

Relationships of Cooperation and Competition between Competitors

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Abstract

In this paper we are elaborating on the various relationships existing among competitors both on an activity and resource level as well as on an individual level. The inclusion of competitors has led us to focus on activities and roles instead of positions in vertical or horizontal settings. We argue that the character of the activities and the resources used will affect both cooperative and competitive interactions among competitors. Furthermore, as earlier studies have shown, are social relationships between individuals of utmost importance for the relationships to work successfully. We argue that this is accurate especially when dealing with individuals involved in activities between competitors.

Introduction

The IMP research has since the start in the early 80's been focused on long-term cooperative relationships between buyers and sellers in a vertical setting. The distribution of activities according to a value chain idea, and the need for external resources has been elaborated on. It has been argued that the common goal for involved buyers and sellers have been to create new capabilities by combining their resources and activities. In order for the relationships to have a long-term nature the involved actors have moved from exchanges to the creation of bonds by making adaptations and investments. The outcome has been a decrease of the risk and a higher security within the relationship. Another consequence is that mutual interdependence has been created between not

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only the buyer and the seller but also between them and other actors in activity and resource exchanges.

In the early 90's some initial research was also conducted on relationships between competitors in horizontal settings. Relationships between competitors were both studied using the IMP framework (Easton & Araujo 1992), and by combining traditional literature on competition with the IMP tradition (Bengtsson & Kock 1996; 1999; 2000; 2003). New insights came from empirical studies on the multifaceted way competitors interact with each other both in cooperation and competition. Important contributions are the definition of different type of relationships that exist between competitors, but we argue that there are needs to further develop the framework to make it possible to grasp the complexity of a firms multiple relationships with their competitors. Most often a firm's relationship with another firm is described as uniform; the firms have a cooperative or a competitive relationship with each other. This is however seldom the case. Firms can have many different relationships with each other. It is therefore of importance to move the analysis from the organizational level in order to further elaborate on relationships among firms.

The aim of the paper

The aim of this conceptual paper is to further elaborate on the content of relationships between competitors, by accounting for the different layers of a business network, which are related to each other in an atmosphere of competition and/or cooperation. Håkansson and Snehota (1995) argue that activities, resources and actors are three different layers of importance when analysing business networks. We argue that the character of the activities and the resources used in these activities affect both cooperative and competitive interactions among competitors. Further the actors, or the individuals that are involved in the activities also are of importance for the relationships that develop among competitors. Ten propositions, four on an activity and resource level and another six for the individual level, are generated for later empirical testing.

In the first part of this paper we are presenting the different types of relationships that have been characterized in earlier research. Thereafter relationships between competitors on an activity and resource level and on the actor level respectively are discussed. We will further elaborated on why it is more meaningful to shift from the division between the relationships among actors as being horizontal or vertical to the roles they have according to the activities they carry out. The inclusion of competitors has led us to focus on activities and roles instead of positions in vertical or horizontal settings.

Different Relationships among Competitors

Traditionally competitors have been said to only compete with each other but during the 90's research using the network approach and research about strategic alliances have provided us with new insights into the different contents of relationships among firms that are embedded in an atmosphere of competition (cf. Easton et al. 1993; Nalebuff & Brandenburger 1996). Bengtsson and Kock (1999) argue based on Easton and Araujo (1992) that the following four different types of relationships can develop among competitors depending on how firms interact with each other: *competition, coexistence, cooperation, and co-opetition*. When the interaction is based on rivalry direct relationships are not present, although indirect relationships, or forbidden triads (Granovetter, 1973), can be found if a buyer or seller connects the competitors to each other. Even though economic exchanges are not present in these relationships, exchanges of information and social activities can take place. In a atmosphere of competition the competitors are linked to each other according to their relative positions (Easton & Araujo 1992). Actions taken to maintain or enhance the firms' positions are conflicting, as the interests of the involved partners typically cannot be fulfilled simultaneously.

