

# “CRITERIA FOR CHOOSING INTERNATIONAL COOPERATION OF SMEs”

## The case of Malagasy SMEs

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### ABSTRACT

The environment in which SMEs are called upon to operate and develop confronts them with strategic choices that they must make according to the circumstances in which they find themselves. The path taken by a given enterprise is usually the result of a reflection on its strengths and weaknesses, thus aiming at its development. Many SMEs opt for cooperation, which is a form of social organisation that allows companies with common interests to join forces, with a view to the general objective. But the question is: what are the main reasons why SMEs choose cooperation?

Cooperation is an option not only to fill gaps in the company but also to open up other opportunities. International cooperation can be a source of development for SMEs because of the opportunities that can arise. Research among a sample of Malagasy SMEs in cooperation allows us to identify their priority needs while analysing the strengths and weaknesses of these SMEs. The analysis of the reasons justifying their cooperation confirms the dependence of the choice of cooperation on the priority needs of the SMEs.

**Keywords:** *Strengths, weaknesses, needs, Cooperation, SMEs.*

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### INTRODUCTION

For African countries such as Madagascar, whose enterprises are mostly SMEs, the changes revealed by a cooperative strategy are all the more fundamental because their dynamics lead to a preference for smaller enterprises. More noticeably than in the world of entrepreneurship, the emergence of inter-firm cooperation goes hand in hand with the increasing pace of environmental change to which firms are subject. The strengths and weaknesses of companies are the main criteria for cooperation.

In a general sense, cooperation is a form of social organisation that allows individuals with common interests to join together, with a concern for the overall goal. It implies a degree of trust and understanding. In the context of strategic management, cooperation is a strategy adopted by the company.

When the activity is in the development phase, it is a question of attracting the various partners necessary for the development of the activity (customers, investors, suppliers, etc.)

A manager will only commit his company to a partnership relationship if two elements are present: the feasibility and the potential of the cooperation. Feasibility results from the fact that links are already established (density of contacts with other decision-makers) and that the degree of cohesion between the actors is significant (nature of the links, similar culture, homology of trajectories). The potentiality is the opportunity for a common interest. The identification of mutual links between leaders is a means of revealing this feasibility and potentiality. The identification of mutual links can therefore be a way of diagnosing future cooperation. For some companies, cooperation is one of the solutions to overcome the consequences of resource constraints. In this way, they can manage external resources and create value under conditions similar to those of large companies. The vision of cooperation is then seen as a relationship between independent companies or partners, combining their efforts and resources in a process of value creation. As such, cooperation plays a specific role in the interest of both parties. Some business relationships are very short term and involve little commitment or are based on a specific task. Others are long or medium term and are based on the development of trust and commitments. But the question is, what are the main reasons for SMEs to cooperate?

Analysing the strengths and weaknesses as well as the needs of the SMEs will help to better understand the vision of certain entrepreneurs on cooperation. Thus, conducting in-depth research through a sample of 24 enterprises in international cooperation is of great interest in that it allows us to identify the generative facts that determined the decision to cooperate.

Assuming that the priority needs of SMEs condition their choice of international cooperation, the results will be oriented essentially towards the strengths and weaknesses of Malagasy SMEs and their priority needs. The analysis of these results using statistical tools will make it possible to verify the correlation between the choice of cooperation and the needs of the enterprise.

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## CONCEPTUAL FRAMEWORK OF THE STUDY

SMEs differ from large companies only in scale and in their ability to grow. Elements of the business environment that are favorable for investment by large companies are also favorable for SMEs, such as political stability, economic stability, a predictable and transparent set of business laws and regulations, applied impartially. SMEs can benefit greatly, for example, from macroeconomic stability, as they are the biggest losers in economic environments marked by corruption and collusion between business and government, and are particularly affected by weak regulatory regimes that do not guarantee payments. The new global economy brings both challenges and opportunities for SMEs. On the one hand, companies can benefit from greater access to international markets, technologies and sources of finance. On the other hand, they are subject to competitive pressures for which they are not well prepared and do not have adequate means to cope.

According to **Wtterwulghé (1998)**, the SME is defined as "an enterprise operating in the economic field whose existence is conditioned for better or for worse by the management of an entrepreneur enjoying decision-making independence". According to this author, the survival of the enterprise is closely linked to human resources, especially at the level of decision-making and management of responsibilities. Its structure closer to the market, its role in the Malagasy economic fabric, its precursory characteristics, the evolution of the business environment, give SMEs the status of an essential partner in all sectors and vis-à-vis the actors of the economy.

