Lappeenranta University of Technology

School of Business

International Marketing

Bachelor's Thesis

"Competitive Relationships – a case study from digital printing press industry"

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Table of Contents

1. Introduction

The concept of competition has had a great amount of attention in literature and is part of everyday life in business environment. However the relationships between competitors, strategic alliances, partnerships and business networks are nowadays getting more and more attention among academics. Putsis and Dhar (1998) argue that despite the great amount of research on competition itself, there has only been a limited amount of empirical research on existing competitive interactions in the market place and moreover they point out that the existing research on the matter have suggested considerable variation in types of competitive interactions. The trend in the academic research seems to have changed since the work of Putsis and Dhar (1998) from traditional competition towards competitive interactions and relationships; thus these are interesting topics to discuss even further. Therefore this thesis examines broadly the concept of competitive relationships and competitive interactions leading into it or resulting from it. The forms and underlying reasons for engaging in competitive relationships are discussed in the light of the existing academic literature and then analyzed compared to the data collected in the empirical case study.

Much of the recent research on competitive relationships has focused on large industrial companies (Baum & Korn, 1999; Bengtsson & Kock, 1999, 2000; Yang, 2011). Ritala et al. (2009) have contributed to the academic research by investigating the role of competitive relationships in service development. The role of small and medium sized firms in the literature of competitive relations has yet been relatively low. Gnyawali and Park (2009) have been pioneers conducting a conceptual framework for understanding factors that influence the simultaneous competitive and cooperative strategies taken in SMEs, but their work is merely looking at the matter in the perspective of creating technological innovations. The empirical part of this thesis focuses on a small firm that does not seek technological innovations or do any research and development. So this thesis intends to investigate other factors affecting the relationships between competitors than R&D or the desire to create innovations. And by doing so, this thesis aims to understand these issues that are not yet broadly discussed in the academic literature.

1.1. Research objectives and questions

The objective of this thesis is to study what is the role of competitive relationships in a small sized firm by examining the competitive relationships in case company X. Furthermore the goal is to examine the different types of interactions and relationships existing among competitors and how these are formed and also what is the importance of competitive relationships in small firms. The main research question of this thesis aims to understand the underlying reasons for competitive relationships as well as the values the relationship may provide for the focal company. The importance of the relationship is directly related to the main research question, thus it is discussed into some extent in this thesis from financial and social aspects.

The main research question is: **why does a small sized firm engage in competitive relationships?**

To support the main research question the thesis also approaches the matter by investigating the following sub questions:

1. What are the factors affecting to the formation of competitive relationship?

2. What are the possible interactions and relationships between competitors?

By examining the factors affecting to the formation of the relationship this thesis aims to understand the roads leading to a successful competitive relationship in order to evaluate if the reason "why" is merely based on rational reasoning or other more social factors. In order to understand the question "why", it is important to first understand the object in the question; in this case a competitive relationship. Therefore this thesis introduces extensively the existing models and academic discussions of competitive relationships. The models are then used as a basis when examining the matter from the perspective of a small sized firm and from the perspective of the case company in order to answer the main research question.

1.2. Limitations

Relationships and interactions between competitors are extremely complex and important for any company (Bengtsson & Kock, 1999; Putsis, 1999). This thesis is approaching the subject from the point of view of a small sized firm and is concentrating on interactions between horizontal relationships that include either cooperation, competition or both. With horizontal relationships this thesis refers to relationships with focal company and competitors and complementors.

The data for the empirical study is collected from case company X and from secondary sources. The competitive relationships are analyzed from only one business sector of the case company, the digital printing press sector. These limit the study in terms of the amount of competitors to be analyzed. And also the scale of competitive relationships studied in the empirical part is thus limited only for the one focal company. The empirical study focuses on the formation, type and importance of competitive relationships for the case company. It leaves out the questions of what is the importance of competitive relationships for the named competitors and why do they engage in relationships with this case company. Moreover the role of the case company in point of view of the competitors has been left without focus in this thesis. Even though it is emphasized in the academic literature that a company should also be aware of its competitors in the future, competitors in different industries and other factors affecting the competitive atmosphere (Clark, 1998), the competitors to be analyzed here are existing competitors and have approximately the same size and are from the same sector of business. As Bengtsson and Kock (1999) have pointed out, it would be beneficial to study competitive relationships using a longitudinal approach, since the relationships tend to change over time. But nevertheless this study has been limited to examine the current state of competitive relationships within the case company and this thesis is only analyzing the relationships the case company recognizes and is not concentrating on how to identify the competitors.

In earlier academic literature the cooperative interactions and relationships between competitors have been seen as antitrust issues (Jorde & Teece, 1990). Even though the competition legislation is a notable aspect especially in forming formal agreements or relationships with competitors, in this thesis the focus is more on what kind of competitive advantage a company may gain and how these advantages can be achieved by engaging into competitive relationships.

1.3. Research method

The research in this is thesis is executed as a qualitative research. The research is a case study and is conducted by collecting data in three different ways. The main data collection method in this study is an interview consisting of semi-constructed interview questions. And to support the data collected from the interview and to gather inclusive understanding of the matter secondary sources like company's databases and observations during interview are utilized.

Qualitative methods are often used to describe social and cultural phenomena concentrating on discretionary samples where the focus is on in-depth study of small amount of cases (Eskola & Suoranta, 1998, 18; Iacono et al., 2009). Here the analyzed sample is one company and the study focuses on creating a comprehensive understanding of that one specific case. Nuttall et al. (2011) have found in their study that the common assumption is that people do not always act according to their best and most rational self-interest. This is an important notion for this study since understanding the motivations and desires of this case company is a key element in evaluating the importance of competitive relationships. A semi-structured interview is based on beforehand composed questions without readymade options (Eskola & Suoranta, 1998, 87). So the respondent, CEO of the case company, has answered the questions with his own words. This has given a wider understanding of the relationships and minimized the risks of the interviewer affecting the results of the interview. To complement the knowledge gathered the interviewer also interpreted the behavior of the respondent during the interview in order to better understand the attitudes towards different competitors. Secondary sources have been used to look at the matter from objective perspective eliminating the effects of personal interpretations.

1.4. Theoretical framework

The theoretical framework is presented in figure 1 and it illustrates the theoretical background of the thesis. It presents the different factors affecting the formation of a competitive relationship and the overall consequences of these relationships. The industry level factors affect both: the firm level and dyadic factors that further affect for the type of relationship. The categorization to the types of relationships is based on the study of Bengtsson and Kock (1999) which is explored more closely in section 2.3.1. The costs and benefits are presented in the framework and in this thesis as a consequence of the type of relationship and all the factors behind the choice of correct type of competitive relationship.

