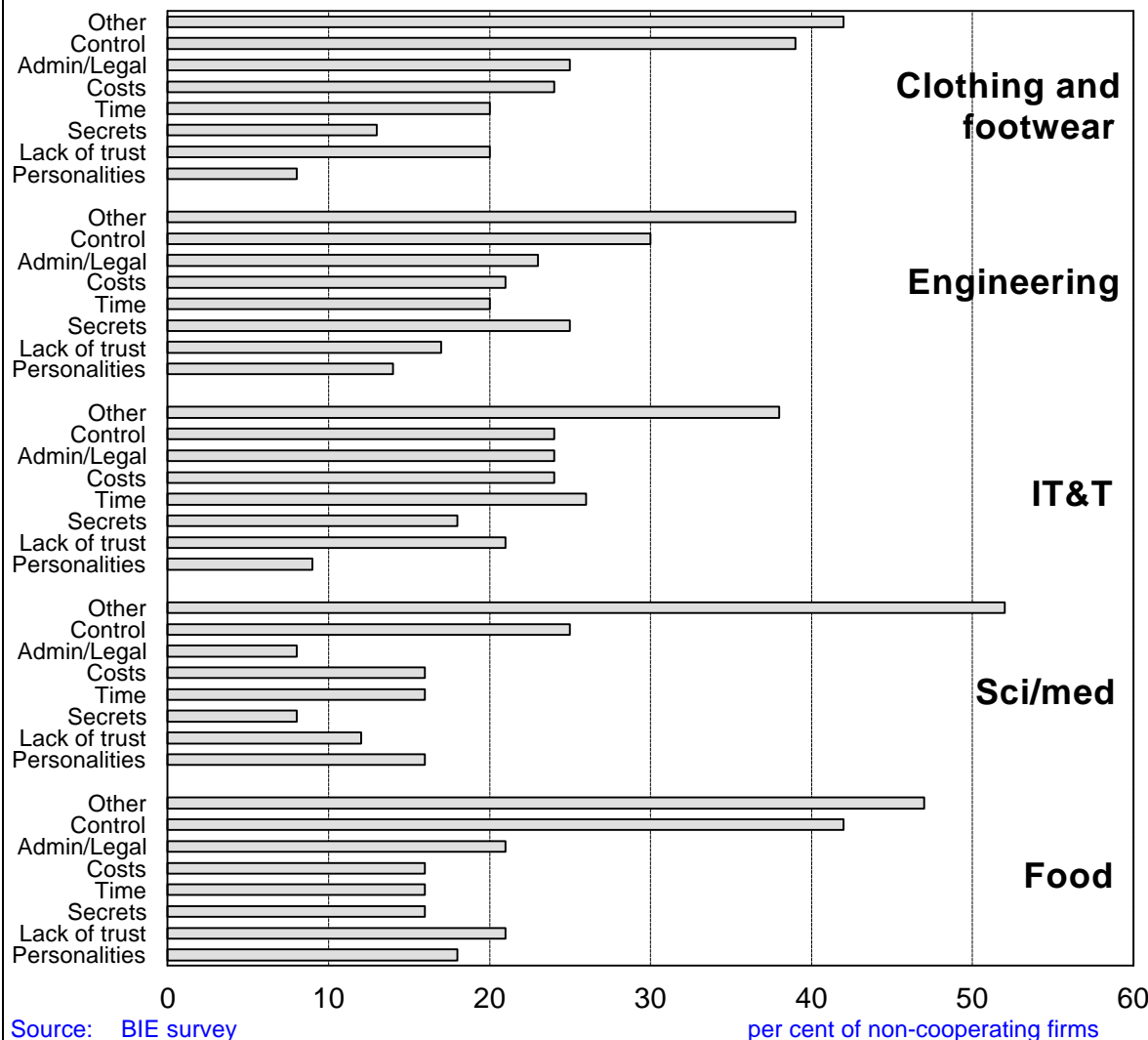
## 12.2 Impediments and firm characteristics

This section examines whether different types of non-cooperating firms have particular reasons for avoiding business cooperation. What, for example, most deters small firms, or firms producing a high-technology product, from cooperation? Understanding why certain categories of firms are reluctant to become involved in inter-firm cooperation is very helpful to agencies wishing to promote linkages.

