Cooperation and Competition: The Case of the Swedish Commercial Printing Industry

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Abstract

Even though tough competition favours formation of alliances, competition between partners is difficult to handle. This qualitative case study investigates how a fragmented industry perceives the level of competition with their cooperative partners and the influence of organized alliances. The results indicate that when cooperation between partners is strong, the competition between partners tends to be perceived as weak, which can be a result of the high initial trust needed to cooperate. Thus, printing companies strive for strong cooperation with a few close trustful partners, which makes the competitive situation between these partners weak. The competitive impact of organized alliances is diversified, since the foremost reason for cooperation is to lower and share costs. However, the use of a franchise brand, in addition to the local brand, may strengthen the company’s competitive advantages on a national basis.

Introduction and Theoretical Framework

Competition has, by both researchers and managers, almost always been described as tough in many industries (e.g. Scherer, 1970; Schumpeter, 1939/1964; 1942/1975). Nevertheless, competition in general has become more aggressive and fast paced and in many industries it has today become increasingly hard to sustain competitive advantages for long due to powerful and quick competitive moves (Bourgeois & Eisenhardt, 1988; Brown & Eisenhardt, 1998; D’Aveni, 1994; Dierickx & Cool, 1989; Thomas, 1996; Wiggins & Ruefli, 2005). Accordingly, Fombrun (1993, p. 186) states that the competitive landscape is getting more clustered and “where firms once competed in isolation, they now compete as allies in business communities” and an increase in the formation of partnerships in the last decades can be noted (e.g. Hagedoorn, 1995; 2002; Herget & Morris, 1988; Mariti & Smiley, 1983). Even though tough competition in an industry, in general, favours the formation of alliances (Eisenhardt & Schoonhoven, 1996; Shan, 1990), competition between partners is a difficult situation to handle. This is especially true in a fragmented industry where many potential cooperating partners also are competitors.

Being part of an alliance, allows access to complementary resources making it possible to focus on a small part of the total value system (Porter, 1985) and still be able to offer a large total value to customers (Gulati, 2007). Consequently, an actor can keep the organization at an optimal size and focus on core activities while other activities and resources can be obtained through cooperation (Levin, 1998). According to Blekee & Ernst (1995), alliances between companies that complement each other have a high success rate, while alliances between competitive companies are more likely to fail since strong competition between two cooperating companies increases the risk for opportunistic behaviour. Jarillo (1988) proposes that opportunistic behaviour from one part most certainly affects the alliance in a negative way. Accordingly, if one part in an alliance believes that they can produce a better return by working outside the alliance, they may be caught in a so-called learning race where they exploit their partners in the present and at a later date exit the alliance (Gulati et al., 2000). A dissolution of an alliance should, however, not always be regarded as a failure, as the learning
experience may have been the goal from both sides (Hamel, 1991). When cooperating with companies that are considered competitors, so-called coopetition (e.g. Brandenburger & Nalebuff, 1995; 1996; Gnyawali & Madhavan, 2001; Hamel et al., 1989; Lou, 2004; Teece, 1992) factors, such as trust, commitment and control become even more important. The concept of coopetition is based on game theory and has been discussed frequently since the end of the 1980’s. There are many examples of global companies that cooperate in certain business areas and compete in others (Lou, 2004; 2007). Regarding the simultaneous intensity of competition and cooperation, Lado et al. (1997) and Lou (2004) proposes similar matrixes describing different actors on a global market (Figure 1). The identified actors are contenders with a competitive rent-seeking behaviour, monoplayers with a monopolistic rent-seeking behaviour, partners with a collaborative rent-seeking behaviour and adapters with a syncretic rent-seeking behaviour. In the framework (Child et al., 2005; Lou, 2004), contenders are companies trying to maintain strong competition and weak cooperation and mainly only cooperates in critical markets. Monoplayers act primarily on their own keeping both competition and cooperation to a minimum. Adapters are companies that even though they are dependent on others for reaching their goals, maintain a strong competitive atmosphere by making competitive decisions that will improve their own situation. Partners complement each other rather than compete regarding resources, capabilities and markets.

Figure 1. Intensity of coopetition (After Lado et al., 1997, p. 119; Luo, 2004, p. 37).

