“Coopetition” in Business Networks—to Cooperate and Compete Simultaneously

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Existing theory and research on relationships among competitors focuses either on competitive or on cooperative relationships between them, and the one relationship is argued to harm or threaten the other. Little research has considered that two firms can be involved in and benefit from both cooperation and competition simultaneously, and hence that both types of relationships need to be emphasized at the same time. In this article, it is argued that the most complex, but also the most advantageous relationship between competitors, is “coopetition” where two competitors both compete and cooperate with each other. Complexity is due to the fundamentally different and contradictory logics of interaction that competition and cooperation are built on. It is of crucial importance to separate the two different parts of the relationship to manage the complexity and thereby make it possible to benefit from such a relationship. This article uses an explorative case study of two Swedish and one Finnish industries where coopetition is to be found, to develop propositions about how the competitive and cooperative part of the relationship can be divided and managed. It is shown that the two parts can be separated depending on the activities degree of proximity to the customer and on the competitors’ access to specific resources. It is also shown that individuals within the firm only can act in accordance with one of the two logics of interaction at a time and hence that either the two parts have to be divided between individuals within the company, or that one part needs to be controlled and regulated by an intermediate actor such as a collective association. © 2000 Elsevier Science Inc. All rights reserved.
INTRODUCTION

In earlier studies concerning buyer–seller relationships within networks, the trade-off between cooperation and competition has been emphasized as a mean of creating progress among actors involved in long-term relationships. This is true for buyer–seller relationships, but the question posed in this article concerns the trade-off between cooperation and competition in relationships among competitors. Even though similarities can be found, vertical and horizontal relationships are, in many senses, totally different types of relationships, and it is obvious that the trade-offs between cooperation/harmony and competition/conflict in vertical and horizontal relationships, respectively, are of different natures and accordingly have to be managed differently.

Research on cooperation and competition between horizontal actors has been conducted within different theoretical fields. In literature using a network approach, horizontal relationships have been studied indirectly, as they are seen as a consequence of competitors’ relationships to buyers, suppliers etc. (e.g., [1–3]). Interaction between competitors is, on the contrary, seen as direct in economic theory, but the focus is placed on structure rather than relationships [4–6]. Competition is described as the direct rivalry that develops between firms due to the dependency that structural conditions within the industry give rise to. Intense rivalry between many firms is argued to be the most beneficial interaction, and cooperation is considered to hamper effective competitive interaction. Finally, in literature on strategic alliances (cf., [7–10]) or business alliances [11], relationships rather than structures are studied, and they are seen as direct rather than indirect consequences of vertical relationships. Cooperation among competitors is analyzed and argued to be advantageous in that firms resources and capabilities can be combined and used in competition with others. The main issue for these studies is how competitors within an alliance can resist from acting in conflict with each other to get the alliance to work.

Significant insights about horizontal relationships have been reached in the theoretical fields mentioned, but the trade-off between cooperation and competition has not been addressed. A firm is usually assumed to cooperate with one competitor and compete with another, thereby participating in totally different relationships with different actors. In this article, it is argued, in accordance with Hunt [12], that competitors can be involved in both cooperative and competitive relationships with each other simultaneously and benefit from both, and hence that it is of importance to emphasize both the cooperative and competitive dimensions of a relationship:

For a theory of competition to provide a theoretical foundation for relationship marketing, the theory must admit at least the possibility that some kinds of cooperative relationships among firms may actually enhance competition, rather than thwart it. (p. 8) [12]

The dyadic and paradoxical relationship that emerges when two firms cooperate in some activities, such as in a strategic alliance, and at the same time compete with each other in other activities is here called “coopetition.” It is argued that it is of great importance to further develop the knowledge about this kind of business relationship, as it must be regarded as the most advantageous one, when companies in some respect help each other and to some extent force each other towards, for example, more innovative performance. It is of interest to ask the question how cooperation and competition is possible to combine in one and the same relationship, and how such a relationship can be managed?

Coopetitive relationships are complex as they consist of two diametrically different logics of interaction. Actors involved in coopetition are involved in a relationship that on the one hand consists of hostility due to conflicting interests and on the other hand consists of friendliness due to common interests. These two logics of interaction are in conflict with each other and must be separated in a proper way to make a coopetitive relationship possible. The purpose of this study is to explore how the division between the cooperative and the competitive part of the relationship can be made and to further scrutinize the advantages of coopetition. Both these issues are of strategic importance for managers within competing companies. The article begins with a review of existing theory on horizontal relationships, after which the concept coopetition is further explored. Cooperation and competition in different settings of relationships in business networks in Finland and Sweden are then described.
It is of importance to emphasize both cooperative and competitive dimensions of a relationship.

and used to formulate some propositions about why and how coopetitive relationships can be developed, and to formulate some strategic implications for the firms involved.

