

**Co-operative Arrangements and the Development of Small Business Export
Activity: An Australian Exploratory Study**

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ABSTRACT

The potential for small business to be involved in export activity and to provide growth in an economy's export income and employment has been identified by many researchers and government policy makers. Some of the reasons proposed for this potential include the:

- large number of small businesses in the economy, and
- innovative characteristics which some small businesses possess.

Although the vast majority of firms in Australia are of small size, employ nearly half the nation's workforce and comprise the largest number of firms that engage in export activity, many of the nation's small businesses are not exporting, even though they have the potential to do so. Many small business owner/managers report the barrier to their firm engaging in export activity is simply the small size of their firm. This is reflected by more specific reasons such as lack of financial and human resources and fear of unfamiliar countries and markets. (Kalantaridis 2004, Leonidou 1995, Leonidou 2004)

One proposal to overcome this barrier is for the firm to enter into co-operative arrangements with other firms. A co-operative arrangement is "*a special relationship between at least two firms that is beyond normal market transactions and has some permanence.*" (Bureau-of-Industry-Economics 1995).

This paper reports the findings of an exploratory study examining the involvement in co-operative arrangements of a sample of Australian small exporting businesses. It was found that younger firms tended to be involved in co-operative arrangements and have more of those arrangements than older firms. Similarly, firms that had been exporting for shorter periods of time tended to be involved in co-operative arrangements and have more of those arrangements. The majority of the co-operative arrangements were with only one other firm.

The decision-makers of exporting firms with co-operative arrangements considered those arrangements were of moderate importance for the establishment and continuing development of their firm's export business. They also felt that co-operation with other firms was becoming more strategically important and more frequent.

Those small exporting firms that had received government assistance to develop co-operative arrangements were of the opinion that the government assistance had contributed to the success of their co-operative arrangements.

1. SMALL BUSINESS AND EXPORT ACTIVITY

The importance of the small business sector in national economic activity is evident from some statistics. Even for a developed economy like the United States which is often identified with large multinational corporations, it has been estimated that over 88 percent of all firms employ fewer than 20 people and almost half of the U.S. workforce are employed by firms with fewer than 500 employees. (Fiegenbaum and Karnani 1991, p.101). Similarly, estimates for the United Kingdom have 97% of businesses employing less than 20 people, providing 35% of total non government employment and contributing 17% of national output (Burns and Dewhurst 1996, p 2).

In Australia, the Bureau of Statistics has estimated that nearly 97% of all non-agricultural private sector businesses are small and generate around 15% of the national gross domestic product (Australian Bureau of Statistics 2003). For these statistics, a business (excluding agriculture) is classified as small if it is:

- non-manufacturing and employs less than 20 employees
- manufacturing and employs less than 100 employees.

Small businesses have also been cited as a major source of employment growth. For example, in the United States, small firms have been credited with providing many of the 20 million new jobs that were added to the economy from 1977 to 1991 and with producing much of the technological innovation over that period (Byrne 1991, p.84). In the United Kingdom small businesses employing fewer than 10 people have been estimated to have created about 1 million new jobs between the period 1987 to 1989 which was almost the same number as provided by large firms over the same period (Burns and Dewhurst 1996, p 2).

In Australia, small businesses employ around 47% of the total workforce (Australian Bureau of Statistics, 2003) and over the last two decades various statistics have illustrated the importance of small business in employment generation. In the ten year period from 1985-1995 small business employment was estimated to have grown at an average rate of 3.6% per annum which was more than twice the annual growth rate of total national employment. Also, over this period, the share of total employment provided by small business grew from 39% to 45% (Australian Bureau of Statistics 1995). More recently, small business has been estimated to have provided 58% of total employment growth during the period 1996/7 to 2000/01 (Australian Bureau of Statistics 2001).

When looking at the export activity of small business, the picture can vary significantly between countries. For example, in the United States, more than half of all exporting firms

were estimated to have less than 100 employees (Birch 1988) and in Canada approximately 94% of all firms that were engaged in exporting were classified as small or medium size as they had sales of less than \$C50 million per year (Calof 1995).

In Australia, approximately 4% of all small businesses were recorded as undertaking export activity (Australian Bureau of Statistics 1998). However, it has also been estimated that over 80% of Australian manufacturing sector exporters and 60% of service sector exporting firms were of small or medium size (Marsden J. & Associates 1995).