The objective of this paper is to investigate how a fragmented industry perceives the competition with their cooperative partners. Furthermore, this paper aims to investigate how organized alliances affect the competition and cooperation in the industry. This study will be carried out by examining the cooperation between commercial printing houses in Sweden.

Methodology

To gain deeper knowledge of the competitive behaviour when cooperating (Parkhe, 1993; Robson, 2002; Saunders el al., 2007; Smith et al., 1995), a multiple case study (e.g. Yin, 2003) with 21 Swedish Printing Houses was conducted (13 printing houses, not currently part of an organized alliance and 8 printing houses from 3 different organized alliances). In addition, respondents from the central organization of the organized alliances were interviewed. During the interviews the perceived level of cooperation and competition with the case companies’ partners were graded by the respondents on an 11-point (0 to 10) numeric rating scale (Saunders et al., 2007). Since the Swedish Printing Industry is fragmented and consists of many small privately owned companies (Gilboa, 2002; Intergraf, 2007; Kipphan, 2001), the case companies were selected among companies with approximately 10 to 90 employees. At each printing company the CEO or equivalent was selected as the respondent, this because of the great importance that management has in setting the strategic path for a company (e.g. Beal & Yasai-Ardekani, 2000; Collis & Montgomery, 2005; Harrigan, 1985; Porter, 1996; Schein, 1983).
Results and Discussion

Cooperation Outside Organized Alliances

The results regarding case companies’ structure and cooperation have been summarized in Table 1. These results regard companies’ cooperation in addition to their commitment to organized alliances (in which Company N-U also are part of). As in many other industries, providing full service solutions to customers is essential for creating competitive advantages in the Printing Industry (cf. Mejtoft, 2006a; 2006b; Mejtoft & Packmohr, 2008) and the results show that even though being integrated is very important, the competitive advantage of cooperating is clearly highly rated by the respondents. In other words, the respondents believe that forming strategic partnerships is an important strategy to be competitive in a fragmented and highly competitive (e.g. Birkenshaw, 2004; Gilboa, 2002; Kipphan, 2001; Mejtoft & Viström, 2007; Smyth, 2006) industry, such as the Printing Industry. The results show that there are two common reasons (cf. Faulkner, 1995) why competitive companies in the Printing Industry cooperate; (1) fast technological development and sizeable investments are needed to have a complete line of state of the art production equipment, and (2) opportunity for large scale production and keeping internal production equipment at an optimal level. The first reason is a common problem for smaller companies that cannot cope with large investments to the same extent as larger corporations can. The second illustrates that even though the importance of being integrated and focused on customer solutions is significant, there is also a need for efficient production. The need for high productivity is a result of low margins and price pressure in the Industry (cf. Birkenshaw, 2004; Smyth, 2006). Hence, the case companies mainly cooperate to (1) complement their line of production and services with complementary resources to offer full service solutions to customers and, (2) to extend their current resources and temporarily increase production.

Table 1. Summary of results regarding case companies’ structure and cooperation outside organized alliances.

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A majority of the case companies use cooperation to gain access to complementary resources (Table 1) (cf. Mejtoft & Nordin, 2007; Tan & Teo, 1997), this is also one of the most common reasons to cooperate (e.g. Faulkner, 1995; Jarillo, 1988; Levin, 1998). Since these companies also believe that they have strong cooperation with their partners, this study confirms the findings of Bleeke & Ernest (1995) who find that companies which complement each other tend to be successful in cooperating. According to Lou (2004) these companies should be in the lower right region of Figure 2, because they complement each other rather than compete regarding resources, capabilities and market. The results indicate that the companies tend to seek collaborative behaviour in order to gain higher economic rents (cf.
Lado et al., 1997), since they believe that cooperation can increase the return from internal resources and improve their ability to offer full service solutions. Nevertheless, there are also a number of companies that extend their current in-house resources, whenever needed, by cooperating with companies having similar resources. Even though, in theory, these companies to a greater extent cooperate with companies that should be regarded as competitors (e.g. Chen, 1996; Gimeno & Woo, 1996; Hannan, & Freeman, 1977; Lou, 2004; Porter, 1980), no differences are noted in the respondents opinion regarding the competition with their partners (Figure 2). The latter group should in theory be in the upper right region of Figure 2 as adaptors, since they have similar interests, markets, resources and capabilities. Yet, by choosing their partners with care, theses companies have lowered the competition if the cooperation develops into a strong relationship. This illustrates that a high level of trust in the cooperation influences companies that could or should, theoretically, be competitive to collaborate for increasing each company’s competitive advantage against the surrounding world. Although the importance of trust is well known (Child et al., 2005; Das & Teng, 1998; Moorman et al., 1993; Morgan & Hunt, 1994; Ring & van de Ven, 1992), the respondents clearly state the need for initial trust to decrease perceived competition between partners. The respondents’ emphasis is the positive effect that time has on the level of cooperation, but that time has no major impact on the level of competition.