RELATIONSHIPS BETWEEN COMPETITORS

Theories on interaction between competitors and relationships between them focus either on cooperation or competition between competitors and not on the combinations of the two types of interactions that competitors can be involved in, as already mentioned. When competition is emphasized, the discussion often derives from neoclassical economic theory, in which competition is described as different structures within an industry. Industrial organization theory, which to some extent criticizes neoclassical theory, has advanced knowledge of competition by including the dependency that exists between firms in imperfect markets and by introducing the concept of strategic groups [13–16]. Hunt [17] analyzes competitive rivalry at an intermediate level, between the industry level and the firm level, making it possible to grasp differences that exist within an industry. It is at this intermediate level that networks and relationships between competitors can be observed and analyzed. Thus, theory about strategic groups is fruitful as it provides tools that distinguish groups of competitors where relationships are more likely to develop.

Theory on competition also gives insight in the advantages provided by intense rivalry between firms. Dynamic models of competition, building on the Schumpeterian tradition, have emerged in recent literature [18, 19]. Here, the nature of competition is described along dimensions of intensity. Intense competition is argued to be a central driving element in pressuring and stimulating firms to innovate and upgrade their competitive advantage. Porter [20] considers that in the presence of many local competitors, the pressure to create improvements and innovations in operations relative to competitors becomes greater. Proximate competitors are able, within a short space of time, to observe each others’ moves and countermoves, enabling them to rapidly imitate each others’ products. Psychological factors, such as prestige and pride, also stimulate companies to compete actively and to be innovative in their actions. In this way, rivalry sharpens the “struggle” between competitors and therefore increases the dynamics within an industry.

To reach a deeper understanding of the relationships between competitors and the advantages provided by competition, it is hence necessary to analyze competition beyond mere structural characteristics. Competition is an interactive process where individual, and thereby organizational, perceptions and experience affect organizational actions, and thus affect interactions between competitors [2, 21, 22]. To understand the relationships that develop through interactive processes, a network perspective on competition can be fruitful. A network perspective is, however, most often applied on vertical relationships between buyers and sellers, and relationships between competitors have not been studied to the same extent. When relationships between competitors are discussed, competitors are seen to be linked to each other indirectly by relationships to the same buyer, thereby connecting the competitors’ relative positions [23].

Some researchers have nevertheless shown that competitors are involved in direct relationships with each other, that horizontal relationships can be formed in many different ways, and that they are different from vertical relationships. Easton and Arajou [24] argue that relationships between competitors differ depending upon the companies’ motives for action and the degree of distance between competitors. The degree of distance can be related to the degree of dependence between competitors. Caves and Porter [13] point out that competition within strategic groups is less intensive then between strategic groups. They argue that competitors within a strategic
group tend to avoid rivalry, because mutual dependence can be more easily understood by firms within the same strategic group.

In comparing vertical and horizontal relationships, it can be stressed that vertical relationships are often built upon a mutual interest to interact [24–26], whereas competitors often are forced to interact with each other, giving rise to rivalry and mutual dependence between them [7, 27, 28]. Contrary to vertical relationships, relationships between competitors often are conflicting, as the interests of competitors often cannot be fulfilled simultaneously. Competitors therefore try to avoid interaction, whereas buyers and sellers try to maintain interaction [28]. Cooperative relationships between vertical actors are also more easy to grasp as they are usually visible and built on a distribution of activities and resources among actors in a supply chain. Horizontal relationships, on the other hand, are more informal and invisible, in that information and social exchanges are more common than economic exchange. Competitors are almost always informed about each other’s movements, often through buyers, but also directly through trade fairs, brochures, meetings, buying competitors’ products, etc.

Competition is traditionally defined as the conflicting and rivalrying relationship between competitors described above. The literature on strategic alliances has, however, contributed to a broader understanding of competition by pointing out that competitors in many occasions cooperate with each other (cf., [7, 29, 30]). Two main issues have been addressed: (1) the reasons for forming strategic alliances, and (2) how to build successful alliances or how to get an alliance to work. Different advantages are argued to be obtained by cooperation between competitors. David and Slocom [31] as well as Mason [32] argue that firms through cooperation in strategic alliances can complement and enhance each other in different areas such as production, introduction of new products, entry into new markets, etc. Flanagan [33] includes advantages related to the reduction of firms costs and risks through the formation of strategic alliances. A third advantage pointed out in the literature is the possibility of technological and capability transfer that appears in alliances [34–38].

By forming strategic alliances, firms can fulfill many different purposes, but the formation of a successful strategic alliance is not easy, and many researchers have pointed out features of importance for success. The distribution of control and power between the partners is argued to be of importance for the performance of an alliance [39, 40]. Another explanation for the success is the mutuality or equity between partners. Mason [32] argues that equity in risk and contribution is important for the success, and Lewis [41] points out that mutual objectives, complementary needs, shared risk, and trust are important factors needed for an alliance to work.

The literature on strategic alliances give important insight into the advantages that can be obtained by cooperation and the prerequisites needed for an alliance to work, but it is primarily the cooperative dimension of the relationship that is emphasized. Rivalry and conflict are seen as a threat because they can hamper the performance of a strategic alliance. In contrast cooperation in economic theory is argued to hamper competition and anti-trust law is seen as necessary to guarantee healthy competition. Both in traditional theory about competition and in literature on strategic alliances, the assumption has been that cooperation in the first case and competition in the other case need to be minimized to get competition and cooperation to work. The possibility of combining cooperation and competition to receive advantages provided by coopetition between two parties can thereby be overlooked (cf., [42]).