The use of cooperation is one of the strategies involving real dynamics, i.e. a permanent change in the company and its environment. It consists of designing and steering actions with the intention of seizing or creating internal and external opportunities, according to the company's own capacities and fundamental needs. The choice of the type of cooperation must correspond to the development mode chosen by the company.

**René Soënen and Jacques Perrin** use the word 'cooperation' in their study on industrial systems. According to them, one cooperates because one needs the help of a partner and shares common objectives, at least partially common interests. According to the Encyclopaedia of Management, cooperation is also manifested in the multiplication of contractual agreements between independent partners. **Gerry Johnson et al (2005)** preferred to use the term 'collaboration' to indicate the different relationships that companies can have, whether they are competitors or not. The characteristics of the environment (globalisation, technological change, increased competitive intensity, etc.) have generated cooperative behaviour between firms of similar or very dissimilar sizes. Indeed, sometimes an uncertain environment does not allow the company to develop autonomous strategies based on the company's own resources and skills. The theory of resource

dependency justifies cooperative practices. Cooperation can also be a solution for the search for new markets, niches or business horizons.

Currently, this internationalisation movement does not only affect multinational companies but also SMEs. The context of globalisation has pushed them to look for outlets outside the national territory. One of the main reasons for the internationalisation phenomenon is that international development is a choice for SMEs to specialise and expand their activities. International cooperation is a concrete expression of the company's desire to grow outside the national market and leads to a new mode of differentiation: the geographical mode. Faced with tough competition and vulnerability in the national market, they are forced to expand geographically, i.e. to internationalise. **Hymer (1970)** deduces that the saturation of the sector at the national level leads the leader to seek growth outside.

In general, each author classifies the different modalities or forms of cooperation according to the degree of inter-firm relations or other relevant criteria of choice. For example, **Gerry Johnson et al.** focus on the forms of relationships (commercial, contractual, or patrimonial), the market, resources and objectives for this classification. The characteristics of the environment (globalisation, technological change, increased competitive intensity, etc.) have generated cooperative behaviour between firms of similar or very dissimilar sizes. Indeed, sometimes an uncertain environment does not allow the company to develop autonomous strategies based on the company's own resources and skills. The resource dependency theory (**Pfeffer and Salancik 1978**) justifies cooperative practices (**Rojot 1997**).

Finding an external partner for an SME can facilitate international integration whether through subcontracted presence, collaborative presence or integrated presence. According to **Zmerli (1998)**, the choice of presence modes involves a number of major issues that SMEs need to consider, before committing themselves. The strengths and weaknesses of an enterprise are therefore the criteria to be considered in the choice of a cooperation, and these strengths and weaknesses logically determine the needs and expectations of the SMEs of a possible cooperation.

## RESULTS

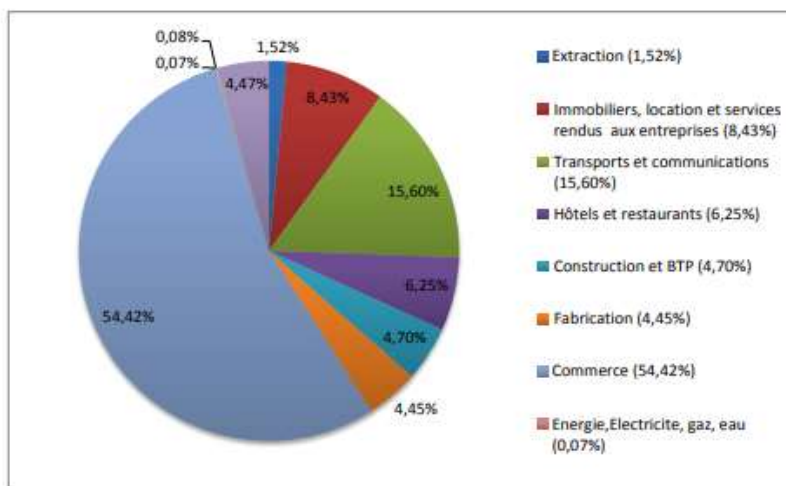
In order to verify the relationship between the priority needs of SMEs and their choice of cooperation, the research results will first of all focus on the strengths and weaknesses of Malagasy SMEs in order to determine their priority needs. Then, the reasons for cooperation will be discussed.

### Characteristics of Malagasy SMEs

SMEs are an economic issue in Madagascar that justifies the studies conducted. Small enterprises, by their number, constitute the vast majority of economic agents in Madagascar. They dominate the agricultural sector and condition the development of the rural environment. They also play an important role in the secondary and tertiary sectors.

