

# “THE RELUCTANCE OF SMEs TO ENGAGE IN INTERNATIONAL COOPERATION” Cases of Malagasy SMEs

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## ABSTRACT

The development of the company is a central theme in strategic management. In the face of increasing competition in the life of the company, internationalisation is a means of seeking competitiveness. The process of internationalisation is both a consequence and an important factor in the new conditions of competition and economic competitiveness for the company. The variability of the environment, the transfer of knowledge and skills, the demands of the market and above all the competition require more cooperation. International cooperation can be a source of development for SMEs because of the opportunities that can arise. However, some SMEs are reluctant or find it very difficult to proceed with this strategy. The question is therefore how can the strategic situations of SMEs hinder them from engaging in cooperation?

The case studies of non-cooperative enterprises, which include enterprises that do not wish to cooperate and/or enterprises that want to cooperate but are unable to do so, make it possible to identify the obstacles or blocking factors to cooperation. The studies carried out among these enterprises tend to justify the hypothesis that the strategic situations of SMEs constitute blockages to cooperation.

**Keywords:** *Cooperation, development, internationalisation, strategy, SME*

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## INTRODUCTION

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.

The emergence of inter-firm cooperation goes hand in hand with the increasing pace of environmental change to which companies are subject, so it is a question of strategy.

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.). In our empirical study, we are interested in two companies that are in the same sector of activity, which are not competitors and which may be complementary. The

relationships are materialised by a mutual transfer of assets and can lead to a win/win situation. Recent cases highlight the success of such strategies, which can be transposed to the level of Malagasy SMEs.

For African countries such as Madagascar, whose enterprises are mostly SMEs, the changes brought about by a cooperation strategy are all the more fundamental because their dynamics lead to a preference for small-scale enterprises. More noticeably than in large organisations, when the company is small or medium-sized, its strategic approach is based on four key elements: the norms and goals of decision-makers, the organisation of the company, the environment of the company and decision-makers, and finally the product/market activities. Any disruption in any of these elements immediately calls into question any approach already taken.

Some SMEs are reluctant to engage in cooperation, the extension of the strategic domain in the study of cooperation is all the more true the smaller the company, i.e. the more immersed it is in its environment, the less differentiated, the less diversified and the more personalised.

It is in this perspective that the factors blocking the access of SMEs to cooperation are studied. The problem that arises is therefore to know how the strategic situations of the SMEs can slow them down to enter into a cooperation?

Our research work therefore consists of demonstrating that the strategic situations of SMEs constitute blockages to cooperation. The exploitation of not only qualitative but also quantitative data is necessary for the realization of this work, in order to allow the verification of the hypothesis. Thus, studies with a sample of 21 Malagasy SMEs that are reluctant to cooperate will provide information on the characteristics of the SMEs and the factors blocking their development, as well as on the risks of cooperation. The final analysis will focus on the obstacles that block SMEs from engaging in cooperation.

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## CONCEPTUAL FRAMEWORK OF THE STUDY

**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 goals, at least partially common interests. According to the Encyclopedia 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.

According to **Wtterwulge (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.

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. 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 of specialisation and expansion of activities for SMEs. Faced with stiff competition and vulnerability in the domestic 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; but also the response to foreign competitors who have come to take market share from the indigenous firms. Finding an external partner for an SME can facilitate international integration whether through subcontracted presence, joint 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 choice of the type of cooperation must correspond to the development mode chosen by the company. It should also be remembered that a strategy implies a real dynamic, i.e. a permanent modification of the company and its environment. It

consists of designing and steering actions with the intention of seizing or creating internal and external opportunities, in accordance with the company's own capacities and fundamental requirements.