## 12.2.1 Impediments by industry

This section examines whether there are any significant differences in cooperation impediments by industry. In Figure 12.5, the reasons for firms avoiding business cooperation are classified by industry. Again, caution is required in interpreting the data in view of the small number of firms involved in some cases.

**Figure 12.5 Impediments to cooperation, by industry**



The two most prominent impediments are control and ‘other’ reasons. The former varies considerably by industry. Food firms and Clothing and footwear manufacturers are the most concerned about their inability to retain control in cooperative arrangements, while IT&T and Sci/med firms rate this impediment relatively lowly.

Both Clothing and footwear and Food are traditional industries with a relatively large number of established firms and with an emphasis on design and product differentiation. They also have the least propensity to form linkages (See Chapter 4). IT&T and Sci/med, on the other hand are newer, dynamic industries where linkages are much more common. These firms, while not having linkages themselves, may be more familiar with the control and independence issues associated with business cooperation.

Around half the Sci/med firms listed ‘other’ reasons for not entering cooperative arrangements. Firms in the Food industry also rate well above average in this category. The ‘other’ reasons have not been disaggregated beyond the all industries level because of excessively small samples. It is therefore impossible to reliably distinguish between those ‘not requiring’ and those potentially amenable to cooperation. It should be noted in passing that both the Sci/med and Food industries contain relatively small numbers of non-linked respondents.

Looking at individual industries, Clothing and footwear firms show some concern with potential loss of control, although this is not significantly different from other industries. This did not show up as a major problem for firms currently cooperating in the industry, although loss of control is a very important cause of cooperation failure (see Chapter 11).

Engineering firms form the dominant group in the survey and therefore it is not surprising to find their answers are close to the overall average. One issue which does stand out, however, is the matter of disclosing commercial secrets. This is also quite important to currently cooperating Engineering firms and provides an example where a perception may have some factual basis.

In the other more traditional industry, Food, firms seem to have a greater fear of losing control than in some other industries. However, the concerns over loss of control by non-linked food firms is not replicated for those already involved in business cooperation.

Firms in the two newer and high-tech industries, IT&T and Sci/med, differ somewhat in the reasons for avoiding cooperation. Loss of control is of similar concern, but IT&T firms have more of a tendency to worry about time concerns and financial costs (and even trust). The only real concern of Sci/med firms are the ‘other’ factors discussed above.

In reality IT&T firms do have substantial problems with both time commitments and financial costs in their existing linkages, which may suggest a better understanding by IT&T firms about the true nature of cooperation. Sci/med firms in cooperative arrangements have the greatest problems of all firms with both time management and disclosing commercial secrets, yet these do not appear as strong impediments to the non-linked firms in the industry.

