ATTACK FROM FRIENDLY FIRE: HOW COOPERATIVE NETWORKS MANAGE COMPETITION.

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Abstract

In situations of co-optition firms are simultaneously engaged in two diametrically opposed logics of interaction. The potential for conflict created by this opposition is obvious, prompting the question: how can competition be 'managed' in such a way as not to destroy co-operation?

This paper addresses the above question within the context of a franchised distribution network. Firstly, the paper provides a brief review of the features of franchising to show why this provides a pertinent and interesting context for the study. Then, literatures are reviewed to show that contractual and social mechanisms may operate to manage competition – each being subject to different constraints. Empirical material collected in a franchise chain is then analysed to suggest a typology of competition management. Three horizontal responses to competition (counter-attack, coordinate and accept) and a response whereby vertical resolution is sought and the key factors associated with each response are identified. These factors include; relationship features, relative power, environmental stability. The paper finds that competition is satisfactorily managed, sometimes at high levels where network members establish and accept informal rules and play the game by these.

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Whilst the concurrent existence of both cooperation and competition in inter-organisational relationships is increasingly recognised, difficulties are associated with this fusion since cooperation and competition imply very different logics of interaction. The presence of one appears, intuitively, to threaten the other – yet, evidence shows that it does not destroy the other. One explanation of simultaneity, or ‘cooptition’, shows the two phenomena as somewhat isolated one from the other, for example, by activities and/or actors (Bengtsson and Kock 2000). Each phenomena relates to different pockets of needs within the complex organisation. This explanation maintains a view therefore that it would be highly problematic were the two phenomena concurrently enacted in close proximity or by the same players. The likelihood that one destroys the other should they draw too closely together remains. There may however be ways of handling competition, or cooperation, that would allow the two phenomena to operate alongside each other. There is to date little research evidence about how people act with respect to competition in inter-organisational settings and how those actions enable or destroy cooperation.

This paper broaches the question: how is competition managed in interorganisational relationships that are also cooperative? The paper combines relevant theoretic insights with research findings from a franchised car distribution network. From these sources the paper proposes a tentative description of the methods by which competition is managed and identifies the key factors associated with each method. This endeavour contributes towards a richer understanding of franchising and through that may highlight some aspects of behaviour that have broader currency to 'coopetitive' business relationships.

The paper is organised as follows. Firstly, franchising is introduced with the aim of highlighting its relevance to a study of 'cooptition'. The diverse relationships and the behavioural features of a franchise network are outlined. Secondly, the paper draws upon a variety of theoretic sources to identify both mechanisms that may contribute to the management or restraint of inter-organisational competition and constraints that operate upon the use of these mechanisms. The paper then presents empirical evidence from one franchised network to outline how competition is managed in practice. Looking at how franchisees narrate their responses to competitive attack, a theory of competitive response is developed. Four distinct responses are identified along with the features associated with the selection of response. Finally, the limitations of this research approach to the topic are highlighted whilst the possible broader relevance of this work is considered.

1 FRANCHISED DISTRIBUTION NETWORKS

This brief review conceptualises the franchise system as a network of relationships and considers how cooperation and competition operate within this relationship complexity.

Franchising is a widely used system of management, operated in several forms and many industries (Mendelsohn 1992). One widespread usage is in distribution channels where franchisees operate retail outlets for the franchisor's branded product. Franchised distribution dominates the car sector, the context of the research reported here, in Europe, America and elsewhere. In these 'selective and exclusive' distribution systems, franchisees operate within particular geographic sales territories. This territoriality is an important feature of franchising in the car industry as in other franchising contexts including fast food, car hire and the hotel industry. The anti-competitive implications make such territorial agreements across organisations the subject of public and consumer interest (as will be seen in section 3).

A franchise network can be represented as a wheel. The franchisor, located at the hub, is linked to each franchisee. These direct (vertical) relationships between franchisor and each franchisee are 'active' in the sense of being a conduit for regular communication. Franchisees are also horizontally linked to other franchisees. Some horizontal relationships are direct and active, others may be 'mediated' with communications routed via the franchisor or perhaps via other franchisees. Regardless of whether horizontal relationships are direct and active or not, horizontal links are important in several respects and may make franchising distinctive from some other forms of network.

Firstly, franchisees are structurally equivalent (Blau 1977). Each operates according to a broadly standardised contract and performs identical tasks in their respective territories. The total comparability of network actors (the franchisees) is perhaps unique to franchising. Other networks may have multiple suppliers and/or multiple distributors but possibly giving some a favoured status. By contrast, in franchising, the replication of contracts is intended to provide a 'level playing field' and, however difficult it may be to achieve this in practice, this equality is central to the idea of franchising.

Secondly, there is total 'visibility' of network members; all participants are known which may not be the case in other networks. High visibility allows for considerable information exchange, especially about each other. Information exchange about network members may occur directly or indirectly, intentionally or unintentionally and is further enhanced in those networks with regular meetings. This high level of information exchange can be expected to have some influence upon the iterative process of identity formation described by Ford, Hakansson and Johanson (1997). Franchisees' responses to the question 'who am I?' are necessarily influenced by horizontal comparison with their equivalents. 'I am small', 'I am quiet', 'I am cooperative' are relative evaluations with implications for interaction.

