

## **Conflict management in intercompetitor cooperation**

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### *Abstract*

A majority of the existing research within the business network approach is focused on cooperation and relationships between buyers and sellers. Competition and cooperation between competitors have not been studied to the same extent, although business markets consist of different types of interorganizational cooperation and competition. There is an inbound tension in cooperative arrangements between competitors. This may lead to conflicts in the cooperation. Therefore conflict management is an important issue in these kinds of business relationships. Conflicts are also scarcely researched within the business network approach and the combination of cooperation between competitors and conflicts is therefore novel.

The purpose of the study is to increase our understanding about conflict management in cooperation between competitors. The focus lies on exploring conflict management from a business network setting. The empirical part of the paper is based on three case studies of groups of cooperating competitors from different industries in Finland. The findings of the study show that several conflicts in intercompetitor cooperation have to do with the risk of losing business to competitors. One solution for managing these kinds of conflicts is to use formal contracts or other formal strategies. According to the findings of the study influence from third parties is important when it comes to conflict management. Several conflicts result in a win-win outcome, with positive implications for all actors involved. The findings moreover indicate that the roles played by the actors are essential when it comes to conflict management in intercompetitor cooperation.

The contribution of the paper is twofold. From an academic perspective the findings of the study contributes to two areas that are scarcely researched within the business network approach: intercompetitor cooperation and conflict. From a managerial perspective the findings of the study show different opportunities for managing conflict when cooperating with competitors.

**Keywords:** Intercompetitor cooperation, conflict management, business networks, case studies

## INTRODUCTION

The complexity of managing cooperation in business networks has been discussed during recent years. It has been suggested that business networks pose managerial challenges for the companies and that there is a need to look closer at them from a conceptual point of view (Möller and Halinen, 1999). Focus has been on the challenges of managing cooperation on different levels and between different types of actors. Most of the existing research within the business network approach is based on companies that are operating on different levels within the same value chain, as a buyer and a supplier. Intercompetitor cooperation, i.e. cooperation between companies occupying the same level within different value chains, has not been studied to the same extent (Bengtsson and Kock, 1999; Easton and Araujo, 1992).

In cooperation change is always present and the challenges give the actors the opportunity to look for new solutions. New areas of cooperation can imply competitive solutions for companies with the possibility to look beyond old patterns. Cooperation partners give access to new resources important for your business like market knowledge, competence, access to products and reputation (Bengtsson and Kock, 1999). New cooperation partners are also part of new networks. Different types of networks may be beneficial for different purposes (Möller and Svahn, 2006). Cooperation can be long-term or on a short-term basis and often be part of a project. The base for cooperation is founded on trust, assumptions and planning (Dwyer, Schurr and Oh, 1987). One of the problems with trust is the asymmetry. The base for trust is based upon the actors past performance as well as their reputation and the base for it is personal friendship and social bonds. Much of the evaluation of the other party in a relationship will be based on the commitment that is shown. In all cooperation some kind of adaptation also takes place and it is an important indicator of commitment in the relationship (Håkansson, 1982).

Within the business network approach Waluszewski and Håkansson (2006) argue that trust and commitment probably are only small issues within a wide spectrum of emotions. They write that conflicting views are more rule than exception. Conflicts can be considered as natural in intercompetitor cooperation. While cooperation with another company produces benefits it can also be tricky for companies that do not want to lose too much autonomy (Fey and Beamish, 2000). This is a reason why conflict is likely in these types of relationships (Van de Ven and Walker, 1984).

As conflicts can be considered as inevitable in intercompetitor cooperation it is important for competitors to find ways of managing conflict as it occurs. An unmanaged or unresolved conflict may in worst case lead to termination of the cooperation, which seldom is considered as beneficial with regards to the investments that have been made in the relationship. There are several different possibilities for conflict management and each technique may be suitable in different conflict situations. It is not only the conflict management technique in itself that is relevant, but also the changes that occurred in the cooperation after the technique has been used.

The purpose of the study is to increase our understanding about conflict management in cooperation between competitors. The focus lies on exploring conflict management from a business network setting. The research questions are as follows: a) how can conflicts be managed in intercompetitor cooperation? And b) what are the implications of different management techniques on the cooperation? The empirical part of the paper is based on three case studies of groups of cooperating competitors within different industries in Finland.

The first chapter includes an introduction to the topic of cooperation between competitors and conflict management. The purpose of the study is also outlined in the same section. Chapter two consists of a description about previous literature generally related to cooperation in business networks, intercompetitor cooperation and conflict management. The chapter ends with a summary

and some comments. The third chapter comprises the methodology of the study, including choices of method and cases. The findings of the study are presented in chapter four. First the findings from each case are presented and analyzed and thereafter follows a comparison between the findings from the different cases. A framework for conflict management in intercompetitor cooperation is included in this chapter. Chapter five is titled “discussion and conclusions” and it contains a presentation of the main findings of the study together with a discussion about the limitations of the study as well as suggestions for future research.

## **INTERCOMPETITOR COOPERATION AND CONFLICT MANAGEMENT**

### *Cooperation in business networks*

In today's business world the importance of cooperation becomes more and more important. The competition increases and companies need to look for new ways in order to find solutions for current problems. One of the challenges in business is to manage and exist successfully in the business networks that you are a part of. Networks often present new alternatives, because of the opportunities of close and intense contact between network actors. Working in a network enables companies to focus on their core competence and divide the work among the actors (Gadde and Håkansson, 1993). Within the network each actor needs to focus on developing and keeping their strength and competitive advantage, and identifying new ways of developing the business. Considering new ways and new cooperation partners can be one way of improving your position in the network.

Cooperation in business networks is especially in focus within the interaction model presented by Håkansson (1982). Examples of elements that are included in the model are: the environment, the atmosphere as well as different kinds of exchanges. The nature of industrial relationships is also studied within the business network approach (e.g. Gadde and Håkansson, 1992; Håkansson and Snehota, 1995). In all these studies, as well as generally within IMP-research, conflict and competition are not examined to a large degree.

