

# Striking the right balance in tension management. The case of coopetition in small- and medium-sized firms

*Henrik Virtanen*

Department of Marketing, Hanken School of Economics, Helsinki, Finland, and

*Soren Kock*

Department of Management and Organisation, Hanken School of Economics, Helsinki, Finland

## Abstract

**Purpose** – The purpose of this study is to elaborate on the management, sources, levels of strength and dynamics of inherent tension in coopetition between small- and medium-sized firms (SMEs).

**Design/methodology/approach** – An embedded single-case design is applied in the study. Two manufacturing SMEs in coopetition are studied. The units of analysis are their past dyadic coopetition with other competitors, their present coopetition with each other and their view of possible dyadic coopetition with other partners in the future.

**Findings** – This study addresses the call for more research on coopetition and tension dynamics. It gives longitudinal insight into the changes of a cooperative relationship through the evolution of tension inherently present in the relationship. Furthermore, the results show that a partial separation of the cooperative and competitive dimensions enables entrepreneurs' integration of a contradictory logic. The successful management of tension also relies on mechanisms for mutual value appropriation, which eventually enhances the ability to embrace contradictions.

**Originality/value** – This study contributes to the limited knowledge on tension management by showing how partners in coopetition apply different tension management principles or combinations of principles due to how the tension in the relationship evolves. Furthermore, on a practical level, it introduces a mapping or configuration scheme to identify the sources and levels of strength of inherent tension, enhancing coopetition partners' ability to monitor their relationship over time.

**Keywords** SMEs, Case study, Coopetition, Tension, Tension management, Coopetition strategy

**Paper type** Research paper

## 1. Introduction

Coopetition is a viable strategy, both for large (Fernandez *et al.*, 2014b; Ritala *et al.*, 2008; Yami and Neme, 2014) and small- and medium-sized firms (SMEs) (Bengtsson and Johansson, 2014; Chiambareto *et al.*, 2020; Tidström, 2014; Virtanen and Kock, 2021). Competitors perform similar activities, manufacture similar products, use the same technology, have the same marketing interest and need similar raw materials. They face many of the same opportunities and challenges (Gnyawali and Charleton, 2018). In fact, this creates a natural rationale for coopetition (Bouncken *et al.*, 2015; Park *et al.*, 2014).

Owing to their liability of smallness and newness, coopetition is a way for SMEs to create and sustain opportunities in the markets (Bengtsson and Johansson, 2014). Peng *et al.* (2012) consider whether coopetition is a good idea. According to them, coopetition permits the firms to achieve higher levels of performance and at a faster pace than would otherwise be possible. Coopetition triggers tension between value creation

(cooperation) and value appropriation (competition) (Park *et al.*, 2014; Ritala and Hurmelinna-Laukkanen, 2009). Managing tension is a critical task in the pursuit of coopetition performance and avoidance of unintended effects. In prior research, two organizational principles for tension management in coopetition are proposed, that is, a separation and an integration principle (Fernandez *et al.*, 2014b). The separation principle recommends separation of the cooperative and competitive activities, for example, either temporally or spatially (Bengtsson and Kock, 2000; Fernandez *et al.*, 2014b). The integration principle recommends the opposite, namely to try to embrace both cooperative and competitive forces simultaneously (Chen, 2008; Wu, 2014). Gernsheimer *et al.* (2021) also mention mediation through a third-party advisor to structure coopetition (Monticelli *et al.*, 2021). However, this organizational principle to manage tension has gained little

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attention both scholarly and in practice and is not in focus in this article.

Individuals experience tension in coopetition (Bengtsson and Raza-Ullah, 2016). Entrepreneurs of SMEs find it difficult to integrate the contradictory logic of interaction (Näsholm and Bengtsson, 2014). In other words, it is hard for individuals to simultaneously play the role of partner and competitor. In larger firms, it is possible to impose an organizational separation (Hoffmann *et al.*, 2018), that is, to separate the cooperative and competitive activities via different subsidiaries, divisions, business units, projects and key responsible staff. This is hardly possible in SMEs. Granata *et al.* (2018) argue that in smaller firms, the separation of cooperation and competition occurs outside the firms in form of a collective structure in charge of organizing coopetition. In short, both the integration and separation principles seem problematic when focusing on coopetition between SMEs.

Although the main principles for tension management seem conceptually clear, we have still limited knowledge about in which situations these principles work and how they are applied by SMEs. There is a quest for research on the dynamics of coopetitive relationships (Bengtsson and Kock, 2014), especially on the evolution of tension temporally (Raza-Ullah *et al.*, 2014), and which principles the partners could apply to manage it over time (Czakov *et al.*, 2014). Tension management is also worthy of further investigation empirically (Dorn *et al.*, 2016; Le Roy and Czakov, 2016).