It is known that the competitive situation in the Printing Industry is very tough or even fierce. The respondents in this study confirmed this situation, even though most respondents believed that the competitive situation with their cooperation partners was rather weak. This because they have chosen to cooperate with companies they either do not feel a competitive situation with or companies that they have high trust and confidence in and consequently, do not feel, a competitive situation with. In the results (Figure 2), it can be noted that there tends to be a negative linear dependence between perceived competition with partners and level of cooperation (Figure 2). This is conclusive with the proposition of Gnyawali & Madhavan (2001) who state that strong cooperation stops partners from taking competitive action against each other. When a partner engages in some form of opportunism, by e.g. trying to steal customers, the respondents were quite unanimous in choosing an exit strategy and cancelling the cooperation when a partner increased the perceived competition. This was also, according to the respondents, why there are few tough competitors / close cooperators in the Printing Industry. An exit strategy might be the simplest way, due to the overcapacity in the Printing Industry, which makes it easier to find a new suitable partner, than to confront the old partner.

Cooperation Between Partners within Organized Alliances

Cooperation between partners within organized alliances, the perceived value of the organized alliance and their internal cooperation differs between different alliances. While Alliance 3 (S, T, U) has a rather week cooperation between the companies in the organized alliance,
Alliance 1 (N, O, P) and Alliance 2 (Q, R) have closer cooperation within the organized alliance. This phenomenon is possible to notice in Figure 3a. The results also show that one possible explanation for this difference is that the companies in Alliance 3 have a rather small portion (1-10%) of their cooperation within the alliance and the companies from Alliance 1 and Alliance 2 have 40-100% of their cooperations within the alliance. This is logical since the companies’ focus is on the stronger cooperations. Hence, companies in Alliance 3 believe that they have a stronger cooperation with companies outside their organized alliance (Figure 3b), whilst the other companies mostly believe that they have a stronger competitive situation with companies outside the organized alliance.

![Figure 3](image-url)

**Figure 3. Differentiation between perceived competition and cooperation between cooperation partners in organized alliances and outside organized alliances.**

The results show that the impact of organized alliances on companies in the Printing Industry is primarily internal and secondary external. The internal impact on the companies consist mainly of the possibility for lowering costs by e.g. joint purchasing and sharing costs, by e.g. joint marketing, joint development of IT systems etc. Marketing, however, touches upon the external impact of an organized alliance. Organized alliances can increase companies’ competitive advantages by getting access to the organized alliance’s brand. The use of the franchise brand may strengthen the company nationally. Most of the case companies have, however, kept their own company brand (which usually is strong locally) and complimented this local brand with the franchise brand. Furthermore, by getting access to a network it is possible for the partner companies to increase their competitive advantages and provide full service solutions to their customers. A strong focus on internal productivity factors is a classic way for an industry that is under constant price pressure and under tough competition (e.g. Birkenshaw, 2004; Smyth, 2006) to lower costs.

**Conclusions**

The results show that in a traditional business, such as the Printing Industry, it is hard to cooperate with your competitors. This study indicates that companies in the Printing Industry tend to have quite a strong cooperation with a few close partners they can trust, which makes the competitive situation between these companies weaker. Further, time has a positive effect on the level of cooperation, and lessens competition. This is an effect of the competition having to be at a very low level if a cooperative effort is to be initiated. Furthermore, the competitive impact of organized alliances is diversified, since the foremost reason for cooperation is to lower and share cost by e.g. joint purchasing, joint marketing and joint development. However, the use of a franchise brand, in addition to the local brand, may strengthen the company’s competitive advantages on a national basis.
Literature Cited