In relation to the generation of national export income, Australian small exporting firms have historically contributed a relatively low proportion of the total, however this proportion has been increasing. An examination (LEK Partnership 1994) of the service sector of the Australian economy, which is dominated by small businesses, estimated this sector to have generated 13% of the total national services export income and to have:

- grown at an average annual rate of 13.6% per annum over the 30 year period from 1963-1993,
- grown at an average annual rate of 24% per annum in the ten year period to 1993, and in the early 1990's to have:
 - employed more than 80% of the total workforce,
 - directly generated approximately 20% of the nation's total export income, and
 - contributed indirectly to the earning of more than 40% of total national export income.

Smaller firms have also been identified as having higher export intensity than larger firms (Bonaccorsi 1992). One measure of export intensity is the proportion of a firm's total revenue that is derived from exports. It has been proposed that when small firms undertake exporting, they generate more export income per unit of domestic sales than larger firms (Calof 1995). Also, when compared to larger firms, small firms are generally regarded as having a more flexible operating structure, are more able to implement niche strategies to take advantage of changes in the business environment and to have lower overhead costs. These characteristics are argued to provide small firms with a competitive advantage over larger firms in export markets (Ali and Swiercz 1991; Calof 1995).

As a result of these small firm characteristics and the desire of governments to increase national export income and domestic employment, there has historically been a focus of policies to encourage more small businesses to undertake exporting and to develop their export activity (Dichtl and Leibold et al. 1984; Hardy 1986; Malekzadeh and Nahavandi

1984; Moen 1999). This is particularly the case as national economies face intensified competition from the globalisation of markets (Julien et al. 1994; Julien et al. 1997).

2. DEVELOPMENT OF SMALL BUSINESS EXPORT ACTIVITY

The development of small business export activity has generally been represented as an incremental process whereby firms progress through a number of distinct stages from being a firm with no export activity and with revenue earned solely from the domestic economy to the final stage of an active, experienced and committed exporter (Aharoni 1966; Anderson 1993; Barkema 1996; Bilkey and Tesar 1977; Cavusgil 1980; Chen and Martin 2001, Crick 1995; Czinkota 1982; Czinkota and Johnston 1981; Johanson and Wiedersheim-Paul 1975; Joynt and Welch 1985; Kotabe and Czinkota 1992; Mehran and Moini 1999; Reid 1981; Stopford and Wells 1972).

There is however, no generally agreed view as to how a small business commences exporting. It could be that a firm commences exporting after it has reached maturity and saturation in its home market and is looking to increase sales revenue (Caves 1982; Porter 1990). Alternatively, it could be that a firm might commence exporting by receiving an unsolicited order from overseas. On the other hand, there is evidence that some firms have a strategy to commence exporting after only a short period of having relatively small levels of domestic sales. An Australian study of these “born global” firms found average export revenue comprising 76% of total revenue (McKinsey & Company and Australian Manufacturing Council 1993).

Irrespective of the particular stimulus that initiates the export activity of a small business it would appear that once the firm commences exporting its personnel begins to learn about foreign markets. It is the extent of this learning process that has been identified with the progression of the firm to active exporter (Johanson and Vahlne 1977) or ultimately developing an international division or becoming a fully integrated global enterprise (Newbould et al. 1978).

An important component of this export development learning process is the nature of the firm’s relationships with others (its networks) (Sharma 1993). As a result, “the network perspective goes beyond the existing models of incremental internationalisation by suggesting that a firm’s strategy emerges as a pattern of behaviour that is influenced by the variety of its network relationships and ... the impact of these relationships on the firm’s export activity can vary from facilitating to inhibiting export market development” (Coviello and Munro

1997 p.366). Similarly, the firm's relationships with others, both domestic and international are considered to be more important for firms entering new export markets than are the characteristics of particular foreign markets (Johanson and Mattsson 1988).

Supporting studies have found that for many small businesses, the development of export activity is significantly influenced by relationships with others over time (Johanson and Vahlne 1992; Sharma and Johanson 1987). Thus, by applying the framework that the development of export activity is a learning process (Johanson and Vahlne 1977), network relationships provide the experience and interaction with others that the firm needs to obtain the critical knowledge for successful export activity (Johanson and Vahlne 1992). Using this perspective, a study of small New Zealand software firms (Coviello and Munro 1997) proposed a model of small business export development comprising stages of internationalisation, firm characteristics and network relationships

3. COOPERATIVE ARRANGEMENTS

One expression of network relationships is *co-operative arrangements*, which comes from the definition used by an Australian government study where a co-operative arrangement was defined as:

“a special relationship between at least two firms that is beyond normal market transactions and has some permanence. The term is used to cover various forms of business linkages and networks” (Bureau-of-Industry-Economics 1995).

