

# Report at a glance

## ***What are business linkages and networks?***

Business linkages and networks ('business cooperation') are defined as special relationships between at least two firms that are beyond normal market transactions and have some permanence. Cooperating firms work together for a common aim and share information and resources and/or jointly undertake tasks.

## ***Many firms cooperate***

Around one-third of firms are involved in 'core' forms of cooperation (for example, joint ventures, preferred customer and supplier agreements), while up to two-thirds engage in either 'core' or 'marginal' forms (feedback and forecasting).

## ***Firms usually have several cooperative arrangements***

The average number of arrangements per cooperating firm is close to three. Approximately 30 per cent of firms have one key arrangement only. Almost half have two to four arrangements and 25 per cent have five to ten cooperative arrangements.

## ***Most cooperation involves just two firms***

While most firms have more than one cooperative arrangement, most arrangements are with just one other firm. Only one-third of cooperating firms have network-type arrangements with many partners.

## ***Most cooperation occurs for strategic reasons***

The majority of cooperative arrangements come into existence as part of an overall business strategy. Business cooperation has become another strategic tool for managers to use to increase their firms' capabilities and improve performance.

## ***All types of firms cooperate, but some more than others***

All types of firms engage in cooperation. However, those *most likely* to cooperate are large firms, high growth firms, high tech firms, exporters and firms producing capital goods. Firms that tend to cooperate the most also tend to benefit the most.

## ***Firms benefit from both market-related gains and efficiency improvements***

Around 75 per cent of cooperating firms get *major or critical* benefits from their linkages and networks. The firms *most likely* to benefit from cooperation do so through accessing new markets and finding new customers and suppliers. Other firms use cooperative arrangements for efficiency reasons such as improving production processes and accessing technology.

## ***Many benefits of cooperation are unanticipated 'spin-offs'***

Firms have particular aims when they enter cooperative arrangements (for example, accessing new markets). However, many of the benefits of business cooperation arise unexpectedly as 'spin-offs' – most commonly, market knowledge, improved production processes, product development and improved quality.

***Overseas links offer more***

Firms with an overseas focus (those in a cooperative arrangement with an overseas firm or cooperating firms with a high reliance on exports) appear to be the most likely to receive large benefits from business cooperation.

***The more intensely a firm cooperates, the more it benefits***

There is a strong relationship between a high degree of involvement in cooperation and a high level of benefits. First, firms with large numbers of arrangements are likely to benefit the most. Second, firms in network-type arrangements benefit more than firms in one-to-one linkages. Third, the benefits of formal arrangements are far in excess of informal, looser arrangements.

***Cooperation plays a significant role in improving performance and competitiveness***

Almost three-quarters of firms increase sales as a direct result of their key arrangement and well over half post higher profits. A majority of firms use their key arrangement to improve competitiveness in technology, quality and customer service.

***The problems of cooperation are easily outweighed by the benefits***

For every firm experiencing two or more major problems from cooperation, there are four that get two or more major benefits. Firms encountering the most problems usually obtain the most benefits. The additional time required to manage arrangements is the biggest problem firms face.

***Cooperation sometimes fails, but most firms try again***

Almost half the firms that have abandoned cooperative arrangements indicated lack of trust and loss of control as the major reasons for termination. Around three-quarters of the firms that have abandoned arrangements are currently involved in other cooperative arrangements.

***Non-cooperating firms have a key concern***

The fear of losing control is the biggest single reason why some firms have never entered into cooperative arrangements.

***External assistance has positive impacts***

External assistance has a positive effect on the performance of cooperative arrangements. Firms receiving either government or industry association help with their linkages and networks are more likely to benefit than non-assisted firms.

***Summary***

Overall, inter-firm cooperation in Australia is alive and well. It is clearly beneficial and effective for most firms that participate. It improves their capabilities and competitiveness. We believe there is a role for governments in ‘greasing the wheels’ of cooperation by encouraging the development of closer inter-firm linkages and business networks. Accordingly, the report makes a number of recommendations about the government’s approach to business cooperation.