Most of the existing research within these fields is based on companies that are operating on different levels within the same value chain, as a buyer and a supplier. Intercompetitor cooperation, i.e. cooperation between companies occupying the same level within different value chains, has not been studied to the same extent (Bengtsson and Kock, 1999; Easton and Araujo, 1992; Hu and Korneliussen, 1997; Johnsen and Johnsen, 1998; Reve, 1992).

“Some of the early writings using the interaction approach seem to have over-emphasised the closeness and co-operative aspects of business relationships.” (Ford, 1998:8). Holmlund-Rytkönen and Strandvik (2003; 2005) also call for more research within the field of issues that may decrease the strength of business relationships. Although the overall nature of an industrial relationship is built on cooperation, commitment and trust, there are still continuous situation-based changes occurring within the relationship. Industrial relationships are not static, but dynamic, and they contain situations of both harmony and conflict. This dual nature of an industrial relationship has been recognized by a few scholars applying the business network approach and some of these are: Axelsson 1995; Ford, Håkansson and Johanson 1986; Gadde and Håkansson 1993; Håkansson and Snehota 1995, but there are scarce studies within this field that thoroughly explore the phenomenon of conflict.

This study consequently contributes to two scarcely researched topics within IMP-research: conflicts and intercompetitor cooperation. This research gap is however of interest, because of the increasing networking activities in our society. Cooperation partners phase continuous challenges in their activities and different kind of networks demand different ways of management (Möller and Svahn, 2006).

In business networks there exists a certain degree of competition between the companies. Each actor has to defend its place inside the business network as well as on the market. In a network, companies also exist, side by side. Two companies can sell to the same buyer in a business network. They can compete as they compete for a share of the same market. In another situation, they can cooperate because of scarce resources. They can borrow each other's tools for the manufacturing of a product for the same focal buyer. A counterpart in one business situation can very well be a cooperation partner in another situation. As Gadde and Håkansson (1993) argue, cooperation, conflict and competition can exist – side by side. The different suppliers compete inside a network, but they can also cooperate in another situation. A counterpart can be a competitor as well as a customer. To be able to understand the whole business network, not only does one have to look at the relations between the focal company and its suppliers, but also the relations between the different suppliers. As long as different parties exist, there will be different opinions concerning goals and how to divide resources.

### *Intercompetitor cooperation*

Cooperation with customers and suppliers can be viewed as logical and natural based on the principles of the value chain (Porter, 1985). For several reasons cooperation between competitors is rarer. Traditionally competitors are viewed as rivals that are engaged in win-lose relationships. The gains of one party automatically mean the loss for the other. Competitors usually strive at conquering or defeating each other, which naturally makes the basis of a relationship built on cooperation more difficult. Cooperative arrangements between competitors are moreover legally restricted, with the general aim of preserving a solid market economy with open competition and alternative offerings. The basic idea is to protect the market from too powerful constellations between competitors, which will more or less rule the terms on the market.

Despite expected rivalry and legal restrictions, we are able to recognize an increasing amount of cooperative arrangements between competitors, and this tendency is still expected to continue in the future (Contractor and Lorange, 2002).

Bengtsson and Kock (1999) claim that cooperative arrangements between buyers and sellers on a vertical level are easier to grasp than intercompetitor cooperation because the former are built on the distribution of activities and resources among actors in a supply chain. According to Bengtsson and Kock (1999) intercompetitor cooperation is more informal and thereby more invisible. They further agree with Easton and Araujo (1992) who argue that intercompetitor cooperation is mainly built on “soft” exchanges such as information and social exchanges, whereas buyer-seller relationships usually involve economic exchange. There are also studies (e. g. Bengtsson and Kock, 1999) indicating a difference between buyer-seller cooperation and intercompetitor cooperation when it comes to general motives for cooperation. Vertical cooperation is usually more proactive and based on voluntariness, while competitors are often more or less forced to interact, thereby leading to a reactive motive for intercompetitor cooperation.

Intercompetitor cooperation can be described by Alderson's (1958) ideas of an underlying tension between the desire for monostasy and systasy, which means a simultaneous desire to remain independent and free from interference from others (monostasy) and a dependence on others to achieve common goals (systasy). In practice this could mean that competitors are more or less forced to cooperate with each other for example because of limited growth of the business, at the same time being afraid of revealing core competences to each other. Fey and Beamish (2000) recognize that interorganizational relationships imply conflicting desires of the firms for cooperation and autonomy. While cooperation with another company produces benefits it can also be tricky for companies that

do not want to lose too much autonomy. This is a reason why conflict is likely in these types of relationships (Van de Ven and Walker, 1984). Simmel (1955) presents a similar idea as he argues that the tension between intra-group antagonism and group continuation will lead to continued conflict. It is therefore important to be able to manage conflicts in intercompetitor cooperation.

### *Conflict management*

According to Rahim (1986) “conflict” has no single meaning and the confusion has mainly been created by scholars in different disciplines who study conflict from their own perspective. A thorough discussion about definitions of conflict is presented by Schmidt and Kochan (1972), who criticize earlier definitions of conflict within organization studies for being too value-laden, too broad and that sometimes there is a mixture of definitions concerning competition and conflict. Hunger and Stern (1976) defines a conflict as follows: “An opponent-centred episode or series of episodes based upon incompatibility of goals, aims or values.” In this study a conflict is defined in accordance with Deutsch (1973): “A conflict exists whenever incompatible activities occur.” Although this definition is fairly broad it encapsulates the notion of incompatibility, which we consider as central concerning conflicts. It should still be noticed that conflict is different from competition. We view competition as something that is more integrated in the strategy of a firm and it is usually of a long-term nature. Conflicts are here seen as situations of conflicts, which mean that they are usually of a more short-term nature. “Conflict is a way of life in relationships that can be explicitly and implicitly expressed, but it is the way in which we handle or manage these conflicts that determines the quality of our relationships” (Tatum and Eberlin, 2006).