Small enterprises currently dominate the agricultural sector and determine the possibilities for rural development. They are also beginning to make their mark in the secondary and tertiary sectors. As such, they represent one of the main potential sources of growth of economic activities in these two sectors. They also contribute to the strengthening of the economic fabric and constitute real business incubators that could be those of tomorrow. They participate in the development of the country's entrepreneurship, a source of wealth and job creation. Some of these Malagasy SMEs are legally constituted, but a large proportion remain informal. Retail trade, wholesale trade, passenger transport and the hotel industry remain the most common activities in Madagascar. Thus, most of the newly created businesses are in the tertiary sector.

**Figure 1: Graphical representation of sectors of activity**



Source: Extrapolation of INSTAT 2011 data

### Strengths and weaknesses of Malagasy SMEs

The analysis of the sample showed that production techniques, technology, products (28.6%) on the one hand, market, communication, marketing and sales (28.6%) on the other hand, as well as skills and organisation of the company (28.6%) are the main strengths of the companies. Indeed, these strengths can be the result of cooperation.

**Table 1: Strengths of Malagasy SMEs**

| Strengths (cooperative ventures)                | Frequency |
|---|-----------|
| techniques, production, technology, product     | 28,6%     |
| infrastructure and equipment                    | 7,1%      |
| marketing and communication, market, commercial | 28,6%     |
| resources                                       | 7,1%      |
| organisation and skills                         | 28,6%     |

The difference with the reference distribution is highly significant.  $\chi^2 = 19.29$ ,  $1-p = 99.83\%$ .

Source: Authors, 2011

"SMEs today face a multitude of financial, technical and especially informational problems," said **Andriamifidy RASOAMANANA** of the FTHM consultancy. They are also confronted with environmental, fiscal and human resources problems. These numerous problems are blocking factors in the progress and development of the private sector. The competitiveness of Malagasy companies is strongly penalised by the weakness of physical and social infrastructures, the end of exceptional trade regimes, the impact of the cost and availability of production factors, in particular energy, the volatility of exchange rates and the burdens of the business environment, the non-existence of specific skills in certain sectors, in particular information technology and tourism, and the high weight of inputs, in terms of textiles, construction, transport and public works, which are mostly imported and lead to exorbitantly high and non-competitive prices. This was verified during our survey. The FIAS survey (2007) showed that cost, availability of electricity, macroeconomic instability, unavailability of water, crime, theft, disorder, access to finance, access to land and premises are the main obstacles to business development. The following table summarises the weaknesses of the SMEs surveyed.

**Table 2: Weaknesses of Malagasy SMEs**

| Weaknesses (cooperating companies)              | Frequency. |
|---|------------|
| techniques, production, technology, product     | 22,4%      |
| infrastructure and equipment                    | 31,0%      |
| Marketing and communication, market, commercial | 15,5%      |
| resources                                       | 25,9%      |
| organisation and skills                         | 5,2%       |

The difference with the reference distribution is significant.  $\chi^2 = 11.66$ ,  $1-p = 96.02\%$ .

Source: Authors, 2011

The analyses obtained from the resource persons revealed that the variables that mark their weaknesses are mainly infrastructure, equipment (31%), and resources (25.9%). These variables are among the main reasons for cooperation of these enterprises.

### Priority needs of SMEs

By referring to previous studies<sup>1</sup>, we were able to identify the priority needs of Malagasy SMEs. We used this information and updated it during interviews with our resource persons. The surveys provided information on their priority needs. The needs identified are summarised in the following table.

**Table 3: Summary of priority needs of SMEs**

| Priority needs  | Frequency |
|---|-----------|
| Improving access to sources of finance and credit                           | 4,7%      |
| Improvement of relations with the administration (formalisation, tax, etc.) | 17,0%     |
| Improvement of production capacity and quality                              | 21,7%     |
| Seeking or expanding opportunities abroad                                   | 16,0%     |
| National market development   | 18,9%     |
| Improvement of transport facilities   | 6,6%      |
| Improvement of the company's materials and equipment                        | 15,1%     |
| TOTAL   | 100%      |

Source: Authors, 2011

According to this table, improving production capacity and quality (21.7%) is the need most cited by cooperating enterprises. Indeed, cooperation is a source of development allowing, among other things, enterprises to improve the capacity and quality of their production. Thus, it can be a solution to other needs such as the development of the market on a national level (18.9%) and the improvement of the company's materials and equipment, thanks to the transfer of resources and skills.

The companies that consider relations with the administration (17%) to be a priority need are companies that carry out import/export activities. They are looking for a certain flexibility from the administration, concerning the repatriation of currency for example.