Competition and cooperation exist simultaneously within a franchised network and traverse all network interaction even though one or other aspect may be more apparent in particular relationships, episodes or encounters. Cooperation contributes to brand strength and inter-brand competitiveness. Since complete contracting is impossible, the network can only combine uniformity of its market offer and flexibility of response to dynamic environments to the extent that members cooperate. Cooperation are usually coordinated by, or mediated through, the franchisor. Nevertheless, as network cooperation underlies brand strength, it contributes to the profitability of the individual franchises. Whilst calls for cooperation may at times irk with an individual franchisee, the value of an investment in a branded franchise relies, to a large extent, upon the franchisor's ability to control the totality of franchisees so that cooperation is a vital aspect of the franchise system.

Horizontal cooperation, though less evident, is found when franchisees coordinate response to a franchisor initiative. Information cost explanations of franchising imply benefit in differences in information and opinion amongst the various parties (Hopkinson and Hogarth Scott 2000). Bradach (1997) reports that franchisee scrutiny and sometimes voluable opposition to franchisor initiatives is a valuable aspect of franchising. Franchisees may cluster together and mount a coordinated response, perhaps factionally (Hopkinson 2001), which demonstrates a level of horizontal cooperation.

In contrast, competition is more visible within the network's horizontal links. Consumers 'shop around' disregarding the territoriality of the franchise system. Franchisees compete by a very narrow definition, offering an identical physical product to the market. Such competition emphasises price. Franchisee's attitude towards this intra-brand competition is ambivalent. On the one hand, franchisees profit in instances where they gain sales. On the other hand, widespread or wholesale intra-brand competition increases pressure upon retail prices and opens up the possibility of free-riding (discussed in greater depth below) if one franchisee develops consumer interest to then lose sales to a cheaper supplier. Here the discussion comes full circle. Free riding can be controlled through cooperation, possibly mediated by the franchisor, by insistence upon particular standards or trading practices.

Competition is therefore a source of tension in franchised networks. Individual franchisees may benefit from competition yet, at the same time, widespread competition is a threat to the profitability of all members. Competition and cooperation are necessarily tied together since competition can be managed (reduced and controlled in form) by cooperation. This management occurs at a network level in that competition in one relationship (a horizontal relationship) can be managed by vertically mediated cooperation. Horizontal competition therefore plays a part in, and should be incorporated into any understanding of, franchise network interaction.

Competition has been overlooked in the extensive stream of research concerning franchise behaviour. Cooperation is now central to channels research having surplanted a previous focus upon conflict (Young and Wilkinson 1989). Neither concept has been, however, been related in research to competition. The franchise or channels literature does not therefore explain how channel competition is managed whilst other areas of theory offer some clues. These are outlined in the next section.

This section has argued that horizontal and vertical relationships are both important and are interrelated in complex ways in a franchise network. Competition and cooperation, as network phenomena, are dispersed amongst these relationships and are a source of possible tension. I have highlighted the particular aspects of franchising that make this a pertinent context for a study of competition management. The extent to which those aspects occur in other types of networks varies, nevertheless, I have shown that franchising provides a rich arena for a study of cooptition.

2 MANAGING COMPETITION - MECHANISMS AND CONSTRAINTS

2.1 Contractual Mechanisms

The association between intra-brand competition and free-riding has been drawn above. The theme of free-riding in business exchange, developed within a transaction cost framework by Williamson (eg 1985), has been applied more specifically to franchising (eg Agawal and Lal 1995, Dnes 1992). Transaction cost theory explains franchising as a rational and efficient answer to the problem of opportunism or 'self-interest seeking with guile' (including free-riding). Opportunism is addressed by combination of careful construction of contract and efficient monitoring. Free riding is eliminated if the benefits gained by free riding are less than the penalty for being detected multiplied by the likelihood of detection.

The car industry offers opportunity for high detection rates of extra-territorial sales since cars are registered to the purchaser. Whilst direct penalties for competitive acts are legally problematic (see below), less explicit contractual disincentives to free riding behaviour can be devised. For example, a percentage of franchisee turnover to be spent on local marketing can be stipulated. This destroys a sales strategy where discounting captures pre-prepared customers across a large geographic area whilst the marketing costs of brand development are avoided. Alternatively, limiting the quantity of supply to a franchisee reduces their ability or wish to operate a price cutting, low margin sales strategy, if the limited supply can be sold at full list prices.

Transaction cost theory highlights contractual methods to manage intra-brand competition. The adequacy of such methods may, however, be challenged on two grounds. Firstly, legal impediments constrain the contractual power of franchisors with particular regard to competitive implications. Secondly, where abuse of the franchisor's (contractually superior) position is suspected by franchisees, this may damage the atmosphere of the relationship, reducing cooperation and thereby intra-brand competitiveness.

