EBS Universität für Wirtschaft und Recht

Literature Review

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Topic: **The influence of coopetition on performance**

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1. Introduction :

Before 1980 the cooperation between rivals' companies was seen as an illegal anti-competitive practices. However, with the increasing number of cooperation between companies the law change in the way to regulate this practice

The word coopetition was introduced in 1992 by Raymond Noorda who was the CEO of Novell, a software company. For him the term coopetition allows him to consider "the winning alliances led with its competitors with the aim of developer of the common standards." (Julien Granata & Pierre Marquès, 2014). This term refers to relations between companies, focussing specifically on cooperation and competition.

It is difficult today to give one definition of coopetition the term is still unclear; researchers do not agree on a single definition.

However, the main purpose of the coopetition for two companies is to gain benefits from their relationship in order to increase their performance over their competitors and their market.

That leads us to understanding the concept of company performance, which is another term that is difficult to give only one definition.

According to Govindarajan and Fisher (1990), company performance can be defined as "distinguishing the outcomes of organizational activities and the means by which these outcomes are reached" (Govindarajan & Fisher, 1990). Company performance can be defined differently by different scholars, as the "satisfaction of stakeholders" (Zammuto, 1984) or "effectiveness and efficiency" (Ukko, 2009)

However, most of the researchers agree that company performance is the sum of different indicators.

Thus, after having defined the terms coopetition and the company performance, the question to be asked is how coopetition influences company performance.

This paper will firstly put forward the different competitive behaviors that a company can choose, and discuss about the concept of coopetition, secondly the risks of coopetition will be identifying, and then, this review will explain more in detail the benefits of coopetition between companies.

2. The Coopetition as a strategy

2.1 The different strategies

The introduction has shown that the word coopetition arises from competition and cooperation.

The companies have the choice of different strategies to compete in their industry

The first is to adopt an aggressive competitive behavior. This strategy leads to adopt conflict relations between the competitors, an aggressive strategy is to engage different actions that will oblige their competitors to react quickly. This strategy will lead the most successful companies to gain leadership in his industry (Ferrier, 2001).

In a case of perfect cooperation strategy that implies a relation between at least two companies which are sharing resources, or develop themselves together (Gulati, Wohlgezogen, and Zhelyazkov 2012).

The third strategy is the coexistence strategy which implies to do not engage a lot of competitive actions and do not share any resources with competitors, this strategy does not lead to performance according to Le Roy and Hyacynthe Sanou, (2015).

Both of aggressive and cooperative strategies benefit only of their own advantages.

Whereas the coopetition strategy is an alternative strategy which let companies to gain benefit from both aggressive competitive strategy and cooperative strategy (Le Roy, Hyacynthe Sanou, 2015).

2.2 The horizontal and vertical coopetition

There are two different types of coopetition, horizontal coopetition, and vertical coopetition.

The horizontal coopetition which is the “relationships at the same level of value chain or between direct or mutually acknowledged competitors” (Yami, Castaldo, Dagnino,Le Roy, 2010). The horizontale coopetition concerned companies which offers the same kind of products to the same kind of clients. (Pellegrin and al, 2013)

The vertical coopetition occurs between suppliers and customers, for example a suppliers of electronics components can cooperate with a computer manufacturer while producing its own computers. (Chiambaretto, 2011).

A company need coopetition when it has a high need in resources.

However, the coopetition is a difficult and complex strategy to carry out successfully and the companies has to find a win-win relation with their coopetitors otherwise this strategy is unsustainable.

3. The complexity of coopetition

3.1 The dilema of coopetition

Firstly, the coopetition is a paradox concept arising from two opposite words, competition, and cooperation. The coopetitors as two find the optimal level of sharing resources in order to get the highest benefit from this strategy.

However, the main risk that a company incur of coopetition is to loose resources in favor to his coopetitors. That is why companies have to face a dilemma, “The existence of attractive opportunities and the risk of partner appropriation. Thus, they confront a risk to an opportunity, a chance to lose to an opportunity
to win.” (Granata, 2015)

3.2 The tensions arising from coopetition

Due to the paradox of coopetition, several tensions can emerge from coopetition.

Firstly, the role of coopetitors can be a source of conflicts in coopetition. Company’s goals are not the same as the common interest (Li, 2015). Companies must find the optimal position between their interest and the interest of its coopetitor(s). Secondly at the level of the individuals, the paradox of coopetition can be a source of tensions. Individuals have to cooperate with company which in the same time are competitors (Tidström, 2014).

