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COOPETITION AS A NEW WAY OF STRUCTURING INTERORGANIZATIONAL RELATIONS

Summary: The word is derived from the words 'cooperation' and 'competition' and is used to define the complex multidimensional business relationships that today's companies have with one another. Coopetition stresses the fact that it enables resource sharing instead of resource duplication, which is seen in competition. In coopetition, participating firms can learn from partners' valuable know-how and skills while they protect their own core competence or advantage. Increasing competition and increasing cooperation have significantly heightened economic, technological and transactional interconnections between global rivals. Competitive collaboration also reduces costs, risks, and uncertainties associated with innovation or new product development during global expansion. Coopetition is further enhanced by the need for strategic flexibility and by strengthening market position for members within coopetition group.

Keywords: coopetition, strategy, global economy.

Introduction

The traditional view of inter-firm dynamics suggests that relationships are either competitive or cooperative in nature. However, it is apparent that in practice, firms can compete and cooperate with each other at the same time. The term used to refer to a relationship between two firms that simultaneously involves both competition and cooperation is "coopetition". Although there is evidence to suggest that organizations have been involved in coopetitive relationships for some considerable time, it is only relatively recently that the subject has found increased favor in the academic literature. The goal of the article is to explore the concept of coopetition in particular in the global context.

1. Background

The classical approach to economics took the view that competition was the driving force for commercial activity. In microeconomics, industrial organization models were developed that focused on industrial structure-conduct-performance and showed that the more companies there were in an industry, the greater the level of competition. Competition was considered desirable because it drove down prices for the consumer and at the same time increased level of innovation. Cooperation was to be discouraged because it served as a means of reducing overall competition, maintaining higher prices, and moderating the innovation process. In this model, an industrial structure known as perfect competition was considered the best solution. Although there are numerous other economic models, the industrial organization model was dominant in most Western Europe schools until 1990s.

2. Origin of the term

The origin of the term "coopetition" is unclear. The word is derived from the words 'cooperation' and 'competition' and is used to define the complex multidimensional business relationships that today's companies have with one another. The concept of coopetition has challenged the competition-centric concepts, which considered mutually exclusive and intensive competitive strategies as the way to sustain competitive advantage. Coopetition stresses the fact that it enables resource sharing instead of resource duplication, which is seen in competition. Even before the term coopetition was coined, numerous collaborative efforts have been made by the global companies in the form of partnerships, joint ventures, co-branding, alliances, etc. But the term coopetition formalized these concepts.

Despite the lack of consensus, most researchers accept the view that it was Ray Norda, founder and CEO of Novell, who used the term for the first time in the 1980s. The concept of coopetition was developed within work carried out in game theory [Brandenburger & Nalebuff, 1996]. The traditional approach to conducting business that was based on an assumption of inert-firm competition led to numerous lost business opportunities. In the language of game theory, these were "win-lose" scenarios. However by the mid- was becoming obsolete and that cooperation between competing firms could produce a "win-win" scenario. Where competition and cooperation occur it can be to the advantage not just of the firms but also the consumer. For instance, firms can pool research and development activities to obtain the rewards of new product development that they could not bring individually or could not bring at the same price.

The word 'coopetition' is derived from the words 'cooperation' and 'competition' and is used to define the complex multidimensional relationships that today's companies have with one another. According to Bengtsson and Kock, coopetition is a situation where competitors simultaneously cooperate and compete with each other [Bengtsson & Kock, 2000, p. 413].

Ganguli [Ganguli, 2007, p. 10] describes for types of relationships with respect to competition and cooperation:

- *Coexistence*. The relationship does not include any economic exchange, bur merely information and social exchanges.. no bonds are present, as the competitors do not interact with each other.
- *Cooperation*. The exchanges are frequent comprising business information and social exchange. Bonds are of social, knowledge and economic types. Formal agreements are in the forms of strategic alliances or partnerships and informal agreements are built on social norms and trust. If a firm needs resources held by the competitor and does not have a strong position, cooperation is the best option.
- *Competition*. An action-reaction pattern arises as competitors follow each other. Interaction is therefore simple and direct. Power and dependence are equally distributed among the competitors, based on their positions in the business network. A firm, with a strong position and having no requirement of external resources held by the competitor, will probably focus on a relationship based on competition.
- *Coopetition.* The relationship can include both economic and non-economic exchanges. Power in the cooperative side of the relationship is based on functional aspects in accordance with the value chain. In the competitive side of the relationship, power is based on the actor's position and strength. Goals are jointly stipulated when the competitors cooperate. A firm with a strong position but lacking resources held by the competitor must focus on a coopetitive relationship.