2.2 Social Mechanisms

The interaction model draws attention to the complex influences upon business exchange, questioning the transaction cost sole emphasis upon the rational economic basis of inter-organisational exchange. The interaction model sees business relationships as built through a succession of exchange episodes and highlights social and inter-personal influences upon this evolution. Behavioural norms of exchange develop alongside expectations about the other. In time, identities develop through negotiation (Ford, Hakanson and Johanson 1997).

This vision of business relationships suggests that 'social mechanisms' may play a part in the management of competition. Norms may develop regarding legitimate competitive actions and responses that network members may take. Equally, subjective identities may be critical to how particular franchisees compete or respond. Social mechanisms that evolve are likely to arouse less hostility at any one moment in time than imposed and explicit contractual terms. Their influences upon behaviour will not be 'felt' since social mechanisms lend a naturalising 'obviousness' to 'the way things happen'. Also, being somewhat hidden to outsiders, norms and expectations are a difficult target for legislation. However, just as evolution makes social mechanisms less obvious, for this reason they are also less controllable by any one party, specifically by the franchisor. The franchisor may have a dominant role in their evolution, but, nevertheless, some behaviours may develop outside that control.

Theories of inter-organisational exchange offer then two broad sets of mechanisms for the management of competition in a network. These are contractual and social. Contractual mechanisms are explicit and identifiable both within and outside the network, they are also more directly controlled by the franchisor. These differences subject the two sets of mechanisms to different constraints.

2.3 Constraints

Legislative bodies are concurrently concerned to increase market competition, provide security to contractual business arrangements and protect consumer interests. The tensions between these concerns is demonstrated by recent legislation and discussion with regard to UK car distribution systems.

European Commission (1995) Regulation 1475/95 reasserts (from 1985) the franchisee's right 'to develop his (sic) own policy on resale prices' (item 25), relaxing constraints upon franchisees' extra-territorial activities. Whilst recognising the franchisee's obligation to 'promote sales within the contract territory' (item 9), the regulation states that dealers 'must also be able to meet demand from persons and undertakings in other areas of the common market' (item 9). Only two constraints restrict this ability: 1/ that they shall not open distribution branches and 2/ that they shall not 'solicit customers' by 'personalized advertising' (item 3/8). The 1995 EC regulation, which currently provides the legal foundation in this sector, therefore seeks to encourage intra-brand competition. This clearly limits the use of contract to eliminate competition - were a contractual clause to be 'proven' to intend or achieve this then it would be open, at the least, to legal challenge.

However, public allegations of anti-competitive car retailing led to a UK Competition Enquiry, showing that the intent of the law has not been seen to be achieved. Many speakers at the Competition Commission public enquiry (1999) linked anti-competitiveness to manufacturer power - a view to which apparently only the manufacturers dissented.

Mr Pulham (RMIF retailer association): We are a sector which, when compared with most other sectors, is upside down....The sector is dominated by the manufacturers, the suppliers rather than the retailers

Mr Evans (The Consumer Association): Most markets do not have a stranglehold over the distribution chains to the extent that you do get in the car market, which totally distorts the function of competition in that market

The methods whereby manufacturer control is sustained despite legislative intent include; retailer reliance on bonuses rather than margins (Mr Pulham, RMIF, Mr Evans, Consumer Association), and retailer investments set against short term contracts (Peter Groves, Solicitor specialising in the car industry). It appears therefore that contractual aspects of the manufacturer retailer relationship may, in oblique ways, control dealer actions. The covert menace of contract is illustrated in the following exchange (the italicised section was the most widely cited press comment on the event):

Mr Pulham (of dealer arbitrage) "I think it is one of those issues, whilst the law is fairly clear, commercial relationships make it singularly difficult to carry it through".
Chairman: "What does that mean?" (laughter)
Mr Pulham "What it means is *dealers have a relationship with a supplier who has the power of life and death over that retailer*, and there is little doubt that ... (arbitrage) ... would be frowned upon at least.

Therefore, there are constraints that operate against explicit manufacturer control of dealer competition. Nevertheless, contractual measures may, in their effect, offer a considerable level of control thus limiting intra-brand competition. The more elusive social mechanisms may offer a more robust response to legal constraints. Clearly, social mechanisms may interact with contractual terms. For example, the beliefs implied in the above exchange about the way discretionary bonus payments might be used to support or eradicate particular behaviours are as critical as is the provision for bonus payments in dealer contracts.

Whilst the legislation relating to car retailing is complex and specific, some general points can be raised from this review about competition and cooperation within networks. Firstly, it highlights the resilience of network interaction to legal intervention. Secondly, it demonstrates that it is problematic to isolate one set of behaviours (for example competitive) to manage or study in isolation. Actions that are accepted because of the need to maintain cooperation may reduce competition. For example, bonuses are a means to ensure cooperation and compliance to brand standards yet they can be applied against competition.