It has been shown that both cooperation and competition are needed in vertical relationships [43, 44]. On the one hand, actors must compete to a certain extent, otherwise the business network will not be effective. On the other hand, there is a demand for cooperation, as the actors must invest in bonds and make adaptations to create long-term relationships. Actors get to know each other through these bonds and thereby come to know what the interacting partner is capable of doing [30]. In this article, it is argued that cooperation and competition are also needed in horizontal relationships, as the different relationships provide the firm with different advantages. The two types of interactions can, however, be assumed to create progress in a slightly different way in horizontal relationships compared with vertical relationships.

COOPETITION—SIMULTANEOUS COOPERATION AND COMPETITION

The Concept Coopetition

In this article, it is argued that one single relationship can comprise of both cooperation and competition, that two firms can compete and cooperate simultaneously. In any specific relationship elements of both cooperation and competition can be found, but one or the other of
Coopetitive relationships are complex as they consist of two diametrically different logics of interaction.

these elements can in some cases be tacit. If both the elements of cooperation and competition are visible, the relationship between the competitors is named coopetition [45].

Nalebuff and Brandenburger [46] have observed that cooperation and competition can be parts of one and the same relationship, and they also use the concept coopetition to describe such a relationship. They discuss the importance of coopetition in business by using game theory as a theoretical frame. Their definition of competitors is, however, different from ours. Their definition [46] is as follows:

A player is your competitor if customers value your product less when they have the other player’s product than when they have your product alone.

Thus, a car manufacturer and a bank can be seen as competitors that establish a coopetitive relationship if the former sells cars and the latter grants loans for purchasing the car. In the same way, a manufacturer of computers can establish a coopetitive relationship with a producer of software. To use the computer, the buyer needs software and to use the software the buyer needs a computer. Two competitors can also complement each other by creating new markets but will compete when it comes to separating the markets. It is common that stores complement each other to attract customers to come to a shopping mall, for example, a toy store is located near McDonalds or Burger King. The problem for the toy store is that if the children stay in the hamburger restaurant, the probability of the parents making a purchase on impulse is low. Hence, when Nalebuff and Brandenburger [46] describes coopetition, they use a very broad definition of competition.

The concept coopetition used in this article is more narrow than the concept used by Nalebuff and Brandenburger [46]. We define competitors as actors that produce and market the same products. We see McDonalds and Burger King as competitors but not a toy store and a burger restaurant. The coopetitive relationship described on this article is more complex, as the firm simultaneously is involved in both cooperative and competitive interactions with the same competitor at the same product area. The two different types of interaction are not divided between counterparts but between activities, as it is impossible to compete and cooperate with the same activity. Simultaneous cooperation and competition can, however, give rise to internal disagreement and it can be difficult to separate the activities where competitors interact in cooperation and in competition.

The relationship between cooperation and competition can have different shapes depending on the degree of cooperation and the degree of competition. On one hand, we can have a relationship between two competitors consisting merely of cooperation, a traditional cooperative relationship. On the other hand, we can have a relationship between two competitors consisting merely of competition, a competitive relationship. Between these two we will have at least three different types of coopetitive relationships depending on the degree of cooperation and competition. In Figure 1, three different types of coopetitive relationships between actors are identified.

**Different Logics of Interaction**

All coopetitive relationships are complex as they are built around diametrical different logics of interaction. The idea behind competition, one part of the coopetitive relationship, is built on the assumption that individuals act to maximize their own interest (cf., [47, 48]). The assumption that rational ego-centered self-interest steers human action means that the individual will not participate in collective action [49]. The different self-interests are in conflict with each other, which in consequence means that people compete against each other to best fulfill their own self-interests. The idea behind cooperation, the other part of the coopetitive relationship, is based on
a diametrically opposite assumption. A precondition for cooperation is that individuals participate in collective actions to achieve common goals. However, individuals’ interests and motives for action are not considered to explain collective action, rather, it is the social structure that surrounds individuals that is considered to explain why people act collectively to create a win–win relationship [50]. In such a relationship, the well being of the actors involved is more important than one actor’s profit maximization or opportunism. Actors involved in win–win relationships all contribute to the total value created in the relationship, and they are satisfied with a smaller share of the profit to maintain the relationship.

The assumptions that structural conditions within an industry force firms to act in rivalry relatively to each other and that social structure and the dependence that follows from structure explain cooperation, rest on the belief that there is a reciprocal relation between structure and action. Giddens [51] argues that individuals create structure through action, and that at the same time they are restricted in their actions by that structure. The same reasoning holds for firms within a business network. Håkansson [52] describes the reciprocal relationship between structure and (inter)action in the following way:

The network is the framework within which the interaction takes place but is also the result of the interaction. Thus, it is affected by the exchanges between the actors.

The dependence between competitors due to structural conditions can explain why competitors cooperate and also why they compete. If the structural conditions for cooperation and competition are analyzed simultaneously, the division between cooperation and competition and the advantages provided by the two types of interactions can be better understood. From our empirical study of coopetitive relationships, two different patterns of division between the two parts of the coopetitive relationship have been identified that can be related to the structure of the value chain and the market, respectively. The division is either related to the value chain or to the magnitude of business units. In the former, the division is based on functional aspects, or what activities the actors perform in the activity chain and the value they hereby create. In the latter, the cooperation and competition is divided between different business units or product areas, indicating that the competitors can compete in certain markets or product areas while they cooperate in others. These examples will be presented and discussed more in depth later in the article, but first the research design will be described.

