International
Journal of
Management
& Organizational
Studies

Volume 2, Issue 4, 2013 **ISSN: 2305-2600**

Network Level Strategy: Paradox of Competition and Cooperation

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ABSTRACT: *In this dynamic environment strategy formation is a difficult task. Organization works in an environment that demands relationships among the organizations. Basically there are two types of relationships first is to compete with other or second is to cooperate with others. First option gives us a win-loss situation while other gives us a win- win solution. Both of them have merits and demerits. The purpose of this paper is to find out the best approach for the development of strategies at network level. And this study reveals that competition and cooperation are the paradoxical situation. One can never neglect one. Hence to compete well cooperation is compulsory. For the survival of industry sometimes collaboration is necessary but it is only suitable as a short term arrangement and competition is the essence of business and a long term approach for the network level strategies.*

Keywords: competition, network, cooperation and collaboration, Paradox, Survival, and Strategy

The basic purpose of a business is to earn profit. The profitability depends upon the market share of business. Companies that have maximum market share get more profit as compare to their competitors. Companies try to develop effective strategies that help to fulfill basic purpose of the business. Further these strategies systematically aligned with the business to get maximum advantage. Some times to capture the market they align with one another to create groups so that they can share the fruits of one another's success or competencies. This grouping demands development of effective strategies about either to compete or to cooperate with other companies in the networks. It is a paradoxical situation in which companies has to decide either to develop strong relationships with their alliances and shares everything or just collaborate for their own benefit. Joint ventures and mergers are best example of networking. And the impacts of this paradox can be clearly seen in the joint ventures (Porter 1981).

Basically when we talk about paradox there is always two types of perspectives both are important and contradict. And it is the responsibility of the strategist to evaluate the cost and benefits of both perspectives and try to develop a best blend of both. The companies that prefer to develop relationships on the basis of competitive market forces and decide to work autonomously are considered as the followers of the discreet organization perspective. They believe that the best way to capture market share is to promote their own competencies instead of using someone other's skills.

Usually the large scale companies adopt this perspective. On the other hand there are the companies that prefer the networks are in the favor of embedded organization perspective. They consider cooperation is the best tool to compete in the market and form their strategies in order to share the fruits of success of each other. They share both the skills and competencies in order to gain mutual benefits. The companies that emphasis at discreet organization perspective are in the favor of competition instead of cooperation and focus only at their own self interest, while on the other hand the companies that are in the favor of embedded organization perspective prefer cooperation over competition and develop a relation of trust (Elliott and Percy 2007).

In this rapidly change environment it becomes a necessity for firms to enhance their own power to get competitive edge over their rivals. They should continuously work in order to compete with the forces of markets. Basically there are five forces that can influence company's strategy to compete with environment (Porter 2000). These forces are the competitors, buyers, suppliers, new comers and the substitute. Basically in the discreet perspective the companies consider themselves as the isolated entity from the other companies and demonstrate a selfish behavior in the market. They just try to compete and with other by overtaking there competencies. They don't feel any need of association with other firms and enjoy an independent strategy making(Thomas, Riley et al. 2005).

While on the other hand the embedded perspective considers competition only as a need to stay in market but there main focus is at the cooperation in order to develop strong and stable relationships with other companies for the overall growth of that particular industry (Piore and Sabel 1984). No doubt these organizations never neglect profitability but divers their attentions to develop a best mixture of strategies in which both sides of paradox are considered. They focus to share the competencies with alliances but never share the trick of competitive edge. Most often these companies take cooperation as a basis for competition. They consider collaboration as a tool to share the benefits of resource leverage.

The companies that are in favor of this perspective prefer to build long term durable relationships with other companies, value adding contracts are the example of this type of relationships. Some times to fulfill the corporate social responsibility they add some social welfare organization in the net work (Best 1990). The whole discussion of this paradox revolves around either the market power and competition is the best approach to develop strategies or development of long term relationships and cooperation is the best tool. Instead of market forces there are other forces that can influence the network level strategies like socio cultural forces, economic forces, political& legal forces and technological forces.

