Sources of conflict in cooperation between competitors

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Sources of conflict in cooperation between competitors - *Abstract*

Industrial relationships have in general been viewed as long term, consisting of mutual commitment and trust. This is a fairly static view that concentrates on the more positive side of relationships. Industrial relationships are not static, but dynamic, and contain both positive and negative situations. Welch and Wilkinson (1999) argue that conflict and cooperation coexist in situations of interdependence and therefore it is important to understand why conflicts develop and how they are managed. Although several researchers (Axelsson 1995; Easton and Lundgren 1992; Ford, Håkansson and Johansson 1986; Gadde and Håkansson 1993) recognise that industrial relationships consist of both cooperation and conflict, few concentrate on interorganizational conflicts.

Most research within the interaction and network approach is based on vertical relationships, which means scarce research about relationships between competitors (Bengtsson and Kock 1999; Easton and Araujo 1992; Hu and Korneliussen 1997; Johansen and Johansen 1998; Reve 1992). Conflicts are natural elements in cooperation between competitors, since competitors usually apply similar resources and strategies with the aim of reaching the same customer. Conflict management, therefore, becomes a central task for the maintenance and development of cooperation between competitors. Conflict management involves identifying the source of the conflict, coping with it and analysing the outcome of the conflict. The source of the conflict is a critical issue because it can be complicated to identify and may have an important impact on latter activities of conflict management.

The aim of the paper is to identify sources of conflict in cooperation between competitors. The sources are proposed to be found on four levels: organizational level, individual level, operational level and external level. The nature of the paper is conceptual and the main arguments are presented in eight propositions. The paper is influenced both by the interaction and network approach and by conflict theory.

INTRODUCTION

Researchers within the interaction and network approach has usually described industrial relationships as long term, consisting of mutual commitment and trust. Although the overall nature of an industrial relationship is built on cooperation, adaptation and trust, there are still continuous situation-based changes occurring within the relationship. One of the basic arguments in this paper is that industrial relationships are dynamic, as they may contain situations of both harmony and conflict. This dual nature of an industrial relationship has been recognized by a few scholars within the IMP-group (Axelsson 1995; Easton and Lundgren 1992; Ford, Håkansson and Johansson 1986; Gadde and Håkansson 1993; Håkansson and Snehota 1995). Except from studies by Lee (1999), Freeman (2001), Vaaland (2001) as well as Welch and Wilkinson (1999) there are scarce studies within the IMP-group that actually focus on conflicts in interorganizational relationships.

A majority of the research within the interaction and network approach, including the above named studies of interorganizational conflicts, is based on vertical relationships, i.e. cooperation between a buyer and a seller. Some scholars (Bengtsson and Kock 1999; Easton and Araujo 1992; Hu and Korneliussen 1997; Johansen and Johansen 1998; Reve 1992) argue that we also should focus on horizontal relationships, i.e. relationships between competitors. Competitors can be viewed as actors within the industrial network, similarly as customers or suppliers. Since cooperation between competitors has become more and more common, there is a need to study these types of relationships. According to Johanson and Mattson (1993) a network includes both complementarities and substitutes. The existence of substitutes within a network indicates the existence of competitors.

Cooperation between competitors is different from vertical cooperation. Park and Russo (1996) indicate that it is risky business to cooperate with competitors. The results of their

study show that a joint venture between competitors is significantly more likely to fail than one in which the partners do not compete. Research (Bengtsson 1994; Laine and Åhman 2000) has shown that competitors often are more or less forced to interact, while vertical cooperation usually is based on a voluntary strategy. Vertical cooperation is generally easier to grasp, because they usually contain economic exchange, while cooperation between competitors often includes other elements of exchange than economic (Easton and Araujo 1992). Conflicts are considered to be natural elements of intercompetitor cooperation because competitors, by definition, apply similar resources and strategies with the aim of reaching the same end customer. Whenever companies use both a competitive and a cooperative strategy simultaneously, a potential for conflicts arises, because the major advantage of cooperation is a major disadvantage from a competitive perspective (Bresser 1988). Conflict management, therefore, becomes a critical issue within intercompetitor cooperation.