### The reasons for cooperation

The important aspects of trade agreements reflect the reasons for cooperation and are: better access to finance and on better terms, greater availability of skilled labour, better transport and communication infrastructure, access to raw materials and inputs, increased investment opportunities and finally cost reduction.

According to the UNIDO 2010 survey<sup>2</sup>, companies seek partnerships for the following reasons: equipment purchase (36%), technology transfer (26%), access to loans (35%), management expertise (10%), marketing expertise (23%), technical expertise (23%), market access (49%) and finally subcontracting (9%).

According to our own research, the actual objectives of Malagasy SMEs' cooperation with foreign SMEs were assessed from surveys conducted in 2010 and 2011. Managers of Malagasy SMEs were asked to specify the reasons why they wanted to cooperate with other SMEs.

**Table 4: Reasons for cooperation between SMEs**

| Reasons to cooperate              | Frequency |
|-----------------------------------|-----------|
| Access to new and larger markets  | 19,2%     |
| Business horizons                 | 11,2%     |
| Increased supply of products      | 16,8%     |
| Diversification                   | 10,4%     |
| Access to know-how and technology | 15,2%     |
| Outsourcing                       | 0,8%      |

<sup>1</sup> Madio Project 2005, INSTAT 2006, FIAS 2007, FIVMPAMA 2011

<sup>2</sup> UNIDO 2010/2011

|                                |             |
|--------------------------------|-------------|
| Additional production capacity | 10,4%       |
| Cost reduction                 | 11,2%       |
| Access to capital              | 4,8%        |
| <b>TOTAL</b>                   | <b>100%</b> |

Source: Authors, 2011

Access to new and wider markets means access to new targets, new niches and new needs (19.2%). It is about increasing the company's market share.

The larger product offer implies that, thanks to their opening to the international market, Malagasy products will have a good reach (16.8%).

The existence of different opportunities pushes the company to diversify its activities, to fulfil various orders and to satisfy new needs. Access to know-how can be translated as the acquisition of training, advice (on a technique, on management, on the trade,...), and the transfer of skills to its partner, according to the experiences (15.2%).

The development of commercial horizons represents for the company the extension of geographical areas and the identification of new territories for the marketing of these products (11.2%).

As for cost minimisation, this suggests that the activities undertaken with the partner will minimise their costs. These costs can be design, manufacturing, distribution or other costs (11.2%).

Production capacity indicates the ability of the company to improve its materials and tools, its own methods and organisation for better production (10.4%). And production capacity, through partnership, improves because the means of production are revised, new equipment is acquired and tasks and workstations within the factory are reorganised. Access to capital means that companies enter into cooperation, with the aim of being assisted by their partner in the realisation of possible investment projects of the company: purchase of equipment, reorganisation of the production workshop, setting up of new infrastructures (4.8%).

### Meaning of cooperation

Co-operation primarily responds to a need for sharing: sharing objectives, skills or points of view and sharing common resources. One of the reasons for establishing cooperative relationships is the sharing of common objectives and interests, going beyond the specific interests of each actor. Sharing skills and views is also an incentive for SMEs to cooperate. In complex activities such as product design, knowledge and skills are always distributed. Different technical, industrial and commercial points of view have to be taken into account for the success of the project. Thus, one of the interests favouring cooperation lies in the sharing of resources. Well-chosen and complementary partners can minimise slow and costly efforts to develop their own capacities and access new opportunities. The following table summarises the significance of cooperation for the companies studied.

**Table 5: Meaning of cooperation**

| <b>Cooperation</b>    | <b>Frequency</b> |
|-----------------------|------------------|
| Share                 | 18,1%            |
| Complementarity       | 22,2%            |
| Transfer of resources | 27,8%            |
| Opportunities         | 30,6%            |
| Dependency            | 1,4%             |
| <b>TOTAL</b>          | <b>100%</b>      |

Source: Authors, 2011

According to this table, cooperation is a priori a source of opportunities for the company (30.6%). These opportunities can manifest themselves as occasions that allow the improvement of the existing situation of the company (development of products, skills, extension of geographical areas, improvement of technology, etc.). Secondly, cooperation means the transfer of resources (27.8%) that will improve existing resources and the organisation of work within the company.

Cooperation also means complementarity (22.2%). This complementarity ensures both the efficiency and the sustainability of the cooperation. Complementarity can create new synergies that ensure the mutual development of the partners in these activities. Finally, cooperation as sharing (18.1%) skills and know-how, but above all information, which must be transparent to ensure the sustainability of the cooperation and minimise the risk of opportunistic behaviour.