This review then suggests an influence of both contractual and social mechanisms upon competitive activity in a network. It highlights the way in which contractual mechanisms may be somewhat 'hidden' and may interact with social mechanisms. Furthermore, the review has shown that the issue of competition is highly sensitive. The next section presents evidence of how competition is handled in practice in one franchised car retail channel.

3 COMPETITIVE RESPONSES IN ONE FRANCHISED NETWORK

Legal and public concern for competition, in the car industry as in other industries, makes competition a difficult research topic. This perhaps accounts for a lack of academic analyses of the subject. Therefore research that begins to illuminate the area provides a crucial first step and may draw out issues as a basis for subsequent, more systematic study.

The material presented here is drawn from a broader study of franchise relationships in which franchisor and franchisees were interviewed. The study elicited and analysed narratives about life in the network. Competition was not the focus of the study but its importance in interaction emerged in the research. Many comments drew on an undercurrent of competitive interaction amongst franchisees though few narratives centred upon this issue. Brief periods of observation revealed the importance of the topic for network participants yet responses to questions relating directly to intra-brand competition were guarded and defensive. The barriers to discussion of the topic reflect its legal sensitivity. Therefore, those narratives about competition that were collected were seen as precious entry-level data providing relaxed commentary upon competition management in context. The analysis combines four narrative sections with more abstract comment from the corpus of interview data to make tentative proposals about competitive action. Two of the four narrative sections are 'comparative', that is, the narrator compared their actions in one scenario to actions they take in other contexts. In this way, the narratives suggest a typology of competitive response along with the factors associated with each response.

The aim of the analysis here is to develop and illustrate a typology of responses to competitive incidents and to identify the factors associated with each response. Four categories of response will be delineated. Of these, three categories of response manage the incident without intervention from the franchisor, these are: counter attack, acceptance, co-ordination. The fourth response involves handing the situation to the franchisor for resolution.

The narratives are:
Narrative A compares 'counter attack' with 'coordinate'.
Narrative B compares 'counter attack' with 'accept'.
Narrative C is provided by a victim of a competitive act who hands the situation to the franchisor for resolution
Narrator D tells of an incident in which his own competitive attack is reported to, and resolved by, the franchisor.

3.1 Horizontal management of competition.

Both narrator A and narrator B provide insight into the differences in management of competition within the horizontal relationships of the network. Both dealers talk about an aggressive competitive situation with one other dealer (a different dealer in the two cases). These two situations are categorised as counter attack. The intention to 'attack back' is indicated in the following comments:

if anybody comes in from (their city) I'd probably make an extra effort to sell a car to them (A counter attack)
you are going to do it to me, I'll do it to you ... if you want to play it that way then ... (B counter attack)

Through comparisons with other scenarios, both narrators show that counter attack is only one of several viable responses for the horizontal management of competition.

Narrator A compares counter attack with a situation that indicates coordination. The coordination involves communication between the dealers who jointly respond to particular inter-territorial sales opportunities:

if somebody phones from (city) looking for a new car we'll pick up the phone and say "Steve, if you want we've got a car here for him so if you want we can do a swop[1]" (A coordinate)

Narrator B presents a different situation by way of comparison. In this acceptance situation a high level of competition is reported but also accepted.

he's put eight in my territory this year, which is a lot, but there are reasons why ... I don't need to tread on his toes and he doesn't need to tread on mine, so we don't, I've put four or five into his area, but I'd never do to him what (other comparative dealer) has been doing to us (B acceptance)

The following analysis identifies the factors associated then with the three responses 'counter-attack', 'accept', 'co-ordinate'. It draws largely upon the two sections but also draws in other material from the series of interviews.

3.1.1 Trust/mistrust

Both narrators A and B, refer, in the counter attack situation to the counterpart's recent competitive behaviour, highlighting lack of trust. Other interviewees reinforce this lack of trust associated with particular styles of competition.

I'd trust someone from (another dealership) more than I'd trust him ... January, February I had three pump ins[2] into my territory from (them) (A counter attack)
somebody in (city) has just undercut us and got the deal by selling the car cheaper than we are prepared to sell it, so that upsets me ... unfortunately I think there's certain people you can trust, and you put your trust in certain people and he's not one of them, if he told me one thing I'd still disbelieve him and think it's something else,... I still wouldn't trust him as far as I can chuck him (B counter attack)

Franchisee: There's still dealers I wouldn't trust, but that's normal as well
Interviewer: Where does the lack of trust come from, what sort of things does somebody do that would make you think]
Franchisee: Oh *(very quickly)* they'd discount out the market

For responses other than counter attack, even where there is a high level of competitive activity, no reference to trust, or its absence, is made. In these cases the narrators do, however, talk about their relationships with the other. Their comments indicate familiarity with the other.