Literature within conflict theory is most often based on interpersonal or intraorganizational conflicts. Conflicts between organisations (interorganizational conflicts) have not been studied to the same extent, although they for example can influence dissolution of industrial relationships. Conflict management can be understood as a process involving the identification of the source of the conflict, methods for coping with it and an analysis of the outcome of the conflict. The source of the conflict is one of the most central tasks within conflict management, because it may have a significant impact on the latter activities of conflict management.

Objective

The aim of the paper is to identify sources of conflict in cooperation between competitors. The sources are classified into four different levels: organizational level, individual level, operational level and external level. The nature of the paper is conceptual and the main

arguments are presented in eight propositions. The paper is influenced both by the interaction and network approach and by conflict theory. It constitutes the first part of a larger research project, which will comprise the whole process of conflict management in intercompetitor cooperation.

Defining the concepts

In order to understand the core of conflicts in cooperation between competitors it is essential to be aware of the meaning of both conflicts and intercompetitor cooperation. This chapter briefly explains these concepts.

The nature of conflict

In order to be able to identify the source of a conflict, it is necessary to know what is meant by a conflict. There are several definitions of a conflict and some of these are presented in figure 1.

Insert figure one about here.

Most of the definitions are based on an intraorganizational perspective, i.e. conflicts within organizations. A specific definition of conflicts from an intercompetitor perspective has been put forward by Easton and Araujo (1992). According to their definition opponent centred strategies characterizes conflicts, while a majority of the other definitions in figure 1 stress incompatibility as a distinctive feature of conflicts. The definition used in this paper is: *A conflict implies incompatibility between two or several organizations concerning something that at least one of the parties cares about. The incompatibility can be expressed by opponent centred strategies.*

It is also worth pointing out that a conflict can be either covert or overt (Deutsch 1973). A conflict is covert if it is perceived by one of the actors within the relationship, without the awareness of the other actor. An overt conflict occurs when all actors involved are aware of the existence of the conflict. A similar reasoning has been put forward by Pondy (1967), who argues that a covert conflict eventually can develop into an overt conflict and that it therefore is important to identify early signs of covert conflicts.

Intercompetitor cooperation

There are many types of cooperation between competitors and a detailed description of different types of cooperation between competitors is presented in figure 2.

Insert figure two about here.

The figure illustrates that cooperation between competitors can be either informal or formal. Informal cooperation does not include any direct investments and therefore it can also be considered as a less risky strategy. Formal cooperation, on the other hand, may involve economic investments and exchange and can therefore be more risky than informal cooperation. The definition of cooperation in this paper is fairly broad, because it includes all possible types of cooperation in accordance with figure 2.

Definitions of a competitor vary depending on the perspective taken. According to an environmental perspective (Carroll and Hannan 1989; Burt 1988) competitors are firms with identical customers, products and markets. This is in contrast with the cognitive perspective (Porac, Thomas, Wilson, Paton and Kanfer 1995; Reger and Huff 1993), which stresses the view of the individuals within the firms. The definition of a competitor in this work is to a large extent influenced by Reger and Huff (1993), as they argue that the boundaries between

different groups of firms are sometimes fuzzy. When competitors cooperate there is a continuous tension between competition and cooperation. A concept used to describe these types of relationships is co-opetition (Nalebuff and Brandenburger 1996). In practice this means that two firms can cooperate within for example purchasing and service, simultaneously as they compete within manufacturing and marketing. In this paper the view of the individuals are considered as important as they are believed to be the best "judges" of the company's relationship to another company. A general assumption in this paper is that competitors to some extent have contradictory interests, but the degree of this contradiction may vary[2].