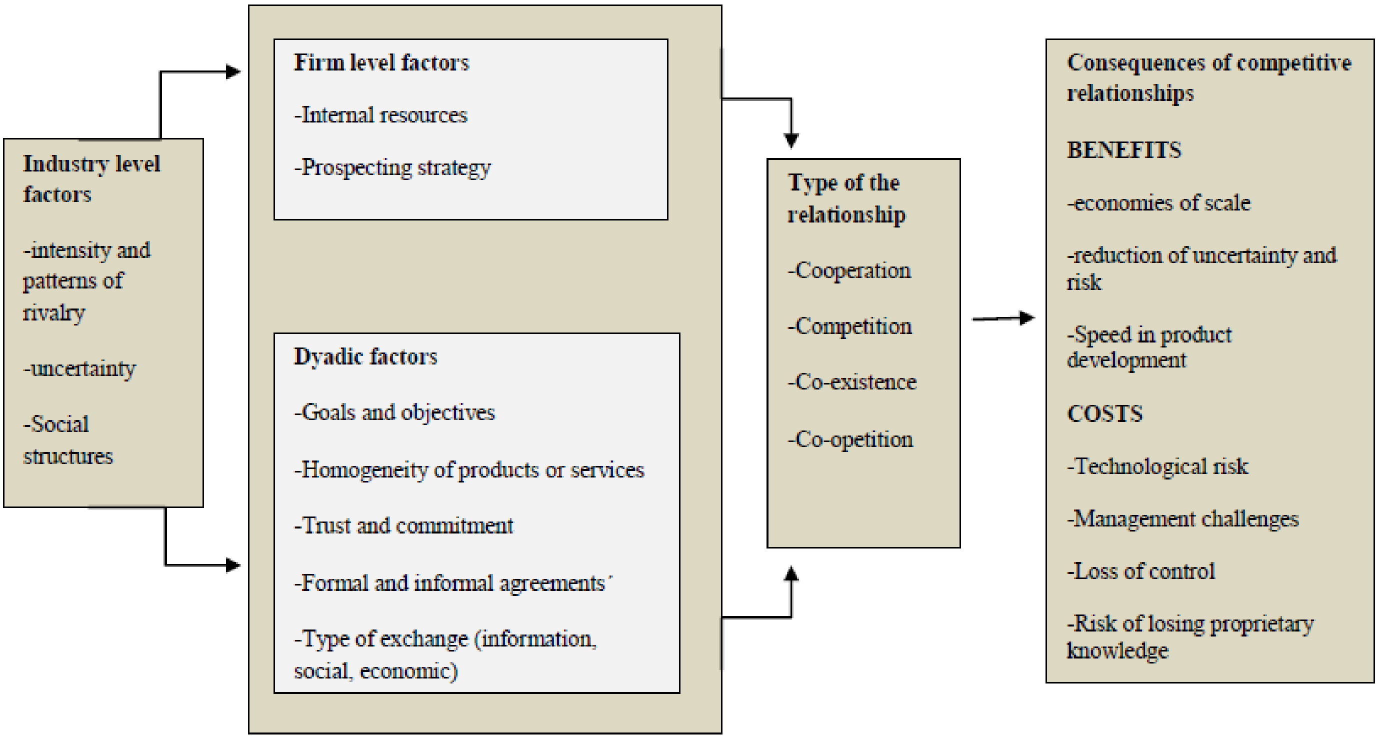

Figure 1. Theoretical framework (Modified from: Gnyawali & Park, 2009)

1.5. Literature overview and key concepts

The fact that the relationships between two players on the same market have been often characterized as either competitive or cooperative, so that the other comes with the cost of the other, has been criticized in many studies (i.e. Hunt, 1997; Bengtsson & Kock, 2000;

Braguinsky & Rose, 2009). There has been a need to evaluate the relationships between competitors in a new perspective (Jorde & Teece, 1989). What has made the combination of these two difficult has been the tendency to see these interdependences constituting an anti-competitive collusion leading to anti-trust issues (Jorde & Teece, 1990; Hunt, 1997). Bengtsson and Kock (2000) describe the difficulty of this combination to rise from the traditional understanding where cooperation in economics is seen to hinder the competition and thus it is seen necessary to conduct antitrust laws to guarantee healthy competition. But as Gnyawali and Park (2009) point out, when players are small and fragmented, like SMEs usually are, the simultaneous existence of cooperation and competition is unlikely to be problematic in a sense of public policy implications. This is mainly because these players cannot easily build the kind of collective strengths that could dictate the competition or prices in the industry. Even though the issues concerning antitrust laws are important when examining competitive relationships in a broader sense this thesis concentrates on small companies and thus will not further discuss the matter for the above mentioned reason.

Nowadays the roles of customers, suppliers, collaborators and competitors are becoming more and more combined and the difference of the concepts is becoming blurry (Ganguli, 2007). The former perception of seeing the competitors on the opposite sides of the game is no longer valid. Firms are more frequently engaging into diverse set of collaborative relationships in purpose of achieving competitive advantage and creating value (Ritala & Tidström, 2011). The recent literature on competitive relationships has concentrated on finding a balance between competition and cooperation (i.e. Jorde & Teece, 1989; Bengtsson & Kock, 1999, 2000; Braguinsky & Rose, 2009). Some academics have suggested that the two concepts can be seen working simultaneously in one relationship; this phenomenon has been named as “co-opetition” (Brandenburger & Nalebuff, 1996; Bengtsson & Kock, 1999, 2000) but yet this field of research has been receiving only a limited amount of attention in extant literature (Osarenkhoe, 2010). Bengtsson and Kock (1999) stated in their article that the theory on competitive relationships has merely concentrated on creating competitive advantage and building classifications on the matter but the dynamics of relationships between competitors need more empirical research. Osarenkhoe’s article (2010) on inter-firm dynamics aims to contribute to the literature on the dynamics between competitors and co-opetition strategy by highlighting its complementarity-based nature.

An important notion for this study and also one of the main reasons for conducting this thesis is that academic studies concerning competitive relationships have concentrated mainly on large enterprises and on industrial sector (Bengtsson & Kock, 1999, 2000; Andersen & Fjedstad, 2003; Yang et al., 2007). Classic examples of competitive interactions and relationships seem to rise from the airline industry in the United States (Baum & Korn, 1999; Yang, 2011) or from advantages of competitive relationships in research and development area (Gnyawali & Park, 2009). The research on small firms that engage themselves in competitive relationships is especially concentrated on the last-mentioned. Other perspectives why small sized firms engage in competitive relationships emphasize reasons like gaining economies of scale and scope, reducing risks and uncertainty, and increasing the efficiency of product development process (Gomes-Casseres, 1997; Gnyawali & Park, 2009). Chetty and Wilson (2003) have also explored the role of horizontal network relationships in the internationalization process of SMEs. It would seem that the academic literature is relatively unilateral when considering the question why would a small sized firm engage in competitive relationships and that reason would seem to relate on competing together with small companies against larger companies.

The challenges in competitive relationships have been emphasized to compound on strategic management of these relationships (Bengtsson & Kock, 1999). Pursuing collective value creation and individual value appropriation simultaneously in one relationship is one of the key challenges mentioned in several studies (Brandenburger & Nalebuff, 1996; Ritala et al., 2009; Ritala & Tidström, 2011). Here the value creation refers to activities that increase the end customer's willingness-to-pay and value appropriation to activities that capture a specific amount of the value that has been created by a stakeholder (Ritala & Tidström, 2011). Other researches refer to this challenge as a risk to lose a company's secrets and proprietary knowledge to the partnering competitor (Gnyawali & Park, 2009). The economics of value creation and value appropriation of coproducing actors are sources of mutuality and conflict in inter-firm relations (Porter, 1985, 1980; Brandenburger, Nalebuff, 1997; Bengtsson & Kock, 2000).

Next the key concepts of this thesis are introduced shortly.

Competitor and Competition

A firm is considered as a competitor if customers value your product less after purchasing the other firm's product than when they have your product alone (Brandenburger & Nalebuff, 1996, 18). The concept of competition is described as a dynamic situation where the rival and conflicting relationship between these competitors in a specific area struggle for scarce resources (Bengtsson & Kock, 2000; Osarenkhoe, 2010) and as an interactive process where firm's perceptions and experiences affect the firm's actions and thereby affect the interactions between competitors (Bengtsson & Kock, 1999).

Complementor

Brandenburger & Nalebuff (1996, 16-18) introduced the concept of complementor. According to them it is a natural counterpart to the term "competitor" and refers to a player who provides complementary products. Furthermore they see a player as complementor if customers value your product more when they have this other player's product as well rather than when customers have your product alone.

Cooperation

Lydeka and Adomavičius (2007) refer to cooperation between rival companies as the most difficult and unpredictable type of cooperation that exists. Cooperation between competing firms may occur in different ways; here in this study the focus is on cooperation between competing and complementing companies. Bengtsson and Kock (1999) found in their study a form of cooperation where competing companies in order to achieve common goals were ready even to sell each others' products. The most common fields where companies cooperate with competitors are distribution, marketing and R&D (Bucklin & Sengupta, 1993; Choi, 2005).