There are people like (dealership) we get on very, very well with (A coordinate)
I've known Dave for years, I suppose it's how long you've known people ... he's got a different personality than I have but I respect him and he respects me (B acceptance)

The explanations of the acceptance and coordination situations do not draw, then, upon the concept of trust but do refer to some aspects of relationships (familiarity and respect). That the narrators do not draw explicitly upon trust to define acceptance or co-ordinate situations, but do refer to lack of trust in the counter-attack situations, may

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[1]'Doing a swop' - dealers have consigned vehicles which they sometimes swop between dealers (with manufacturer knowledge) according to the emerging sales needs.
[2]'pump ins' - the industry term describing cars sold into one's sales territory

indicate that 'trust' should not be regarded as a unified concept assessed on a simple continuum (ranging between full trust and full absence of trust). Mistrust, in the counter-attack situations, may be more than simply an absence of trust, and may be brought about by particular actions rather than being engendered through more generalised relationship concepts.

Mistrust is a feature of the counter attack situations. It has been brought about by the aggressive competition of the other. However, selling between territories does not always provoke this response and length of relationship and respect may contribute to alternative responses.

3.1.2 Communication

In counter attack, narrator A makes no reference to communications whilst narrator B refers to this several times. B's comment "I've had several words with him" is not followed by any comment about that communication. Other statements hypothesise communication from the counterpart and indicate that this would fail. For example, B claims he would disbelieve anything his counterpart tells him (previously quoted) and that, "if he phoned up and asked for a favour I'd be more inclined then to turn round and say, it's tit for tat, you know". These outline presentations of communication contain no reported conversation, they merely state that a communication has, or could, take place. The effect of this style of narration is to distance the communication from the narrator since he demonstrates no involvement in it. It suggests their lack of engagement, even though some communications might have taken place (we can not know). No effect, or an undesired effect, is brought about by the communication. The narrators indicate more involvement in communication with the counterpart in situations where they avoid counter attack. In these cases, communication is also more effective and possibly more frequent, especially in the acceptance situation.

The coordination response in narrative A is demonstrated by a reported phone call (previously quoted) to the counterpart to decide upon a response. Other dealers, seeking to illustrate inter-dealership coordination, report their conversations with counterparts at some length or often enact these conversations in the interviews.

you seem to cooperate, you know, a chap rang me from (dealership) the other day and said, you know, "we've had Mr Rawthey in the showroom, he was saying you've offered him this, what's happening?" (miscellaneous, coordinate)
you will also get people who come along and say "I've been offered, I'm not happy with (dealer) because of this, that and the other, what price can you give me?" and you phone up (dealer) and they are fine, there is no problem at all with this customer, he's a good customer of theirs, they are just trying to get a better price (miscellanous, coordinate)

Through reported speech, in which the interviewee 'plays out' particular conversations, the narrators indicate their own involvement or social and psychological engagement in the conversation. In coordination situations the communication is functional, the speakers request or convey information in order to decide upon action. They accept information about issues such as whether the customer has encountered a problem, even where it might be commercially expedient for them to reject that information. Conversation that does not precisely conform to this conveyance of information (although some talk about, for example, the state of business, the football scores or some joke about the situation etc may have taken place) is not reported. The salient aspect of communication, for these situations, and the one necessary to their narration, is then the transfer of information accepted as fact allowing a course of action to be jointly selected.

Reported speech is also used to describe acceptance situations, but in these cases the conversation is more chatty and its humour, often aimed at the speaker themselves, is brought out.

we've had cross words, definitely, you know, he has probably dealt a customer who I am not happy that he has dealt, and he'll phone me up the next day and say "well, who's this man that you dealt?" and I'll start eating humble pie sort of thing. (B acceptance)
all we do then is just phone them up and have a joke and a bit of banter rather than an argument and people getting resentful, we say "oh you put another one in", "ah yeah, but you put one in last month", and that's the extent of it, it's a friendly warning cum 'I know what's going on mate'. (miscellaneous, acceptance)

The transfer of information about the specific situation does not underlie reported conversation in the acceptance situations, indeed, they communicate information already presumably known to the other (eg ‘you put another one in’). The purpose of communication in these situations is well captured by the phrase quoted above: 'I know what's going on mate'. They communicate surveillance and awareness, at the same time they 'joke and banter'. Possibly this removes some threat or very open conflict so that the two may remain 'mates'. At the same time, showing their alertness, they may be signalling boundaries to the acceptable. Each seems satisfied with these communications in comparison to the bland statement 'I've had several words with him' (B counter attack) in which the communication appears not to have achieved its intended effect.

Counter attack is then associated with failure of communication, and a mistrust in what the other is saying. Coordination is associated with effective communication of what is accepted as fact. Acceptance involves communication which signals alertness to the situation and marks boundaries.

3.1.3 Instability

Heightened competition during times of instability or poor trading and an increase in inter-dealership conflict is unsurprising and frequently commented upon. Dealers talk of horizontal relationships during a past recession.