**RESULTS**

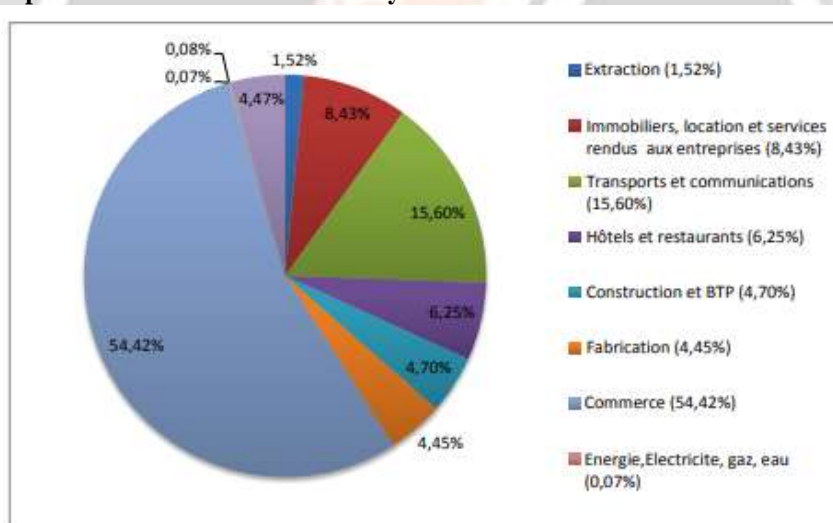
In order to shed light on the reluctance of SMEs to enter into cooperation, the research results will focus not only on the characteristics of SMEs and the factors blocking their developments, but also on the risks of a cooperation. The focus of the analyses will be on the obstacles that block SMEs from entering into cooperation.

**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.

The current economic context in Madagascar calls for support through policy formulation for private investment. Small businesses currently dominate the agricultural sector and determine the possibilities for development in rural areas. They are also beginning to impose themselves 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

**Factors of counter-development of SMEs**

The economic factor limits any investment activity or improvement of the company's existing assets. This problem can be seen in Malagasy SMEs such as MALAGASY TRUST, PARAPLUIES RAJOELY, FROMAGERIE SPRING, the TANJONA association, HAZOMANGA and PCNEUF. Consequently, shortcomings in financial management are at the root of the dysfunction (case of SEAM, MPUB). The companies suffer from heavy charges linked to the sale, such as rent, taxes, water and electricity. Three types of problems may appear: the difficulty in controlling cost prices, which sometimes leads to profitability losses and errors in strategic choices, then the lack of control over management and/or the dispersion of budget elements which prevents any real financial monitoring and causes major problems of management quality, and finally decision-making based on partial and insufficient management elements. At the level of micro and small enterprises, these problems are very obvious. Apart from this, the financial management of companies such as IMPRIMERIE DE MADAGASCAR, for example, has problems because the company has to deal with fluctuations in the price of equipment and consumables (inks, computers, printers, etc.).

The technical factors relate to quality, production management, equipment, manufacturing processes, product design, and even the non-existence of its own workshop (case of MAKI COMPANY). The quality problems (case of HAZOMANGA), concern the non-conformity of the products, the non-conformity of the raw materials, the non-quality of the services, the quality problems of the subcontracted products, the ignorance or inadequacy of the standards and the lack of awareness<sup>132</sup> of the need for quality. The problems with materials concern the unreliability of materials, the unsuitability of materials, the obsolescence of materials, poorly prepared or poorly accompanied computerisation, the insufficient quantity of materials, difficulties in managing tools and maintenance problems (the case of the companies FFF WORKSHOP, SEAM, UPEMA, VITAFOAM and IMPRIMERIE DE MADAGASCAR).

At the level of the companies observed, several types of commercial dysfunction were noted. They affect the relationship of the company with its market and the internal commercial organisation adopted. At the level of the commercial strategy, two problems arise: the lack of clarity or explicitness of the strategy adopted and the inadequacy of the content of the commercial strategy, according to the constraints and objectives of the company

Organisational factors concern work organisation, time management, information, communication, structure not adapted to the environment. For some companies, the general objectives seem to be non-existent or unclear, or even inconsistent with each other. The desired information concerns the frequency of counter-development factors at the enterprise level and the difference in distribution between the modalities. The table below summarises these counter-development factors.