SOURCES OF CONFLICTS

One of the greatest challenges of conflict management is to identify the source of a conflict. The source of a conflict is seldom one-dimensional, but complex and hard to track. One could speculate that there are as many sources as there are conflicts. The source of a conflict can be deeply rooted in the history of the relationship, or stem from a complex pattern of relationships between individuals, departments and organizations. The complex pattern as a whole may constitute the source of the conflict. The partners can, however, perceive the core differently, which further makes the analysis more difficult.

The source of conflicts in cooperation between competitors can be divided into separate levels. The division applied here is inspired both by organizational theory and relationship marketing. These two perspectives are illustrated in figure 2.

Insert figure 2 about here.

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[2] This can be compared with the five different types of relationships between competitors that are presented by Easton and Araujo (1992). These are cooperation, competition, conflict, collusion and co-existence.

According to organizational theory conflicts can either be assigned to an organizational context or to an individual context (Pondy 1967). Scholars within the field of marketing (Ping and Dwyer 1992; Tähtinen and Halinen-Kaila 1997; Alajoutsijärvi, Möller and Tähtinen 1999) have recently started to explore dissolution of industrial relationships. A potential reason for dissolution of industrial relationships is an unsolved conflict, which indicates that dissolution and conflict can be seen as interrelated phenomena. Tähtinen and Halinen-Kaila (1997) have examined the reasons for dissolution and they have found out that the reasons can stem from the actors involved in the relationship, from the relationship itself (the dyad) or from an external level. Since dissolution and conflict can be interrelated, the division by Tähtinen and Halinen-Kaila (1997) is considered to be appropriate in this paper.

To receive a uniform and broad starting-point when identifying sources of conflict in intercompetitor cooperation, the perspective from organizational theory and the relationship marketing can be combined. They have some clear similarities and therefore a combination seems logical. The organizational level is present in both perspectives, while the individual level is pointed out specifically within organizational theory. Thirdly the relationship related sources could be identified on the operational level. There are also conflicts that originate from the surrounding network and these can be referred to an external level. It is, however, worth mentioning that these levels are not exclusive, which means that the source of a conflict simultaneously can be embedded in several levels.

None of the perspectives illustrated in figure 2 are particularly based on intercompetitor relationships, but they are still considered to be appropriate to use because they provide a broad basis for the division of potential sources of conflicts from an interorganizational setting. The following parts of this paper contain a more detailed discussion about the levels presented in this section, particularly from an intercompetitor standpoint.

Organizational level

General factors that have an impact on the emergence of a conflict has to do with the following: if the partners are independent or dependent, if they have different or similar status, if the relationship is based on high or low level of trust and the parties' previous experience of conflicts (Jameson 1999). Several studies deal with power and conflict. One can expect that power has a different meaning in vertical and in horizontal relationships. The power is expected to be more asymmetrical in vertical relationships, and more symmetrical in horizontal relationships. There are basically two different streams of research within conflicts and power; according to one stream of research conflicts are a result of power, while the other stream suggests that acts of power follows a conflict (Gaski 1984). Bucklin and Sengupta (1993) argue that an unbalanced division of power in an industrial relationship can give rise to conflicts. They further state that an unequal division of power can have a negative impact on the efficiency of the relationship. In a study of the relationship between conflicts and power within distribution channels, Lusch (1976) came to the conclusion that forced methods of power tend to give rise to a greater amount of conflicts. A characteristic of forced methods of power is that one actor in some way or another takes the right to punish the other part.

Proposition 1: Unequal division of power can give rise to conflicts in intercompetitor cooperation.

Intercompetitor cooperation means coalition of different organizational cultures and this may give rise to conflicts. Cooperation usually involves compromises, which indicates that each company most likely has to give up something. An organisation has specific goals, values, norms and traditions that usually are deeply rooted in the operations of a company. A

compromise might make one actor feel neglected or degraded, which in turn can give rise to a situation of conflict. One actor may also perceive that the other actor in some way operates in a manner that is inconsistent with the values of the first actor. If competitors have similar norms and values this may lead to a better understanding of how the other actor behaves. An equal leadership style and organizational culture are considered as important factors in an industrial relationship (Bucklin and Sengupta 1993). Simultaneously as similarity of goals can reduce the amount of conflicts it can also give rise to conflicts especially in intercompetitor cooperation. Similarity of goals may for example mean that the companies are aiming at reaching the same customers with identical offerings. The proposition below indicates that the goals of the cooperating competitors do not necessarily have to be similar, but in concordance so that they can exist in harmony.

