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Co-opetition: the organisation of the future

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Abstract *This article predicts that strategic planners in organisations of the future need to consider the potential benefits of collaborating, co-operating and co-ordinating with others serving the same markets, rather than pursuing conventional “competition”. The author defines this new mindset as “co-opetition”. It has been observed that the competitive psychology represents oneself as being better than others, and stresses the winning of more resources at their expense. The antithesis is active co-operation, wherein one embraces competitors in partnership to the benefit of all. It is argued that the new business environment demands new kinds of business relationships, and that “co-opetitive” partnerships have emerged as a more effective response to changed environmental threats and opportunities. Co-opetition can deliver synergy if carefully planned, managed and controlled, and preconditions for achieving this outcome are examined. Equally, weak management of a relationship can produce the opposite effect, so preconditions for survival are also discussed. The conclusion is that, on balance, co-opetition deserves marketing planners’ close attention.*

To raise new questions, new possibilities, to regard old problems from a new angle, requires creative imagination and marks real advance in science (Albert Einstein).

Introduction: co-operation for competition

“Co-opetition”, as in the title of this article, describes a business situation in which independent parties *co-operate* with one another and *co-ordinate* their activities, thereby *collaborating* to achieve mutual goals, but at the same time *compete* with each other as well as with other firms. The basic philosophy underlying *co-opetitive* business relationships is that all industrial management activities should aim for the establishment of mutually beneficial partnership relationships with other actors in the system, including competitors (Zineldin, 1998, 2000). For instance, two organisations might establish a strategic alliance for product development and innovation and at the same time compete with each other in the marketing of the collaboratively developed products.

Co-opetition thus implies that organisations can interact in rivalry due to conflicting interests, and at the same time co-operate due to common interests (Bengtsson and Kock, 2000). The central, overarching goal is to create mutually beneficial exchanges and added value. Hensler (2000) describes as “a myth” the notion that competition is an inevitable, productive, enjoyable and character-building part of human nature. He cites Kohn (1992) in support:

The simplest way to understand why competition generally does not promote excellence is to realize that trying to do well and trying to beat others are two different things.

Margulis (1998) also questioned the inevitability of competitiveness. His serial endosymbiosis theory (SET) of the evolution of life forms is built on an anti-Darwinian



merging of cells of different histories and abilities. Similarly drawing on biology, Hensler (2000) observes that merging of bacteria into the ultimate evolution of fungi, plants, and animals provides empirical support for the merits of co-operation. Zineldin (1998) transfers this to the field of marketing planning and strategy as “business ecology”, in which competitors and other parties create “synergies”, a corporate philosophy that is highly relevant to the contemporary economic environment.

The fundamental role for the organisation of the future will be to create and develop processes of strategic co-operation that will enhance long-term relationships, retention and loyalty. Co-opetition is a relationship based on a value net of involved actors – suppliers, distributors, subcontractors, “complementors”, competitors – who collectively add value to one another’s organisations. For example, Dell and Compaq simultaneously compete in hardware development and manufacture and co-operate with software producers such as Netscape and Microsoft. Bengtsson and Kock (2000) cite the cases of Trellex and Skega, two Swedish world leaders in protective lining products for the mining industry. Formerly competing with each other in both product development and in the market, they now co-operate in the development of material and in basic research. Another case in point is the co-operation and competition between Permanova, a Swedish manufacturer of fibre optics, and Rufine Sinar, a German manufacturer of laser sources, who together develop lasers equipped with fibre optics. Permanova has gained access to knowledge about lasers and access to the market, while both parties have benefited from sharing a developed industrial infrastructure. The main advantages of co-opetition are thus the sharing of knowledge, the pooling of competencies, the increased incentive to take risks and be proactive in product development, and the prospect of healthy competition on a level playing field.

Criteria for co-opetitive relationships

Deciding to implement a co-opetition strategy is not an easy task. It involves relationships, interactions, attitudes, motives, behavior, needs, actions and satisfactions. The parties involved identify their needs, which stimulate a drive to take action, which ideally leads to the satisfaction of the need. The seven preconditions for the development of enduring and mutually beneficial business relationships and exchanges are listed below:

- (1) two or more individuals, groups or organisations are willing to be engaged in an interactive exchange relationship;
- (2) each party possesses something of value that the other party wants;
- (3) each party is willing to give up its “something of value” to receive in return the “something of value” belonging to the other party – in other words, the relationship is perceived to be mutually rewarding;
- (4) each party is free to accept or reject terms and conditions of exchange that will leave them better off (or at least not worse off) than before the exchange;
- (5) the parties are able to communicate and interact with each other;
- (6) the parties recognise that ethical values and norms, interdependence, commitment, and adaptation are crucial for the creation, development and enhancement of a positive, sustainable long-term relationship; and
- (7) the parties can strike a positive balance between the pros and cons of the relationship.