The Australian government study examined the experiences with co-operative arrangements of around 1,300 Australian firms, large and small, exporting and non-exporting. Via a questionnaire, information was obtained about:

- the nature and extent of firm co-operative arrangements,
- how firms co-operated,
- the benefits and costs of co-operation,
- perceived importance of co-operation to firm performance, and
- the role of government and industry associations in initiating and developing co-operative arrangements.

The major results from this study were (Bureau-of-Industry-Economics 1995 p. xvii-xxvi):

- around two thirds of firms surveyed were involved in substantial forms of co-operation,
- most of the co-operative arrangements involved just two firms,

- firms co-operate fairly evenly with customers, suppliers and other firms,
- three quarters of firms perceived co-operative arrangements had provided major or critical benefits to their business, and
- the firms most likely to benefit from co-operative arrangements were:
 - information technology, telecommunications, scientific and medical firms
 - larger firms
 - high technology firms
 - exporting firms.

Although this study did not focus specifically on small exporting firms, some general observations were evident from the reported results.

- Australian exporting firms were more likely to have co-operative arrangements than were non-exporting firms, and that those arrangements tended to be formal (p. 58).
- The larger the firm, the higher the likelihood of an overseas linkage but even the smallest of firms were using co-operation to access overseas markets or to find new overseas suppliers (p. 71).
- Those firms that were involved with overseas markets were apparently obtaining disproportionate major/critical benefits from finding new overseas customers/suppliers as a consequence of business co-operation (p. 81).

These observations were supported by a survey of Australian small business (Bureau-of-Industry-Economics 1994) which found that 30% of small firms in emerging industries used joint ventures to assist with marketing their export products and approximately 60% used arrangements with distributors for this task. Also, it was found that:

- the more intensely the firm co-operates the greater were the benefits,
- the benefits of co-operation outweighed the problems by a big margin, and
- the major reasons for co-operation failure were lack of trust and loss of control.

At around the same time that these studies were reported, the Australian federal government introduced the Business Networks Program. The program was funded by the federal government through AusIndustry, and was implemented in conjunction with a range of industry associations, federal and state government agencies, local government, regional development authorities and private consultancies (Bureau-of-Industry-Economics 1995).

The aim of the Business Networks Program was to assist small and medium sized firms to establish and develop co-operative arrangements (business networks) by funding the services

of a network broker who had the task of assisting the formation of the business network (AusIndustry no date, p.1).

The program comprised three stages and firms could apply for entry at any of the stages, depending on the extent of their network development. Stage One, the feasibility stage, involved getting the network members to define their co-operative arrangement and facilitate discussion and development of trust. In Stage Two, a business plan was prepared and the network agreement developed. Stage Three involved the implementation of the co-operative business plan. In the first two stages, the program provided assistance from a network broker while in the third stage financial assistance was given towards the network's first year of operation. (AusIndustry no date, p.1).

From the time of the first application in April 1995 until the end of 1996, the program facilitated more than 200 network projects involving more than 1,000 small and medium sized enterprises together with some educational institutions, government agencies and large firms (Dean 1996). The most common purpose for creating networks was for export marketing (approximately 65%) with other purposes being product development, procurement, production, marketing and after sales service.

4. EXPLORATORY STUDY

In response to the general conclusions from the Australian Bureau-of-Industry-Economics study (discussed above) showing the use and benefits of co-operative arrangements to Australian business, an exploratory study was conducted focussing on Australian small exporting businesses. One of the aims of this exploratory study was to identify the impact of co-operative arrangements on small firm export activity.

To be included in the study, firms had to be domiciled in Australia, engaged in exporting, and classified as small using the Australian Bureau of Statistics definition. That is, either a manufacturing business with less than 100 full time employees or a sales or services business with less than 20 employees. Of the thirty-eight firms that satisfied these criteria and were included in the study, 70% were predominantly involved in manufacturing, 27% in sales and 3% in services.

Some descriptive data was collected of each of the firms included in the study. The number of years the firm had been in existence varied quite considerably with approximately 82% of sales and service firms having been established for less than 20 years, whereas 71% of

manufacturing firms had been in business for longer than 20 years. However, a different picture emerged for the number of years the firms had been engaged in export activity. A little under 50% of firms in the manufacturing and sales/services groups had been exporting for more than 10 years with the longest time of exporting being seventy years for a manufacturing firm.

Relating the period of exporting to the age of the firm, approximately 63% of all firms had been exporting for more than half of the firm's age. However, when separated into the manufacturing and sales/services groups significant differences were evident. For the sales/services firms approximately 90% had been exporting for more than half the firm's age compared to only 52% of manufacturing firms. Also, around 55% of sales/service firms had been exporting for more than 90% of the firm's life whereas only 4% of manufacturing firms were in this category.