A conflict is often viewed as a process (Goldman, 1966; Thomas, 1992; Pondy 1967) that evolve through different phases. One of the most known process models of conflict is Pondy’s (1967) model that consist of the following stages: 1) latent conflict, 2) perceived conflict, 3) felt conflict, 4) manifest conflict and 5) conflict aftermath. Latent conflict represents underlying sources of organizational conflict and it is divided into three basic types: competition for scarce resources, drives for autonomy and divergence of subunit goals. Pondy (1967) also stresses role conflicts as important types of latent conflict. Latent conflict is naturally embedded in every relationship and it can be considered as a “silent” or invisible factor that either remains as such or is perceived by the actors. The second stage is perceived conflict and it can be interpreted as a situation that at least one of the parties is aware of. The third stage in a conflict episode is felt conflict, which implies a personalization of the conflict. A conflict may for example cause feelings such as anxiety or fear. Manifest conflict is the fourth stage in a conflict episode and it involves conflictful behavior, of which the most obvious act is open aggression. Manifest conflict exists when an actor consciously, but not necessarily deliberately, blocks another actor’s goal achievement. Conflict aftermath can briefly be described as the situation when the conflict is either resolved to the satisfaction of both actors or a situation when the conflict is suppressed, which means that the latent factors behind the conflict may be activated again. From a process perspective on conflicts, it is possible to argue that in order to be able to manage conflicts, we need to have a broader understanding about what the conflict is all about, i.e. what has occurred previously.

According to Rahim (2000:5) conflict management “involves designing effective strategies to minimize the dysfunctions of conflict and maximize the constructive functions of conflict in order to enhance learning and effectiveness in an organization”. Jameson (1999:270) defines conflict management strategies as “...any action taken by a disputant or a third-party to try to manage or resolve a conflict...” In accordance with Jameson’s view, strategies include specific mechanisms for managing a conflict, such as negotiation, mediation and arbitration, as well as actions such as

seeking advice and coalition building. Moreover Jameson distinguishes between formal and informal conflict mechanisms. Formal conflict mechanisms are governed by official company policies and procedures, while informal mechanisms represent the actions taken by disputing parties to manage the conflict themselves, or by third parties who try to help manage a conflict. Jameson's study is based on an intraorganizational perspective. Magrath and Hardy (1989) have found that manufacturers who develop substantial communication programs for the trade will reduce the potential for conflict with their resellers. Examples of such programs are: advisory councils, distributor relations departments, joint participation in conferences, exchange of market data and joint government lobbying work.

The notion of formal and informal mechanisms in relation to conflicts has also been applied within the business network approach. According to Vaaland and Håkansson (2003) the governance mechanism construct is applied for several purposes within interorganizational phenomena, for example when discussing how to manage business relations. From an interorganizational perspective Vaaland and Håkansson (2003) distinguish between formal and informal governance mechanisms. Formal governance mechanisms consist of authority and incentive mechanisms, while informal governance mechanisms are considered to be based on trust. According to Kemp and Ghauri (1999) trust and norms, which is a result of long-term development, reduce the potential for conflict. From a governance mechanism perspective (Williamsson, 1985, 1996) one can distinguish between two types of conflict management: formal and informal. Formal conflict management mechanisms are related to compliance, awareness, comprehensive planning and structure. Informal conflict management mechanisms are related to trust, flexibility, lack of planning and process (Vaaland and Håkansson, 2003). The findings of Vaaland and Håkansson (2003) show that informal mechanisms are important as far as interorganizational conflicts are concerned.

Thomas (1976) as well as Ruble and Thomas (1976) divides conflict management styles into a two-dimensional model of conflict behavior. The model distinguishes between two analytically independent dimensions of behavior in conflict situations: 1) assertiveness, which is defined as an actor's attempt to satisfy its own needs, and 2) cooperativeness, which is defined as an actor's attempts to satisfy the needs of the other actor/actors. These two dimensions are used to identify five general approaches (or styles) to conflict management: competing (assertive, uncooperative), avoiding (unassertive, uncooperative), accommodating (unassertive, cooperative), collaborating (assertive, cooperative) and compromising (intermediate in both assertiveness and cooperation). Although this model has been used for identifying conflict management styles on an individual level, we would like to argue that it could also be relevant when studying conflict management in business networks.

In order to be able to successfully manage a conflict we need to be aware of what the conflict is all about. Litterer (1966), Schmidt (1974) as well as Eliashberg and Michie (1984) put forward similar thoughts. A conflict consists of a number of elements such as the cause of the conflict, the topic of the conflict, the importance of the conflict, the frequency of the conflict and the outcome of the conflict (e.g. Deutsch, 1973). In this study the content, management and outcome of conflict are identified and analyzed as a whole. The content of the conflict can be seen as the cause and/or topic of the conflict. The management of the conflict is related to the concrete techniques used for managing a conflict either before the conflict has occurred, i.e. as a preventive strategy, or as the conflict is apparent. The outcome of the conflict represents the result of the situation and the management of the conflict.

## *Summary*

From this section it becomes apparent that companies are engaged in several types of business relationships. One type of business relationships that has not been thoroughly studied within the business network approach is intercompetitor cooperation. Intercompetitor cooperation is challenging because the companies engaged in these kinds of relationships are both cooperating and competing. The companies may compete on a certain market simultaneously as they are cooperating within purchasing or industry development. It is challenging to find the right balance between cooperation and competition and therefore conflicts may arise. In order to be able to preserve the cooperation it is important to be able to manage conflicts in intercompetitor cooperation. Conflicts represent an area, which also is scarcely researched within the business network approach. Conflict management and different opportunities for managing conflict has been put forward by Thomas (1976) and Williamsson (1985, 1996). Based on Thomas (1976) conflict management can be analyzed through the following spectrums: degree of assertiveness and degree of cooperativeness. Williamsson (1985, 1996) introduce formal and informal governance mechanisms as means for managing in relationships. These two schools of conflict management will be applied in this study when identifying and analyzing conflict management in intercompetitor cooperation. In this study conflict management is seen as a process consisting of the content of the conflict, the management of the conflict and the outcome of the conflict.

## **METHODOLOGY**

According to Miles and Huberman (1994), qualitative data provide well-founded and rich descriptions and explanations. They continue by arguing that qualitative data may provide the researcher with interesting previously unexpected findings, which may lead to new theoretical insights. The focus is also on the understanding of the phenomenon (Ghauri, Grønhaug and Kristianslund (1995). Walker (1985) writes that qualitative research is suitable when the topic studied can be regarded as sensitive. A qualitative study was considered as suitable for this study because the topic is relatively unexamined, at least within business-to-business settings. Moreover, the topic of conflict can be regarded as a sensitive topic.