The basic emphasis of discreet oriented perspective is at the antagonism while the embedded organizations prefer cooperation and build the networks to stay in the market. Discreet organization wants to work independently and develop their strategies by own. While in the embedded organizations all the strategies are developed by considering the need of groups. Organizations are dependant at each other (Zineldin 2002). Discreet organizations use collaboration as a temporary effort and focus at short term relationships, while the other prefer long term stable relationships with alliances. Sometimes discreet organization enters into contracts but there main focus is only to learn the key success factors of the other companies on the other hand the relationships that develops as a basis to create the networks based at the trust. Simply we can say that discreet organization believes at the win-loss relationships and consider the business as a war. While the embedded organizations prefer win-win solutions and believes to share the fruits of success with alliances because the results are considered as the outcome of joint effort (Axelrod and Dion 1988; Axelsson 1992).

Literature Review

To compete with the rapidly dynamic environment is the basic obligation of the firm thus we can say that competition is the basic element that influences the strategy making on network levels. Basically there are five types of competitive forces that can affect the ability of the firm to maximize its profit. Firstly there is the open entry for new producers to start the business that is in demand or highly profit, secondly there are the contracts between buyers and sellers and there bargain power can seriously influence the strategy making process most important is the contention among competitors and finally the profitability seriously hurts when the other alternatives of your own product is easily available. Basically competition is considered as the core of the business, and cannot be neglected while development of network level strategies (Porter 1979).

Collaboration is considered as the useful way to compete with others. Associations always promote synergy in the organizations. Especially networking is most appropriate for the assembly line production. Usually companies adopt collaboration as a way to minimize their cost especially when there are the projects that needs the heavy investment. Like research and development cost for some innovative product. Cooperation also facilitates to reduce the time of providing product. Basically collaboration with competitors is a modern approach to compete them in which both organizations try to take the advantage of trust and try to copy the key success factor of the ally company.

Also collaborative partners never work for as a single entity they have the limits to collaborate with others. Basically there are the two key factors that insist the collaboration, first, to get new technology and skills, to use the competencies or resources of the partners and secondly to learn from their success (Thorelli 1986). Mostly collaboration facilitates the strategic compromises between the alliances. But everything should not be shared with the ally because after all ally is the competitor and it would not be consider as a wise act to share each and every skill with ally. Basically in competitive world collaboration with competitors are made for easy cheating. So there must be limited access of partner with the firm's operational and strategic moves. Create the alliances but carefully looks after your competencies to safeguard your competitive advantage (Hamel 1991).

Companies are independent entities competing with each other in a hostile environment in which suppliers compete to enhance their bargain power, buyers with intension to improve their negotiating position. Competing organizations will try to get the upper hand against their rival firms if any opportunity arises in the market, and on other hand new entrance on the market and manufacturer of substitute products will continuously try to displace existing organizations (Porter and Millar 1985).

In such a turbulent environment it is necessary for the organizations to strength their competitive positions against the external forces, and the most suitable strategy for each firm is to get the market power which is needed to get quality deals, ward off competitive threats in the environment. And due to the ultimately competitive nature of relationship allies try to serve their own benefits (Hamel, Doz et al. 1989) Some time collaboration is conceived as a conspiracy to reduce the competition. When two or more formidable organizations go for collaboration then there are more chances that such alliance is in reality, gaining up on the other the third party like buyers. (Porter 1990)

Collaborations are not in the favor of firms in long-run. A highly competitive environment is inevitable for organizations, because such environment will stimulate the organizations for the continuously improvement. A strong competitive environment will force companies toward advertisement. Alliances are not solution; firms cannot depend on other firms for those skills and assets which are the main competitive advantage. Alliances will lead toward mediocre but not toward world leadership (Tezuka 1997).