3. Implications of coopetition

In the contemporary world enterprises undergo constant changes by adapting their aims, functions, tasks and management methods to altering environment. Coopetition is specific and important for modern enterprises form of join actions.

In coopetition, participating firms can learn from partners' valuable know-how and skills while they protect their own core competence or advantage; and they can gain advantage through strategically balancing competition and cooperation. Cooperative agreements are the ways of knowledge creation and absorption. Cooperation helps in faster access to knowledge and capabilities and thus enhances the performance and competitiveness.

Coopetition also helps in building better relationships with the customers, as firms compete in the market by providing different product or service but jointly develop productivity and quality by providing the customers with more options or levels of the features of the product which may not be possible for a single firm. Cooperation helps in gaining global competitive advantage by increasing the strength through building the resource pool and alignment of interests of the firms in the same line, so that they are better positioned to fight a strong third party and gain more strength through multiple relationships. The ultimate goal of business is sustainable development through maximization of the shareholders' profit. Coopetition aims for the same goal but the only difference is that it is done through partnerships accompanied by competition with reduced risks and uncertainties.

Motives for coopetition are numerous. Table 1 summarizes most important of them.

Table 1. Motives for cooperation and the main mechanisms behind their realization

Coopetition motive	Main mechanisms
Increasing the size of the market or creating a new one	Ensuring compatibility and interoperability. Risk and cost sharing
Efficiency in resource utilization	Integration of supplementary resources Risk and cost sharing improving competitiveness through coopetitive alliances Co-opting rival networks
Improvement in the firm's competitive position	

Source: Ritala [2012, p. 309].

4. Coopetition in the global economy

In the context of the global competition, coopetition is the simultaneous competition and cooperation between two or more rivals completion in global markets**.** The interdependence between companies entails competitive and collaborative activities undertaken in the pursuit of global reach, expansion, and profit. It is not limited to merely to cooperative alliances, such as international joint ventures, outsourcing agreements, licensing, franchising, R&D consortia, bur extends to all types of collective efforts, such as improving the host country's industry infrastructure, sharing common supplies or global distribution channels, forming clusters for production.

4.1. Reasons for global coopetition

Several economic and strategic factors give rise to global coopetition. First, interdependence between multinationals has never been so important and necessary. Increasing competition and increasing cooperation have significantly heightened economic, technological and transactional interconnections between global rivals. Cooperative linkages between competitors have proliferated in the past decade. Coopetition is strengthened by the coexistence of market commonality and resource asymmetry between global competitors. Market commonality contributes to more competition whereas resource asymmetry contributes more to cooperation.

Competitive collaboration also reduces costs, risks, and uncertainties associated with innovation or new product development during global expansion. In some cases, it is too costly for a single firm to develop or penetrate new markets alone. To a focal MNE, a global competitor may be the best partner with which to share such costs and risks since it has strong expertise in the area and shares common interest in the target market.

Time is another critical factor since cooperation with competitors is an effective method for quickly improving production efficiency, quality control, and product innovation in both domestic and foreign markets.

Coopetition is propelled by the need to solidify global players' collective power in dealing with outside stakeholders (such as home and host governments) and in strengthening market position for members within coopetition group. By uniting, global players achieve a stronger position to bargain for inputs (e.g. production factors, infrastructure access), processes (e.g. lobbying government decision-makers and thus influencing regulatory policies), and outcomes (e.g. industry access, market penetration, and financial returns).

Coopetition is further enhanced by the need for strategic flexibility. MNEs that follow coopetition may possess strategic flexibility due to the wider variety of strategic options than available through pure competition or cooperation in isolation. Given the diversity of product lines and geographical territories, for many global players coopetition helps participating rivals realize a multitude of competitive and collaborative options in various areas. In contrast, either competition or cooperation in isolation offers much more limited strategic options. Under pure competition, a global player seeks to become a dominant market power by imposing entry barriers against followers and exercise market power to reduce competitive rivalry or colludes with a few companies by restraining outputs, raising prices, and controlling supplies. Pure cooperation may be also disadvantageous. Especially when cooperative agreements are loosely governed and structured it is difficult to prevent their opportunistic behavior.