An individual or organisational relationship has to do above all with interaction and exchange. But an asymmetry of power in the relationship in a consumer market is more obvious than in a business-to-business relationship. This does not mean, however, that there is always a balance of power in business-to-business relationships.

Developing a co-opetitive relationship

Many authors have become dissatisfied with the application of the marketing mix to business-to-business marketing of industrial goods. They have stressed that the industrial relationships are frequently long-term and close, involving a complex pattern of interaction between and within each organisation involved. In response, Håkansson (1982) developed a new “interaction approach” to industrial markets. The theory of industrial marketing explains the relationship and interaction between sellers and buyers of industrial products in terms of four main components – environment, atmosphere, interacting parties and interaction process – plus a number of other sub-variables.

The importance of the interaction approach is that all the four major components and their sub-variables must be taken together in order to understand the nature of the relationships and the factors influencing them. Within a given environment, organisations must develop a clear, real and strong relationship orientation in formulating their corporate policy and mission.

A feature of co-opetitive relationships are that the parties adapt their processes and products to achieve a better match with each other, sharing information and experiences, and eliminating or minimizing the sources of insecurity and uncertainty. This functions as a way to demonstrate commitment, which leads to a higher level of trust and a better atmosphere for creating and enhancing an ongoing strategic business relationship.

Relationships that partners ultimately deem successful involve co-operation and co-ordination to create new value together, rather than mere exchange (Kanter, 1994; Christopher and McDonald, 1995; Grönroos and Ravald, 1996). The relationship and the interaction process are influenced by the atmosphere in the specific environment in which partners operate. In turn, the atmosphere is influenced by the characteristics of the parties involved and the nature of the interaction itself, and can affect the relationship in a positive or negative way.

“Atmosphere” can be described in terms of power-dependence relationships that exist or emerge over the lifecycle of a relationship, technological leadership, skills and competence, organisational size and structure, strategies and experiences, the state of co-operation or conflict, uncertainty, the closeness or distance of the relationship, and the partners’ mutual expectations at both the individual and organisational levels.

Thus, the co-opetitive relationship can broadly be defined as follows:

An ongoing relationship between different independent organisations (partners) which co-operate and at the same time compete with each other. They have a common vision and goal regardless of the legal or organisational forms and borders. The relationship can range from handshake agreements to licensing and equity joint ventures. The partners are able and willing to co-operate and compete with each other on a basis of mutual commitment and trust, and a mutual sharing of information, risks, and rewards. A growing interdependence among

key strategic partners is vital to continued strategic relationship. Such a relationship is treated by the partners as a non-zero sum game.

Creating a co-opetitive relationship is an efficient way to co-operate through strategic networks, as long as the sum of production and organisational costs is less than that of “going it alone”. In short, the partners believe that their success does not require others to fail. They also have a philosophy that, in the spirit of trust and commitment, a win-win approach is the most effective way to create a larger pie and then obtain a bigger slice. The main principle of CR is to seek out opportunities to create new values together, thereby achieving synergy effects.

Criteria for the survival of the relationship

A well-developed ability to create and sustain fruitful co-opetitive relationships confers significant competitive advantages. It can also entail a very large potential for problems and difficulties for one or more of the partners involved. The main question is how the organisation of the future should develop an effective process for establishing and maintaining strategic co-opetition:

The primary task of the business manager is to handle the interdependency (between companies) by relating the actions and resources of his own company to those of its customers, suppliers and others in the complex network that surrounds it. This process is not simply about co-operation. It involves the manager working *with* other companies, but it also involves working *against* them, *through* them and often *in spite* of them (Ford *et al.*, 1998).

The mere creation of co-opetition and a co-opetitive relationship does not, of course, guarantee its long-term survival. A long-term relationship does not always promise paradise. The simple but potentially difficult keys to a non-zero sum game relationship are trust and commitment. When there is trust, the need to pre-specify every possible future detail or outcome is greatly diminished.

Creating and enhancing a sustainable relationship has both a cost and a value. It takes a long time to develop one, and the time dimension affects the parties' profitability. Thus, those involved in such a relationship must share a philosophy about how they should run it, recognising the mutual interdependence of the partners. They should consider that a weak relationship can easily transform into problems and conflicts. Indeed, the best successful co-opetition relationships are true partnerships that meet certain criteria. Zineldin (1998) has identified the following:

- *Individual willingness, motivation, and strategic fit* – the partners have a strong motivation for entering the relationship. They have something of value to contribute. Each has a clearly identifiable source of sustainable competitive advantage. An increasing level of interdependence develops. Partners have a common long-term goal and want to make the relationship work to achieve it.
- *Interdependence* – The partners have complementary assets and skills. Neither can accomplish alone what they can together. They invest in each other to demonstrate their respective stakes in the relationship. They need each other.
- *Cultural fit* – Each partner carries out its commitments and has a trusting attitude. Both are able to share the information and knowledge required to enhance and sustain the relationship. (Many partnerships have failed because

partners have neither shared information nor allocated their best people, and have given low priority to sustaining the relationship.)