Easton (1995) writes that a majority of the studies within the business network approach consciously or unconsciously are based on case studies. Halinen and Törnroos (2005) argue that case studies are the most suitable research strategy for business networks. One reason for this is that research questions related to business networks are often formulated as "why?" and "how?" which are questions that are naturally coupled with case research (Yin, 1989). Gummesson (2003) argues that the sample in a case study should be both purposeful and theoretical. Purposeful sampling means that the researcher purposefully chooses cases that are information rich concerning the phenomenon under investigation (Patton, 1990). This means that researchers should look for the cases that provide a maximum of information. The cases used in this study have been purposefully selected, based on the expected amount of information that could be received from each case.

Relationships as such can be considered as a sensitive area, but especially when studying crises, conflicts, failures and dissolutions of business relationships, we need to develop an appropriate research technique for approaching the phenomenon. Sensitive topics usually involve some kind of negative feelings, behavior or attitude, which in a research situation may cause anxiety, resistance and unwillingness to share information. Lee and Renzetti (1993:5) define a sensitive topic as being "... one that potentially poses for those involved a substantial threat, the emergence of which renders problematic for the researcher and/or the researched the collection, holding, and/or dissemination of research data." According to Renzetti and Lee (1993) possible problems, for example methodological and technical, need to be considered at every stage of research on a sensitive topic. Sensitive topics therefore need sensitive methods.

There are different types of interviews, for example personal interviews, group interviews and telephone interviews. Within business and management research personal interviews are one of the most common methods for data generation (Remenyi et al., 1998). The nature of an interview may vary from totally structured to totally unstructured. Yin (1989) writes that case study interviews are most often of an “open-ended nature” (p. 89), meaning that the researcher can ask the informants for example about their opinions of events. An advantage with an interview is that it enables the researcher to receive a large amount of data within a short period of time. Furthermore there is a possibility of receiving clarifications by asking follow-up questions. (Marshall and Rossman, 1989; Patton 1990) Some advantages with personal interviews are the possibility of receiving depth and detailed information and the potential for the interviewer to influence the situation. This can for example be done by asking clarifying questions.

The empirical part of the study is based on three case studies of cooperation between competitors. The first case study consists of four cooperating companies within the transport industry in Finland. The second case comprises 10 companies and one industry expert within the natural products industry. The third study was carried out as a study of 10 cooperating companies in a supply network of both competing and not competing suppliers in the metal industry. Interviews (personal and telephone) have been applied as a research method. In Cases 1 and 2 the managing director was interviewed, because he or she is expected to have the best knowledge about the company's relationship with its competitors. In Case 3 both managing directors and other persons involved in the cooperation with competitors were interviewed in order to get different perspectives on the development of the process. Several companies were also interviewed in the cases in order to receive several perspectives on the same focus areas. Documents, memos and meeting protocols were also used in order to create a base of knowledge of the different stages of the cooperation processes.

#### *Description of the cases*

*Case 1* consists of four companies belonging to the transportation industry. The companies manufacture chassis and boxes for lorries and trailers. All the companies can be categorized as small sized. Two of the companies belong to the same mother company and the other companies are family owned and has been cooperating for several years. The cooperation between all four companies is generally directed towards the aim of eliminating competition between the companies. A third party, i.e. a representative from the Finnish Employment and Economic Development Centre was present at the time of the initiation of the cooperation. This person also participates in the meetings between the companies. At the time of this study some of the companies are competing with the same products on the same market, but this is expected to end in the future. The companies use the same sales network on the Swedish market where they offer different types of products. The companies also cooperate by acting as suppliers and buyers in relation to each other. Further to the above-mentioned exchanges between the companies, they also meet up to four/five times a year in order to discuss issues of mutual interest.

The relationships and interdependencies between the companies are complex. The companies are connected both vertically and horizontally, which means that they simultaneously are acting as buyers and sellers and competitors in relation to each other. In this study a cognitive perspective has been used as a basis for defining companies as competitors (Dunn and Ginsberg, 1986; Porac, Thomas, Wilson, Paton and Kanfer, 1995). According to this perspective the companies are defined as competitors if the managers, or in this case, the respondents, perceive another company as a competitor. Porac, Thomas, Wilson, Paton and Kanfer (1995) stress the view of the “managerial mind”, and argue that the managers within an organization are the most appropriate judges when it comes to defining the competitors of the company. Case 1 consequently consists of a group of competing and cooperating competitors.

*Case 2* consists of 10 companies and an industry expert from the natural products industry. The natural products industry is related to naturally or nowadays often synthetic products such as health- and nutrition supplements, food and cosmetics. Some of the companies have a long tradition of operations within the business of natural products, while others were established in the 1990s. A factor that unites the companies is that they are all small and their growth has been more or less stable during the latest years. The cooperation between the companies is mostly on an industrial level, either in connection with the Wholesalers' Association or the Negotiation Council. Five of the companies are members of the Wholesalers' Association and seven belong to the Negotiation Council. Most of the cooperation between the companies involves industry development and more particularly the use of claims in marketing and contact with the authorities. During the time of the empirical study, the industry was at some kind of breaking point. Activities related to marketing were central both within the cooperation and competition between the companies. At the time of the study some companies used stronger claims in their marketing than other companies with similar products. In the near future the companies expected marketing regulations from the EU. On a more informal basis, some of the managing directors discussed matters related to shopkeepers and taxes etc. Some of the companies have manufactured or were manufacturing products for another of the companies.