Competitors often strive for as little interaction as possible, which in some cases can give rise to a relationship of co-existence. The competitors know about each other, know the positions they have but do not challenge each other's positions. Therefore, the competitors seldom interact in rivalry with each other. Sometimes competitors help each by referring buyers or suppliers to their competitors. The competitors are complementary partners, with well-defined and demarcated niches for their operations. However, these relationships are not permanent as the competitor's positions potentially are in conflict with each other. Bengtsson and Kock (1999) have found situations where competitors living in co-existence have started to compete, either because one of the competitors felt threatened by the other or because one of them saw the opportunity to expand their business into the competitor's domain. In such situations collusion (Easton and Araujo 1992) can also be a possibility.

The most visible relationship between competitors is the cooperative relationship. Hunt (1996) points out that the theory must admit at least the possibility that some kinds of cooperative relationships among actors may actually enhance competition, rather than thwart it. Relationships based on cooperation indicate a shared interest to work together towards a mutual goal. Cooperative relationships are built on an informal or formal distribution of activities and resources among competitors embedded in the same business network. Cooperative relationships between competitors can both have a more formal character, i.e. strategic alliances, and a more informal

character where the relationship is based on trust and mutual interests. Both types are built on a mutual interest to act in cooperation as the interaction in both cases give access to external resources and knowledge needed by the competitors involved in the relationship. Assumably the importance of social relationships is stronger when dealing with informal relationships. Conflicts and disagreements can however also arise in cooperative relationships among competitors owing to different views of common goals and outcomes (Kock, 1991).

The co-opetitive relationship is the most demanding one of the four different relationships among competitors, as firms interact in accordance with two different logics of interaction, cooperation and competition. In the cooperative part of the relationship a firm will gain access to external resources, such as know-how, finances or other invaluable assets. In the competitive part the firms are forced to generate a competitive advantage relatively to the other actor, by being i.e. more efficient, well organized or customer oriented. The mixed roles for the individuals in the different firms can be very stressful as they in some activities must cooperate while they compete in others; sometimes they have stipulated common goals while in other cases they try do destroy the other. On the firm level the two types of interaction are easier to perform, as they are possible to divide between different units or different product or market areas (Bengtsson & Kock, 2003.) Consequently, the co-opetitive relationships simultaneously will include benefits and drawbacks of both cooperation and competition.

Competition and Cooperation at an Activity and Resource Level

The identification and classification of different relationships between competitors described above contributes to our understanding of the interactions between competitors, but the classifications are stereotyped simplifications of the interaction that actually take place in business networks. A firm is most often involved in more than one of the different relationships and the relationships change over time. To further elaborate on relationships and networking among competitors it is necessary to analyze the relationships in their context. Håkansson and Snehota (1995) have distinguished between three different layers when analysing the context of relationships, the business network. They claim, in accordance with Håkansson (1987), that actors, activities and resources are the key factors in a business network. All three are needed, but sometimes only one or two are present in specific relationships. Moreover, actors, activities and resources will form their own sub-networks connecting the firms or individuals to each other by adaptations and investments in bonds. We argue that it is fruitful to use Håkansson and Snehotas' (1995) layers for an analysis of relationships

among competitors in their context. Thereby it is possible to grasp the complexity of multifaceted relationships among competitors

The first two layers, activities and resources, are closely related and of importance for competition and cooperation on an activity level. First, by focusing on activities rather than organizations it is possible to include many different patterns of interaction among firms. Firms can compete in one activity and cooperate in another activity. The relationships described above are therefore connected to different activities rather than to different organizations. The number and type of activity links in a relationship between two firms vary (Håkansson & Snehota 1995). According to Richardson (1972) activities are coordinated in order to produce a problem solution. He presents a framework for analysis of co-ordination of activities by using two different concepts; complementary and similar activities. Complementary activities, on one hand, is defined as activities representing different phases of a process of production and coordination of the different acts that constitute the activity in some way or another is required. If firms have the ability to perform all the actions required for the activity within the firm they might compete with their different problem solutions. If instead two competing firms have an advantage in the performance of some actions and not in others they might cooperate in the problem solution and performance of the activity.