- *Organisational arrangements and institutionalisation* – The relationship is given a formal status. The partners have defined responsibilities clearly, and agreed on an effective dispute-resolution mechanism, so that the first problem to emerge will not sour the atmosphere and lead to a decline in trust.
- *Integration and integrity* – The partners develop linkages and shared modes of operating. They build an effective communication system between many people at many organisational levels. They do not abuse the information they gain. They are flexible, and they respect each other. They show mutual integrity and act in honourable ways that justify, enhance and sustain mutual trust and commitment.

Because the development of effective co-opetition depends on how the partners interpret and re-interpret different acts and behaviours during the lifecycle of the relationship, the problem of maintaining an atmosphere of high loyalty may be greater than that of creating one in the first place. This is where the principal challenge of co-opetition lies. While co-opetitive relationships generally offer more flexibility and a lesser cost than traditional competition, organisational marriages require a melding of frequently disparate corporate cultures. Thus, unhappy relationships and divorces are an all too common outcome, largely because of negative human behaviour.

Trust, commitment and co-opetition

For mutual benefits and interests to be achieved, it is imperative that co-opetitive partners communicate, co-operate and compete in an atmosphere of frank debate, trust, interdependence, and mutual positive expectation:

Close cooperation and good communication processes are essential, given the type of transactions involved, product features, and the client's technology [...] Compared to relationships with other customers, the relationship between Francelec and Honor is said to be based on an unusually high level of trust (Perrin and Valla, 1982).

Sherman (1992) stresses that the biggest stumbling block to the success of co-opetitive relationships is lack of trust. According to the classic view, trust is a generalised expectancy held by an individual or an organisation that the word of another individual or organisation can be relied on (Rotter, 1967). Confidence on the part of the trusting party results from the belief that the trustworthy party is reliable and has high integrity, which is associated with such qualities as consistency, competence, honesty, fairness, responsibility, respect, helpfulness, and benevolence (Sherman, 1971; Altman and Taylor, 1973). An organisation must consider all these factors – not to mention ethical standpoints and crisis resolution mechanisms – so that the mutual benefits and interests may be achieved, and the relationship is thereby managed, maintained, sustained and enhanced.

Trust does not imply naïve revelation of company secrets outside the collaborative arrangement, but implies the belief that the partner will act with integrity. Nor does it imply “blind trust”. Trust and trusting behaviour cannot be forced or imposed, but have to be earned. Thus, developing trusted strategic business relationships will probably imply a long-term process or an evolutionary

pattern in which, stage by stage, the risk and uncertainty decrease, and commitment and trust increase.

Benefits of co-opetition

Partners in a co-opetitive relationship can create new value by reducing the transaction cost, the uncertainty and the level of the financial and practical risks associated with the purchase or joint investment. In such a relationship, there is a great opportunity to gain access to vast information about common needs, aspirations and plans, which provides a substantial competitive advantage by strengthening strategic cooperation:

Partnership in supply chain relationships is clearly a very powerful strategy. It encourages a joint approach to problems and it can lead to reductions in costs, improvements in quality (Lamming, 1993).

However, it is critical that the development of the relationship is carefully built around credibility and commitment. Mutually beneficial close co-operation between suppliers and distributors or retailers – based on interlinked logistics, JIT and sales intelligence – allows the supplier to schedule its production and distribution process on the basis of known demand rather than unpredictable orders.

Today, many organisations are competing through strategic co-operation rather than simple competition by establishing formal or informal strategic alliances and networks that range from simple exchanges of technology and markets to industrial mega-deals. Examples include:

- Apple, IBM and Motorola as the supplier of Apple's computer chips, a collaboration that would have been unthinkable ten years ago;
- Orrefors Kosta Boda, a Swedish glass and crystal manufacturer, and its Danish competitor Royal Copenhagen;
- Mitsubishi and Volvo;
- IBM, GM and Digital Equipment Corporation;
- McDonald's;
- Benetton;
- Marks & Spencer; and
- IKEA.

These companies are competing through strategic business relationships and networks, and have thereby achieved substantial and profitable growth.

A sustainable co-opetitive relationship offers the partners many advantages and opportunities (Jüttner and Wehril, 1995). For instance, they can establish an alliance to develop collaborative programs beyond their legal boundaries in research and development, production and joint sourcing. This will lead to such significant benefits and synergy as:

- economies of scale;
- lower costs;
- a skilled labor force;
- high levels of R&D;

- access to superior technology;
- access to new markets;
- greater customer value being added; and
- profit for all participants in the alliance or network.