Co-opetition

Co-opetition refers to a situation where the competition and cooperation exist simultaneously between firms and where both of these elements are visible. Usually companies in co-opetitive relationships cooperate on fields that are further away from the customer and compete in activities closer to the customer. By adapting co-opetitive relationships firms can achieve competitive advantage over competitors outside the relationship and increase their efficiency. (i.e. Brandenburger & Nalebuff, 1996; Bengtsson & Kock, 1999, 2000; Choi, 2005; Gnyawali & Park, 2009; Osarenkhoe, 2010)

Competitive interactions

Clark (1998) presents the concept of competitive interactions as patterns companies use to interact based on the moves of the competitors or responses by customers over time. Figure 2 illustrates the interactions that may occur between competitors and how customers' responses may affect the outcomes of both of the companies and also their behavior. The interactions can be peaceful or reflect a war-like situation. (Clark 1998)

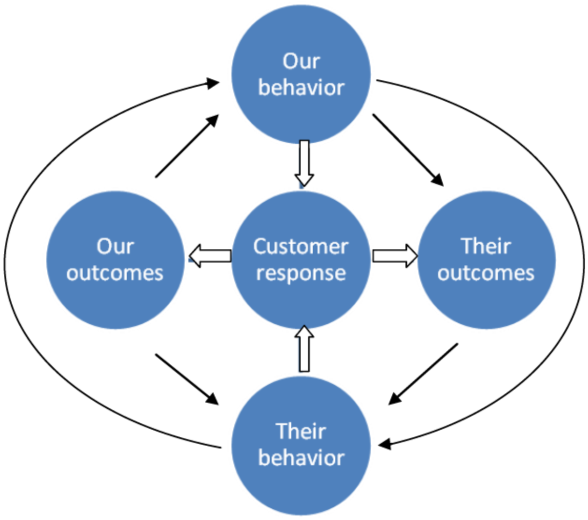

Figure 2. Competitive interactions **(**Modified from: Clark, 1998)

Competitive relationships

The concept of competitive relationships refers to a situation where companies that are competing in one or several markets engage in relationships with each others in some activities in order to achieve a mutual interest. Bengtsson and Kock (1999) argue that empathy and unity can be found in competitive relationships even though the parties would not have a common interest. The difference between competitive interactions and relationships is that the concept of competitive interactions refers more to the strategic actions companies make in the marketplace in reaction to competitors' moves and the concept of competitive relationships refers more to the common agreements and socially constructed elements of the relationships between competitors. The relationship between competitors determines the dominant interactions between them (Yang et al., 2007). Here in this thesis the competitive relationships are discussed mainly from horizontal perspective even though competitive relationships can be found in vertical relationships as well. Vertical and horizontal relationships have significantly different grounds that give the companies totally different kind of advantages (Bengtsson & Kock, 1999).

1.6. Structure

The structure of this thesis follows the research questions and is divided into two separate parts: the theoretical part and the empirical part. The theoretical part consists of chapters 1 and 2 and the empirical part of chapter 3. The first chapter introduces the background of the thesis including also the research methodology and theoretical framework of the research. The limitations, literature overview and the structure of the thesis are discussed as well in the first chapter. The second chapter aims to answer to the sub questions explaining what are the studied factors leading to a competitive relationship and what these competitive interactions and relationships can be. The key issues in management of competitive relationships are discussed in section 2.3.3. The theoretical part builds a basis of analyzing the underlying reasons of competitive relationships in small firms. The second part of the thesis is testing the theoretical aspects presented earlier in a point of view of a small sized firm from the digital printing press industry. The chapter 3 is devoted for investigating the formation and role of competitive relationships in the case company in the light of the theory. Chapter 4 concludes this thesis and discusses some implications on competitive relationships of small firms based on the case study and suggestions for managers of small sized firms on the matter. After concluding the whole thesis, the last chapter (4.) also covers possibilities for future research. Table 1 presents the structure of the thesis based on the research questions.

Table 1. The Structure of the Thesis

Research questions	Theoretical part	Empirical part
1. Why does a small sized firm engage in competitive relationships?	2.1-2.3	3.2-3.4
1.1. What are the factors affecting to the formation of a competitive relationship?	2.2	3.3
1.2. What are the possible interactions and relationships between competitors?	2.1; 2.3	3.2; 3.4

2. Theoretical background of competitive relationships

The traditional discussion on competitive environment in the market is described as "business is war". In this war there are only winners and losers, other's gain is other's loss. But in today's business environment companies are required to listen to the customers, create partnerships, work closely together with suppliers and even establish alliances with competitors in order to succeed. In many cases a firm can only succeed if other firms also succeed; a good example of this kind of situation is the interdependence between Microsoft and Intel. But pure cooperation and peace doesn't lead anywhere either. Brandenburger and Nalebuff (1996, 4) have suggested that the relationship between peace and war, cooperation and competition, could be described as a pie. In the business world cooperation is the part when the pie is created and competition the part when the pie is divided. (Brandenburger & Nalebuff 1996, 3-6)

Customarily competitors are seen as threats and the focus has been on figuring out how a company can prevent new companies from entering the market and how can it gain more shares than its competitors (Porter, 1985, 201). Brandenburger and Nalebuff (1996) criticize this bias of seeing every other player in the market as a threat by saying that many players play multiple roles in the game and can be complementors as well as competitors at the same time. They refer to that false belief of warlike business world by applying a metaphor of Jekyll and Hyde; people tend to focus on the evil Mr. Hyde and overlook the good Dr. Jekyll. According to Berg (2010) in the current society companies are programmed to be competitors and cooperation among competitors does not come naturally. He criticizes the highly educated decisions makers who choose to compete even though they know in theory that competition is often counterproductive. While the competition between individual firms is perhaps still the underlying rule, it is becoming less universal when pairs and networks of allied firms have started to compete against each other (Dyer & Singh, 1998).

Clark (1998) describes the dynamics between competitors as "complicated dance". The current business environment requires companies to broaden their perspectives on competition. It is no longer enough to fiercely compete against your main competitor.

Companies also need to identify competitors outside their industry limits, react to changes that couldn't be foreseen in the past and find a way to interact with parties that used to be mortal enemies in order to maintain a position on the market. Clark (1998) states that the empirical study advocates that the direct attacks towards competitors are not that frequent that one might imagine. This statement he bases on the rationality of war tactics: if attacking pushes the other party to commit to a war where everybody loses, there is no rational reason to attack.

The current trend in academic research on competitive relationships seems to be building different models describing interactions and relationships among different organizations. Since the academic literature has started to study these horizontal relationships there have been numerous amounts of different categorizations on the matter. There have been several streams of research such as competitive networks, strategic groups and alliances, partnerships and co-opetition trying to capture the essence of interactions and relationships among competitors within industries and among them. As Håkansson and Ford (2002) have noted the terms "relationships" and "networks" are nowadays extensively utilized in academic discussion of competition and between practicing managers as well. Even though the different concepts have somewhat different groundings still the concepts have been utilized in academic literature at least in some extent in an overlapping manner. Thus this section of the thesis explores the different categorizations of inter-organizational relationships building a background on what the relationships between competitors can be like.