Yeah, we were very aggressive about what we did. (miscellaneous comment)
Everything was bitter and twisted because, to be fair, everybody was struggling to survive. (miscellaneous comment)

Localised trading difficulties for one dealership is highlighted as an underlying cause of the competitive situation by narrator A in the counter attack situation.

they are not selling as many new cars just now, they are really struggling, so I'm more than aware that the temptation will be to discount to get the figures, to get the targets (A counter attack)

Instability may also be associated with changes particular to one dealership. Inter personal aspects of the relationship, such as respect and length of relationship, in acceptance situations has already been highlighted. Change in personnel in one dealership may therefore make acceptance unlikely since new relationships must be formed, this may provoke counter attack. In narrative A change of personnel is associated also with more effective selling by the counterpart. The relationship becomes instable in this particular situation since the other dealership has suddenly become more aggressive and therefore, by implication, threatens its neighbour's extant sales situation.

(the previous sales manager) probably wasn't as good at his job as the new person ... that's probably the reason that things have got the way they have got because before they were so dreadfully poor ... they were like asleep ...... the problem is that some people come in ... they set the world alight, they will deal anybody anywhere for any price (B counter attack)

It appears, in narrative B, that the appointment of a new sales person has brought about instability as the sales levels in the two dealerships are being realigned. The instability brought about by a new appointment emerges elsewhere in the interviews. One relatively new dealer talks about opening their new dealership. Apparently, other dealers did not respect their new territory so that the new dealership was openly aggressive in response. The dealer reports that if they were approached by a customer from elsewhere:

I'd take him (the customer) out the market, if I could, ever so quickly, if that meant money I'd give him the money ... I don't think it builds it (the situation) up, I don't think it stops it, it's just like, right, OK, you, again, it's a form of respect is stupid, it's like, tit for tat, but it's like, because we were new and young, "they don't know how to play the game", but we do, and the few that know we can play the game don't bother us so much (now). (miscellaneous).

In the comment quoted above, the interviewee has some difficulty in fixing upon a rationale for their actions, illustrated by the frequent change of direction in their speech. Eventually they settle upon, and then reiterate, the metaphor of 'the game'. This metaphor provides a useful explanation of competition during periods of instability brought about either by local changes (new personnel, new dealerships) or by national or local trading crises. In both there is disjuncture between the present and the past. The sales outlook and the way in which sales will be distributed amongst dealerships is uncertain. 'The game' is being redefined and the rules by which it will be played are not clear to all parties or, at least, one thinks they are unclear to the other. Therefore, whilst in acceptance situations communication is used to remind each other of the rules (boundaries) that operate in 'the game', communication is seen as ineffective to assert rules in instable situations. In those situations actions (attack, counter attack) more effectively establish the rules than does communication.

In these attack/counter-attack scenarios 'the rules' refer to the informal, social mechanisms established within horizontal relationships. Competitive responses are being used to establish the norms and expectations that operate horizontally, albeit that these operate within a contractual environment. It might be feasible to refer the matter to the franchisor where contractual terms would become the relevant influence upon behaviour but this route is not (at least not immediately) selected.

3.1.4 Relative Power

Relative power and competitive behaviour would appear to be inter-related for many reasons. Firstly, larger dealerships can better resource aggressive marketing and aspire to a level of sales that could encourage discounting. Secondly, power dependence theory (Emerson 1962) suggests that the franchisor depends more upon larger dealers so that these may be less subjected to franchisor power. Thirdly, relative size is important in the formation of identity so that smaller dealers, precisely because they see themselves as such, may be less assertive (Hopkinson 2001). Finally, those dealers who are more effectively competitive will gain sales and become larger. Perhaps surprisingly therefore, there are few comments relating the horizontal management of competition to the power of dealerships. This occurs only in narrative B where power in introduced to explain the counter attack scenario. Narrator B confidently asserts his ability to 'win' if the other dealer insists upon playing an openly competitive game.

> you are going to do it to me, I'll do it to you and a dealership of this size, with the back up we've got is going to walk all over him ... in the end I just thought, well, stuff it, sort of thing, I've got twice as much stock as you, I've got twice as much pull with (manufacturer) if you want to play it that way then ... (B counter attack)

The quotation illustrates the importance of relative power (horizontally) in calculations of response where more generally accepted rules are being challenged. As the bigger dealership, B asserts an ability to out-compete as he has more stock. He also alludes to their comparative power with the franchisor. He claims to be better placed to argue the situation with the franchisor (having more 'pull'), even though this situation is dealt with in the horizontal relationship.

By comparison, the same dealer talks of the acceptance situation and argues "we just don't need to do it to each other and we wouldn't". Power in the contiguous sales territories of this acceptance situation is fairly evenly balanced according to sales figures. To the dealer's argument that they do not *need* to do it to each other could be added that neither would have much to gain, or can be sure that they would have, by aggressive competition. Arguably, approximate balance of power combines with stability in the trading situation to make overt aggression unattractive. For these two strong dealers, 'acceptance', with communication of surveillance to signal alertness, contains an implicit threat should the boundaries of acceptability be overstepped. This allows them to manage a situation with relatively high levels of inter-dealership competition without recourse to the franchisor.

3.1.5 Summary

Three responses to competition have been identified whereby the situation is managed within the horizontal relationship. Each is associated with several factors.