Differences between manufacturing and sales and services firms were also evident from the percentage of revenue earned from export activity. Only 15% of manufacturing firms earned more than 50% of their revenue from export activity, whereas approximately 73% of firms in the sales/service group earned more than 50%. However, nearly 60% of manufacturing firms reported that in the previous five years the percentage of export revenue to total revenue had increased compared with only 18% of sales/service firms reporting an increase in the last five years.

5. DISCUSSION OF RESULTS FROM EXPLORATORY STUDY

A little more than half of all the firms in the exploratory study reported they were currently engaged in export activity co-operative arrangements. Of the firms that were currently engaged in co-operative arrangements, 65% were manufacturing and 35% were sales/services. In general, younger firms in both groups tended to be involved in co-operative arrangements and have more of those arrangements than older firms. Similarly, firms that had a shorter history of exporting tended to be involved in co-operative arrangements and have more of those arrangements than firms that had been exporting for a longer time.

As detailed in Table 1 approximately 62% of all the exporting co-operative arrangements were with only one other party and 38% were with 2 or more parties. For the co-operative arrangements with only one party, approximately 38% were with one supplier, 24% were with one customer, 38% were with one firm in the same industry and none were with a firm in another industry.

Table 1 Number of firms with co-operative arrangements with other parties

Co-op Arrangement with:	Total
One domestic supplier	8
One overseas supplier	4
One domestic customer	3
One overseas customer	3
One domestic firm in same industry	5
One overseas firm in same industry	6
One domestic firm in another industry	0
One overseas firm in another industry	0
2 or more domestic firms	8
2 or more overseas firms	6
2 or more firms: domestic & overseas	4

The location of the other parties to the co-operative arrangements was dominated by domestic parties (approximately 51%), with 40% being with overseas parties and 9% with a combination of domestic and overseas parties. For one-party co-operative arrangements approximately 55% were with a domestic party whereas around 44% of co-operative arrangements with two or more parties were with domestic parties only.

The firms involved in co-operative arrangements also provided information of the relative size of the majority of the other parties to the co-operative arrangements. Only 17% of firms reported that the other parties were smaller than them as detailed in Table 2.

Table 2 Size of other parties to the co-operative arrangements

Other parties were:	%
Larger	33%
Smaller	17%
Same size	11%
Different sizes	39%

The views of the decision-makers of the small Australian exporting firms about their co-operative arrangements were also elicited.

The decision-makers considered that co-operative arrangements were of moderate importance for the establishment and for the continuing development of the firm's export business. They also felt that co-operation with other firms was becoming more strategically important and was becoming more frequent. Similarly, for those small exporting that had received government assistance to develop their co-operative arrangements it was perceived that the government assistance had contributed to the success of the co-operative arrangements.

Of the firms that were not currently involved in co-operative arrangements, 6 firms reported that they had attempted co-operative arrangements but had abandoned those arrangements. Additionally 9 firms that currently had co-operative arrangements also reported they had previously abandoned arrangements. From the total of 15 firms that had abandoned co-operative arrangements, 10 firms were manufacturing and 5 were engaged in sales and service.

The firms that reported they had abandoned co-operative arrangements were asked to nominate up to three reasons for the abandonment. As Table 3 shows, the major problems causing abandonment of co-operative arrangements were potential loss of control of the firm's activities and decision making process and the lack of trust of the partners to the arrangements.

Table 3 Reasons for abandoning co-operative arrangements

Reason for abandonment	% of firms
Potential loss of control	53%
Disclosing commercial secrets	20%
Financial costs involved	13%
Administrative/legal burden	20%
Additional time constraints	0%
Personality difficulties	7%
Lack of trust of partners	33%
Other reasons	40%

6. IMPLICATIONS FOR FUTURE RESEARCH

A significant outcome from the exploratory study was that the decision-makers of many of the small businesses considered involvement in co-operative arrangements was important for the export activity of their firm. This was not only when viewed retrospectively for the initiation of the firm's export activity, but also for the continuing development of the firm's export strategy and activity.

Some questions for future research that arise out of these findings include:

- What is the process by which co-operative arrangements assist the initiation and development of small firm export activity?
- How can co-operative arrangements be included in models to explain the process by which firms initiate and develop their export business?
- What are the factors required for a small firm and its decision-maker to be involved in co-operative arrangements?
- What are the characteristics of co-operative arrangements that decision-makers consider to be important for export activity?
- Do firms that enter into co-operative arrangements achieve higher levels of export performance/success?
- Would government programs to facilitate the involvement of small firms in co-operative arrangements assist the development of export activity by the country's small business sector?

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