According to Osarenkhoe (2010) the network approach to organizational relationships provides an explanatory framework for analyzing industrial markets. When the inter-organizational network is built strategically it can help organizations in gaining competitive advantage and to improve production efficiency (Talluri et al., 1999). Yang (2011) has contributed to the literature on competitive networks by building a model for network competitor analysis investigating the effects of market and resource position of the focal company within the network. The research on strategic groups emphasizes how the nature of competition is dependent upon the membership, size and position within an industry as well as the inter- and intra-group relations (Cunningham & Gulligan, 1988; Graham &

Parker, 2006). Porter (1980, 129) has defined a strategic group as “the group of firms in an industry following the same or similar strategy along the strategic dimensions”. Bengtsson and Kock (1999) have criticized the theory of strategic groups since it focuses merely on industry level and on structural characteristics rather than the effects of individual perceptions and experience on building a competitive relationship. Other authors (i.e. Cunningham & Gulligan, 1988; Dranove et al., 1998) question whether the strategic groups exist at all due to the absence of consistent links between strategic groups and profits. The theory of strategic alliances where firms through cooperation can complement each other in different areas such as production, launching new products or entering new markets emphasizes the competitive advantages based on reduction of costs and risks (Ganguli, 1998; Bengtsson & Kock, 2000). Ganguli (1998) has emphasized in his study the question of how the strategic alliances are formed and proposes the social networking as the most important factor affecting the formation of strategic alliances. Partnerships have been described as outsourcing of competitive advantages (Kotzap & Teller, 2003). As Eddy (2010) has stated, partnerships can occur on a number of different levels within the industry or between organizations. Results of such partnerships are described as win-win situations since they occur mostly in vertical axel of the value net. That is one of the reasons why theories on partnerships are criticized; they tend to concentrate excessively on vertical collaborations and value-adding activities between supply-chain partners leaving out the partnerships among competitors or complementors (Kotzap & Teller, 2003). The last mentioned theory of competitive relationships: the co-opetition model is further discussed in section 2.3.1.

As can be seen from the diverse set of theories above, the inter-organizational relationships are complex and have raised numerous amount of discussion among academics. What also can be seen from above is that the categorizations are often overlapping and the concepts used in a compound manner. Here in this thesis the concept of competitive relationship refers to a situation where competing companies engage in a set of interactions based on common agreements and socially constructed elements to achieve a mutual interest.

2.1. Interacting with a competitor

There has been a great amount of research on competition but only limited amount of it has concentrated on evaluating the types of competitive interactions that occur between competing companies within or between strategic groups, and even further, there has been only a limited amount of research determining when the cooperative stance among competitors is optimal or why do firms engage in this kind of interactions that can lead to sustainable competitive relationships (Putsis, 1999). The previous research has implied that the type of competitive interaction varies remarkably across different categories of relationships and value chains (Putsis & Dhar, 1998). Cunningham and Gulligan (1988) propose that the perceived patterns of rivalry as well as the structure of the industry are factors affecting the competitive activity pursued by an individual company or by a dyadic alliance.

In buyer-seller interactions and in the vertical axel of the value net the relationships are natural and companies tend to maintain those relationships, whereas the interaction between competitors and complementors is always a multifaceted and conflicting process and therefore competitors are naturally trying to avoid interaction (Putsis, 1999; Bengtsson & Kock, 2000). Yang et al. (2007) have argued that the rivalry nature of dominant interactions among competitors is determined by the competitive relationships of these companies. They have discovered that the main interactions still consist of rival actions while the cooperative actions occur in an infrequent basis and are not factors that fundamentally change the competitive nature of the relationship.

Clark (1998) has suggested that there exist three types of interactions between competitors: explicit, implicit and asymmetric interactions. He has categorized these three types according to the awareness the competitors have of each others'. In explicit interactions both of the firms are aware of each other's and the interaction can be either hostile or benign. The implicit interactions occur when both of the companies are ignorant on the effects the other has on its business. And finally the asymmetric interaction refers to a situation where the other party is more aware of the other's competences for example and can use this knowledge for its advantage by stealing its competitor's customers. Each of these three types of interactions Clark (1998) characterizes with a typical pattern of behavior that affects the type of relationship that arise between these companies. Putsis and Dhar (1998) have widened in their study the range of interaction types to five. They recognize three types with a symmetric nature: cooperative, non-cooperative, and independent interactions. And furthermore they distinguish two asymmetric types of interactions: leader-follower and dominant. These types of interactions are basis when considering formation of a competitive relationship.

2.2. Building a competitive relationship

The very first step in creating profitable relationships between competitors is defining what the goals for the interactions are (Clark, 1998). Before engaging into any relationship with a competitor the company needs to figure out whether it is receiving advantages of warm and friendly cooperation, avoiding disadvantages of bloody competition or something in between, that the company wishes to achieve from the relationship. As discussed in the previous section the form of interaction is a basic building block when determining what sort of relationship the company should start to build. The previous interaction can affect the perceptions towards a certain competitor; determine the formal and informal agreements and create an advantageous of disadvantageous atmosphere of trust and commitment between players. The relationship can be basically anything and the large amount of theories presented in the beginning of this chapter such as strategic groups and alliances, networks, co-opetition and partnerships support this claim.

In addition to competitive interactions among players Yang et al. (2007) state that the competitive relationship is determined by the homogeneity of the products and services they provide including tangible products. And they also argue that the rival interactions in competitive relationships increase together with the increase of homogeneity of products and services. Small and medium sized companies are more vulnerable to environmental forces than their larger counterparts since they often have niche customer base, limited market presence and demand fluctuations (Gnyawali & Park, 2009). Limited resources and capabilities drive SMEs to build competitive relationships. Especially in the field of R&D

and innovation SMEs face a pressure on combining the external and internal resources by establishing relationships with horizontal actors in the value net (Gnyawali & Park, 2009).

Andersen and Fjedstad (2003) see the inter-firm relations through the context of value systems. With value system they refer to Porter's (1985) value chain model consisting of all the activities and firms that create and deliver value to the end customer. They see the division of inter-firm relations to competition and cooperation in a way that those firms that carry out substitutable or similar activities in the value system are more likely to compete and those firms that are carrying out complementing activities in the value system are more likely drawn into cooperative interactions to maximize their shared value creation. In somewhat similar manner Brandenburger and Nalebuff (1996) have suggested a concept of value net to identify the symmetries between all types of interactions in the vertical and horizontal relationships. The figure 3 depicts all of the players in the value net and interdependences among them. The vertical dimension consists of customers and suppliers and the horizontal dimension of competitors and complementors. The situation is never as simple as this and players in the game often have multiple roles in the value net. The value net aims to explain these multiple roles by presenting the interdependencies also outside the focal company.

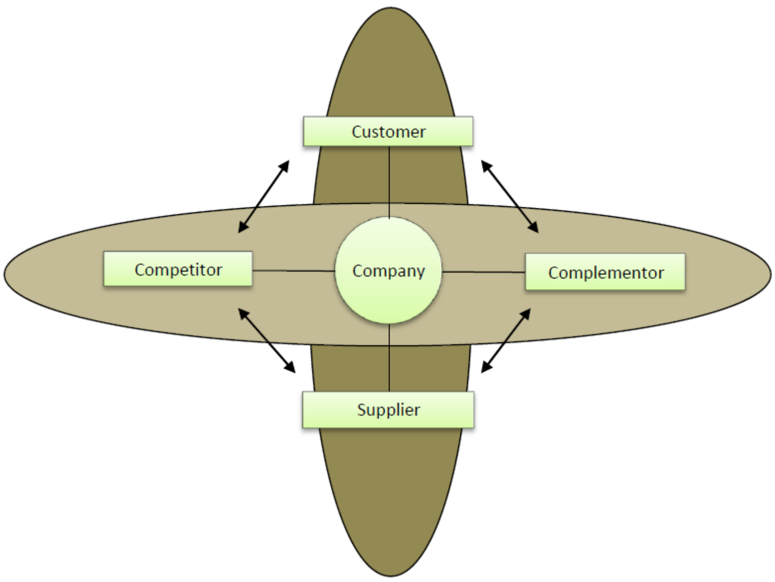

Figure 3. Value net (Modified from: Brandenburger & Nalebuff, 1996, 17)

The concept of horizontal relationships illustrated in figure 3 (competitor- focal company-complementor) is the main focus in this thesis when examining the competitive relationships. According to Bengtsson and Kock (1999) horizontal relationships are mainly built on information and social exchanges rather than economic exchanges and they characterize horizontal relationship as being often informal and invisible. The authors have also found in their study that a same firm can be involved in multiple different horizontal relationships at the same time and also that the nature of these relationships can change over time. Changes in relationships between horizontal actors are explained by changes in the advantages and disadvantages that follow with a specific position, rather than changes in common interest to interact (Bengtsson & Kock, 1999).