RESEARCH DESIGN

A case study approach has been chosen for the empirical study presented in this article. An exploratory analysis is made of coopetitive relationships in three industries to develop certain propositions about coopetition. This constitutes a first phase of a larger research project focusing on competition and cooperation between horizontal actors. The case study method provides the opportunity to gather a lot of data on a small number of study objects,
It is hence necessary to analyze competition beyond mere structural characteristics.

which in turn makes possible multifaceted descriptions of competition (cf., [53]). Such an approach is needed if new propositions about relationships between competitors are to be generated and if understanding for the interaction among competitors is to be increased (cf., [54]). Furthermore, individual interpretations of competition and the way that individuals relate their own actions to those of their competitors are important aspects of competition [21]. These interpretations can be accessed through interviews or conversations with managers in the studied companies, which necessitates establishing a close relationship between researcher and representatives from the studied companies. These requirements can be fulfilled by the case study method.

To identify different types of coopetitive relationships between competitors different industries have been selected. First, two Swedish industries were selected to increase the variety of relationships; the brewery industry (selling to consumers) and the lining industry (selling to industrial buyers). Second a Finnish industry, the dairy industry, was selected to make possible comparisons between countries. Introductory interviews were conducted with CEO’s in each industry, and they were asked to describe their firm, its history, and the relationships to other competing firms within the industry. Interviews were analyzed to identify distinct coopetitive relationships that the firms were and had been involved in. The coopetitive relationships identified were selected for further attention.

Personal interviews have been carried out with business managers at different levels in several companies in different lines of business involved in the relationship. The interviews conducted are schematically illustrated in Table 1. Twenty-one interviews in total were carried out in firms within three industries.

A semistandardized interview guide was used, and all the interviews were taped and transcribed. Each interview lasted from 30 to 90 minutes. The interviewees were asked to describe the cooperative or competitive interaction that they were involved in, how firms interacted in specific activities, and in what way the firm was affected by the interaction. If, for example, a sales manager competed with a competitor in the interaction with customers, he was asked to describe not only his own but also his competitor’s actions and reactions in that specific activity, as well as how the interaction affected the firm in terms of for example loss in market share or stimulation to become better than the competitor. If the sales manager was involved in a cooperation with the competitor around a specific activity, he was asked similar questions about this cooperative interaction with the competitor.

COOPETITION IN THREE INDUSTRIES—ONE FINNISH AND TWO SWEDISH

The Three Studied Industries

One manufacturing industry in Sweden and two consumer oriented industries, one in Sweden and one in Finland, have been studied. The Swedish manufacturing in-

<table>
<thead>
<tr>
<th>Firm</th>
<th>CEO</th>
<th>Marketing Managers*</th>
<th>Product, R&amp;D, or Quality Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>The lining industry (Sweden)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>five interviews</td>
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<tr>
<td>Skega Ltd.</td>
<td>1</td>
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<tr>
<td>Trellex Ltd.</td>
<td>1</td>
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<tr>
<td>The brewery industry (Sweden)</td>
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<td>nine interviews</td>
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<td>Spendrups Ltd.</td>
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<td>Falcon Ltd.</td>
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<td>Pripps Ltd.</td>
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<td>Zeunerets Ltd.</td>
<td>1</td>
<td>2</td>
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</tr>
<tr>
<td>Fors Ltd.</td>
<td>1</td>
<td></td>
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</tr>
<tr>
<td>Brewery association</td>
<td>1</td>
<td>1</td>
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</tr>
<tr>
<td>The dairy industry (Finland)</td>
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<tr>
<td>five interviews</td>
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<tr>
<td>Milka Ltd.</td>
<td>2</td>
<td></td>
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<tr>
<td>Valio Ltd.</td>
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<td>Ingman Ltd.</td>
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<td>Arla Ltd.</td>
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</table>

*Or, for the dairy industry; marketing or purchasing managers.
The Finnish dairy industry is dominated by one large actor, and the rest can be classified as medium-sized firms. Traditionally the companies within the dairy industry has been owned and managed by the farmers in an attempt to secure the demand for dairy products at the highest possible price. The market has been protected as a part of the government’s agriculture program. During the 1990s and especially after the Finnish membership in EU, the market has started to open up as foreign dairy companies have penetrated the market. A majority of these companies are from Sweden. The main products offered by these new entrants are cheese and yogurt, as milk and cream are regarded as bulk products that are not profitable to export.

**Division Between Cooperation and Competition Due to the Degree of Closeness to Customers**

Coopetitive relationships, where the proximity of an activity to its customer seems to be of importance for the division between cooperative and competitive interactions, have been present in all three industries. In these relationships, competitors cooperate with activities far from the customer and compete in activities close to the customer. The three examples are summarized in Figure 2 and will be described in the following.