Proposition 2: Both identical and diverse goals may be a source of conflict in intercompetitor cooperation.

Another aspect that can constitute a source of conflict in relationships between competitors is role-confusion. Simultaneously as the partners have to preserve their own competitive advantage, they have to share and adapt in the relationship with the other actor. According to Bengtsson and Kock (2000) there is a tension whenever a company concurrently has different conflicting roles in a relationship with another company.

The character of a relationship between two firms can sometimes be difficult to identify. The traditional classification of firms as strictly competitors, suppliers or cooperation-partners has lost some of its relevance in today's society. Firms often concurrently have multiple types of relationships with another firm. To exemplify this, a single firm A competes with firm B on a certain market. Firm B is A's supplier of a certain production item. Simultaneously firm A and B cooperate within research and development of new safety standards for the products.

Each actor can take on a variety of *roles* (customer, supplier, competitor) depending on the perspective taken (Easton and Araujo 1992).

Proposition 3: Contemporary variety of simultaneous roles can lead to conflicts in relationships between competitors.

Individual level

Although we study interorganizational relationships, the individuals cannot be disregarded. It is the individuals that act and react on behalf of the organizations. The individuals stand for the values, norms and traditions behind organizations. It is, however, difficult to analyse the source of a conflict from an individual perspective, because the amount of individuals as well as their involvement in the situation can be hard to identify. It therefore seems to be easier to analyse conflicts on the basis of department. The information from departments is usually not as rich and well grounded as individual perceptions. There is risk that the information in some way or another is too superficial or that it is falsified or misunderstood. Individuals represent cooperation between competing companies. The individual values, attitudes and wishes have an impact on the cooperation as a whole. When companies interact it is the individual who interact, discuss and negotiate in situations of conflict. It is the individuals who have feelings, not the organizations. The individuals represent the values, norms and preferences of the organization (Bisno 1988). On an individual level conflicts can occur as a consequence of incompatible perceptions, attitudes, values and preferences. The personal chemistry may sometimes not fit between individuals and this could result in a conflict (compare with Bisno 1988). In a situation of conflict it is important to identify the individuals that are directly or indirectly involved.

Generally one can distinguish between three types of conflict on an interindividual level: goal-conflicts, judgement conflicts and normative conflicts (Thomas 1992). Goal conflicts arise as a consequence of incompatible goals of the partners. When analysing a conflict it is important to identify on what level the goal divergence occurs. It can be either on individual- or organizational level or both. The core of conflict is considered to be more complex and serious if several individuals simultaneously are involved. Judgement conflicts imply different opinions about empirical and actual aspects. A normative conflict rests upon an actor's evaluation of the other actor's behaviour as well as how the other actor should behave.

Proposition 4: Individual incapability's concerning norms, values and attitudes can give rise to conflicts in intercompetitor cooperation.

A common feature of conflicts is that they involve strong feelings. Feelings such as anxiety, aggression, suffering and satisfaction can all be associated with conflicts. The level of energy is high and people are eager to engage. A danger with conflicts is that strong feelings of anger and hostility easily can be converted into personal hostility. This implies that the original source of conflict is put aside in favour of a situation where individuals only are focusing on blaming each other. It is usually harder to cope with conflicts that are based on personal unwillingness or hostility, than to cope with conflicts that stem from differences in personal opinions and desires. (Bisno 1988) In his description of different sources of conflicts Bisno (1988) mentions biosocial aspects as a source. His argument is based on the belief that frustration and aggressiveness are natural features of human beings, which means that there is a natural breeding ground for conflicts.