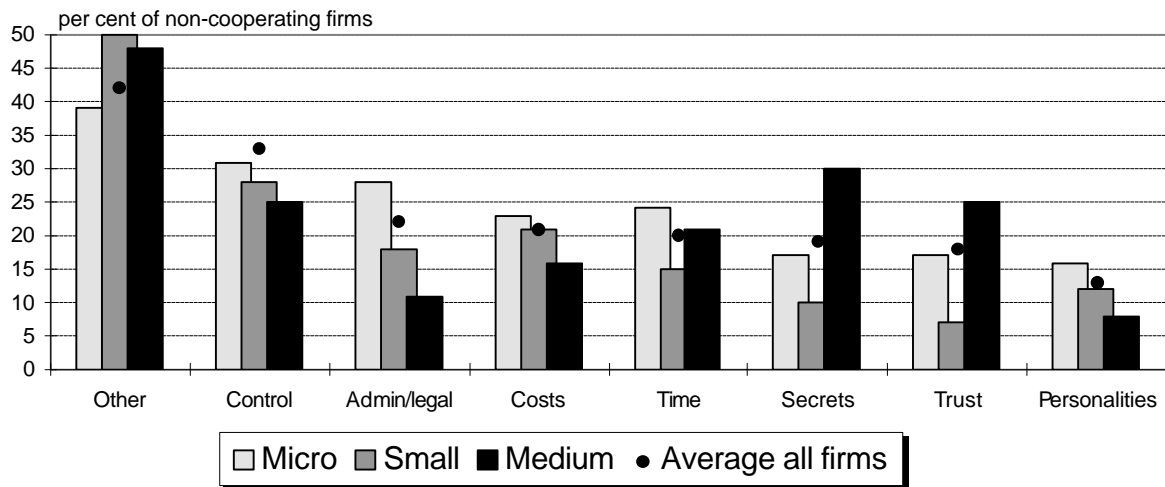
It is apparent that the impediments to non-linked firms are in some cases matched by the matters occurring within existing arrangements. Very rarely however is there much of a relationship between impediments and reasons for cooperation *failure* in the different industries. This reinforces the earlier point of the need to provide firms with better information on the benefits *and* costs of business cooperation.

### **12.2.2    *Size of firm***

For consistency, it would have been desirable for the classifications of firm size used elsewhere in this report to have also been adopted in this section on impediments. Unfortunately there were only 10 large firms in the sample, which makes it impossible to draw any solid conclusions for these firms. However, we can analyse the survey results for firms with less than 100 employees.

The reasons for never adopting a cooperative business arrangement are summarised in Figure 12.6. The major impediment to cooperation, loss of control, does not appear to vary greatly for different-sized firms, although there is a slight tendency for this to be more of a problem in the smallest ones.

**Figure 12.6 Impediments to cooperation, by firm size(a)**



Note: (a) Results for 'large' size group not shown due to small sample.

(b) Average figure for Control is higher than the figure for the three firm categories due to missing data.

Source: BIE survey

In contrast to medium firms, almost 30 per cent of micro firms believe administrative/legal burdens are major reasons for avoiding linkages. These firms are also relatively more concerned about the additional time commitments and personality problems.

Small firms register very low levels of concern about disclosure of commercial secrets and lack of trust. A high 50 per cent of these firms answered 'other' as a major reason for not cooperating. Given our findings on this 'other' category (see Figure 12.3), this suggests a high proportion of these small firms may be receptive to cooperation.

It is interesting to recall from Chapter 10 that small firms have the most major and severe problems within cooperative arrangements, and particularly in relation to financial costs, time management, personalities and trust (the latter two are also major reasons for abandonment of linkages). Only in relation to financial costs do the perceptions of non-linked firms of this size come close to matching the reality.

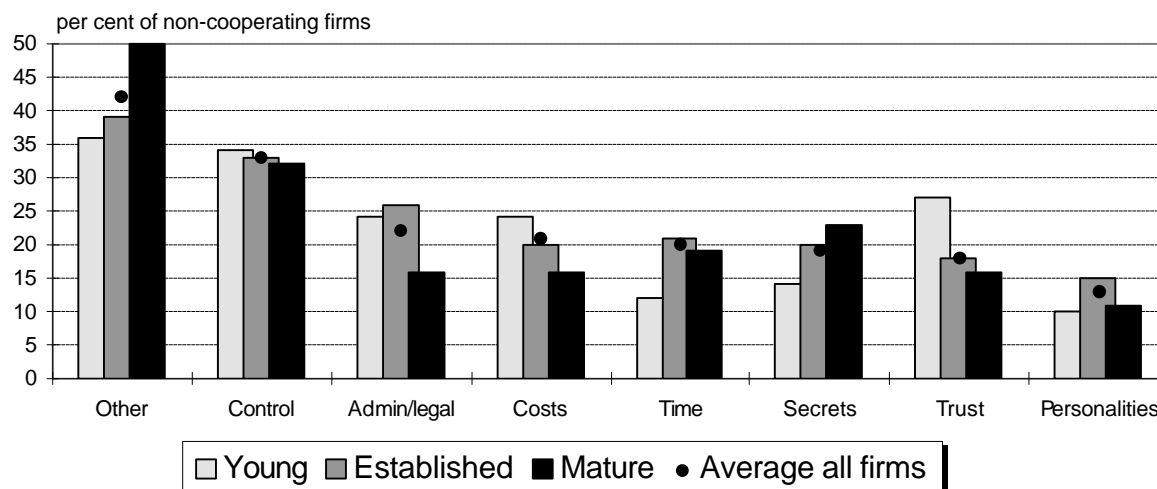
The medium-sized firms appear to have relatively high impediments in two specific areas. Disclosure of commercial secrets concerned 30 per cent of these firms, compared to only 17 per cent and 10 per cent for the two small firm categories. Lack of trust is also a particular problem for medium-sized firms viz-a-viz smaller firms.