## INFLUENCE OF THE COMPANY'S PRIORITY NEEDS ON THE CHOICE OF INTERNATIONAL COOPERATION

The dependency analysis between the variables will reveal elements of verification of the hypothesis. The dependency between the variables "reasons to cooperate" and "needs" confirms the theoretical logic of SME cooperation which mentions that SMEs use cooperation to access and secure resources, limit transaction costs, obtain efficient access to markets, master and access technologies. The following table shows the practical logic of the dependence of the two variables.

The analysis indicates that a company may feel more than one axis of need. The different motivations for cooperation are therefore: costs, capital, knowledge or skills, capabilities/resources, strategic focus, flexibility

**Table 6: Analysis of the dependency between Needs priorities and reasons for cooperation**

| Needs priorities / reasons for cooperation                            | Access to the new market | Business horizons | Larger product range | Diversification | Access to know-how and technology | Outsourcing | Additional production capacity | Cost reduction | Access to capital | TOTAL |
|---|--------------------------|-------------------|----------------------|-----------------|-----------------------------------|-------------|--------------------------------|----------------|-------------------|-------|
| Improving access to sources of financing and credit                   | 20,8%                    | 28,6%             | 23,8%                | 23,1%           | 21,1%                             | 0,0%        | 15,4%                          | 21,4%          | 50,0%             | 20,8% |
| Improvement means of transport  | 29,2%                    | 21,4%             | 28,6%                | 15,4%           | 21,1%                             | 0,0%        | 23,1%                          | 28,6%          | 16,7%             | 29,2% |
| Research or expansion of opportunities abroad                         | 70,8%                    | 64,3%             | 66,7%                | 69,2%           | 68,4%                             | 0,0%        | 69,2%                          | 71,4%          | 66,7%             | 70,8% |
| Improving relationships with the administration (formalization, tax,) | 75,0%                    | 71,4%             | 76,2%                | 76,9%           | 68,4%                             | 100%        | 76,9%                          | 78,6%          | 83,3%             | 75,0% |
| Improvement the company's materials and equipment                     | 66,7%                    | 85,7%             | 61,9%                | 76,9%           | 78,9%                             | 100%        | 92,3%                          | 71,4%          | 83,3%             | 66,7% |
| Development of the market nationally                                  | 83,3%                    | 85,7%             | 85,7%                | 84,6%           | 78,9%                             | 100%        | 69,2%                          | 85,7%          | 83,3%             | 83,3% |
| Improvement of  |                          |                   |                      |                 |                                   |             |                                |                |                   |       |

|                                 |       |       |       |      |      |      |      |       |      |       |
|---------------------------------|-------|-------|-------|------|------|------|------|-------|------|-------|
| production capacity and quality | 95,8% | 92,9% | 95,2% | 100% | 100% | 100% | 100% | 92,9% | 100% | 95,8% |
| TOTAL                           | 100%  | 100%  | 100%  | 100% | 100% | 100% | 100% | 100%  | 100% | 100%  |

Source: Authors, 2011

The information shown in the table above reveals that the need to improve production capacity and quality (95.8%) is the most felt by our resource persons. SMEs resort to cooperation to satisfy this need.

Other areas of cooperation or reasons for cooperation are diversification (100%), access to know-how and technology (100%), outsourcing (100%), additional production capacity (100%) and finally access to capital for investment projects (100%).

The relationship with the partner is a source of opportunities to improve production capacity and quality. The development of the market at national level (83.3%) is the second most mentioned need. The axis of cooperation related to this need is mainly outsourcing (100%). Indeed, national competitiveness leads companies to adopt the strategy of cost domination. Outsourcing is an option to achieve this strategy. Outsourcing is also a way to improve part of the company's value chain. Finally, 75% of companies consider the improvement of relations with the administration as a priority need. Companies wish to internationalise and outsource activities (100%) to improve their competitiveness. However, the parameters relating to the administration constitute brakes or high cost factors for the development of activities. The reduction of administrative and fiscal factors would favour the competitiveness of the company and the orientation towards other development projects.

## CONCLUSION

In conclusion, Malagasy SMEs are limited by scarce resources. The smaller they are, the more this lack of resources limits the scope and volume of tasks they can accomplish. The need to secure resources is often cited as the main reason for cooperation between SMEs. International cooperation is the key to the development of Malagasy SMEs, referring to the advantages gained, which allow the enterprise to seek new markets, improve skills, obtain and use new technological materials, etc.

The information obtained from the analysis of the variables or determinants of cooperation, as well as the dependence between the reason for cooperating and priority needs, has made it possible to affirm that the priority needs of SMEs condition the choice of international cooperation. Indeed, enterprises that have needs that they consider to be priorities seek to satisfy these needs by trying to find an adequate development strategy. Cooperation could be that strategy.

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