Coopetition also becomes increasingly important in development of new technical standards. In emerging industries, various technologies may compete for market share. The outcome of this battle often depends on the number of companies adopting each technology or standard. Cooperation can help contending companies promote their technologies and gain the critical mass required to persuade more businesses to use their solution.

4.2. Intensity of coopetition

Intensity of coopetition is the extent to which a focal global player is both competing and cooperating with a major global rival in international markets. Depending on the intensity of competition and cooperation that simultaneously occur with a global rival, an MNE may find itself in a: (1) contending situation, (2) isolating situation, (3) partnering situation, or (4) adapting situation [Luo, 2007, p. 135].

Contending situation

Contending situation exists when the firm rivals with another major global player for market power, competitive position, and market share in critical international markets, maintaining high competition and low cooperation with its counterpart. A contending situation is especially likely to occur in an oligopolistic structure in which several global players occupy the major share of global markets characterized by high competition, industry deregulation and increasingly sophisticated demand from worldwide customers [Malnight, 2007, p. 1191]. Such a situation is also more likely to occur when product similarity, resource similarity, and market commonality are high. Product similarity in a global common market increases pressure for competition. Resource similarity weakens the complementarity of resource endowments.

Under a contending situation, the MNE may be interested more in *niche filling* and *jockeying for position* as strategic moves to respond to high competition [Luo, 2007, p. 138]. Niche-filling is a global player's effort identify, penetrate, and hold a promising market focus associated with geographic territory, product domain, and/or technological leadership. Deploying resources in new niche in overseas markets is one of the favored strategies since it allows to avoid a fierce competition in more established markets or for more mature products. Because a firm in a contending situation maintains low cooperation with another player, niche-seeking is likely to be undertaken alone. Position jockeying is a global player's effort to defend and strengthen its established market position against another global player. Jockeying focuses on optimizing the firm's strategic position with respect to another player with whom it already competes in established markets.

Isolating situation

An isolating situation arises when the firm does not interact significantly with other global rivals, maintaining low competition and low cooperation with another leading global player. The firm streamlines its global investment and operations by itself. MNEs facing an isolating situation may consider *domain specialization* or *scale expansion* as their strategic responses to a situation of low competition and low cooperation.

Domain specialization emphasizes certain product segments or market segments in which the firm has a fundamental edge supported by its unique knowledge or specialized know-how. This specialized know-how allows the firm to be a single or dominant player in a segmented or specialized product-market mix. Scale expansion is a strategy that aims at capitalizing the firm's existing position by increasing production and sales volume. For firms in an isolating position, increased economies of scale result in improvement of cash flows and increase of entry barriers against other firms.

Partnering situation

A partnering situation exists where a global player voluntarily maintains high cooperation and low competition with another major global player in order to search for joint synergies created by both players' complementary resources and capabilities. High resource complementarity and low market commonality are two necessary conditions under which global rivals may become partners. High resource complementarity magnifies resource interdependence encouraging collaboration between partners. Low market commonality eases competitive pressures. MNEs in a partnering situation may consider *synergy extension* and *attachment enhancement* as possible responses to the combination of high cooperation and low competition [Luo, 2007, p. 138].

Synergy extension is a strategic attempt that identifies and explores additional benefits, both technological or operational, arising from an established cooperative relationship. Attachment management is a managerial attempt to seek stronger interparty ties at both the individual level and the organizational level.

Adapting situation

An adapting situation refers to the case in which two global players mutually depend on each other to achieve their respective goals. A firm in such a situation cooperates with its major rival in certain areas while competing with it in other domains. What makes an adapting situation different from other situation is that the degree of both cooperation and competition are high. Cooperation between rivals can enhance a firm's competitive position by enabling partners to build critical competences while simultaneously reducing the costs and risks associated with the global deployment and exploitation of these competencies. MNEs in adapting situation may consider *boundary analysis* and *loose coupling* as possible a possible responses to a high competition – high cooperation situation.