*Case 3* consists of a group of suppliers cooperating in a business network. The suppliers all deliver to the same buyer and in the group exists both competitors and not competing suppliers. The cooperating suppliers have one thing in common; that is to strive for improved quality in their production process. In order to improve the production process the suppliers started together with outside support a calibration laboratory. The calibration service exists in other parts of the country, but using these services takes a lot of time, because of the amount of days it takes to ship the tools and to get them back. It also costs a lot of money to ship the tools to a calibration laboratory situated further away, and because of this some of the suppliers have had to buy an extra set of tools. So, there were several pros with starting up a laboratory situated closer to the companies. The calibration process is a central issue in the production. With the help of calibration it is possible to ensure that the dimensional specifications given by the buyer are met. It is crucial that the suppliers check their machine tools with accurate measuring devices. In the calibration process this is done when machine tools are checked against reference material in a controlled laboratory environment. An important part of the calibration process is that factors like humidity and temperature is controlled in the premises where the calibration takes place. It is also important that the calibration is a continuous process that is repeated as long as the tools are used in the production process. All control and measuring equipment must be calibrated continuously and the intervals chosen in a way that ensures measuring precision. (9000 pieces...) The parties that started the project together were the local business association, were several of the cooperating suppliers were part of. Two schools were also part of it; a vocational school and a local polytechnic. The laboratory shares were sold to the founding actors and the focal buyer also bought a share in the end. The focal buyer was one owner among many. After the start-up stage the shares were also sold to other outside actors, aside from the initiators.

In a project like this there existed a risk of sharing company secrets to outside actors, like competitors. For example, what kind of tools that was used in the production. This information tells the competitors about what kind of production process the company has. It also gives information about on which level the production is. This information is valuable in any intercompetitor situation. A central question was how the secrets could be protected at the same time as the companies continue with a project with many benefits for the cooperating companies.

## **FINDINGS**

This chapter is structured into two parts. In the first part the content, management and outcomes of conflicts are described. This section ends with a comparison of the cases. The second section

comprises of an analysis of the findings of the study. In this section the major findings of this study are outlined and analyzed.

*Content, management and outcomes of conflicts*

It has previously been stated that it is not enough only to understand conflict management techniques. We should also recognize issues such as the content of the conflict as well as the outcome or result of applying a certain management technique. Table 1 illustrates the findings of this study related to content, management and outcome of conflicts. The table also presents the cases coupled with certain conflicts.

<b>CASE</b>	<b>CONTENT</b>	<b>MANAGEMENT</b>	<b>OUTCOME</b>
1	Division within cooperation	Formal - Oral contract - Collaborating	Win-win - Specialization
1	Break of agreement	Informal - In-turn - Compromising	Win-win - Fairness
2	Copying	Informal - Communication Formal - Court	Win-win - Pay-back - Fairness
2	Sales arguments	Formal - Communication - Collaboration	Win-loose - Bad image
3	Risk of loosing business	Informal - Competing  Formal - Third party - Preventive - Avoidance	Win-loose - Weakened cooperation Win-win - Neutralization
3	Roles	Formal - Collaborating	Win-win - Colleagues

Table 1: Content, management and outcomes of conflict in intercompetitor cooperation

Case 1

The findings of the study show that many of the conflicts in Case 1 are related to *the division of the cooperation between the companies*. The ultimate aim of the cooperation is to eliminate the

competitive dimension by each company focusing on a certain product niche. Several times it was difficult for a company to give up manufacturing a product, which the company had been manufacturing for several years. Therefore conflicts arose. One of the informants said as follows:

*Why will we not manufacture what we have manufactured ourselves? When we started to cooperate we agreed that we would not manufacture any... and company x would not manufacture what we do... One did not really dare to believe that it is like this... can I give this up and do I get something in return.*

The management of these kinds of conflict was based on *formal oral agreements* concerning what products each company should manufacture. The agreements have been planned and are part of a long-term strategy for all companies involved. In accordance with Thomas (1976) the conflict behavior has been of a *collaborative* nature. This can be explained by the fact that the companies have applied both a cooperative and assertive conflict handling style. In practice the companies have focused on managing this conflict by simultaneously thinking about what is best for one's own company and what is best for the other companies. The outcome of these kinds of conflicts has been a *specialization* concerning the products of the companies. The general idea behind this kind of arrangement was that each company should focus on manufacturing what it is best at doing. If a customer asks one of the companies for a certain kind of product that is not manufactured by the company in focus, the company was expected to ask the customer to contact another of the companies that manufacture the particular product. The outcome can therefore be seen as a *win-win* situation.

Although agreements resulted in a specialization and division of product offerings, it still occurred that some company sometimes served customers with products that they were not supposed to be manufacturing and selling according to agreement. One of the informants said:

*...if you have some kind of basic formal or informal agreement and after all people... You perceive that the others break it (agreement), now they are not selling in accordance with the way we agreed, or now they are selling a product on which we did not agree...*

These kinds of conflict were *informally* managed through *taking turn* in deliveries. This can be exemplified by one situation in which one year a company sold products that they were not supposed to do, and then, the following year the company that was supposed to sell these kinds of products sold them to the same customer. Based on Thomas (1976) it can be argued that the conflict handling style in these situations has been a style of *compromising*. In practice the conflict management style was based on the idea that if one company gained at the expenses of another, next time it was the other company's time to gain. The targeted outcome is *fairness* and a *win-win* situation for all actors.

## Case 2

A typical type of conflict within the industry of natural products is related to *copying* of each others' products, advertisements and claims on packages. This type of conflict is frequent and it is also often considered as important since a firm may have invested a lot of resources (both financial and time-based) in product development and then another company appears on the market with an identical product. An informant says as follows:

*Of course you also skim the cream off, but as soon as you in a way have taken the cream you know that there is still the rest left, which you would also like to have, but then you have lots with you and so to say share that cake.*

These kinds of conflicts are often managed by direct *communication* between the actors. In practice the actor that has been copied for example phones the other actor and expresses the feelings of anger and disappointment. This direct communication is seen as an *informal* way of managing conflicts. It

is not a planned or strategic action as such; it is more of a spontaneous act that takes place in anger and disappointment. In other situations these kinds of conflicts are managed *in court*. In these situations one of the actors often has special legitimate rights to sell a certain product. The task of the court is to reach justice and *fairness* and to give a judgment concerning who is right. These types of conflicts seem to be never-ending within the industry of natural products. One of the informants says that sometimes you are the one that is getting copied and some other time you are copying another company. If you are copied, you more or less get a legitimate right for *pay-back*, i.e. to copy. From a short time perspective the outcome of these kinds of conflicts may be positive for one actor and negative for another/others. On the other hand constant copying leads to better product development and better quality of the products is beneficial for all actors involved, also consumers and society in general. In the long run the outcome of these kinds of conflicts can be considered as *win-win*.

