

## coopetition

*Tanya Sammut-Bonnici*

Coopetition is the occurrence of both competition and cooperation between a firm and its competitors, suppliers, distributors, partners, and regulators.

### AREAS OF COOPERATION

The most common motives for firms to engage in coopetition are to develop larger markets, to improve industry standards, to share the costs of research and development, and to increase consumer awareness for the benefit of all the industry players.

In the communications industry, Vodafone, T Mobile, and Orange, among other firms, cooperate to maintain interconnected telephony platforms, which in turn generate a larger subscriber base for the industry. Cooperation in telecommunications is ubiquitous. In the past years created compatible communications networks, uniform technology standards (such as GSM, UMTS, and 3G), and facilitated the coordination of complex subscriber billing across networks and borders.

### AREAS OF COMPETITION

Firms may engage in competition in areas such as improving their products' quality, adjusting their pricing policies, innovating their distribution network, engaging in independent marketing, and increasing their cost effectiveness.

Other industries, such as the automotive and information and communications technology (ICT) industries, have adopted this hybrid form of competition and cooperation to nurture R&D and negotiate with regulators. Cooperation between industry rivals provide opportunities to access complementary resources, new technologies, common marketing strategies, and other resources residing in the industry network.

Coopetition transcends competition and cooperation, drawing synergies from these opposing forces. It fosters a win-win scenario in which a firm attempts to increase its revenue, not through the cannibalization of competitor's

market share but through the creation of larger, more secure markets.

### DRIVERS OF COOPETITION

Coopetition emerges from the increasing interdependence of firms in complex markets. The element of cooperation provides strategic flexibility and collective action to counteract future uncertainty, such as economic recessions, fluctuations in consumer demand, disruptive innovations, and changes in the regulatory framework.

### CONFIGURATION OF COOPETITION

Coopetition between industry players may take various configurations. Cooperation may occur between partners in research and development, while the same partners are competing aggressively for new customers. Firms may cooperate to challenge competitors that are not part of the alliance network. Cooperation in a competitive industry occurs in complex arrangements where the boundaries between cooperation and competition overlap.

### HIERARCHY AND EXCHANGE OF RESOURCES

Partners in cooperative networks typically exchange three types of resources: information, assets, and status. A firm's capacity to make use of network resources depends on its power structure among its partners and its hierarchical position in the network.

Advantaged firms, which have more resources or a more central position in the network, are likely to gain more benefit from cooperation. They tend to discover competitive opportunities earlier than their competitors and have the ability to utilize the information in strategizing and implementing competitive actions. They are quicker in accessing resources and in exploiting them to engage aggressively in competitive actions.

Not all firms approach coopetition with the high-minded goal of mutual benefit. A firm may have its own countering motive and act to the detriment of its competitors. It may draw more commercial information than it contributes to the alliance, thereby creating its own competitive advantage. If the firm is an industry leader, it may have a clustering motive to increase its power in the market place.

## 2 cooperation

### GAME THEORY AND COOPERATION

The main principles of cooperation have been described in game theory, a scientific discipline that received attention with the works of John Forbes Nash on noncooperative games. The application of game theory to cooperative games in strategic management has been made by various authors (Brandenburger and Nalebuff, 2002; Camerer, 2007; Saloner, 2007).

Game theory is useful for business strategy in generating strategies that are otherwise not visible or may be counterintuitive (such as building an alliance with competing firms). Game theory offers a logical and mathematical approach to explain objective-based decisions that involve a number of players and where there is an interdependence of outcomes.

The building blocks of decision games are the players, their decision options, and the information they have on the outcome of these options. The players have an idea of the possible outcomes and how they can benefit from the respective outcomes. Each outcome depends on the nature of the actions and agreements put forward by the players. Strategic games have these common features: committed players, decision options, industry and market knowledge, preferred outcomes to the advantage of the individual player, and preferred outcome to the advantage of all the players.

The games that Brandenburger and Nalebuff describe are a variety of decision options and outcomes that encourage mutual benefit for the players. They promote the concept of cooperation and provide industry examples on how cooperation pays off in some situations, and competition in others. In their analysis of the video games console industry and Nintendo's ability to produce profits, they use a game theory approach to model Nintendo's pricing policy.

### COMPLEXITY THEORY, COMPLEX ADAPTIVE SYSTEMS, AND COOPERATION

Complexity theory provides an alternative perspective of how systems (such as the

telecommunications industry, the Internet, and international corporations) emerge, adapt, and evolve. It describes how the interactions between competing firms give rise to industry-wide benefits, such as the development of technology standards. The insights from complexity theory that are crucial to co-operation is the high level of adaptive capacity in organizations that exhibit the characteristics of complex adaptive systems (CAS), such as adaptation, self-organization, and cooperation. Cooperative behavior in CAS enables organizations in an industry to change, evolve, and grow rapidly. The Internet required the widespread cooperation of technology firms to develop compatible network platforms. Competition and collaboration arise between agents in a CAS, driven by the mutual benefits of collaboration. Alliances emerge at every level and in every kind of CAS, from ecology to politics to the evolution of new industries.

See also *complex adaptive systems; complexity theory; game theory; strategic alliances*

### Bibliography

- Brandenburger, A.M. and Nalebuff, B.J. (2002) Use game theory to shape strategy. *Strategy: Critical Perspectives on Business and Management*, 4, 260.
- Camerer, C.F. (2007) Does strategy research need game theory? *Strategic Management Journal*, 12 (S2), 137–152.
- Gnyawali, D.R., He, J. and Madhavan, R. (2006) Impact of co-operation on firm competitive behavior: an empirical examination. *Journal of Management*, 32 (4), 507–530.
- Saloner, G. (2007) Modeling, game theory, and strategic management. *Strategic Management Journal*, 12 (S2), 119–136.
- Sammuto-Bonnici, T. and McGee, J. (2002) Network strategies for the new economy. *European Business Journal*, 14, 174–185.