In intercompetitor relationships the individuals simultaneously operate within a cooperation- and a competition-based situation. This can, thus, give rise to interindividual conflicts, because a person might have difficulties in finding the balance between cooperation and

competition. At the same time as one is supposed to share and adapt, it can be hard to neglect more negative (competitive) thoughts about the counterpart (compare with Bisno 1988). An interindividual conflict could also lead to conflicts between the organizations that are represented by the individuals.

Proposition 5: Individuals' perception of role-divergence can be a source of conflict in intercompetitor cooperation.

Operational level

According to Schmidt and Kochan (1972) the occurrence of a conflict is dependent on to what extent necessary resources are shared as well as the degree of mutual dependence. A third influential factor is the actors' perceptions of incompatibility concerning goals. These variables are seen as continuous instead of categorical, which means that they range from a high or low level.

Competitors can cooperate within different sectors of activities, for example purchasing, research, manufacturing or marketing. The source of a conflict can likewise be found within different sectors of the activities. The conflict can be rooted in different priorities concerning resources and activities. The operational activities constitute the core of the conflict. At the same time they answer the question of what the conflict is all about. Jameson (1999) calls this dimension "the content dimension". The interests and priorities of the parties have an impact on how an operational based conflict is shaped. It is challenging to identify the source of a conflict on the operational level, because resources and activities are embedded in a larger set of resources and activities. Activities that are in the centre of the cooperation may also have a genuine historical background that further complicates the identification.

Kaufmann (1995) argues that an un-cooperative, opportunistic behaviour usually is more attractive for competitors. He further argues that competitors tend to cooperate within areas of low plasticity and risk. The cooperation is often based on previous positive experiences with the other actor. Empirical studies have shown that competitors usually cooperate within research and development, while they compete concerning distribution and marketing. This indicates cooperation within operational activities that are further away from the customer and competition within areas closer to the customer. (Kaufmann 1995; Bengtsson and Kock 1999; Bengtsson, Kock and Laine 2000) Similar results are presented by Levmore (1998), who writes that competitors are more willing to cooperate concerning capital than labour. He illustrates this with examples from car industry, where competitors avoid cooperation concerning the recruitment of designers and advertising agents, while they are willing to cooperate within purchasing of steel and tires from the same suppliers.

Simultaneously as the similarities between the companies constitute a driving force for cooperation, they may also be the biggest threat towards the cooperation as a whole. Competitors tend to avoid cooperation within areas that constitute an important source for the own core competence, for example marketing or key personnel. Competitors seem to be aware of keeping secret knowledge that contributes to the survival of the company. It is therefore also hard, if not even impossible (at least in the long run) to cooperate within areas that involve sharing of core competences.

When companies simultaneously apply a cooperation based and a competition based strategy there is a risk of conflict if one actor gets access to valuable information that in some way can weaken the other actor's competitiveness within areas that were supposed to be outside the cooperation. This can be called uncontrolled revelation of information (Bresser 1988). When both actors are equally interested in internalising the other actor's knowledge, distrust and

conflicts might disturb the harmony in the relationship, which eventually can lead to dissolution of the cooperation as a whole. (Hamel, Doz and Prahalad 1989)

In relationships between competitors there is always the risk that an actor feels that it's core competences are threatened. There is a constant potential for conflict, since unwillingness to share tends to be a common feature among competitors. Cooperation based on activities further away from the core competences of the companies is expected to be more harmonious and simultaneously involve a fewer amount of conflicts.

Proposition 6: Cooperation between competitors is more prone to conflicts if they include areas of core competence.

External level

If a conflict stems from an external level it means that it is difficult for the actors to influence the situation. The basic argument of the network approach is that no business is an island, which means that the relationship between two companies affects and is affected by the surrounding network of other relationships. A change in one relationship may lead to a change in another relationship and vice versa. (Håkansson and Snehota 1995; Johanson and Mattsson 1993)

Proposition 7: A conflict in an intercompetitor relationship may be caused by a change in another relationship within the industrial network.