Neither disclosing commercial secrets or trust appear to be significant negatives for medium sized firms currently involved in business cooperation. However a very high 54 per cent of medium-sized firms cited lack of trust as a major reason for terminating cooperative arrangements.

### 12.2.3 Age of firm

The impediments to business cooperation by age of firm are shown in Figure 12.7. Loss of control appears to be equally likely to be a significant problem for firms in the different groups.



**Figure 12.7 Impediments to cooperation, by age of firm**

Source: BIE survey

After loss of control, the biggest single reason why young firms do not cooperate is lack of trust of their potential business partners. This stands to reason for relatively new firms, perhaps lacking in market knowledge and without the experience to understand how trust can be developed in mutually beneficial relationships. Lending weight to this explanation is the fact that lack of trust is also a relatively major problem for young firms actually involved in business cooperation (and is a major reason for termination of their linkages).

Established firms (6 to 24 years old) are the most concerned with the potential administrative/legal burden associated with inter-firm cooperation. This perception could to some extent be based on a real appreciation of the problems of inter-firm linkages. Administering cooperative arrangements is likely to be more of an actual problem for established firms compared with more mature firms (see Chapter 10). At the same time, disclosing commercial secrets and financial costs are also more significant problems to established firms within their cooperative arrangements and yet they do not appear as major impediments for non-linked firms in this group.

Half of the mature firms (25 years old or more) cited a range of 'other' factors as their major reasons for not cooperating with other firms and many may therefore be receptive to cooperation in the future.

Turning to specific impediments, mature firms have more of a tendency than new firms to be put off business cooperation by the fear of having to disclose commercial secrets, but on the other hand are less concerned with the prospective financial costs and the likely administrative/legal burden.

The implications of these findings are that firms which have been around for a long time have a larger store of knowledge than younger firms and are inclined to be more reluctant to share this accumulated intelligence with new comers. At the same time, they have also been market players long enough to know their way around the administrative side of contracts and not to be over concerned about this issue.

