Managing the Paradoxes of Coopetition

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The challenging tensions of coopetition require leaders who can cope with ambivalence and uncertainty.

Business rivalry is rarely pure. Industry growth is often dependent on some level of mutual accommodation amongst key players. But thanks to the digital economy’s overwhelming pressure to be all things to all customers, more rivals are realising that they cannot go it alone. To succeed in a growing service-based digital ecosystem, these firms require a strategy that blends competitive and cooperative approaches – a balancing act that has been dubbed “coopetition”.

The need for coopetition may be clear, but how to manage the tensions it raises isn’t. Managers must clearly define the border between collaborative and combative behaviours, lest the firm ends up engaging in one when the other is called for. At the same time, they must allow enough flexibility for the two-pronged strategy to create maximum value. In a recent special issue of ***Strategic Management Journal*** dedicated to the interplay of competition and cooperation, we identify the four main mechanisms by which companies can try to mitigate the tensions of coopetition.

Organisational separation

Under the *organisational separation* approach, firms create buffers between cooperation and competition using their organisational structure. This often means that one organisational unit treats a firm as a competitor, while another unit of the same organisation treats it as a partner. Think of the ambivalent relationship between Apple and Samsung: While the two compete tooth-and-nail for smartphone market share, Samsung supplies components to Apple in such high quantities that the Korean conglomerate reportedly stands to reap US$110 from each iPhone sold. This way, supply chain experts from both companies collaborate while the lawyers and sales executives compete.

Temporal separation

Another way to drive a wedge between competition and collaboration, and thereby reduce tension involves *temporal separation*. Firms using this approach will try to restrict their activity to either collaborating or competing at any one time, switching back and forth between the two as needed.

Take airline alliances. Airlines did not join these alliances out of the goodness of their hearts: they had no choice because their competition had been too intense in the past. Hence, in this industry, competition was followed by cooperation. When airlines exit their alliances, they resume their rivalry with each other. Most often as they leave one alliance and join another, their former competitors become partners, while their erstwhile partners turn into rivals.

Domain separation

A third approach places collaboration and competition in different domains (e.g. product lines, geographical markets or value chain activities). For example, American and Japanese manufacturers can share the costs of early-stage innovation by joining public-private R&D consortia. Once the preliminary technology has been developed, consortia members will compete to take it to the marketplace.

This can work if there is sufficient distance between the domains. But when, as often happens, domains start to converge, the lines blur and tensions recur. For example, one article finds that **firms serving on standards-setting subcommittees** in the computing industry cooperated to agree on the common standards when they experienced a high degree of product-market competition. However, they were less cooperative when the tech firms had invested heavily in complementary products or services that common standards have rendered unnecessary.

Contextual integration

A fourth approach, which we term *contextual integration*, relies on synthesis rather than separation to contain tension. Managers following this approach wear both cooperative and competitive hats toward the same firm at the same time, employing appropriate mechanisms and organisational routines to maintain coherence.

While contextual integration demands a lot more managerial attention than the other three approaches, the results can be beneficial for players in nascent industries. Based on an in-depth inductive field study of the U.S. solar industry, **another article** finds that coopetition is necessary but not sufficient to achieve success in burgeoning industry ecosystems. The best-performing firms practice a complex mix of competition and cooperation – “sustaining the dialectic tension at the edge of chaos”, as the authors term it -- so as to concentrate collective resources on resolving specific bottlenecks constraining ecosystem growth.

Lessons for managers and business schools

Most managers are uncomfortable with the contradictions implicit in the very concept of coopetition, which is why they pursue some form of separation to manage the tensions involved. As the business environment grows more complex, the ability to integrate competition and cooperation will become a key differentiator for talent. For their part, business schools should begin preparing students for a world where success derives just as much from strategic alliances as from winning the zero-sum game of cutthroat competition.

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