Furthermore, a difference of size and power between coopetitors can be a source of tension. Indeed, if a company “A” is dependent on resources of a company “B”, the company B can be tempted to take a highest benefit from the coopetition, and exploit the firm A (Tidström, 2014).

Finally, other tensions specific to the case of coopetition for a common project between coopetitors can emerge. For example, when Sony and Samsung join their strengths to develop the LCD technology for television.

In this coopetition where companies are very similar, tensions arise when coopetitors confront each other to show their supremacy, and this until a company will run the governance of the project (Le Roy, Fernandez, 2013).
In this case of similar companies with similar capabilities and knowledge, the distribution of tasks can be a source of tension (Le Roy, Fernandez, 2013).
Finally, in this case of horizontal coopetition, tensions can emerge from the dilemma of coopetition, companies must ask themselves which strategic information should be shared and which one should be protected. Shared too much information with a coopetitor which is competing in the same industry and offers the same products will give him a very large competitive advantage.

3.3 The threat of opportunist behaviors

Furthermore, according to Cassiman and al, (2009), each company will try to gets a higher benefit from coopetition than its coopetitors. This behavior between competitors is a source of tensions and pressure which are difficult to manage and could be a threat to performance. The case of the French winemakers of Pic Saint-Loup directed by Julien Granata is a good example to illustrate the threat of coopetition on an industry. In this case, different winemakers decided to make a geographic alliance in order to distinguish a specific zone of wine production, the wine from Pic Saint-Loup. It was a coopetition based on differentiation. Thereby, each coopetitor have the right to sell its wine under the brand of Pic Saint-Loup. The success of this coopetition attracted other companies which wanted to produce under the brand Pic Saint-Loup. With more coopetitors it began to be difficult to manage the coopetition. Some coopetitors began to sell wine with poor quality, in order to take benefit from the image of the brand “Pic Saint-Loup”. This bad behavior show that companies always try to get a higher benefit than its coopetitors.
This behavior described in this case is also called an opportunist behavior.
The opportunist behaviors are one of the most important weakness of coopetition (Assens, 2011).
Moreover, companies often choose to adopt this opportunist behavior in the case of two scenarios, a technological change in the industry or a change in the regulation. In both case, coopetitors are capable of changing their behaviors for their own profit.
A different case of opportunist behavior can be describing through the example of coopetition between Samsung and google. The two companies are sharing resources to

produces a final product which needs the Google competencies in software and Samsung competencies in hardtware. But after few years Google launched its own hardware product with nexus and Samsung tried to compete in software with Google with its own operating system Tizen. In this case the opportunist risk will be for Samsung over Google that Google offers nexus phone with a better quality on software that with the Samsung's phones with Google operating system.

4. The management of Coopetition

The coopetition is a very complex strategy and for it to lead to performance it need to be closely managed. Companies must manage relations to avoid dysfunction bound to the paradox

4.1 The principle of separation

"Companies alternate cooperation and competition strategies and the transition from one to another is not symmetrical; transitions between confrontation and agreement would indeed structure in space and time." (Ibert, 2004).

This paradox must better not be internalized by the individuals into a company (Bengtsson et Kock, 2000; Pellegrin-Boucher, 2006). Individual must dealing only with competition or cooperation. Not separate cooperation and coopetition can be perceived as a psychological challenge for individuals, and will be a threat for the performance. Separating coopetition and competition is the way to avoid different tensions into a company. The scholars call this way to manage coopetition "The principle of separation"

This principle can be illustrating through the example of the small and medium enterprises (SME) of the winemakers of Pic Saint-Loup.

The coopetitors decided to create a trade union which gathering forty-five different winemakers. This trade union is based on the principle of separation, here, "a manager was hire to deal with the collective actions of the trade union. He takes care only of the coopetitif aspect and never takes part of competition relations between members"

Thereby, the manager is protected against the tensions linked to the paradox of coopetition.

4.2 The principle of Integration

According to Julien Granata and Frederic Le Roy (2014) there is second important principle for managing coopetition, this is the principle of integration. This principle is a continuation of the principle of separation. Although the separation of competition and cooperation is important for the individuals of a company, the integration of coopetition by some individuals like the heads of managers, the director of research and development or the commercial director is essential to understand the coopetitive logic. (Le Roy, Fernandez, 2013). These individuals must integrate the principle of integration to avoid situation of misunderstanding, and because it is their role to find the optimal level of coopetition and competition. (Teece, 1992)

4.3 The role of the alliance managers

The alliance manager is an individual in a company who follow the principle of separation, an alliance manager deals only with the cooperation relations between competitors.