**Table 1: Counter-development factors of the companies studied**

Counter-development factors	Frequency
Economic and financial factor	24,9%
Technical and industrial factor	18,1%
Commercial and marketing factor	36,3%
Social factor	9,3%
Organisational factor	11,4%
TOTAL	100%

Source: Authors 2011

The analysis of the survey results reveals that the commercial and marketing factor is considered to be the main handicap of Malagasy SMEs (36.3%). In fact, dysfunctions of a commercial nature, sometimes the absence of a marketing function or poor communication strategies were noted. The economic and financial factor (24.9%) as well as the technical and industrial factor (18.1%) nevertheless remain important problems. Insufficient credit or the lack of mastery of technology therefore limits the extension or improvement of activities.

### The problem of information about cooperation

There are companies that are looking for a partnership, but the blocking factor is information. Very few companies are informed about potential sources of strategic partners. The 2010 UNIDO survey found, for example, that out of 231 enterprises, only nine know that information sources come from the private sector association/institutional chamber, four enterprises use consultants and six enterprises from other sources.

The following table summarises the assessment of information problems in the 21 enterprises surveyed

**Table 2: Assessment of information problems**

Information problems	Frequency
Relational capital	68,5%
Organisational capacity	31,5%
TOTAL	100%

Source: Authors 2011

In view of these results, the information problems of a company depend a priori on the relational capital of the manager. Relational capital is a sure and fast way, which depends on the dynamism of the entrepreneur. It allows the entrepreneur to

forge links and expand his or her circles of knowledge in the business. For example, the acquaintance of a foreign entrepreneur has enabled the Malagasy entrepreneur to be aware of the existence of events that take place on an international scale: international fairs, B2B meetings, and many other events.

**Resistance to changes resulting from cooperation**

There are many reasons why SMEs do not choose cooperation, or choose it but cannot. It is a decision that deserves careful consideration given the business environment and the psychology of the manager himself.

The expression "resistance to change" used by business leaders often reflects the difficulty of mobilising the capacities of the players through the type of management implemented. This is more a problem of management of the human factor than a lack of it.

**Maurer (1997)** suggests traditional management actions such as communicating, maintaining a vision, understanding resistance, listening, explaining the need for change, motivating employees, obtaining commitments, remaining calm and involving staff to transform resistance. On the other hand, resistance can come from a subjective view of the foreign entrepreneur as stated by the managers of the following companies. These views all revolve around character, behaviour and trust.

**Box 1: The vision of the LA GASTRO PIZZA entrepreneur**

Working with a foreigner is serious: when you work, you have to work. When you want to have fun, you have fun. Unlike us Malagasy, a foreigner does not play on his feelings, and when there is a problem, even if it has been caused independently of the will of the person doing the work, he does not want to know or understand anything, and the person in question must act accordingly. It is not so difficult to find a partner if you want to, but you have to be convincing, i.e. you have to have something to offer, because you have to remember that the aim of the partnership is reciprocity.

Source: Interview 2011

**Box 2: The vision of the entrepreneur of BIJOUTERIE RONNY/GOLDEN RAMA.**

The company did not consider partnership because of the constraints imposed on the market. In addition, the partners have very different views, selfish attitudes of individual interest. The manager wants to be independent, insisting that any product category is visible on the market. So there is no question of looking elsewhere.

Source: Interview 2011

**Box 3: The vision of the entrepreneur of the ART GASY craft enterprise**

The ART GASY handicraft company does not practice the partnership system because it believes that a foreign entrepreneur is too clever. During an exchange, the foreign contractor kept the goods and did not pay until the Malagasy contractor's visa expired. Then the date expired and he could no longer afford to collect the goods. Also, the sum of all the values of the products sold did not allow the payment of all the transport costs of the Malagasy contractor. In fact, the problem with a partnership is trust.