Trust

When building a competitive relationship the issue of trust among partnering firms is crucial. Inter-organizational relationships are complicated and often even contradictory, which makes them even more difficult to engage in. The lack of trust among partnering companies, whether it rises from rival interactions in the past or other factors, can become a severe obstacle for building up competitive relationships. As Rudawska (2010) points out "the sustainability of the relationship is a derivative of the trust the partners have to each other's". Especially in cooperative relationships among competitors the formation and success of the relationship are based on trust, commitment, and voluntary and mutual agreement (Osarenkhoe, 2010). Agreements between these parties can be in a form of documented or informal contract aimed at achieving mutual goals (Gulati, 1998; Ganguli, 2007).

The issue of trust in competitive relationships has been covered also in the study of Saban and Luchs (2011) where they have suggested a trust-centric strategy for governing competitive relationships and for creating competitive advantage. They argue that the more strategic the relationship is the more it requires trust among the players in the relationship. Hadjikhani and Thilenius (2009) have also contributed to the discussion on the importance of trust and commitment in business relationships. According to them a business relationship is not only affected by actions made between the counterparts but also by other connected business parties. The interdependences among external players in the value net (figure 3) illustrate this phenomenon since changes in connections between for example customers and competitors can drastically affect the relationship between the focal firm and its customers. In Hadjikhani and Thilenius' study (2009) it was discovered that surprisingly the trust among parties in a relationship was increased when the other party had connections to an external competitor, which implies that a connection to another competitor actually strengthens the relationship.

2.3. Competitive relationships

All competitive relationships are a complex set of interactions. Bengtsson and Kock (2000) rationalize this argument by basing it on the different logics of competitive and cooperative interactions: the logic behind competition lies on the assumption that individual firms act to maximize their own profits whereas the idea behind cooperation is that firms participate in collective interactions to achieve common goals. In former the different self-interests conflict with each other leading firms to compete against each other in order to best fulfill their individual self-interest. But in latter the individual motives and self-interests are not considered to fully explain collective actions and the fact that actors in these relationships are satisfied with smaller shares of profits to maintain the relationship. The social structure surrounding the individuals is found to be the underlying reason why people act collectively creating win-win situations. What is interesting in this notion is that the well being of all of the actors in collective relationship is seen as more important factor than the profit maximization or opportunism of one actor (Bengtsson & Kock, 2000).

2.3.1. Types of competitive relationships

When analyzing the nature of competitive relationships Bengtsson and Kock (1999) have identified four different types of relationships that take into account the trade-off between cooperation and competition: cooperation, co-existence, competition and co-opetition. The reality often is that the interests of competitors cannot be fulfilled simultaneously making the natures of these relationships conflicting (Bengtsson & Kock, 2000). Finding a right balance between competition and cooperation is an issue that many studies on competitive relationships have tried to tackle (i.e. Jorde & Teece, 1989; Bengtsson & Kock, 1999, 2000; Braguinsky & Rose, 2009). Above mentioned relationship types are shown in figure 4. As also illustrated in the figure 4 a focal firm can hold different relationships with different competitors simultaneously. All of these types of relationships have their own typical characteristics and logics behind them. Next all of these different relationships are discussed.

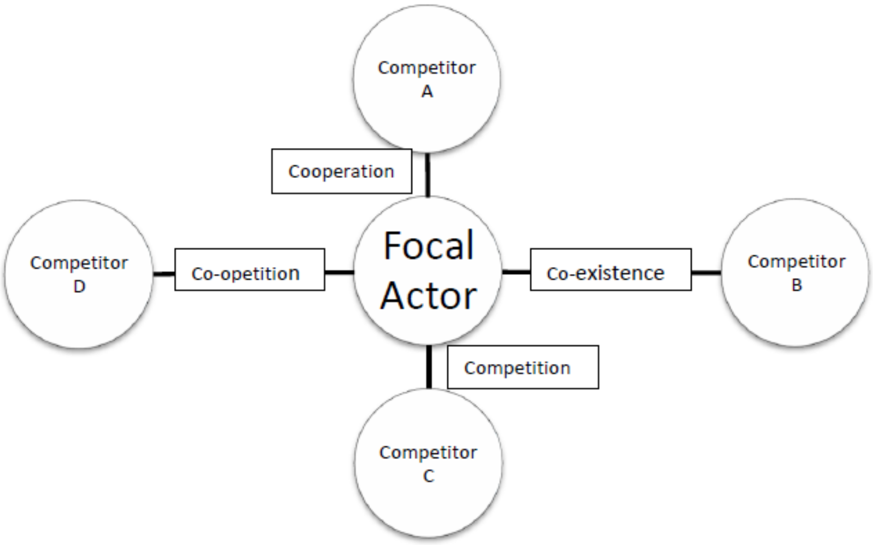

Figure 4. Relationships between competitors (Modified from: Bengtsson & Kock, 1999)

Cooperation

In cooperative competitive relationships the exchanges are frequent including business, information and social exchanges. Osarenkhoe (2010) defines a cooperative relationship with a competitor through leveraging complementary capabilities and resources for the purpose of mutual benefit. The relationships between these firms are mostly based on social and economic bonds. What is important to notice here is that even if these companies engage in cooperative relationship it does not necessarily mean that they do not compete in any area or have distrust among each other. Cooperative relationship can have similarities with value chain and have formal or informal characteristics. Often the formality is seen in strategic alliances or partnerships and informal agreements are based on trust and socially constructed norms. These norms affect to the distribution of power and dependence among the competing firms meaning that conflicts are uncommon. In addition, competitors in cooperative competitive relationships have common goals and the proximity of actors is founded on functional and psychological factors. A company engaging in cooperative relationship needs the resources held by the competitor and does not have a strong position in the market. (Bengtsson & Kock, 1999)

Co-existence

Co-existing competitors do not engage in economic exchange; however the information and social exchanges are important. Unlike in cooperative relationships the bonds between the actors are non-existing since the competitors are aware of each other but do not interact with each other. Psychological factors shape the distance between co-existing competitors and the trust is informal but significant factor in the relationship. The importance of trust arises from one actor's dependence on other actor not to interfere with him. The "rules of the game" are not discussed but the strong informal norms keep the competitors from harming each others. Co-existing companies have independent goals that they aim to reach separately. Typically co-existing firms have a weak position in the business network compared to a competitor and have no interest in cooperation. (Bengtsson & Kock, 1999)

Competition

A typical firm engaging itself in relationship dominated by competition has a strong position and no need for external resources held by the other party of the relationship. Competitive relationships dominated by competition are a zero-sum game where the independent goals of competitors are similar and cannot be reached simultaneously. A common feature of competition based relationship is an action-reaction pattern where competitors follow the actions of each other and where interaction is simple and direct. The power relations and dependence are distributed based on the positions in the business network and the distance or proximity is based on functional and psychological factors. The norms among these competitors are based on accepting the informal "rules of the game". (Bengtsson & Kock, 1999)

Co-opetition

The competitive relationship called "co-opetition" can include both economic and non-economic exchanges. As described earlier in this thesis in co-opetitive relationships the cooperation and competition exist simultaneously. Thus the power relations, dependence, norms and goals are often different these two fields of the relationship. The power in the cooperative side of the relationship is based on functional aspects whereas in the competitive side in firm's strengths and position. Similarly the dependence in the relationship is divided into two different ways; in cooperation dependence is based on trust or formal agreements while in competition it is related to the firm's strengths and position in the business network and is more equally distributed. In the cooperative side of the relationship competitors are likely to live in harmony and conflicts are rare but in the competitive side they rise repeatedly. In co-opetitive relationships there are usually clear norms when to cooperate and in what fields to compete. The goals are jointly set on the cooperative side and independently formed in the competitive side. Firms that commit to co-opetitive relationships have a strong position in the market but they lack the resources held by their competitors. (Bengtsson & Kock, 1999)

In later study of Bengtsson and Kock (2000) they construct the model of co-opetition even further. They divide the co-opetitive relationships according to the level of cooperation and competition that occurs simultaneously within a relationship. These types are: cooperation dominated-, equal- and competition dominated relationship. In small and medium sized firms the significance of co-opetitive relationships is greater than in larger firms since it allows small forms to access external resources that would otherwise be out of reach; especially co-opetition is important in research and development processes of small sized firms (Gnyawali & Park, 2009).