According to Bengtsson (1994) competitors often try to avoid cooperation, while companies that are situated after each other in the distribution chain strive to maintain cooperation. A difference between vertical and horizontal cooperation is that vertical cooperation usually is based on free will. Cooperation between competitors can often be seen as forced by some

external factor. This can simultaneously give rise to rivalry and conflicts. It seems like competitors avoid cooperation with each other if they can manage on their own, while cooperation is attractive in a situation of crises, when the knowledge and resources of a competitor is the only way to survive. This can also be referred to as a reactive motive for cooperation. An empirical study by Laine and Åhman (2000) shows that competitors started to cooperate to be able to expand internationally and thereby avoid a national economic recession.

Proposition 8: Forced cooperation can be a source of conflict in intercompetitor cooperation.

CONCLUSIONS

The nature of this paper is multidisciplinary, as it combines ideas from conflict theory and the interaction and network approach. Conflicts are natural elements of industrial relationships, but there are still scarce research within this field both within conflict theory and within the interaction and network approach. The contribution can therefore simultaneously be identified within these two fields of research. Moreover, the paper also contributes to our previous understanding about intercompetitor cooperation.

Conflicts are especially relevant within intercompetitor cooperation and therefore conflict management becomes a central issue. Conflict management starts by identifying the source of the conflict. The aim of the paper is consequently to identify sources of conflict in cooperation between competitors. The sources are divided into four levels: organizational level, individual level, operational level and external level. The main arguments in the paper are presented in eight propositions. A general finding that shines through several of the propositions is that the source of a conflict often in some way or another is a result of the dual

nature of an intercompetitor relationship. The tension between cooperation and competition consequently has a clear impact on conflicts.

The basic idea with this paper was to identify sources of conflict particularly in a setting of intercompetitor (horizontal) cooperation. A possible limitation with the paper is that some propositions, i.e. proposition 1, 4 and 7, also can be viewed as relevant concerning vertical relationships. A suggestion for further research would therefore be to further develop these propositions to be suitable only for intercompetitor cooperation. In future studies these propositions will be empirically tested and later on the whole process of conflict management in intercompetitor cooperation will be analysed.

APPENDIX

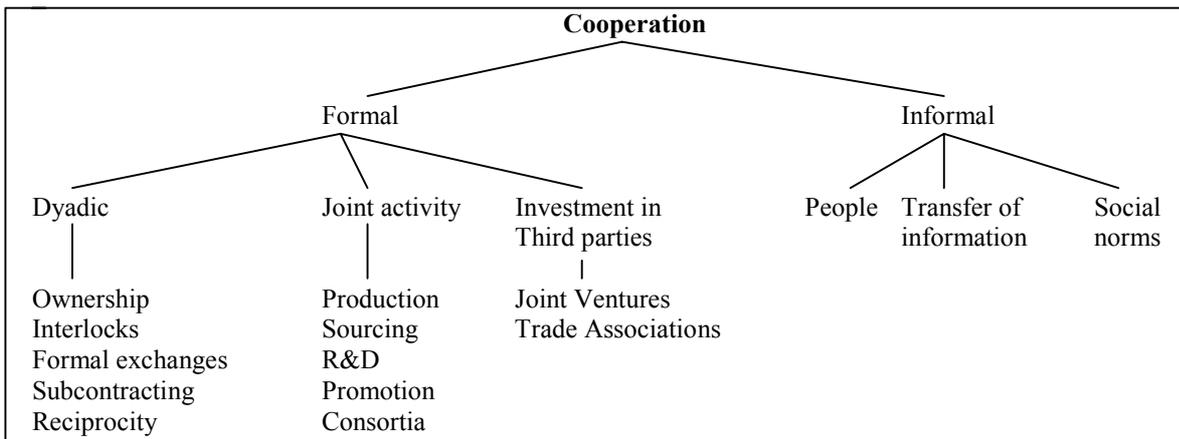| AUTHOR	YEAR	DEFINITION	FOCUS
Deutsch	1973	*"A conflict exists whenever incompatible activities occur."*	intraindividual & inter-group
Filley	1975	*"...incompatible goals and different values, but the differences are frequently perceived rather than real...."*	interindividual
Likert & Likert	1976	*"The active striving for one's own preferred outcome which, if attained, precludes the attainment by others of their own preferred outcome, thereby producing hostility."*	intraorganisational
Bisno	1988	*"Perception of opposition to a person, a group of persons or systems of belief."*	intraorganisational
Easton & Araujo	1992	*"A situation governed by opponent centred strategies."*	intercompetitor
Thomas	1992	*"The process that begins when one actor perceives that the other has negatively affected, or is about to negatively affect, something that he or she cares about."*	intraorganisational
Jameson	1999	*"A conflict occurs whenever interdependent parties perceive incompatible goals."*	intraorganisational
Daft & Noe	2001	*"Perceived incompatibility between two or more values, goals, or needs"*	intraorganisational