Other types of conflict situations that appear to be frequent within this case are related to the claims used in marketing, or in other words the *sales arguments* used. Sometimes companies tend to promise too much in their advertisements, for example by telling about product advantages that are hard to prove. These kinds of conflict situations are most often managed by direct *communication* between the involved actors. In practice such conflicts may be handled by one of the actors phoning another actor that according to the first actor has promised too much in their marketing. Direct communication is here viewed as an *informal* way of handling conflicts. It is a matter of fact that within the industry of natural products, *bad image* for one company may easily lead to bad image for the whole business. In these kinds of situations the outcome is of a *win-loose* nature. The company that promises too much probably gains by selling more, while the company that is stricter concerning the claims it uses perhaps sells less of the particular product. In order to manage these kinds of conflicts the companies involved in the Negotiations' Council aim at developing common principles for advertisement claims for the whole business. The conflict management strategy is therefore *collaboration* (Thomas, 1976). The management strategy is based on finding a solution that would be beneficial for all actors, including customers and the society in general. The problem is that of control, since there is no separate unit controlling the natural products industry in Finland. The purpose of the collaborative conflict handling strategy is to reach a win-win outcome in the future.

### Case 3

According to the findings of the study one of the major issues of participating in the cooperation was *a fear of losing business* to competitors. This could also be viewed as a strong potential for conflict. In order to prevent these kinds of conflicts a *third party* was involved in the cooperation. The third party assisted in administrating and coordinating the cooperation between the competitors. One of the most central tasks of the third party is to preserve company secrets such as which tools are used in the production, the customers of the companies. The use of third parties can be considered as a formal and *avoidance* strategy for conflict management and a *neutralization* of a potential conflict situation. The outcome of avoiding these kinds of conflict is related to *neutrality* in order to achieve a win-win situation.

It is possible to say that the companies in Case 3 apply different *roles* depending on the perspective taken. Outside the cooperation the companies are acting as pure competitors in relation to each other. Within the cooperation the companies are *colleagues* or partners aiming at common benefits such as improved quality. This can be considered as a *formal* part of the strategy with the aim of achieving a *win-win* outcome.

Another perspective related to the fear of losing business is that companies sometimes aimed at preserving their own business. This was done by avoiding giving business to competitors and instead they favored a supplier that was not in the position to compete with the company in question. Based on Thomas (1976) this can be viewed as a *competitive* strategy for managing conflicts. This is a *strategy* with a *win-loose* outcome.

In intercompetitor relations the information flow is important to control. In this case this could be achieved in a good way. The group of companies in the start-up phase consisted of competitors, but because of the arrangements they could cooperate together around a good project, which benefitted everyone in their quality work. The suppliers which were competitors could use the laboratory without the competitors getting access to secret information. When they took their tools to the laboratory for calibration they did not have to show the tools to any outsiders. The tools were left in a locked box, and they were then taken care of by the personnel. All documentation was kept secret and away from others using the same services. This was of vital importance in order to keep information away from other customers and competitors. Having a third and impartial actor taking care of these services made it possible to protect information from being used in the wrong way.

In their everyday business life the companies were competitors and the trust issue was based on each earlier episode in the interaction. The episodes were shaped by the informal and formal frames of interaction, but in this case the activities and cooperation was formal. The cooperation was within a group of other companies and each step in the process was open, documented and common. When the laboratory was founded and ready the rest of the activities continued to take place behind closed doors. Outside, in the market the competition was *informal*. The relationship was a *win-loose relationship*. Winning one deal meant that the other company lost it and their cooperation was weakened. In case 3 we have a *third* party acting as a *neutral* administrator. The arrangements prevented conflicts and these could hereby be avoided. In accordance with Thomas (1976) the conflict behavior has been of a *collaborative* nature and the result is a *win-win* situation for all parties.

#### Case comparison

Generally it is possible to say that the cases in this study represent *different industries* and different types of cooperation between competitors. Cases 1 and 3 belong to the metal industry, while Case 2 exists within a business that is related to the health of human beings. It is possible to recognize different types of cooperation between Cases 1 and 3 on one hand and Case 2 on the other. The cooperation between the companies in Case 2 seems to be more difficult than in Cases 1 and 3. Within the industry of natural products it is more or less a tradition to copy competitor's products and/or advertisements. Therefore it could also be hard to trust each other in cooperation. Bad image for one company could easily destroy the business for all companies within the business. Cases 1 and 3 are characterized by more committed, tight cooperation by focusing on common benefits. In these cases the companies have more clearly defined roles within the cooperation, which could make it easier to cooperate.

Another issue of importance is the *incentive* for cooperation. According to Bengtsson and Kock (1999) intercompetitor cooperation is often more or less forced. This is in contrast with Cases 1 and 3 that are based on voluntary cooperation between the competitors. The companies have proactively initiated the cooperation in order to reach common goals. Concerning Case 2 the government has asked the companies to cooperate through the Negotiation Council, which means that the cooperation here to some extent is of a more forced and reactive nature. The actors in Cases 1 and 3 seem to be more willing to solve and/or prepare for conflicts in comparison with Case 2. Based on the findings from this study several of the conflicts in Case 1 were considered as unimportant and few situations led to direct confrontation. Case 3 provides a good example of how competitors in advance may prepare for conflict management before even starting to cooperate. In contrast several of the companies in Case 2 are working individualistically instead of thinking about what is best for the business as a whole. Conflicts are often handled through informal direct communication and confrontation. Influence from government has been important for joint problem solving related to the claims used in marketing.