2.3.2. Consequences of competitive relationships

The relationships between competitive parties are often long-term, commonly resulting in complicated management processes, value appropriation challenges and conflicts (Bengtsson & Kock, 1999; Håkansson & Ford, 2002; Ritala et al., 2009; Ritala & Tidström, 2011). By engaging in competitive relationships a firm always faces a risk of losing important knowledge and control (Gnyawali & Park, 2009). The reason to engage in these relationships has been discussed in many researches, focusing mainly on competitive advantage, economies of scale, reduction of uncertainty and risk, and the speed in product development (Gnyawali & Park, 2009). In this section the advantages, disadvantages and challenges of competitive relationships are discussed in more detailed manner.

Competitive relationships as a source of competitive advantage

Porter's (1980) generic competitive strategies (cost-leadership, differentiation and focus) have been the basis of building competitive advantage in many researches (i.e. Nilsson & Dernroth, 1995; Weber, 1997) and the competitive advantage has been seen as a weapon in the war against competitors. There has been numerous amount of research on competitive advantage (i.e. Porter, 1980, 1985; Wang et al., 2011). Sources of competitive advantage have usually been seen to rise from firm's resources and competences and the success of a company has been seen in relation to company's size and competence to manage resources under one roof (Saban & Luchs, 2011; Wang et al., 2011). According to Porter (1985, 33) the competitive advantage stems from various set of activities performed by a single firm. However as Dyer and Singh (1998) have detected a typical manufacturing firm is actually acquiring on average 55% of the value of every product it manufactures beyond the firm's boundaries. Kotzap and Teller (2003) refer to this as outsourcing of competitive advantage. Therefore the search for critical resources and competitive advantage should not excessively be contained by firm's individual resources and capabilities.

The increased competition in the marketplace has forced companies to rethink their ways to compete in the global environment. Recently there has been a stream of research modifying the traditional competitive advantage approach to emphasize the role of other sources of competitive advantage; these sources being the inter-firm relationships built in network environments (Rudawska, 2010). The basis of this different approach is the criticism towards traditional competitive advantage theories that emphasize the attributes of individual organization rather than network of relationships (Dyer & Singh, 1998; Rudawska, 2010; Saban & Luchs, 2011). Dyer and Singh (1998) and Duschek (2004) have emphasized the relational view in assessing inter-firm resources and suggested that there are four different potential sources of competitive advantage in competitive relationships. These are relation-specific resources, knowledge-sharing routines, complementary resources/ capabilities and effective governance. According to the authors these are the fundamental sources of generating rents in collaborative inter-firm relationships.

Costs and benefits of competitive relationships

In addition to gaining competitive advantage the recent literature has identified other advantages and disadvantages, or in other words benefits and costs, of competitive relationships. Håkansson and Ford (2002) have studied business networks and they argue that these relationships give companies a possibility to cope with their increasing technological dependence on others and with the need to develop and tailor their offerings to more specific requirements. Gnyawali and Park (2009) on the other hand have studied business alliances and see the advantage of competitive relationships in improving especially small and medium sized firm's capability to outmatch stronger competitors. They also mention the significance of alliances in entering new markets and accessing to external resources. According to Bengtsson and Kock (2000) the academic literature on strategic alliances gives important insights into the advantages obtained by cooperation but the authors criticize the tendency in these theories to see conflict and rivalry as a threat for the success of competitive relationships. Other advantages mentioned in academic literature are related to research and development, innovations and internationalization (Chetty & Wilson, 2003; Gnyawali & Park, 2009).

As can be seen from table 2; when examining the costs and benefits of the different types of relationships presented earlier in this thesis, the wide range of possible benefits and costs can make the management process difficult. As Clark (1998) has mentioned, without a clear goal on what the company seeks from the competitive interactions and relationships, the possible advantages can remain untapped. In order to gain the benefits of cooperation there needs to exist formal or informal agreements among competing firms on how to operate. As discussed earlier the trust and commitment within a competitive relationship can be a driving force for the success of the relationship, but especially in larger companies and when the relationships become more economically significant, trust is often not enough to maintain a sustainable relationship. Nonetheless if the trust is lost and the companies are driven into conflict due to organizational differences or in any other reason, and in result the relationship needs to be terminated, the costs of exiting the relationship can be severe. The risk of losing control over their own actions, and the risk of losing firm specific and confidential information or proprietary knowledge, increases when the companies commit themselves into a cooperative relationship.

When competitors are in co-existing relationship the major disadvantage is that the other company usually is in the hands of the other company and has to modify its own actions according to the other counterpart. Putsis and Dhar (1998) describe this pattern of interactions as leader-follower situation. However small companies can use this as their advantage since for them the constant change and improvements in business, which is the condition in competition dominated relationships, can be difficult to reach when operating alone. In a co-existing relationship the pressure to innovation and improvements is minimized, which could be argued to be against governmental purposes. In competition dominated relationships there is a chance of the relationship evolving into a rival situation which is counterproductive (Berg, 2010). Co-opetition on the other hand is the most complex relationship of all of these four. Firms engaging into these relationships can have the benefits of both cooperation and competition at the same time. Naturally also the costs of the relationship can be analyzed from both perspectives.

Table 2. Costs and benefits of competitive relationships

(Source: Bengtsson & Kock, 1999; Gnyawali & Park, 2009)

	Benefits	**Costs**
Cooperation	Access to external resources and products, possibility to gain competence, market knowledge and reputation	Loss of control, management challenges, technological risk, trust issues, differences in organizational culture, termination of a relationship is costly
Co-existence	Benefits for smaller companies: no compelling force to develop new solutions. Benefits for larger companies: no need for rival actions	Smaller companies are in the hands of larger companies, larger companies might underestimate the power of co-existing companies in the future
Competition	Forces companies to constantly improve their business, ability to react to changing environment	Competition often leads to a lose-lose situation
Co-opetition	Benefits of both cooperation and competition	Costs of both cooperation and competition

2.3.3. Managing competitive relationships

A study conducted by Box and Miller (2011) revealed a troubling notion about the competitive strategies of small sized firms. They found out that the majority of studied firms did not have a clear strategy on how to compete. They referred to Porter's (1985) generic competitive strategies in describing most of the small firms being "stuck in the middle"; not having a clear vision on how they are competing. Clark (1998) has suggested the starting point of any interaction between competitors is identifying the intended goals of the interaction. It would seem that small firm's lack of even basic understanding on the importance of strategies could become an obstacle for the success of competitive interactions since the way a firm competes affects the type of relationship it should engage in with competitors. Porter (1980, 122) has suggested three different actions managers can take in coping with competitive interactions that do not threaten competitors. These are especially meaningful for small companies that cannot afford to irritate a larger player that could drive the smaller player out of the market. These are actions that lead to win-win situations even if there isn't any agreement among competitors, actions that improve the positions of all parties, if mutually agreed upon and actions that improve the position of the focal company because the competitors cannot follow them. The second action is most used among small firms (Porter, 1980, 122). The four types of relationships presented in section 2.3.1 provide different kind of advantages, which is why it is important for the management of a company to construct a specific strategy for each of the horizontal relationship as well as pay attention on how the portfolio of relationships is arranged (Bengtsson & Kock, 1999).