The first example of a coopetitive relationship where the cooperative and the competitive parts of the relationship were separated due to activity proximity/distance to customers was found in the lining industry before Trellex Ltd. (Svedala Ltd.) acquired Skega Ltd. in 1995. The two companies cooperated in their development of material

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**FIGURE 2. Degree of closeness to customers**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Cooperation</th>
<th>Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lining</td>
<td>Material development</td>
<td>Product development/marketing</td>
</tr>
<tr>
<td>Brewery</td>
<td>Empty bottles</td>
<td>Full bottles</td>
</tr>
<tr>
<td>Dairy</td>
<td>Transport containers</td>
<td>Selling activities</td>
</tr>
</tbody>
</table>

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The Swedish brewery industry is the Swedish consumer-oriented industry included in this study. The industry consists of three large breweries that dominate the market (holding 70 to 80% of the market share), a number of middle-sized breweries, and approximately 30 mini and microbreweries who operate mainly in local regions. The large breweries sell their beer nationwide, whereas the middle-size breweries just recently have started to expand their business outside the own region. Both the medium-sized and the mini and microbreweries have their main markets in the local region. The Swedish Brewers’ Association plays an important role in the coopetitive relationship between the competitors that will be described in the next section. Almost all breweries are members in the association, but it is primarily the large firms that have the possibility to influence the work done by the association.

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The lining industry is represented by the lining industry. Lining products are made in rubber to protect mills, screens, etc. from wear and tear and they are sold to the mining industry. The competitors within the industry consist of a number of local foreign manufacturers and of two Swedish companies, Trellex Ltd. (a unit within Trelleborg Ltd. until 1990 and after that a unit within Svedala Industries) and Skega Ltd. Skega Ltd was acquired by Svedala Industries in 1995, and the two firms Trellex and Skega were integrated. Until 1995, they both competed intensively with each other, and at the same time cooperated with each other, hence the firms were involved in a coopetitive relationship. This coopetitive relationship will be described in this article. The two Swedish companies were and are world leaders in mill-lining.

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Horizontal relationships can be formed in many different ways.

and competed in product development and market penetration. The two companies, Skega Ltd. and Trellex Ltd., competed intensively with each other for individual installations of linings both in Sweden and abroad. Descriptions of the competition of the time given at Trellex Ltd. reveal that both companies tried to conceal from each other that they were working with a specific customer. If the customer installed a lining manufactured by one competitor, the other would offer to install their own linings in half of the mill to give the customer the opportunity of judging for itself the quality of the competing companies’ products. From the knowledge gained of which lining the competitor installed, it became possible to install a lining with a longer product life. They competed for practically every individual installation, as they were represented in the same markets.

The cooperative aspect of the relationship was totally different, as both companies were mutually interested in the results of the development. They used each other’s laboratories to run mutual development projects to lower R&D costs and to gain advantages from combining the unique competence of both companies’ products. From the knowledge gained of which lining the competitor installed, it became possible to install a lining with a longer product life. They competed for practically every individual installation, as they were represented in the same markets.

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Invisible norms existed that allow total openness about the development of material. Tacit agreement dictated that the cooperative interaction would cease when development processes approached product related development.

Individuals at the material development departments at both companies cooperated with each other, while individuals in the marketing and product development departments competed with each other. Goals were jointly stipulated in their cooperation, but not, of course, in their competition. A change in the competitors’ relative positions was seen as a competitive goal for both companies, which can be illustrated by the following quotation by one respondent at Trellex Ltd., “When we have taken a customer from Skega Ltd., we buy a cake to celebrate”.

Another example is when cooperative and competitive interactions were separated between different parts of the value chain can be found in the Swedish brewery industry. The competitors compete in the distribution of beer to wholesalers but cooperate in bottle returns, though the distance and the means of transport are the same. It is important for the companies to deliver personally, as this gives them the possibility to expose their own products in the store (an important competitive tool). It is not uncommon for the breweries to “hide” the competitors’ beer at the back of the shelf, and to use the front of the shelf to expose their own products. It is therefore crucial to deliver more regularly than the competitors to receive the best exposure. The return of empty bottles is not important in the direct interaction with customers. It has therefore been possible to develop cooperative relationships between the breweries concerning the return of empty bottles. The competitors have also developed a common system of packing that makes cooperation in bottle return easier. The competitors are very positive to the cooperation, as they can achieve a more rational and cost efficient way of solving the problem with the nationwide collection of empty bottles.

The Swedish Brewers’ Association plays a vital role in the above cooperation between the breweries in that it coordinates and controls the flow of empty bottles. The Association also suggested that a system for the outward distribution of beer (i.e., full bottles) should be developed, as the only difference in distribution is that the bot-
tiles are full one way and empty the other. However, none of the competitors wanted to participate in such a cooperation, because the distribution of beer is an activity that is too close to the customer, and therefore an important competitive tool.