Source: Interview 2011

Of the 21 companies surveyed, we collected comments on why these companies resist cooperation. The table below summarises these comments.

**Table 3: Factors of resistance to change resulting from cooperation in the 21 companies studied**

Factors	Frequency
Individual/personal	61,9%
Collective/cultural	23,8%
Politics (power, interest, influence, ...)	19,0%
Quality of implementation of the strategy	61,9%
Organizational	76,2%
Related to change	33,3%

Source: Author 2011

76.2% of the non-cooperating companies state that they have encountered organisational factors as factors of resistance to cooperation. We also note that for as many companies (61.9%), individual/personal reasons and the quality of the implementation of cooperation also remain blocking parameters.

### The risks of cooperation

The risk of over-dependence is a brake on cooperation in cases of a manifestation of dependence on a partner that is too passive, or a manifestation of dependence on a partner that is too powerful.

**Table 4: Risks related to cooperation**

Risks of cooperation	Frequency
Opportunism	22,6%
Skill leakage	6,5%
Non-compliance with commitments/information mismatch/uncertainty	29,0%
Language problems	12,9%
Cultural issues	29,0%
<b>TOTAL</b>	<b>100%</b>

Source: Authors 2011

The fear of abandoning the key success factor to the partner also remains a blockage if SMEs seek to preserve internal control of the specific skills essential to their competitiveness.

The table shows that the risks to cooperation are due to non-compliance with commitments, information asymmetries or uncertainties (29%). Cultural problems that require knowledge and adaptations are another obstacle to cooperation (29%), while for 22.6% of the enterprises the view on opportunistic behaviour in contracts by foreign contractors was raised. The views are more subjective as Malagasy entrepreneurs see foreign contractors as opportunists who want to take over. "Collaboration with them would be difficult, because they would be demanding and the company would not be able to keep up with the pace of investment imposed", is for example the view of a craftsman regarding cooperation.

## FACTORS BLOCKING COOPERATION

In this section, we will analyse the dependency between variables or reasons why Malagasy entrepreneurs are not in cooperation. The variables are: resistance to changes resulting from cooperation (RCC), counter-development factors (CDF), fear of the risks of cooperation (RC). The table below shows the dependency between the variables RCC and RC. The data is expressed as a percentage for the sake of objectivity and simplicity in our analysis.

**Table 5: Analysis of the dependency between CCR and CR**

Reasons for non-cooperation/Risks of cooperation	Opportunism	Skill leakage	Non-compliance with commitments/information mismatch/uncertainty	Language problems	Cultural issues	TOTAL
Individual/personal	18,6%	10,0%	23,4%	19,2%	24,0%	21,0%
Collective/cultural	9,3%	0,0%	8,5%	11,5%	10,0%	9,1%
Policy	9,3%	10,0%	6,4%	7,7%	8,0%	8,0%
The quality of implementation of the strategy	20,9%	20,0%	23,4%	23,1%	20,0%	21,6%
Organisational	27,9%	40,0%	27,7%	26,9%	26,0%	27,8%

Related to change	14,0%	20,0%	10,6%	11,5%	12,0%	12,5%
TOTAL	100%	100%	100%	100%	100%	100%

Source: Authors 2011

The factors of resistance to change are related to the knowledge or fear of the existence of the risks of cooperation. Indeed, the factors can be individual, collective or organisational and related to the risks. The organisational character (27.8%) represents the first factor of resistance to change.

According to the table, this factor is determined mainly by fear of skill leakage (40%), apprehension about the partner's opportunistic behaviour (27.9%), fear of non-fulfilment of commitments, information asymmetry and uncertainties (27.7%).

For the Malagasy entrepreneur, these risks can be detrimental to the interest of the organisation and lead to the loss of control of his own business. The quality of strategy implementation (21.6%) and the individual factor (21%) are the other reasons for resistance to change.