The dark side of co-opetition

Most authors concentrate on the benefits of creating and enhancing a long-term business relationship, but the question is: do all co-operation and long-term relationships promise heaven? The answer is, of course, that co-operation and benefits can be counterbalanced by burdens and conflicts. Yet little research has been published on these negative consequences:

At the same time one cannot avoid noticing that there is a lack of studies of the problems or difficulties with close relationships [...] Of course, there are a large number of studies analyzing market solutions, i.e. the case with no relationships, but that is another question. We mean that business relationships entail costs and problems that warrant some attention [...] It is argued that the burden of relationships is the other side of the benefit potential [...] it is the automatic consequence of the development of a fruitful relationship [...] Close relationships can sometimes become “black-holes” as mutual expectations increase and thus demand on each other’s resources increases. In these cases a relationship can be an economic burden without anyone noticing it (Håkansson and Snehota, 1995).

These aspects deserve more attention from scholars.

The following are some of the negative consequences of developing relationships which are *too* co-opetitive:

- Building and maintaining a close relationship is resource demanding and always an uncertain investment without a certain outcome. A virtuous circle can turn into a closed loop of cause and effect that destroys efficiency, productivity, and profitability. The values of a co-operation change over time, and the development of a relationship depends on how each partner interprets and re-interprets different acts and behaviors during the life cycle of the relationship. Thus, besides the obvious monetary costs, a close relationship has hidden costs that must be taken into account.
- Lack of experience in working together with new partners can make considerable demands on management’s time, attention, efforts and energy, which may lead to neglect of the organisation’s core business activities. According to Bengtsson and Kock (2000), four different types of conflict can threaten co-opetitive relationships, i.e. intra-partner, inter-role, inter-partner, and personal.
- A co-opetition strategy may incur too many costs in co-ordinating and controlling the co-operation and competition strategies. Time and resources have to be devoted to learning about each other, co-ordinating activities with the potential partner, and carrying out the adaptations needed to maintain and enhance the relationship.
- Those adaptations – technological, economical, cultural, psychological or administrative – also require resource mobilisation. The predicted return on such investment is uncertain.

- Sharing activities and giving up control over some resources seem to be more or less automatic consequences of close relationships, and imply some degree of loss of freedom.
- A co-opetitive relationship may be managed so poorly that a strategic opportunity is lost. Often, producers and distributors have conflicting goals and objectives. A manufacturer may believe that a distributor is not efficient enough or not actively pursuing new customers.
- Power and dependence are also sources of conflict. One party can use its technical, political, financial, or emotional power to force the other to act in a way that is in its economic best interest. If a dealer is dependent on one producer or a few manufacturers, the dealer may be obliged to take on excessive inventory and incur high service costs. If a producer is highly dependent on a distributor, it may lose touch with its final customers.
- If organisations become more dependent on other parties, their vulnerability may increase. Co-opetitive relationships that are too close can remove flexibility by tying one party to a specific technology.
- Too close co-opetition can easily be a barrier to leaving the relationship. If one partner wishes to leave for whatever reason and the other does not, the first may feel betrayed by the prospect of losing the investments made in the relationship. Many subcontractors who are highly dependent on their subcontracting companies may find themselves in financial trouble, not because of their own inefficiency or lack of productivity, but due to their customer's problems.

Long-term business relationships do not come free of problems. When IKEA's sales volume reduced recently, many of its strategic partners in Sweden and Denmark were bankrupted (Billing, 1996). The alliance between KLM and Northwest Airlines did not live up to expectations and was deemed a failure. KLM had invested \$400 billion in the relationship, and the result was large losses for both partners (Alexander and Payne, 1993).

Conclusions

The development of long-term co-opetitive relationships by organisations of the future requires moral and ethical standards plus enough trust and the patience not to try to exploit short-term gains at the expense of long-term benefits. It may constitute a cliché to say so, but setting up and maintaining a successful co-opetitive relationship has close parallels with marriage. There is a courtship period, when both parties get to know each other. Then there is a ceremony, the signing of the business contract, which binds both parties to certain terms and conditions. Conflicts may arise in due course. They can be resolved if the mechanism is clear and agreed. If not, there is the constant spectre of divorce, initiated by one party or the other.

This begs the question of whether people, countries or organisations should have relationships at all. A logical answer is that the question itself is an illogical one. Co-opetitive relationships do not always work as planned, but there is no life without relationships. People, countries, or organisations are not islands. Avoidance of the possible consequences by evading involvement is not a sensible

option. It is undoubtedly true that neither the initial decision nor the subsequent commitment is easy. But this fact simply demands that the prospective partners in co-opetition recognise the challenges as well as the benefits and have realistic expectations of the outcomes ... and then work hard on forging a successful and enduring alliance.

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