A similar example can be found in the Finnish dairy industry, where all the actors have implemented a joint system of transport containers for the distribution of products. The dairy industry in Finland consists of a few actors, most of them owned by the farmers. The dominating actor and market leader is Valio, followed by Ingman Foods. The remaining dairies are relatively small, and normally operate in specific geographical areas. It is interesting to note that Swedish speaking Finns have their own dairy, Milka, which has a strong market position in certain bilingual and Swedish speaking areas. The largest foreign competitor is Arla, the largest dairy in Sweden. All these companies have founded a pool to share the transport containers needed for distribution of the products. The system is similar to the one described in the Swedish brewing industry as each dairy handles the distribution of their products from their factories to the buyers, that is, an important activity close to the buyer. Every dairy has committed resources to the pool, usually a certain number of transport containers. Usually the transport containers are not marked so a dairy delivering products to a wholesaler or retailer can at the same time collect any empty transport containers. If one dairy is short of transport containers, it can contact a competitor and borrow a container.

**Division Between Cooperation and Competition Between Different Business Units**

The examples given above show that competition often takes place close to customers while competitors can cooperate in activities more distant from the customer. In our empirical study, however, some examples of the opposite situation also have been found. In such situations, the cooperative and competitive parts of the relationship are separated between different business units. Competitors cooperate in some markets or product areas whereas they compete in others. Such relationships have been identified in the dairy industry in Finland. The market leader in Finland, Valio, and one of the smaller dairies Milka cooperate at the same time as competing. Cooperation is based on Milka’s need for a full product line as the company does not produce yogurt or orange juice. Milka markets Valio’s products in their own geographical area instead. Moreover, Milka keeps Valio’s products in stock so they can deliver them at the same time they deliver their own products. The benefits to Milka are quite obvious as the company can strengthen its relationships with customers. Without a full line of products, the customer needs to place an order first with Milka and then with the competitor Valio for yogurt and juice. It is therefore much easier for the customer to buy all his products from one supplier, that is, Valio. It is more difficult to see the benefits that Valio gains from the cooperation. The underlying factor is that Milka is a market leader in the Swedish speaking and bilingual areas in Finland. Though the cooperation, Valio gains the possibility of entering a market that differs from the rest of the country.

**THE DIVISION OF INTERACTIONS AND ADVANTAGES OF COOPETITION**

It has been argued in the first section of this article that one prerequisite for the establishment and maintenance of a coopetitive relationship is that the cooperative and the competitive part of the relationship can be separated in one or the other way. The empirical examples given also show that firms divided the two parts of the relationship in different ways. In this section, some explanations to why and how the division can be made will be proposed. First, it is argued that many of the reasons behind the different kinds of interaction can be found in the structure of the competitive network and in the competitors relative advantages used in their interactions with customers. The dependence that exists between competitors in a competitive network can explain why firms choose to cooperate in some activities and cooperate in others. Second, the inherent conflict that between the two different logics of interaction that is present in a coopetitive relationship also effect the division between cooperation and competition, and finally, the advantages provided by the two types of interaction is of importance for the division.

**Dependence Due to Heterogeneity in Resources and to Connectedness of Positions**

The first structural characteristic of a business network, heterogeneity due to unique resources, can partly explain the dependence that characterizes a business network. Barney and Hoskisson [55] are of the opinion that companies have unique characteristics, and that companies, through their own efforts, can develop new re-
sources and new preconditions for competition. Personnel knowledge and skill, as well as the type of machinery and products etc., are not homogeneous across the population of competitors. Through specific resources, a firm can create a competitive advantage and be able to serve customers better than its competitors. Heterogeneity can hence be means in the development of competitive relationships within an industry. The need for external resources is also, however, the main driving force behind establishing long-term cooperative relationships to secure access to unique resources [56, 57]. Through cooperation, two companies can gain access to the other firm’s unique resources or share the cost of developing new unique resources. Accordingly, our first and generally formulated proposition is:

Proposition 1: Heterogeneity in resources can foster cooperative relationships, as unique resources can be advantageous both for cooperation and competition.

The heterogeneity that exists within a business network can hence explain why competitors develop direct relationships with each other, and also that the relationships include not only links, but also ties and bonds between competitors. Håkansson and Snehota [58] describe interaction between actors in a network as activities that are linked in one way or another, resources that are tied to each other, and actors that are connected through bonds to each other that affect the way they perceive each other. Links can develop between competitors when they compete with each other, and moves taken by one competitor are followed by countermoves from other competitors. Competitors can also develop ties between themselves if they develop shared assets that tie the competitors’ resources to each other (such as shared distribution systems developed by industry associations). Finally, bonds can arise if the cooperation is intense, as in the lining case. The competitors’ resources are not just tied to each other, as financial, technical, and social bonds are also included in the cooperative part of the relationship. It is, however, important to remember that a single actor is not able to create a new activity chain. A single actor can normally influence his direct relationships in the business network, while it is more problematic to influence indirect relationships, especially if they are weak in character.

Both competition, that develops links between competitors, and cooperation, that develops ties and bonds between competitors, can, as already mentioned, be included in one and the same relationship, but it is not possible to both cooperate and compete around the same unique resource within one and the same activity. Consequently, two firms involved in a coopetitive relationship need to have unique resources that serve as a means for competition and at the same time have other unique resources that enhance and develop both firms simultaneously. In the studied industries, competitors cooperated with each other in activities around unique shared resources that were far from the customers. Common systems for bottle returns and collective transport containers are examples of shared assets that make possible the reduction of costs and an increase in efficiency in distribution, which would have been impossible without the cooperation between the competitors. In the lining industry, the two competitors shared the personnel skills of the other competitor in their development of new material, and they also shared the cost for the development. The cooperative interaction can be explained by the possibility to develop shared assets or unique resources.