The individual factor is mainly marked by cultural problems (24%) (problems of adaptation, knowledge of the culture, etc.), distrust due to the risk of not respecting commitments (23.4%) and opportunistic behaviour (18.6%).

As for the implementation of the cooperation strategy, resistance to change is due to concern about the following risks: non-compliance with commitments (23.4%), the language problem (23.1) and opportunistic behaviour (20.9%). Indeed, the implementation of the strategy implies a cultural adaptation, especially at the level of the organisation and the elaboration of the commitments for the cooperation contract.

The following table illustrates the dependency between the two variables RCC and FCD.

**Table 6: Analysis of the dependency between CCR and CDF**

Reasons for non-cooperation/blocking factors	Economic factor and financial	Technical and industrial factor	Commercial and marketing factor	Social factor	Organisational factor	TOTAL
Individual/ personal	19,0%	21,1%	23,3%	26,7%	33,3%	23,7%
Collective/cultural	4,8%	5,3%	6,7%	13,3%	16,7%	8,2%
Policy	4,8%	5,3%	6,7%	0,0%	16,7%	6,2%
Quality of implementation of the strategy	28,6%	26,3%	23,3%	20,0%	8,3%	22,7%
Organisational	33,3%	26,3%	30,0%	26,7%	8,3%	26,8%
Related to change	9,5%	15,8%	10,0%	13,3%	16,7%	12,4%
TOTAL	100%	100%	100%	100%	100%	100%

Source: Authors 2011

Thus, the reasons for non-cooperation are related to counter-development factors. There are blocking factors within the company that do not favour the implementation of cooperation.

The reason most mentioned by resource persons for not opting for cooperation is the organisational side of the business (26.8%). The blocking factors related to this reason (in decreasing order) are: the marketing and commercial factor (30.0%), the economic and financial factor (33.3%) and the technical and industrial factor (26.3%). Indeed, the marketing and commercial factor is a handicap for some Malagasy SMEs and limits their capacity to satisfy or target market needs and commercialise products. The economic and financial factor limits investment activities or the implementation of a strategy.

As for the technical and industrial factor, it is a handicap that limits the company's production and quality, or even the company's creativity in exploiting new markets. The second reason given by the resource persons, according to the analysis results presented in the table, for not engaging in cooperation is the individual or personal factor (23.7%).

We also deduce that the most preponderant blocking factor on an individual or personal level for not cooperating is the organisational factor (33.3%).  $128 \chi^2 = 84.24$ ;  $1-p = 93.64\%$ . Still on an individual or personal level, other factors can be mentioned: the economic and financial factor (19.9%), the technical and industrial factor (21.1%), the social factor (26.7%) and the commercial and marketing factor (23.3%).

The manager sees the company as his or her own property and therefore it cannot develop only according to its own possibilities. Cooperation is seen as a strategy that favours the loss of power within the company. Therefore, these factors are handicaps that do not favour the implementation of the strategy. The quality of strategy implementation is, however, the third reason given by the resource persons for not using cooperation. This strategy requires a reorganisation within the company, which has impacts on each existing function.

The factors most favouring non-cooperation, due to the quality of implementation of the strategy, are: the commercial and marketing factor (23.3%), the economic and financial factor (28.6%) and the technical and industrial factor (26.3%)

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## CONCLUSION

Indeed, the implementation of the strategy requires a preparatory and adaptation phase both at the level of the company and its manager. This means that a review of resources and skills, work organisation, methods, etc. is required, which is a handicap for some Malagasy companies. In summary, we have been able to identify from the analyses the causes of resistance to changes resulting from cooperation, the counter-development factors, the risks of cooperation and the information problems that constitute the brakes that block SMEs from embarking on a cooperation. The verification of the dependencies between the variables Resistance to Change from Cooperation and Cooperation Risks on the one hand, and Resistance to Change from Counter-development Factors on the other hand, have also shown that the strategic situations of the SMEs constitute blockages to cooperation.

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