According to Estelle Pellegrin-Boucher (2006) “80% of alliance managers don’t consider themselves competing with their partner counterparts”

The alliance manager role is to be the link between his company and the partner’s company and to influence his counterpart (Pellegrin-Boucher, Fenneteau, 2007), this influence must be based on trust.

The alliance managers must be totally independent of the rest of the others relations and actions between his own company and its coopetitors.

It can happen that two companies are in a strongly position of aggressive competition between each other and at the same time the alliance managers of the two companies are going to sign one of the strongest alliance between the companies.

4.4 The arbitration

The alliance managers are not protected against the tensions that can emerge from coopetition. The alliance managers must act like a partner with his counterparts and it is sometimes difficult to take position when both coopetitors offers the same products. In another case the alliance managers can be in competition with the salespersons of its own company but from another area (Pellegrin-Boucher, Fenneteau, 2007). Thereby an arbitration can be asked to the executive. This case happen when there is a lot of coopetitiors in industry compound of different areas like cars manufacturing which imply engineering, software, hardware.

5. Coopetition lead to performance

5.1 A profitable strategy for companies

According to scholars, coopetition increases the performance of companies. Levy and al. (2003) shown a positive relation between coopetition and companies financial performance, while Quintana-Garcia and Benavides-Velasco (2004) find that coopetition have a positive impact on the technology diversity. Bradenburger and Nalebuff (1996) together with Lado and al. (1997) agree to say that coopetition is the strategy with the highest potential of performance for companies

5.2 Coopetition as a help for the innovation race

Companies place great emphasis to innovation which lead to gain market shares and ensure the company’s survival. However, small and medium-sized entreprises (SMEs) often suffer from limited resources and capabilities, most of SMEs face different constraints regarding their research and developments and innovations efforts (Gnyawali and Byung-Jin, 2009). The coopetition is a strategy which let firm to overcome these limits. In sharing resources or knowledge companies can develop technologies and innovate.

Regarding big business, notably in the area of new technologies or for the aeronautic where the innovation is primary, companies often cooperate in research in development with their direct competitors. In the aircraft industry, Embraer and Boeing, opened together few research and development centers across the world. In the electronics industry, Sony and Samsung create together a new enterprise for research and development for the LCD technologie of television. After pooling their resources, the two companies have insert this technology in their own products (Servajean-Hilst, 2014)

5.3 The multiple advantages of coopetition

For the SMEs which are not big business the coopetition is a way to be better represented in their industry. In an industry dominated by few big business, a coopetition between SMEs let them become direct competitors to big businesses.
Furthermore, the share of knowledge, capabilities and resources between company, especially if their strengths differ in a complementary way procure a notable advantage. And in this way, coopetition can sometimes create new markets or new segment in an existing market.
In addition, coopetition lead to economies of scales. Due to coopetition, companies can minimize their costs. The coopetition "reduces uncertainty and the timespan for Research and development, mitigates risk, accelerates the product development process, leverages resources" (Kossyva, Sarri, Georgopoulos, 2014)
According to Kossyva, Sarri and Georgopoulos (2014) in joining their strengths and in ordering larger raw materials, to suppliers, coopetitors increase their bargaining power over suppliers (Kossyva, Sarri, Georgopoulos, 2014).
Companies can withdraw several other advantages from coopetition, for example, if coopetitors are not competing in the same market, they can refer business without to each other without worrying about losing customers.
Furthermore, if the relations between coopetitors is going well, coopetitors can extend their relations to a financial relationship, and it happened that coopetitor become an investor for the other company.

6. Conclusion

The coopetition is a strategy which provides highest benefits to companies as a pure competition strategy or a pure cooperation strategy. A company can choose to coopete horizontally (at the same level of value chain) or vertically (between supliers and customers).
The benefits from coopetition are numerous, and this strategy provides both the advantage of cooperation and competition.

Thus, the coopetition affects directly the performance of companies
However, the coopetition is a very complex strategy, especially regarding the management of this strategy. The biggest challenge for a company is to find a good way to manage it.
Coopetition is a source of tensions and includes different drawbacks that a company must avoid by its management.
There is not a unique way to manage coopetition, it depends on different factors as the size of a company, the power of their coopetitors etc…
Recently scholars were interested about the management of the coopetition, and find different principles essentials to apply for a successful coopetition.
However, the coopetition remains a recent concept where the field of study is still limited.

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