In contrast firms competed in activities close to the customers by using unique resources and competencies in the individual firm’s possession. In the brewery industry, each firm developed its own distribution system and gained the advantage provided by the possibility to expose and rearrange the exposition of its own products in the market. A well-developed nationwide distribution system, provided some breweries with competitive advantages whereas others used the advantage of the loyalty to the company that was present in certain regions. The same was true in the lining industry, in that it was possible to adjust and promote their products to the customers, due to personal and close relationships to them, and thereby create a competitive advantage. The competitive interaction can be explained by the possibility to use unique resources in the struggle with competitors within the market. The reasoning so far leads us to our second proposition.

Proposition 2: The cooperative and competitive parts of a coopetitive relationship are divided due to the closeness of an activity to the customer, in that firms compete in activities close to the customer (output activities) and cooperate in activities far from the customers (input activities).

The second characteristic of a business network is the connectedness of relationships within the network. Håkansson & Snehota [58] define a network as the aggregate structure formed by exchange relationships due to the connectedness between them. A dyadic relationship is affected and affects other dyadic relationships in the network structure, as they all are connected to each other.
Competition is traditionally defined as the conflicting and rivaling relationship between competitors.

and part of the same social structure, thereby creating interdependence between the actors’ relationships. A change in the content of one relationship will probably have effects on the focal actor’s relationships with other actors, as the relationships are embedded in the context. Embeddedness implies that the “economic action and outcomes, like all social action and outcomes, are affected by actors’, dyadic relationships and by the structure of the overall network of relations” [59]. Consequently, a focal firm must take into account how a change in one relationship will affect its other relationships.

Håkansson [60] argues that striving for control over a network can explain the interaction within a vertical network. Control over activities gives power. Contrary to power in vertical relationships, power in relationships between competitors is primarily connected to relative positions. Therefore, we argue that striving for increased relative strength and better positions in the network can explain the interaction that takes place in a business network. Competitor positions are connected to each other, not just as dyadic connections between the positions of two competitors, but as an aggregated structure of connected positions. In the cooperative relationship, a company can control resources and activities within the value chain, but that does not mean that it wields power in the relationship. Power related to a partner’s relative competitive position and strength is even more important. The reason for cooperation and competition can better be understood if all the competitors’ positions and the connectedness between them are included in the analysis.

If we return to the examples given earlier, Valio’s motive to cooperate with Milka can be understood in the light of the structure of relative positions present in the Finnish dairy industry. Valio’s position and strength relative to Milka is very strong. To understand why Valio chose to cooperate with Milka in spite of its relative strength, the entire network needs to be included in the analysis. As Valio is market leader, it would be possible to gain market shares from Milka by initiating a price if it only had to pay attention to the dyadic relation between Milka and Valio. In fact, Valio would be able to drive Milka out of business. Valio is probably afraid that the Swedish speaking customers would turn to another supplier, if they damage Milka. Our third proposition is accordingly the following:

Proposition 3: The decision to either cooperate or compete in a specific product or market area needs to be made with regard to all the competitors’ positions and the connectedness between them, as a change in one relationship within the network may effect the other competitors’ relationships and positions.

Conflicting Logic of Interaction

The totally different nature of the two types of interactions combined in coopetitive relationships are of importance, apart from the characteristics of the industrial network, for the division between competition and cooperation. The logics of interaction that cooperation and competition rest on are in conflict with each other, but the conflict can appear in different settings. Traditionally, the conflict is argued in theories on competition at the market and on cooperation in strategic alliances, the conflict is argued to be externalized. The two logics of interaction are divided between relationships and the conflict appears in the market when two competitors cooperate with each other to compete with a third company. This principle of division explains why the one type of interaction is argued to threaten the other.

The conflict between cooperative and competitive logics of interaction in the relationships that have been reported in this article differ, however, from the traditional description, in that the conflict is internalized within the coopetitive relationship, and hence within the two organizations involved in the relationship. The internal conflict
The different self-interests are in conflict with each other.

can be explained by the fact that the meaning that individuals ascribe to their own operations can differ from one individual to another, as individuals exist and act in different contexts that can be more or less competitive or cooperative (cf., [61, 62]). This can lead to the development of sub-optimized goals in different functions of the organization. [63, 64] amongst others argue that organizations must be seen as a systems of shared meanings, which indicates that consensus is required for collective strategic action to occur and to prevent suboptimizing behavior, and accordingly coopetitive relationships are almost impossible.

In this article, however, it is argued that the conflict not need be seen as a threat, instead it must be accepted and as issue for managerial considerations within the organization. This argument rests both on our empirical observations and on previous research. For example, Weick [65] is of the opinion that both differentiated interests and experiences and common collective action can exist simultaneously. The goals of individuals can be similar even if different means are used to achieve these ends. In accordance with his reasoning, some individuals can use competition as a means to obtain common organizational goals whereas other can use cooperation as a mean to obtain the same goals. Therefore, it is of great importance to make the individuals within the organization aware of the advantages of cooperation and competition, respectively, to help them accept that different individuals contribute to the coopetitive relationship in different ways, and that they together enhance the business of the firm. The following proposition about the management of a coopetitive relationship can hence be formulated.