Instability is associated with counter attack situations. This, in turn, is linked to a need to define the competitive game and its rules, for which communication is perceived to be ineffective. Counter attack is also associated with mistrust and mistrust too is increased through instability, either because the people involved are new or because of a hostile environment. Counter attack is unlikely to occur in situations of stable and equal power.

In acceptance situations each dealer signals awareness of the situation and communicates the boundaries of the competitive game. There are quite well developed inter-personal relationships of long acquaintance and probably with high levels of respect. There may be high and reciprocated levels of competitive trading. Acceptance is likely to occur only in relationships of balanced power and of strength. In these situations indication of surveillance can be effective.

In coordination situations, inter-dealership competition is reduced through instrumental communication whereby action is jointly agreed. Little comment is given about the relationships between dealers. These are perhaps more distant, less personal relationships and this position may be hard to maintain where there are high levels of competitive interaction between dealers. For example it may be difficult to sustain this tactic were there repeated incidents in contiguous territories.

3.2 Vertical management of competition

Two stories illustrate why a competitive incident might be handed to the franchisor for resolution. One story (C) is told by a victim of such an incident. The narrator looks at why they asked the franchisor to intervene and, having handed the situation over to the franchisor provides little information about the resolution. Narrator D sells a car into another territory. He explains why the matter was handed over to the franchisor and explains its resolution.

Narrator C outlines some factors that make competition acceptable. Acceptable trading occurs at low levels, is approximately reciprocated and occurs where a dealer has some 'ownership' of the customer, for example, where it is a pre-existing customer. The incident he narrates transgresses these criteria or informal 'rules'. The customer lives in C's territory and continues to visit his dealership for service. It transpired that the offending dealership had acted mendaciously by fudging the customer's address on the car documentation.

> when they were initially challenged the dealership made up a story about that particular dealer having relatives in (city) and it was some fandangled load of rubbish really (C vertical resolution)

In this case, the dealer's deceit makes horizontal communication impossible. That impossibility of communication is a factor in handing the situation to the franchisor is supported by narrative D. Narrator D had 'pumped' a car into another territory, initially that other dealer sought to contact D several times and D reports that he did not return the phone calls. At a meeting the other dealer accosts D who comments "you put this whole smoke screen up ... I denied the whole thing". The other dealer approaches D's sales administrator:

> Sarah said to me "oh God, he gave me a grilling, all about the customer's name, and luckily" she says "I didn't tell him anything, but he just trying to fish" (D vertical resolution)

Finally, there was a phone call where "we then had a bit of a ruck to the point where I slammed the phone down" (D). Horizontal communication was, then, rejected at all stages of the incident, and when communication literally broke down, in the slamming down of the phone, the other dealer handed the situation to the franchisor.

D considers power to be important in the franchisor's resolution. Firstly, D must be careful how he portrays his own power in his dealings with the franchisor. Secondly, the situation is now being managed, in effect, within the two parallel vertical relationships. The resolution depends not upon power in one dyad but upon comparison of power across the two dyads.

you've got to sort of balance it you know, not be weak and die to it, and put up with as much force without going over the top, which I think I actually did - (D vertical resolution)
there's some strong personalities and it's down to their strength as well, you can be bamboozled by somebody who's a bit smarter and a bit cleverer than the other sales manager - (D vertical resolution)

The resolution then draws upon many factors. Firstly, the actions involved in the competition, such as the mendacity. Secondly, the reaction of the offending dealer to the franchisor, and in particular the way they manage the appearance of power. Thirdly, the relative power balances across the two dyadic relationships. In this way, network and dyadic factors interact in the resolution.

Both of these dealers also refer to the mechanisms through which the franchisor can manage the situation. Narrator D looks at the informal, social mechanisms, but links these to the supply of vehicles. This demonstrates that social and contractual mechanisms are, in practice, interlinked.

there's always the worry that you could waste the relationship ... when you are desperate ... then you phone the (franchisor) regional manager say "I need an extra car" they might, it might change, colour their attitude towards you, they might say "no I've nothing" and say (other dealer) might phone up five minutes later and say "I'm desperate for this car" "yeah, we've got a car in the fleet, you can have a mobile register and you can have it" (D vertical resolution)

Narrator C also identifies a social loss and suggests that the franchisor may more formally manipulate supply, thus combining the social and contractual.

(manufacturer) just get fed up with it and then they say things like "well, if you can sell cars outside your territory, you've obviously got too many cars so we'll take some away" (C vertical resolution)

The situation has a cost, according to both narrators, in relationship terms. The two differ slightly in the way they see this. According to C the relationship cost, a breakdown of trust, occurs in the vertical relationship. D insists that his relationship with the other dealer has suffered the greatest loss. He regrets this since the other dealer had helped him a lot in the past and they were quite close: "we have drunk together".

Vertical management of horizontal competition is seen as a last resort that is not independent of horizontal features. Horizontal relationships both influence and are influenced by resort to vertical management. When 'fair' rules, established largely by social mechanisms, do not operate and can not be communicated then vertical resolution may be sought. Relative dyadic power situations influence the way the incident is managed vertically. That management draws upon contractual mechanisms and may lead to new contractual terms (for example, quantities of supply). Vertical competition management also may influence both vertical and horizontal relationships.