In all three cases *third parties* play a role in conflict management. In Cases 1 and 3 third parties have an administrative task of coordinating cooperation. In Cases 1 and 3 the third party acted as a neutral actor. The cooperation between the four competitors in Case 1 was initiated with the assistance of a person from an Employment and Economic Development Centre. This person was also present during the meeting between the companies. In Case 3 the third party consists of the local business association. In a way this can be seen as a preventive conflict management strategy. Concerning Case 2, the competitors were requested to cooperate by the government. During the time of the study the industry has turned out somewhat “wild”, with a lot of companies offering questionable products with sometimes too much promising claims. The government wants this to stop and therefore it has asked the companies within the industry to cooperate. Because of the fact that the government stood behind the cooperation it was more interesting for the competitors to cooperate and share thoughts with each other in order to reach common principles for the business. Also in this case the presence of a third party could be seen as some kind of preventive aspect for conflicts. In the long run the outcome should be a win-win situation.

In all cases companies’ applied different *roles* during different circumstances. In Case 1 the companies aimed at a permanent change in their respective roles from being competitors to being collaboration partners. The companies in Case 2 applied both the roles of competitors and collaborators. They were cooperating concerning the development of the industry in general, while they simultaneously were competing for the same customers on the same market. Roles are also central in Case 3 where the companies simultaneously are acting as competitors and collaborative partners. Competition takes place outside the focal cooperation and within the cooperation the companies are colleagues. Here the role of the third party is central, because the third party assists in preserving company secrets and a good atmosphere. In Case 3 the third party is kind of a role-manager influencing the cooperative/competitive roles between the companies.

Based on the findings of this study it is possible to distinguish between preventive conflict management and conflict management as the conflict situation is apparent. A distinction between Cases 1 and 2 on one hand and Case 3 on the other is that conflict management is of a more preventive nature in Case 3. The findings from Cases 1 and 2 are based on conflicts that have occurred.

*To sum up* it is possible to say that there are several similarities concerning the content, management and outcomes of conflict in Cases 1 and 3. Case 2 is of another kind. It could perhaps be argued that Case 2 is more competitive than cooperative, while Cases 1 and 3 are more cooperative. Based on the findings of this study some issues related to conflict management are relevant for all cases. These are related to third parties and roles. In all cases third parties have been influential when it comes to the cooperation between the competitors and to managing conflicts. According to the findings of the study it is also possible to say that in intercompetitor cooperation the roles of the actors need to develop and change as a consequence of the cooperation.

### *Analysis*

Based on the findings of this study it is possible to identify some central issues concerning conflict management in intercompetitor cooperation. This section is summarized in Figure 1, where the central issues are presented.

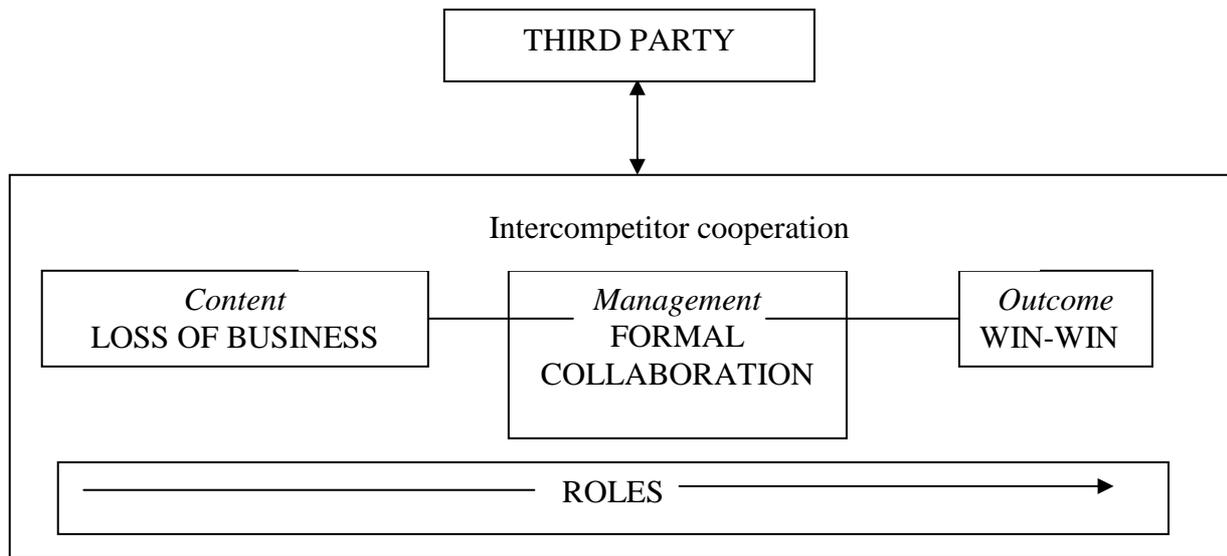


Figure 1: Conflict management in intercompetitor cooperation

The *content* of conflicts is often related to the need of preserving the core competence of one's own business and a fear of losing business to competitors. It is consequently a critical task to find the right balance between giving and taking in intercompetitor cooperation. Loss of business can be related to the division of the tasks within the cooperation. It could also be related to copying of products. Basically it has to do with one company gaining more than another. This can be considered as typical for intercompetitor cooperation, because by definition companies operate on similar markets with similar products. The gain of one company normally means a loss for another company.

According to the findings of this study both *formal* and informal governance techniques have been used when it comes to managing the conflicts. On one hand it could be viewed as risky to formalize cooperation between competitors, because of the fact that it is restricted in law. The findings of this study indicate that formal ways of handling conflicts concerning intercompetitor cooperation can be beneficial and lead to a win-win outcome for the involved actors. Several of the conflicts presented in this study has been managed through collaboration (Thomas, 1976), which means both high assertiveness, or the consideration of ones' own interests, and high cooperativeness, which means a concern for others' needs. The findings of this study are somewhat different from the findings by Vaaland and Håkansson (2003), who find that informal governance mechanisms are central issues of conflicts in interorganizational cooperation. However, their study is based on buyer-seller relationships, in comparison with this study that is based on intercompetitor cooperation. According to the findings of this study it seems to be beneficial for cooperating competitors to formally guard against conflicts in advance, as a preventive strategy, before conflicts occur or before the companies start to cooperate. The formality may be related to some kind of contract or the involvement of a third party as some kind of mediator. The findings of this study show that informal conflict management techniques, such as communication in the case of copying, tend to lead to more conflicts, such as more copying. Although the outcome in the long run can be seen as positive, as a consequence of increased product development and better quality of products, it is still in the short run clearly negative for one actor or several actors and positive for one actor. In other situations competitors tend to use more informal conflict handling when there is a risk of being judged for doing something which is illegal or if the conflict could cause damage for the whole industry. If conflicts are managed informally, it is harder to proof that something has been agreed on. When analyzing the findings of this study it seems like it is easier to trust the competitors with whom you cooperate, if a formal contract exist. Because of the fear of giving away more than you receive it seems to be safer to formally protect your core competence.