3. Empirical study: the competitive relationships in case company X

When analyzing the competitive relationships in the case company it is essential to understand the industry level factors and the market environment where the company operates. For that reason this thesis is first presenting the case company and some key characteristics from the industry it operates in. To examine the main research question: why does a small sized firm engage in competitive relationship, in the light of the case company this study has conducted a semi-structured interview to the CEO of the company. The emphasis in the interview was investigating the formation, type and importance of competitive relationships. Both the social side of competitive relationships and the implications the relationships have for the profits gained by the company are explored. The social side is examined by interviewing the CEO of the company and creating an understanding of how the company sees itself in relation to its competitors and how it treads its competitors and how significant the company feels its relationships with competitors are. On the other hand the data collected from the company databases provide an objective understanding of what is the importance of these relationships to the company in a financial perspective. The facts given here are based on the interview (Appendix 1.).

3.1. Presentation of the case company and the industry

The case company X started off as an advertising agency in the 1980s but due to the shift in core competences towards manufacturing of advertisement material the company has changed its line of business. Nowadays the case company is a small family firm that manufactures and imports marketing materials such as portable display systems, signs, and other materials for tradeshows, in-store advertising or other advertising purposes. Currently the company employs four persons, and in year 2010 the company had a sales revenue of approximately 800 000 Euro. Their office is located in Helsinki but they serve customers all over Finland. The main sector of the company provides tradeshow and large format printing material to be used in different kind of events or in-store advertising. To complement the selection of marketing material the case company has acquired machinery for digital printing.

The digital printing press sector that makes different types of posters, flyers, booklets and other printed marketing material is a fast growing business sector not only for the company but all over Finland. Currently only one person is responsible for the whole digital printing press sector of case company but there have been plans to expand the sector in the future by increasing the number of employees. The machinery in digital printing press differs from offset printing press in functionality and quality but the differences are not usually comprehended by customers. This notion is significant in this study since it broadens the limits of competition in the described sector.

Company’s typical customer in digital printing press sector is a marketing manager from small or medium sized firm. There are some private consumers as well but their contribution to the company’s revenues is mostly insignificant. According to the CEO of company X customers usually seek *“a versatile selection of marketing material to use in tradeshows”* and that their customers can’t in fact be divided as customers of digital printing press sector and to customers of tradeshow and large format printing material sector. Often their customers complement their marketing material with products from digital printing press sector. The CEO also described the relationship with customers as one of the key elements in that business since long lasting customer relationships and repeating purchases from the same customer is a normal phenomenon in the industry. The printing press industry in Finland consists of large amount of small companies that are mostly operating on capital area. 75% of the companies operating in the printing press industry are small and mediums sized firms with less than 10 employees (Graafinen Teollisuus, 2011). According to the CEO the companies operating on the digital printing press industry are rather small and fluctuated; competitors are rarely aware of each other and hardly ever compete fiercely against each other; which indicated that the overall competitive interactions in the industry would be implicit.

3.2. Competitive interactions

The CEO of the case company mentioned three competitors who they have engaged in a competitive relationship with. The interactions between these companies were said to be friendly and to base on mutual understanding and trust; hence the interactions between these companies are explicit. The interactions happen mostly in form of direct contact between competitors. The case company purchases products from its competitors that would be inefficient to produce in-house. Due to differences in printing machinery these competing companies concentrate on slightly different areas; the case company is only producing small amounts of printed products and the competing companies have machines to produce larger amounts. The large production would be expensive and inefficient with case company's current machines therefore they purchase all the larger orders from these competitors and vice versa. All in all the case company got approximately 3% of its yearly revenues in 2010 by selling products to these three competitors. And the case company purchased products from these competitors altogether approximately the same amount. Thus in terms of purely sales and profits these interactions seem to be somewhat irrelevant to the case company.

3.3. The formation of case company's competitive relationships

These three competitors that the CEO mentioned all seem to form a separate competitive relationship towards the case company and these relationships seem to have roots in the companies' early history. The formation of these relationships appears to have happened based on location and complementary production. The CEO could recognize the starting points of each relationship and it would seem that the most important factor affecting the development of the relationship has been the similar location. In all of these relationships the two competing firms have been located near to each other, even in the same building. Even today two of these competitors are located in the same side of the city as the case company. As Bengtsson and Kock (1999) have discovered the relationships between competitors tend to change over time which seems to be the case also with this company. In the beginning the companies were clearly complementing each other; making it possible for both companies to offer wider selections of services for their customers. As an advertising agency the case company needed the printed material produced by these current competitors in order to satisfy the needs of its customers; and these competitors needed the services of the advertising agency in designing marketing material for their own customers. Brandenburger and Nalebuff (1996) have described complementors as players whose products offer more value to the customer when purchased together than when purchased alone. This would seem to have been the case in the early phase of the relationships, but since that the product selections of these companies have become more and more similar making them to compete for same customers.

When asking about company's own perspective on why did it engage in these relationships in the first place the answer was purely tactical; *"to gain more sales and to have the chance to purchase complementary products and to offer customers a wider product range"*. The interactions were seen as friendly and the possibility of hostile interactions among these firms was seen as low; which indicated a good basis for building a relationship. When looking at the amount of sales profits gained from the purchases of competitors, the importance of these interactions is basically insignificant; especially since these companies have reduced prices when purchasing from each other leading to low profit margins. Hence the sales figures would indicate that there must be some other reason behind engaging into these relationships than purely the amount of revenues gained from the relationship. The other tactical reason mentioned by the CEO, the wider product range, would seem to be the strategic reason behind the relationship. Unfortunately this thesis did not have a possibility to analyze how much do the customers of the case company value the wider product range or how much the ability to offer wider product range increases their sales, therefore the analysis here is only based on the perceptions of the CEO and the existing theory on competitive relationships.

3.4. Competitive relationships

This section of the empirical part discusses the forms of the competitive relationships of the case company as well as the advantages and disadvantages the company has faced over the years. At the end of this section this thesis is exploring some future prospects of the case company and its competitive relationships.

The competing firms in this case study seem to have a sustainable relationship based on mutual history, trust, and understanding. As mentioned in many researches (i.e. Rudawska, 2010; Saban & Luchs, 2011) the lack of trust can lead to collapsing partnerships. This seems not to be an issue for these companies since the CEO describes the relationships between these mentioned competitors to rely on friendship and mutual history of cooperation. When asked if the CEO felt there were a possibility of one firm acting aggressively towards another for example in form of stealing customers the answer was straightforward. He said he was 100% certain that none of these competing firms would ever do anything to harm each other. He even gave an example: a former customer of the case company had contacted one of these competing companies asking for an offer from same product line that this case company had provided for that customer in the past, the competing company immediately contacted the case company asking would it be acceptable to serve this former customer of theirs. This example outlines the social side of the competitive relationships of the case company. Clearly the relationships are strongly based on the social bonds and unspoken agreements even though the reason given to question “why does your company maintain these relationships” was purely tactical.

What clearly came forth in the interview was the way how these small companies have played the different roles simultaneously. All of the companies mentioned played the role of customer, supplier, complementor or competitor at some point of the relationship or even at the same time. In the early phase the relationships seemed to have been more focused on supplying and complementing. Since that the relationships have evolved into more complex set of interactions based on mutual goals and trust. Nowadays when all of these companies have become direct competitors due to the changes in their strategies towards to the increase of digital printing press business, the roles are no longer as simple as before.