Proposition 1: The ability to perform activities within the firm is of major importance in deciding whether to cooperate or compete with a competitor

Similar activities, on the other hand are constituted by actions that require the same capability and resources for their undertaking (Richardson, 1972). If competitors have unique capabilities or resources they might use them in competition with each other, whereas a lack of resources or capabilities might lead to cooperative arrangements. The base for cooperation and competition varies between different types of activities and need to be studied in order to increase our understanding for the relationships that develop through the different activities discussed.

Proposition 2: The decision to cooperate or compete with a competitor is depending on the lack of or access to unique capabilities and/or resources

The second layer, resources, is closely related to the first one. Resources are an important aspect of the interactions among competitors and can explain why an activity is performed in cooperation or competition between firms. Resources are combined in order to create new resources or capabilities (i.e. Owusu, 2003). The firms possession of resources and need to get access to resources in possession of other firms, are of importance for how an activity is performed. Alchian and Demsetz (1972) make a distinction between homogenous and heterogeneous resources. The assumption is

that the value of homogenous resources is independent of what other resources they are combined with, while the value of heterogeneous resources is dependent on other resources (Dubois, 1994). The need to get access to resources in possession of other firms might therefore be greater for activities built around heterogeneous resources.

Proposition 3: If two competitors' activities are built on homogeneous resources they choose competition instead of cooperation

Proposition 4: If two competitors' activities are built on heterogeneous resources they choose cooperation instead of competition

Cooperation and Competition at the Actor Level

The third layer, actors, is also a part of the business network context in which relationships among competitors develop. Bengtsson and Kock (1996; 1999; 2000) claim that a firm can play different roles depending on the available resources and the activities being performed. However, the firm as such does not act. It is rather individuals and/or groups of individuals, units and teams within the organization that act and perform different roles. Accordingly the roles performed will vary between different activities and over time although the actors are embedded in the same business network. The dynamics of business networks, and the increased number of interorganizational relations imply that the roles that actors play have become more multifaceted. The same actor can simultaneously have the role of a buyer, supplier, competitor, cooperative partner and complementary actor. It is thus fruitful to differentiate between the different roles according to the activities performed and resources exchanged instead of making distinctions between vertical and horizontal relationships. (Bengtsson & Kock 1999, 2000)

Individuals working with different activities may play different and conflicting roles in their different interactions with other firms. Furthermore individuals might also act both in accordance with the role that they are supposed to play from an organizational perspective and in accordance with personal roles related to their social relationships with other individuals. Ring and Van de Ven (1994) found that particularly in the early developing phase of a relationship, people act more according to their organizational roles. Over time will the personal relationship more and more supplement the organizational role. In accordance with their reasoning it can also be assumed that the role defined from the perspective of the organization is stronger in temporary activities and that roles defined by social relationships are stronger in ongoing permanent activities.

Proposition 5: The role that groups or individuals play in well established and permanent activities are to a lesser extent defined from an organizational perspective than from the social relationships among persons involved in the activity.

The situation is even more complicated if on the individual level a person's private role-set is also brought into the picture. Håkansson and Snehota (1995) state that actors often will meet on different arenas and consequently play various roles. Bengtsson and Kock (1999) claim that employees in different technological fields or functional areas have studied together and developed personal relations and a professional identity that define certain roles for the way they act and interact with each other. Both private and professional social networks are not to be considered being separated from ongoing business. Private, professional and business roles exist simultaneous and are interrelated. Private and professional relationships may very well be a prerequisite for enabling cooperative interaction among competitors. These relationships decrease the risk for opportunistic behavior and make it easier to develop new ties in order to achieve better business results. Problems arising are easier to solve when such social relationships are present. According to Uzzi (1997) strong social relationships will give access to more trustworthy information and problem solving therefore becomes easier. Cooperative relationships between buyers and sellers are found to be long-term as the bases are a clear distribution of activities and a necessity of external resources. Cooperative relationships between firms that are competitors do not have the same natural base as the activities used can be very similar. Therefore are strong social relationships among the individuals in competing firms involved in cooperation a way of enabling a long-term relationship.