Boundary analysis is a managerial effort that identifies appropriate areas (products, markets, functions) in which two players should compete and those in which they should cooperate. Finding boundaries or territories for cooperation and competition is a critical early step in this situation since it determines the subsequent structure of coopetition. Loose coupling is a strategy that employs loosely structured partnerships, such as licensing, research consortia, co-production, distribution sharing, or subcontracting in relation to the rival.

5. Coopetition in practice

The contribution of coopetition is now recognized in a wide variety of applications and industries. Coopetition may occur at corporate- , division-, or subsidiary-levels, depending on the company's strategic intent and organizational needs. The higher the relatedness in product and market domains between two rivals, the more scope for competition. McDonnell Douglas, for instance, competes and cooperates with Mitsubishi Heavy Industries at the corporate level: both co-produce F-15 fighters, commercial helicopters, and the MD-900 Explorer helicopter, while competing for orders and contracts to produce air-jet components and helicopters in China, India, and Malaysia. Royal Dutch Shell maintains coopetition with RWE (the leading energy group in Germany) at the division level – petrol stations. Through a 50/50 joint venture, they cooperate in building and running petrol stations throughout Germany. In other European markets, however, they compete for petrol station business. As an example of coopetition at the foreign subsidiary-level, Nokia's subsidiaries in China rigorously compete with other players' (e.g. Erickson) subsidiaries for mobile phone market share. At the same time, they work together to improve the infrastructure of China's telecommunication industry, and build telecom equipment clusters to enhance efficiency. Also in China, Siemens increased cooperation with its rival, Motorola, when it realized the threat of competition from the followers such as Hitachi, 3Com, Cisco, an Samsung. Siemens and Motorola together increased technological standards and lobbied the Chinese government not to ratify the followers' projects in the cities where they have already invested and operated.

In the retailing industry Sears (USA), Carrefour (France), Afold (Netherlands), Metro (Germany), and Sainsbury (UK) established e-procurement alliances among them to more quickly respond to the various needs of global consumers by sharing purchasing systems. Toyota has progressively increased its cooperation with GM and Suzuki as reciprocity, links and trust between these players have increased. Germany's Vodafone and France's Vivendi have o long track record of simultaneously cooperating and competing for years. Other examples of coopetition include rivalry between mobile-handset operating systems (Windows Mobile, Symbian, Android) or Sony and Samsung collaboration in developing LCD technology to beat competition coming from other electronic equipment multinationals.

Conclusions

Coopetition goes beyond the old rules of competition and cooperation to combine the advantages of both. Its rise is a result of increasing interdependence between global players and the growing need for collective action, risk sharing, and strategic flexibility. This type of interorganizational relations is particularly relevant for multinational enterprises. In order to develop coopetition MNEs must enhance organizational learning and change corporate culture to make it more oriented on cooperation. Executives must identify the appropriate areas in which global players should compete and those in which they should cooperate. Finding boundaries for cooperation and coopetition is a critical step since it determines the subsequent structure of coopetition.

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KOOPETYCJA JAKO NOWA FORMA STRUKTURALIZACJI RELACJI MIĘDZYORGANIZACYJNYCH

Streszczenie: Słowo „koopetycja" wynika z połączenia terminów 'konkurencja' i 'współpraca' i wykorzystywane jest do opisywania złożonych wielowymiarowych relacji biznesowych. Koopetycja pozwala na wspólne wykorzystywanie części zasobów zamiast ich duplikacji. Współpraca na zasadzie kompetycji pozwala uczestniczącym firmom na poznanie i wykorzystanie *know-how* partnerów biznesowych, przy jednoczesnym zachowaniu własnej przewagi konkurencyjnej i kluczowych kompetencji. Wzrost znaczenia jednoczesnej kooperacji i konkurencji doprowadził do wzmocnienia ekonomicznych, technologicznych i transakcyjnych relacji pomiędzy firmami rywalizującymi w skali globalnej. Koopetycja pozwala na redukcję kosztów, ryzyka związanego z wprowadzaniem rozwiązań innowacyjnych w trakcie ekspansji globalnej. Rozwój koopetycji związany jest także z potrzebą budowania przez firmy elastyczności strategicznej i wzmocnienie pozycji rynkowej.

Słowa kluczowe: koopetycja, gospodarka globalna, strategia.