The purpose of this article is accordingly to elaborate on the management, sources, levels of strength and dynamics of inherent tension in coopetition between SMEs. It makes several contributions to the literature. First, this study addresses the call for more research on coopetition and tension dynamics by giving longitudinal insight into the changes of coopetitive relationships through the evolution of tension inherently present in the relationships. Second, on a practical level, it introduces a mapping or configuration scheme to identify the sources and levels of strength of inherent tension, enhancing coopetition partners' ability to monitor their relationship over time. Third, it contributes to the limited knowledge on tension management by showing how partners in coopetition apply different tension management principles or combinations of principles due to how the tension configurations evolve. Focus on SMEs provides an interesting context, given their importance as engines of innovation, exporting and growth (Love and Roper, 2015) and the challenges they face (Paul *et al.*, 2017).

The method is an embedded single-case study (Yin, 2013), examining two coopeting SMEs. The level of analysis is on dyadic coopetition, as the existence and implications of tension are more pertinent when examining coopetition in dyads (Gnyawali and Song, 2016). In the article, *inherent tension* refers to tension that is always present, because the partners are competitors. In a relationship, all factors causing tension are not inherently inbuilt. For example, asymmetrical dependence and value appropriation, power and control issues, relative size, incompatible personal chemistry and corporate cultures, and the risk of unintended knowledge leakage may cause tension. However, these may or may not manifest depending on the structure and development of the relationship.

The article is structured as follows. Section 2 addresses the literature review and the theoretical framework. This is followed by a description of the methodology and a presentation of the focal case in Section 3. After that, the inherent tension and dynamics of coopetition in the case are demonstrated and analyzed in Section 4. Section 5 discusses the findings. The article closes with conclusions and implications for management in Section 6 and limitations and suggestions for further research in Section 7.

## 2. Theoretical framework

### 2.1 Concept of coopetition

Bengtsson and Kock (2014) define coopetition as “[...] a paradoxical relationship between two or more actors simultaneously involved in cooperative and competitive interactions, regardless of whether their relationship is horizontal or vertical” (p. 182). The definition emphasizes concurrent occurrence of competition and cooperation in the relationship. Other authors have added that coopetition is driven by an intentional, strategic rationale (Czakov *et al.*, 2020; Gnyawali and Charleton, 2018). The intensity of cooperation and competition can vary from both weak to strong simultaneously, and not at the expense of each other (Bengtsson *et al.*, 2016). Coopetition is a multi-dimensional construct, comprising local-, national- and organization-level coopetition (Crick and Crick, 2019). It is more a dynamic process than a discrete situation, due to changing goals, market conditions and the partners' roles (Bouncken *et al.*, 2015). This understanding of coopetition is adapted in this article. In the study, the focal firms can be considered as both cooperation partners and competitors, cooperating in some activities and competing in others. This allows for a more precise examination of tension, as competition for customers is inherent in the relationship (Bengtsson and Raza-Ullah, 2016; Galvagno and Garaffo, 2010; Gnyawali *et al.*, 2006).

Prior research has identified that coopetition, among other things, is a driver of value creation (Bengtsson *et al.*, 2010; Novais Santos, 2021; Ritala, 2009; Ritala and Hurmelinna-Laukkanen, 2009), and innovation (Bicen *et al.*, 2021; Chen *et al.*, 2021; Navio-Marco *et al.*, 2020; Park *et al.*, 2014; Wu, 2014). The reduction of costs, to keep up with the competition, is a rationale for coopetition (Bengtsson and Kock, 2000; Luo *et al.*, 2007; Morris *et al.*, 2007). Another rationale is access to resources, both similar (Galvagno and Garaffo, 2010; Luo *et al.*, 2007) and complementary (Chin *et al.*, 2008; Galvagno and Garaffo, 2010; Garaffo and Rocco, 2009). Recent research has also discussed how firms can use coopetition to cope with large-scale pandemics (Crick and Crick, 2020) and shape markets when facing disturbances (Beninger and Francis, 2021). Coopetition is beneficial for the partners, but there are also great challenges. According to Crick (2020), with “too little” coopetition, the firms may struggle to build up a sufficient volume of resources and capabilities, while “too much” coopetition potentially leads to unintended knowledge leakage, diluting the partners' competitive advantages. In coopetitive relationships, the failure rate is high (Dussauge *et al.*, 2000; Park and Russo, 1996), or the results may be disappointing (Bengtsson *et al.*, 2020).

## 2.2 Tension in cooptation

In research, tension is treated as having both positive and negative effects on, for instance, innovation (Chiambaretto *et al.*, 2020; Bengtsson *et al.*, 2010; Wu, 2014). However, recently researchers have focused on the “dark side” of relationships, when unmanaged tension ultimately causes conflicts, leading to opportunistic non-cooperative behavior, eventually accelerating the deterioration of the relationship (Abosag *et al.*, 2016; Fang *et al.*, 2011; Gnyawali *et al.*, 2016). This is the starting point in this article.