Figure 1

Definitions of conflict

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┌─────────────────────────────────────────────────────────────────────────────┐
│                             Cooperation                                       │
│                    ┌────────────────────┴────────────────┐                   │
│                  Formal                                Informal               │
│          ┌─────────┼─────────┐                  ┌────────┼────────┐           │
│       Dyadic   Joint activity  Investment in   People  Transfer of  Social   │
│         │          │           Third parties           information  norms    │
│         │          │               │                                         │
│      Ownership  Production      Joint Ventures                               │
│      Interlocks Sourcing        Trade Associations                           │
│      Formal exchanges R&D                                                     │
│      Subcontracting Promotion                                                │
│      Reciprocity Consortia                                                    │
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Figure 2

Taxonomy of forms of intercompetitor cooperation

Source: Easton and Araujo 1992

1 = organizational level
2 = individual level

1 = external level
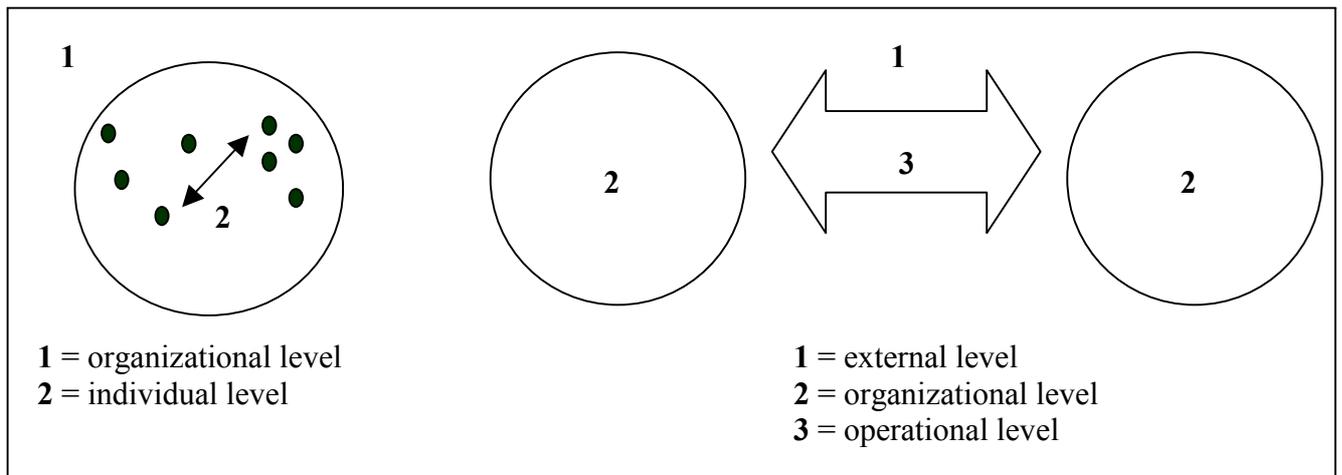2 = organizational level
3 = operational level

Figure 3

Identifying sources of conflict – two classifications

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