## 12.2.4 Exporters and non-exporters

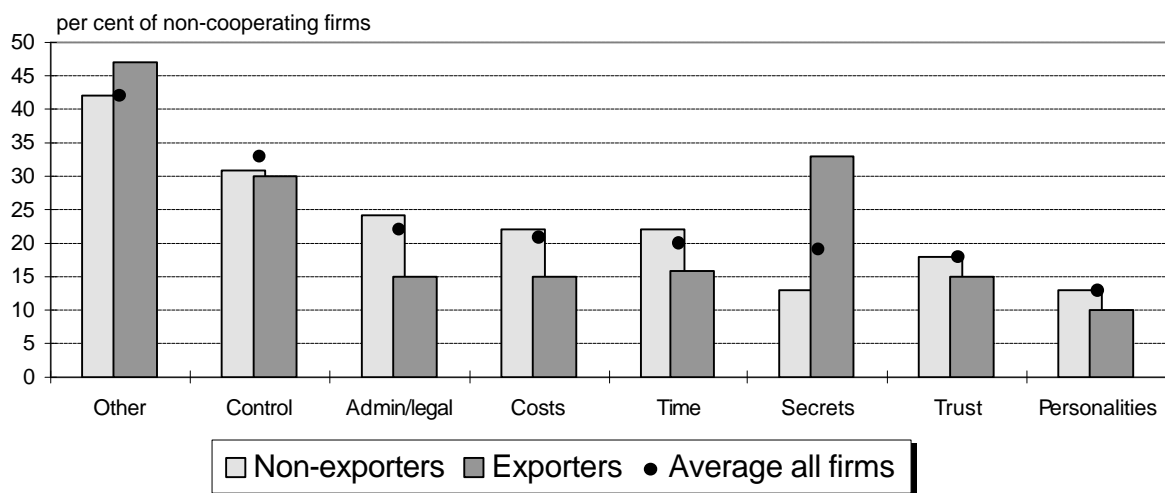
We demonstrated in Part B that exporters generally do well out of business cooperation and are substantially more likely to benefit than non-exporters. Almost 50 per cent of exporting firms increased their profits/sales and market knowledge, for example through their linkages (compared with around 30 per cent for non-exporting firms).

Over one-quarter of the survey respondents that have never adopted cooperative arrangements are exporters. We think it useful to analyse their major reasons for maintaining their arm's length relationships.

It is apparent that exporters are extremely nervous about the implications of business cooperation for information disclosure and protecting commercial secrets (Figure 12.8). One-third of non-cooperating exporters regard this as a major impediment to forming linkages. This is well over twice the proportion of non-exporting firms (13 per cent).

Exporters carve market niches in world markets by having competitive advantages over rivals. Many of these advantages are fundamentally underpinned by knowledge – knowledge of how to produce, market know-how and of course intellectual property. Some firms are apprehensive about their ability to quarantine their knowledge within a cooperative arrangement. The foundations for their fears are actually slight. Although exporters in current arrangements have concerns about disclosure of information, they rarely cite information as a reason for terminating a linkage.

**Figure 12.8 Impediments to cooperation, exporters and non-exporters**



Note: (a) Average figure for Control is higher than the figure for the two firm categories due to missing data.  
Source: BIE survey

Despite their worries regarding commercial secrets, exporters are not particularly concerned with lack of trust or the possibilities of losing control in a cooperative arrangement. Relative to non-exporters they are also unconcerned with some of the more 'down to earth' resource matters relating to financial costs, administration and time.

Like other types of firms, a high proportion of exporters (47 per cent) are however avoiding cooperation for a combination of 'other' reasons.

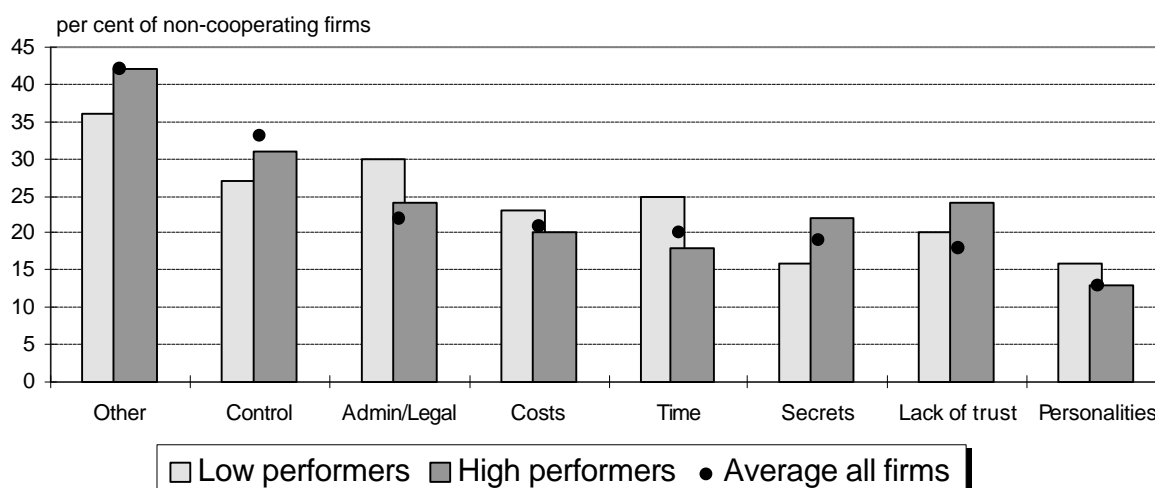
Firms producing solely for local markets do not have any particularly significant impediments beyond loss of control and ‘other’ reasons. Apart from disclosing commercial secrets, non-exporters do not differ a great deal from exporting firms. They have a few more concerns about the resource impediments – financial costs, time management and the administrative burden. None of these issues are unusual problems within existing arrangements.