Proposition 6: The cooperative relationship between competitors is more vulnerable than relationships between cooperating firms but can be up weighted by strong personal relationships

Proposition 7: Individuals that meet each other in different arenas can develop private and professional social relationships that can be used for business purposes and thereby enhance cooperative interaction among competitors.

Private and professional relationships can also explain why firms combine competitive and cooperative interactions with a competitor. Individuals in competing firms with a common professional identity feel that i.e. a development of the technology in the area is a more important issue than the issue of enhancing the firm's positions at the competitor's expense. The social relationships between individuals with a common professional identity can be so strong that they cooperate, i.e. share research findings, without the knowledge of the top-level management. The roles can be mixed and so can the loyalty, as some individuals can be more committed to the external cooperative relationship than to the company they work for and their competitive goals.

Proposition 8: Individuals with strong private or professional relationships in different competing firms tend to cooperate more than what is decided on the top-level and thereby create co-competitive relationships between the firms

The discussion so far indicate that it might be a conflict between roles that from the perspective of the organization are supposed to be performed and the roles that the individual want to play due to personal and social relationships. Merton (1957) acknowledges that persons involvement in various relationships feel the need to perform in accordance with their different roles. These roles together build up a person's role set. Role partners, i.e. people with whom a person has contact, develop expectations about the performance of that person, and are thereby a member of his or hers role set (c.f. Snock, 1996). The different roles are often interrelated; nevertheless may the expectations from actors in the surrounding network be very different and even contradictory. Role conflicts can arise between a cooperative and a competitive role at the organizational level if different units are involved in cooperative and competitive activities respectively. These conflicts can also arise at the personal level if the same individuals are involved in both competition and cooperation with another firm but in different activities (c.f. Shenkar & Zeira, 1992) for a discussion of different types of role conflicts). The contradicting expectations can cause tensions that are problematic to solve. If the conflicts arise on the organizational level it can be dealt with by managerial principles and routines but conflicts on the personal level are more difficult to solve (Bengtsson & Kock 2003)

Proposition 9: The role conflicts on the firm level are easier to solve than role conflicts on the individual level when two competing firms both cooperate and compete.

When two firms enter into cooperation they commonly sign an agreement stating the distribution of input, e.g. knowledge, financing, hardware, and output, e.g. results. For the individuals in cooperating firms it might be difficult from time to time to decide how much knowledge they are entitled to give to the other, how the results should be divided and so on. To manage the informal side of the activities can be very challenging. Therefore the role clarity can often be said to be low concerning informal agreements. Role conflicts are more difficult to handle if the clarity of the different roles is low due to many informal and vague agreements concerning a specific activity.

Proposition 10: Informal agreements concerning an activity give rise to unclear roles and the conflict between different and unclear roles are more difficult to resolve than conflicts between clear roles.

Discussion

In this conceptual paper we have outlined some propositions based on earlier studies within the research field of cooperation and competition within the network approach. The discussion has focused on the complex relationships that firms and individuals are involved in when they cooperate in some activities and/or compete in other activities.

We will be collecting data in Finland and in Sweden, which focus on how business professionals in different departments relate to other external actors embedded in the same business network. When analyzing the data it will be possible to compare if the relationships differ in various geographical settings. The business networks, which the focal actors are embedded in are to be recognized as international networks, since not merely national actors are present. In the first phase of the empirical study three companies in Finland and three in Sweden will be chosen. In every company between 4-8 business professionals will be interviewed. The analysis will be based on the activities the respondents consider to be the most important ones and the roles they play within these activities. Furthermore we are dealing with how various social relationships will impact on these individuals. The complex situation on the individual level with probable role conflicts based on various expectations is a great managerial problem, which need to be better sorted out.

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