Proposition 4: The conflict between cooperative and competitive logics of interaction is internalized in organizations involved in coopetitive relationships, and, hence, the acceptance of the conflict and consensus about organizational goals are managerial issues of great importance for the establishment and maintainance of a coopetitive relationship.

Even though organizations can internalize the conflict described above, it is difficult for individuals to do the same. An organization’s interaction in cooperation and in competition therefore has to be divided between individuals. In the lining companies, individuals within the market division and the division for material development participated in different types of interaction, and Milka separated individuals that competed with Valio in the marketing of milk from those that cooperated with Valio in the marketing of juice and yogurt. The division between cooperation and competition to not force individuals to internalize contradicting logics of interaction can either be made between different functional units in accordance with the value chain or between different product and market units.

In some cases, the same individuals may, however, be involved in both cooperative and competitive activities, as, for example, in the Swedish brewery industry, where the individuals that distribute beer also handle the collection and return of empty bottles (one activity in cooperation and the other in competition with competitors). In such a case, an intermediate actor, for example, a collective association (such as the Swedish brewery association), is needed to coordinate and define how to compete or how to cooperate with each other. The intermediate actor thereby exhibits a formal logic of interaction collectively agreed upon. The forming of a strategic alliance around one or the other of the activities could also be a alternative whereby one of the two parts of the relationship is detached from the hierarchy. It is thereby possible for individuals within the hierarchy and individuals in the alliance to participate in one or other part of the relationship and together to contribute to the maintenance of the coopetitive relationship. The following proposition is derived from the reasoning above.

Proposition 5: Individuals can not cooperate and compete with each other simultaneous, and therefore the two logics of interactions need to be separated. The two logics of interaction inherent in coopetition can be divided between different units within the firm, but if that is not possible the conflict can instead be controlled and coordinated by a intermediate organization.
Advantages Provided by the Different Interactions

Finally, something needs to be said about why firms engage in the complex and multifaceted coopetitive relationships described in this article. The obvious reason is that the relationship is advantageous. Through competition, competitors are forced to undertake measures not always demanded by customers to gain a better position relative to their competitors. Competition thereby give rise to a pressure to develop new products and markets [19, 28, 66]. The advantage of cooperation is also related to development, but the function of cooperation is rather access to resources than a driving force or pressure to develop (c.f., [43]). Through cooperation, a company can gain time, competence, market knowledge, reputation, and other resources of importance for its business [45]. New products can also be developed more cost efficiently, as each actor contributes with its own core competence. Extended, this means that actors can stay within their core business and still offer a wider range of problem solutions to their customers than if one company was to stand alone. The final proposition derived from this study is the following:

Proposition 6: The advantage of coopetition is the combination of a pressure to develop within new areas provided by competition and access to resources provided by cooperation.

CONCLUSIONS

In relationships consisting of simultaneous cooperation and competition, the closeness of activities to the buyer seems to matter, as our empirical findings point out that the firms tend to more frequently cooperate in activities carried out at a greater distance from buyers and compete in activities closer to buyers. The driving force behind this behavior is the heterogeneity of resources, as each competitor holds unique resources that sometimes give a competitive advantage and sometimes are best utilized in combination with other competitors’ resources. From a strategic point of view, this means that R&D activities can be carried out in cooperation with a competitor, but when it comes to launching a new product, competitors choose to compete to distinguish the products from each other.

Today’s business networks are complex gatherings of different kinds of relationships, which means that the traditional neoclassical way of analyzing competition is no longer valid. A focal firm can be, and usually is, involved in several different relationships at the same time in order to defend its position in the business network. Some horizontal relationships consist of pure competition, others of pure cooperation, and between the two extremes, there are relationships consisting of a mix of both, where some business units cooperate with the competitor’s corresponding business units while other business units compete in the traditional way. As a focal firm is embedded in a business network, a change in one relationship will cause changes in other relationships. These different relationships are essential for a company’s strategic actions as they will secure the company’s position in the business network. A mix of relationships with different content, both horizontal and vertical, is therefore required. Cooperation is important for utilizing the company’s limited resources in the most efficient way. Consequently, coopetition can be regarded as an effective way of handling both cooperation and competition between competitors. The benefits of cooperation are among others: (1) the cost for developing new products are divided among the cooperating companies, (2) the lead times are shorten, (3) each company can contribute with its core competence. Through competition, the competitors are forced to further develop their products and carrying out their activities in the most efficient way.

This explorative study based on personal interviews with business leaders in different lines of business has shed some light on the complex issue of coopetitive relationships between competitors. As we can see from the empirical findings, the flows of cooperation and competition can take many different forms. Both qualitative and quantitative studies are needed to penetrate this area of research deeper, as the findings in this study cannot be generalized into a common pattern for all industries. An interesting research question would be to see if the preparedness to cooperate and compete is the same in different lines of business, or if manufacturing industries alone can benefit most from coopetitive relationships. Another important question is when the competitive advantage of using unique resources in activities close to the buyer is lost, as the buyers cannot distinguish between the focal firm and the competitor.

REFERENCES