At the state of affairs the firms must have a balance competitive and cooperative posture in their relationship. In some cases competitive postures dominate and in some cases cooperative posture dominate. Collaboration is not a competition but an alternative mean of interaction with other firms. At the same time a firm may have long standing partnership and on other hand with another supplier, forced to compete for every new contract. Each relationship with supplier, government agency, buyer, can be placed on continuum from competition to cooperation (Piore and Sabel 1984; Contractor and Lorange 2002).

Companies have competitive relationship but also characterized their embeddedness in partnership where the game is positive sum which is win-win situation. Collaboration can build up cooperative association where appropriate. It can be tactical but also strategic: firms can accept a measure of interdependence if the cooperating networks achieves more than the companies independently (Gomes-Casseres 1994)

Discreet vs. Embedded Organization perspective

In the network level strategies the main focus of the organization during the strategic management process is to decide how to stay in the market individually or with alliances. The next decision is to decide how many companies should be in the network and how much integration or inter dependence is suitable the most importantly they have to decide what type of relationships should be develop. Basically there are three four major types of relationships (Garvey and Swan 1994). That is as following:

Supplier Relationships

Suppliers are considers as the back bone of the organization that provides input for operations. They are the most important force that ensure on time availability of the products of a company. Basically the suppliers provide the raw material, and other business services. It is the necessity of a business to develop a long term stable relationships with them in order to compete market efficiently. To create the alliances with suppliers is called the upstream vertical alignment of the firm.

Relationships with Buyer

Customers are considering as the focal point for competition. The whole war of business is to enhance profitability by satisfying more and more customers. So companies have to develop the long term relationships with customers by providing them best satisfaction of their needs. In the strategic management firms try to develop strategies that are suitably aligned with their retailers to enhance their cooperation with customers. This type of relationships called the downstream vertical relationships.

Relationship with Competitors

Competitors are the hub of the market relationship and considers as the rivals for the organization because they produce the similar type of product or service. In this paradox the major focus is at either to develop the competitive relationships with other firms or to cooperate with them. It is known as the direct horizontal relationships because according to game theory companies whole strategic movement is depends upon the moves of the competitor.

Diversification

Sometimes companies try to add different industries or companies in their portfolio to get competitive advantage at their rivals and to reduce the risk of competition. Negatively correlated integration of companies is the useful way to enhance competencies that ensure the profitability. These types of relationships are known as the indirect horizontal relationships. To maintain these relationships companies has to analyze the environment internally and externally both vertically and horizontally. Most importantly this analysis will use full when markets did not perform efficiently. Then there is always the need of collaborative arrangements. Organizations that focus at competition think that these partnerships are makes to achieve their own self interest. While the organizations that follow the embedded perspective and prefer cooperation consider these arrangements or alliances as the trust based relationships that ensure best outcomes. This type of arrangement is called a relational contract (Kay 1993)

Conclusion

Competition and cooperation both are the parallel activities to manage the network level strategies. In the current scenario cooperation is also considered as the tool to compete with partners by making strategic compromises. However being a part of group one should never neglect its own entity and should not merge cultural values of the firm with other firms. There must be a check and balance at the inflow and outflow of the information to avoid the risk of transfer of core competencies of the organization.

Basically in the cooperation one should share the operational levels but never share the strategic level's information. Most importantly employees are the key players of the competitive game so there is a need of continually check there integrity and honesty. Competitors never cooperate until there is some mutual benefit or some hidden purpose is involved in the interest. Basically companies develop cooperative relationships with other companies that have indirect competition. Or they create alliances only when there is some superior threat or mutual benefit that can't be achieved lonely. Further we can't neglect the fact that competition is the heart of business. And to work properly cooperation is nothing more than a one step enhanced strategy to compete by covering its main purpose. Finally we can say that in the battle of two lions one can win and other have to lose now it depends upon the strategy of the winner either to compete by using its full competency or to cheat to rule over the forest.

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