4 DISCUSSION AND CONCLUSIONS

This paper has focused upon a franchised network context. Franchising provides an interesting arena for the study since franchising offers a potential for much direct horizontal competition due to the structural equivalence and visibility of franchisees, coupled with the identical physical product offered by each franchised outlet. At the same time, cooperation, at least at a systemic level, is core to the success of a franchise network. The paper has therefore sought to identify how competition is managed without destruction of cooperation. Two possible management mechanisms are suggested by the literature. Following transaction cost theory, competition may be contractually managed, although legal constraints may make this problematic. Following interaction theory, social norms and expectations may operate to contain competition, although this makes competition management less controllable by any one player.

Broadly, this investigation suggests that competition is very much 'managed', though perhaps not explicitly so, in this network. This management can occur either vertically or horizontally. Sometimes a situation is reported to the franchisor for resolution (vertical). This is associated with a total breakdown in communication within the horizontal relationship. The franchisor is able to address competitive actions through the contract. The knowledge that this can happen, even though it is not always presented as an immediate result, acts as a powerful constraint upon competitive behaviour. Equally, social influences within the vertical relationship contribute to and arise from interaction in, and outcomes of, competitive incidents.

Competitive incidents are often managed within the horizontal relationship between franchisees. Several responses to competitive attack are available. The selection of response relates to: absence of trust, the use and effectiveness of communication, stability and the relative power of the two parties in the network. The research suggests that, depending upon these factors, it is often viable for franchisees to come to some tacit agreement about how competition is managed between territories.

In this paper, intra-network competition has been likened to ‘a game’. Where two franchisees have a high level of competitive activity they can nevertheless manage competition by a strategy of ‘acceptance’. For this strategy, power is relatively balanced, there is effective communication of the boundaries of the acceptable, the parties know and respect each other and operate in a fairly stable micro and macro-environment. In this situation the parties can play a competitive game with broadly accepted rules of conduct and mutual surveillance.

An alternative strategy, ‘coordination’, refers to joint decision about how specific incidents of potential competition will be handled and this strategy is possibly restricted to lower levels of competitive interactions. There is active and effective factual communication and there is no feeling that the other can not be trusted.

Finally, counter attack is a possible strategy associated with situations of instability where the established rules of the game may be under challenge. Counter attack occurs where there is mistrust of the other and communication in this situation is seen as ineffective. Counter attack is, to some extent, a flexing of power with a wish to reassert oneself.

Social and contractual mechanisms are both important in the management of competition although contractual redress operates more as a potential. Where management is handed over to the franchisor then contract clauses may be brought into play with disadvantageous consequences. This forms a background to the use of social mechanisms. Rules, or norms develop across particular relationships. Several different types of relationship are robust in terms of competition management – from the relatively distant relationships of coordination to the apparently more ‘matey’ relationships of acceptance. Distrust, occasioned perhaps by instability appears as the critical issue provoking either attack, counter-attack or alternatively a vertical resolution. However, the study flags up ‘distrust’ as a specific relationship concept that should perhaps be treated as more than merely the absence of trust. It is unclear how much some of the other franchisees actually trust each other (for example in acceptance situations) yet they do not appear to have positive feelings of distrust.

The study has also highlighted the network influences upon competition management. It is impossible to separate dyadic actions from their network context. Relative power within the network (ie compared across the two vertical dyads) enters into the choice of horizontal competition management strategies and also the treatment if the situation is managed vertically. Relative power, or size, within the network may also operate through identity construction. Acceptance is associated with pairs of strong, large players – players who can play the game on equal terms and do not have an obvious or guaranteed reward by deviating from the accepted rules. It is unlikely that a big and small dealer could communicate effectively or repeatedly in the style associated with coordination. In that case there would be a guaranteed payoff for one player by rewriting the rules – and they would both know which player that would be. Although this study has not been large enough to prove associations between strategies and identities, it can however be proposed that particular strategies are appropriate to certain identities (as a large or small player) and that similarity of identity acts to enable the equally effective, though very different, communication styles of acceptance and coordination.

The size of this study and the quantity of data used remains problematic to validate theory. Nevertheless, the relaxed, conversational style of data collection and the lack of focus specifically upon competition has allowed me to generate some tentative descriptions and explanations of competitive behaviour within the particular context of the research. At the least, it may serve to encourage research in this topic in other contexts. There are many other network contexts where it would be legitimate to question how potential competition is managed and its limits demarcated.

The sensitivity of the topic of competition remains a barrier to further investigation - especially since it seems, in the previous paragraph, to carry overtones of the cartel. However, the descriptions built through this analysis perhaps open a viable road to further study if used as the basis of hypothetical scenarios to which practitioners would be asked to respond. The strength of public concern regarding competition makes this a vital area of study in franchised and other network contexts.

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