In most conflicts the outcome has been of a *win-win* nature, which means that it is beneficial for all actors involved. A win-win outcome is related to fairness and it can be considered as sustainable from a long-term perspective. A win-win outcome should be the aim of conflict management. The outcome of a conflict can also be seen from a wider perspective by considering the market as a whole or the society. If conflict management results in products or services of better quality, this is not only positive for those actors that are directly involved in the cooperation, but also for example for customers.

A central issue related to conflict management in intercompetitor cooperation is *roles*. At the same time when the competitors in a business relationship have to preserve their own competitive advantage, they also have to share and adapt in the relationship with the other actor. The companies can simultaneously be characterized as colleagues and competitors. According to Bengtsson and Kock (2003) there is a tension whenever a company concurrently has different conflicting roles in a relationship with another company. Another example of the multifaceted nature of today's business relationships can be found in Vaaland (2001) where a buyer defines the seller as a supplier, a cooperation partner and a competitor. Easton and Araujo (1992) also argue that each actor within an industrial network can have a variety of roles depending on the perspective taken (customer, supplier, competitor) as well as the activities carried out (distributor, supplier, consultant). The findings of this study illustrate how companies change roles as they enter into cooperation with competitors. In practice the relationship may change from being primarily competitive to being colleagues or partners. The different roles taken by the actors in intercompetitor cooperation influence the content, management and outcome of conflicts. Conflicts may be caused by different perceptions about the roles of the actors and the change of roles can also be applied as a strategy for preventing conflicts.

One of the basic ideas of the business network approach is that each business relationship influences and is influenced by other business relationships (Gadde and Håkansson, 1993). The findings of this study show that *third parties*, such as governments or other institutions have a central position when it comes to conflict management. Based on the findings of this study it is consequently possible to say that in intercompetitor cooperation, third actors may be involved both in handling or managing the conflicts as they occur, or as a preventive institution.

## CONCLUSIONS

The contributions of this study can be found both on an academic and managerial level. From an academic point of view the findings of this study increase our understanding about a field of research that is scarcely researched within the IMP-group and business networks in general, namely intercompetitor cooperation. A majority of the existing literature within the field of business networks is focused on positive or neutral aspects of relationships, such as trust, commitment and relationship development. This study also contributes to our existing knowledge about business networks by bringing conflicts into the light. The study focuses on conflict management, which is one step forward in an attempt to increase our overall knowledge about managing business networks.

The findings of this study are based on three case studies of intercompetitor cooperation. We have been able to identify both similarities and differences between the cases. All in all this findings of this study indicate that most of the conflicts in intercompetitor cooperation are based on perceived risk of losing business. By definition competitors are directed towards the same customers with the same products/services and when cooperating, it is essential to find the right balance between cooperation on one hand and competition on the other. Conflicts may be managed either by strategic, preventive action or as they occur. Based on the findings of this study formal ways of managing conflicts are beneficial and may lead to a win-win outcome for the involved actors. Examples of

formal strategies are the appointment of a third actor to serve as a mediator of the cooperation or some kind of contract that outlines the cooperation between the competitors. In intercompetitor cooperation collaboration seems to be a usable technique for handling conflicts. When collaborating the concerns for the other actors is as great as the concern for one's own company (Thomas, 1976). The aim is to reach a win-win outcome that is beneficial for all actors involved. A win-win outcome may for example be related to fairness, specialization or to neutrality in the relationship between the competitors.

Based on the findings of this study it is possible to conclude that both roles and third parties are essential when it comes to conflict management. In intercompetitor cooperation the involved companies often need to take on a different role as they start to cooperate. Disagreements about roles may constitute the content of a conflict. A change of roles may also be applied as a way for preventing conflicts to occur or as a method for managing conflicts as they occur. Thirdly a change of roles may be related to the outcome of conflicts. Also third actors may be used as mediators in conflict situations or they may have an influence on the cooperation and conflicts that occur between cooperating competitors.

It has previously been stated that when analyzing conflict management it is generally possible to do it at two different levels: on a general and conflict specific level. The focus of this study has been on the general level, where we have been able to find both formal strategies and informal strategies of conflict management. A natural possibility for future research would be to identify and analyze conflict management on a more specific, detailed level, i.e. from the perspective of each specific conflict situation. Each conflict can be considered as unique and therefore it would be fruitful to increase our knowledge about how different kinds of conflict management techniques could be used in different situations.

Another avenue for future research is to explore conflict management in intercompetitor cooperation from a process point of view. It is a matter of fact that the nature of business relationships is dynamic and not static. This implies that it could be possible to identify different kinds of conflict management strategies that are applied in different points of time within intercompetitor cooperation. In this study we have made some effort to describe and analyze how conflict management may vary depending on the industry or nature of business. However, as our analysis is fairly superficial and only comprises three industries. Future research should concentrate on differences and similarities concerning conflict management in intercompetitor cooperation between several industries.

Future research on conflict management within business networks could also aim at increasing our understanding about different elements of conflict in relation to management. A conflict consists of several different elements, such as the cause of the conflict, the topic of the conflict and the importance of the conflict. Perhaps a certain style of conflict management is more appropriate concerning certain elements. One could also argue that a conflict can hardly be managed appropriately if we are not able to identify its cause. Different conflict management styles may also be used depending on the importance of conflict and desire of outcome (compare with Jameson 1999). This indicates a strategic perspective of conflict management, which is of managerial interest.

Generally it is possible to conclude that the research field of conflicts in business networks, and more particularly in networks comprising of competitors, is only just emerging. This study is only a first step forward in increasing our understanding about conflict management in intercompetitor cooperation. The findings are still interesting because they illustrate a process perspective of conflict management containing the content, management and outcome of conflicts.

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