When considering the types of relationships discussed earlier (cooperation, co-existence, competition and co-opetition), the competitive relationships between the case company and its three above mentioned competitors seem to be cooperative. In these relationships business and social exchanges are frequent and they leverage complementary resources to achieve mutual benefit (Bengtsson & Kock, 1999; Osarenkhoe, 2010). As these companies purchase products from each other the business exchange side of the relationship is distinct, the social exchange side seem to be somewhat more complicated concept. One aspect that was contradictory to the existing theory was the type of agreements among these companies. Bengtsson and Kock (2000) mention that it is common to have formal agreements among competitors engaging into cooperation dominated relationships but it became clear during the interview that all of the agreements among these companies were purely informal and even unspoken, in fact the CEO didn't seem to realize that there even existed any agreements. As it would appear the relationships in the case company have informal characteristics relying on social and economic bonds. CEO's attitude towards these competitors was somewhat contradicting. The behavior of the CEO during the interview indicated a distant and analytical approach towards these competitors, whereas the described reaction patterns in a situation where something would go wrong were emotional and indicated strong social dependence. The socially constructed norms between these competing companies seem to stem from the long history of cooperation and be the underlying, unspoken rules of the game. The dependence among these firms is strictly related to these norms and also to their product offerings. When considering the power structures within the relationships it would seem that none of the companies have an advantage of size to control the relationship. So far there haven't been any conflicts among these competing firms.

When asking about the willingness to exit the relationship the answer was simple and consistent with the understanding of the reason of their competitive relationship. According to the CEO they would be willing to exit the relationship any time; there are no social ties among them and the relationship is purely tactical and if that tactical reasoning would be missing they would no doubt exit the relationship immediately. This statement was also somewhat contradicting to the clear social bonds that exist among these companies. Likely exiting these relationships would affect the case company at least in a way that it would need to invest resources in finding a new company to cooperate with and build the similar atmosphere of trust and commitment would most likely take time and effort.

Competitive advantage

The interviewee's opinion on competitive advantages within the company or the industry was narrow. According to him none of the companies in the digital printing press industry really have competitive advantage over one another since the products are all the same and customers' switching costs are low. However after the interviewer explained the logic behind the concept of competitive advantage, he mentioned that their own competitive advantage lied in the combination of large format printing, trade show materials and digital printing. He also mentioned the personal service, flexibility and green values as their sources of competitive advantage. As understood from the interview the company does not count the resources gained by these competitive relationships as its competitive advantage. Nor does the company assess the possible competitive advantages of its competitors in relation to its own advantages.

Future prospects

So far the case company has based its decisions concerning competitive relationships on intuition and personal connections. The interview showed a lack of underlying strategy which is according to Box and Miller (2011) common for small and medium sized companies. The company showed no interest in relationship management; it would seem that they take these relationships as granted. The only strategic move that came out in the interview was related to the future of the company. Since the managers are approaching retirement age they have set a goal to merge into one of these competing companies sometime in the near future. Otherwise there weren't any specific goals or objectives set for the competitive relationships. As it is supposed to be the starting point of any competitive interaction (Clark, 1998), the case company should build clear objectives and goals for the interactions to determine where it wants to go with these relationships. A small sized firm can access external resources by engaging into competitive relationships and gain competitive advantage from them.

4. Conclusions

This thesis has aimed to study the complex concept of competitive relationships and reasons why small sized firms would engage themselves in these types of relationships. The underlying motive for conducting this study has been the lack of academic research on the matter. The recent literature has concentrated on the reasons behind competitive relationships mainly from the perspective of large industrial companies, whereas the role of small and medium sized firms in these researches has yet been incomprehensive.

The set of interactions between competing companies as well as the structure of the industry determine the formation and nature of the competitive relationship. Previous rival or benign interactions may affect the atmosphere of trust and commitment between competing companies and determine the advantages of the competitive relationship. Even though the current trend in business life is towards alliances, partnerships and relationships between competitors the cooperative interactions are still occurring in an infrequent basis. For the case company the long history of peaceful cooperative interactions has been a basis for current relationships where the interactions are benign and aiming for joint benefits. When building a competitive relationship the very first step is to define the goals and objectives of the relationship. This case study and academic literature have shown the lack of strategic planning in small companies, which can prevent the full utilization of the shared value creation. The lack of internal resources and capabilities are forces driving small and medium sized companies to relationships with horizontal actors. These relationships may occur between any actor in the value net, and even simultaneously. The natures of competitive relationships have a tendency of changing over time due to the changes in the advantages and disadvantages of a certain position or due to the changes in inter-relationship business connections. In any point of the relationship the matter of trust and commitment is a basis for the success and sustainability of the relationship. The findings in the case study support the claim of the changing nature of competitive relationships and especially the importance of inter-organizational trust.

All competitive relationships are a difficult set of interactions since the logics behind competitive and cooperative interactions are fundamentally different. In competition individual firms act to maximize their own profits whereas in cooperation the companies work together to achieve common goals. Finding the right balance between these two concepts in inter-firm relationships is a challenging managerial process. The model of relationship categories utilized in this thesis is based on study conducted by Bengtsson and Kock (1999) where four basic types of competitive relationships are recognized (cooperation, co-existence, competition and co-opetition). By engaging into any of these relationship types a firm faces a risk of losing important knowledge and control as well as drifting into a conflict. The benefits of competitive relationships can be seen in form of competitive advantage, economies of scale, reduction of uncertainty and risk, and in the speed of development processes. The latter is the most emphasized reason in academic literature on why would small sized firms engage themselves in competitive relationship. The limited resources of small companies drive them to attempt accessing external resources through competitive relationships. When analyzing the situation in the light of the case study it would seem that the underlying reason why to engage in competitive relationships was based on different grounds: the question of R&D was irrelevant, whereas the social bonds and mutual interests were enhanced as the driving forces of the relationship.

4.1. Future research

There are some potential topics for future research on competitive relationships. This study has focused only on one case company and its competitive relationships making the findings applying only to this study. Thus wider study is needed including higher number of studied companies in order to generalize the results. Due to the small amount of academic research on inter-organizational relationships between competitors in small and medium sized companies it would be essential to further study these relationships. Since these competitive relationships tend to change over time it would be beneficial to conduct a longitudinal research on the matter. What came forth in this case study was that there were strong social bonds between competing companies, and that in the industry where these companies operated in the research and development processes were insignificant to these small companies. The access to more efficient R&D process is the main reason mentioned in the current academic literature on why small companies would engage in competitive relationships. Because of this difference in literature compared to this case study it would be appealing to study further what are the other possible reasons behind competitive relationships and how do the competitive relationships evolve over time.

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Appendices

Appendix 1. Interview of the CEO of the case company

1. Name
2. Position
3. Industry of the company
4. Business sectors
5. A typical customer in the digital printing press sector
6. What is the relationship with a customer like in the digital printing press sector?

Perceived image of own company

1. How would you describe your company?
2. What are your sources of competitive advantage?
3. What do you feel is the position of your company in the industry?
4. What do you feel is the position of your company related to the main competitors?
5. How important is the digital printing press sector in your opinion for your company now and in the future?
6. Would you describe your company as innovative? How are the innovations made in your company?
7. How do you come up with new product ideas in your company?

Competitors and competitive relationships

1. Who are your most important competitors in the digital printing press sector?
2. How do you evaluate who is your competitor?
3. Are you in any contact with these competitors? Why/why not? If not, would you like to be?
4. In what situations are you in contact with these competitors?
5. Are they in contact with your company, and why do you think that is or is not? If not, have they tried to contact you, in what occasion?
6. In what situations are they in contact with you?

7. How did these interactions start?
8. Would you describe the interaction as a relationship?
9. How do you manage these interactions? Are there any strategic goals?
10. Are there any formal agreements? Informal?
11. Would you be willing to utilize information gained from these competitors for your own purposes? I.e. take customer contacts from these competitors if an opportunity would present itself?
12. How do you prevent these competitors from doing the previously described to your company?
13. Is there something about you company you would not want these competitors to find out? How do you prevent them from finding it out?
14. Would you describe the interaction as hostile, stable or friendly?
15. Do you cooperate with these competitors?
16. In what way do you cooperate?
17. Has there been any conflicts?
18. Would you be willing to exit these relationships? Why/why not?