### 12.2.5 High and low performing firms

We show the reasons why non-cooperating high and low performers avoid business cooperation in Figure 12.9. Low growth firms give prominence to the anticipated administrative/legal burden (30 per cent of firms). The concerns with this matter relegate loss of control to third place in the ranking of problems.

Low growth firms are also a little more concerned with the expected time commitments than average. This suggests these firms are a little more worried about the day-to-day realities of business cooperation, rather than the more esoteric questions of whether they will be able to trust their partners or whether they will be able to maintain control over their destiny. Firms ‘up against it’ generally, and perhaps desperate for business, seemingly are most concerned with sparing the time and the administrative resources to form and maintain linkages.

**Figure 12.9 Impediments to cooperation, high and low performers**



Note: (a) Average figure for Control is higher than the figure for the two firm categories due to missing data.

Source: BIE survey

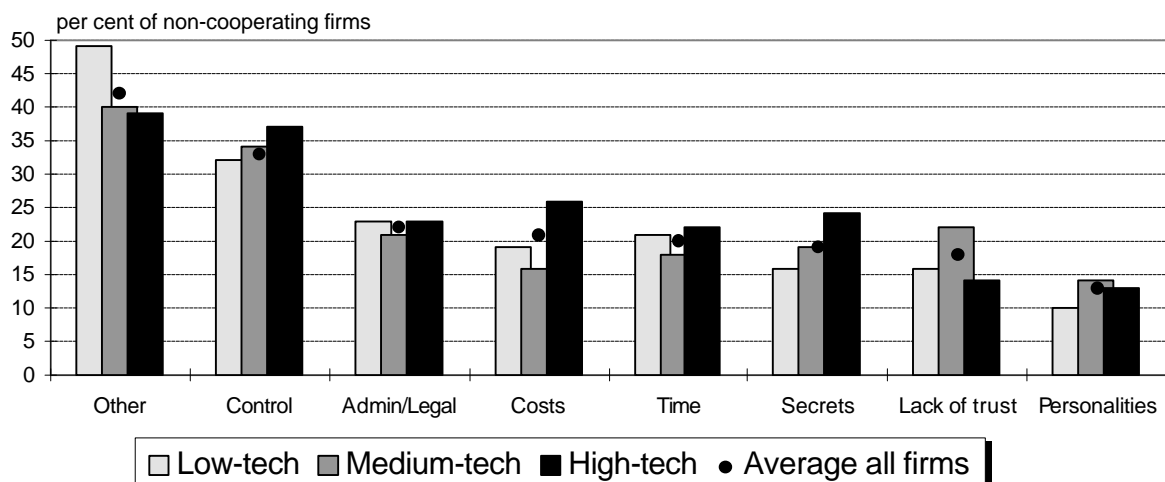
High growth firms follow a more familiar pattern. Lack of trust is the only reason that stands out as being noticeably different from the ‘average’ firm. This is also an important problem encountered by high performers involved in cooperative arrangements and it is easily their major reason for cooperation failure. Taken together it suggests a definite pattern of concern amongst high performers that their success might be compromised by working too closely with other firms.

## 12.2.6 Technology content

Low-tech firms are likely to achieve relatively fewer benefits and incur fewer problems as a result of inter-firm cooperation. This apparent tendency to not take business cooperation as seriously as high and medium-tech firms carries over into the perceptions of ‘maiden’ low-tech firms.

The only significant impediment for low-tech firms, relative to the other two groups, is the 49 per cent which cite ‘other’ reasons for avoiding cooperation (Figure 12.10).

**Figure 12.10 Impediments to cooperation, by technology content of firm’s product**



Source: BIE survey

Firms with a high-technology content in their products understandably tend to be relatively more concerned than other firms with disclosing commercial secrets, and are also concerned with the financial costs of cooperation. It is interesting to compare these findings with the industry breakdown of firms (Figure 12.5), which shows Engineering firms to have the greatest concerns with commercial secrets and IT&T and Clothing/footwear firms to be the most worried about financial costs.

We find a slightly higher proportion (22 per cent) of medium-tech firms believe lack of trust is a major reason for avoiding cooperation. Their concern with trust is justified when the reasons for abandonment are recalled. One-half of the medium-tech firms which have abandoned cooperative arrangements have done so because of a breakdown in trust (see Chapter 11). While a similar proportion of high-tech firms have terminated cooperative business arrangements for the same reason, trust does not appear as an inhibiting factor for non-linked high-tech firms.

## 12.2.7 Other firm characteristics

Variations in the type of product and the level of competition has very little effect on the decision not to participate in inter-firm cooperation. Firms producing goods for further processing (intermediate products) are particularly concerned with loss of control aspects (39 per cent), compared with 33 per cent for final

products and only 16 per cent for capital goods. For all other impediments, however, there are no major differences between the different firm types.

The degree of competition in its market(s) makes no difference whatsoever to the reasons why firms have never adopted cooperative arrangements. It was shown in Part B that firms facing relatively higher levels of competition are more likely to benefit from cooperation than low competition firms, although the differences were quite small. However, it seems that firms facing more intense competitive pressures have no special or significant reasons to either adopt or reject cooperation as a business strategy.

## 12.3 Summary

It is evident that business cooperation offers significant benefits, so why don't more firms have cooperative arrangements?

One-third of firms apparently conduct all their business operations at arm's length and many other firms are involved in only marginal aspects of business cooperation. This chapter has looked at the reasons why these firms fail to adopt substantive cooperative arrangements.

There are two major impediments to cooperation: fear of losing control and a collection of 'other' reasons. Loss of control is the biggest single reason why some firms have never entered into cooperative arrangements. The wish to remain independent and retain complete control of business operations are the issues at stake. To the extent that loss of control is a major reason for cooperation failure, this fear is somewhat justified. At the same time, loss of control is not a significant problem encountered by firms in their *ongoing* cooperative arrangements. It comes down to a question of choosing the right type of arrangement.

Over 40 per cent of non-cooperating firms outlined several 'other' reasons why they had avoided cooperation to date. For about half of these firms cooperation is thought to be 'not required' or 'not applicable'. However, the other half of these firms could be amenable to business cooperation in the right circumstances. The majority noted they had not formed any linkages because the right opportunity simply had not arisen, while others were waiting to be approached or thinking over the cooperation issue.

Accordingly, at least 20 per cent of firms without cooperative arrangements may be open to cooperation but require information on opportunities or potential partners. 'Information failures' could be quite pervasive.

Most non-cooperating firms are almost certainly uninformed about the prospective benefits of cooperation – particularly when many benefits are spin-offs not anticipated prior to the commencement of cooperative activities. In addition, the major concern of non-cooperating firms – fear of losing control – could also be based on misleading (or at least, incomplete) information. Loss of control is not a significant problem in ongoing cooperative arrangements.

If non-cooperating firms were more aware of the positive sides of business cooperation – and knew more about how to form linkages – it is hard to avoid the conclusion that many more would join the ranks of 'the cooperators'.