Raza-Ullah (2020) explains tension as “[...] the cognitive difficulty experienced by managers when they pursue multiple and simultaneous contradictory demands that are inherent in cooptation” (pp. 3–4). In SMEs, decision-making is strongly connected to one or a few key persons, playing the role of partner and competitor at the same time in cooptation. Contradictory roles and demands are in practice very challenging to deal with. They are reflected in individuals’ behavior and decision-making in an action-response manner (Chen, 2008; Näsholm and Bengtsson, 2014). Tension stems from how individuals perceive and understand cooptation, and the behavioral aspect is how they respond to manage it (Fernandez *et al.*, 2014b; Gnyawali *et al.*, 2016).

Conflicting logics can be resolved by temporal (Galvagno and Garaffo, 2010) and spatial separation (Bengtsson and Kock, 2000) of cooperation and competition. A spatial separation can, for example, be functional or product–market related. Due to the contradictory demands individuals face in SMEs, a separation principle is relevant to manage tension. On the other hand, integration of cooperation and competition is enhanced by a cooptative mindset (Granata *et al.*, 2018; Fernandez *et al.*, 2014b) or cooptation capability (Bengtsson *et al.*, 2016). Tidström *et al.* (2018) argue that a separation logic should be followed when tension is high, while an integration logic can be a good solution when the cooperative and competitive dimension of the relationship reinforces each other, creating “positive tension.” Integration may be relevant in situations where separation is not possible or sufficient, and vice versa.

Gnyawali *et al.* (2016) propose analytical and executional capabilities to manage cooptation and tension. The former refers to the ability to understand the conflicting logic in cooptation, while the latter refers to the development, implementation and utilization of management routines. Besides organizational routines, Tidström *et al.* (2018) also pinpoint face-to-face interactions that reinforce the partners’ interpretations of the cooptative activities as a way to manage tension. Similarly, Raza-Ullah (2020) proposes emotional and balancing capabilities. The former is manifested in the norms, practices and cultures of the firms and is reflected in how they behave to realize cooptative goals. The latter helps to mobilize, integrate and balance simultaneous competing demands of cooptation to achieve optimal performance. Bengtsson and Johansson (2014) further adds the capabilities of being agile and flexible when it comes to roles. SMEs need to quickly respond to changes and be able to build and reconfigure their cooptative relationships. They also need to be able to manage different relationships simultaneously and balance different roles in relationships infused with contradictions. To sum up, cooptation capability embraces both the awareness,

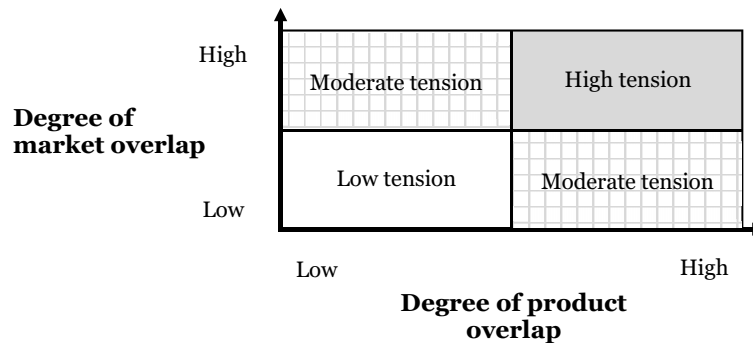
perception, understanding and assessment of tension, and the development, implementation and utilization of norms and routines, which helps SMEs to communicate with each other and quickly respond to changes and reconfigure their cooptative relationships, to attain and maintain a moderate level of tension.

As stated earlier, an integration and a separation principle are suggested for tension management. Integration may demand an alteration of the cooptative setup, to lower the tension to a tolerable level. According to Chin *et al.* (2008), a balanced or cooperation-dominated interaction in cooptation, measured in terms of high commitment, the development of trust and common visions and goals, is positive for the outcomes of the relationship, and thus enhances integration of the contradictory logic (Bicen *et al.*, 2021). Raza-Ullah (2021) argues that it is healthy to both trust and distrust your partner, implying it is relevant in some situations to integrate the contradictory logic, and in other situations, to be sceptic and rely on a separation principle or alter the relationship to protect yourself from harmful conduct. Gnyawali and Charleton (2018) conclude that moderately strong (balanced) competition and cooperation are more likely to positively influence value creation. A “perfect” balance exists when the partners equally contribute to value creation and equally appropriate the value (Bouncken *et al.*, 2020). Again, a balance between cooperation and competition enhances integration (Fernandez *et al.*, 2014a).

A relationship between a firm and a specific competitor is dynamic and changes over time (Peng *et al.*, 2012). According to Letcher *et al.* (2021), the partners continuously appraise their relationship to determine the benefits realized and the input made. How the partners act cooperatively or competitively is influenced by their perception of fair value appropriation. In cooptation, there is an ever-present balancing act between, for instance, creating and appropriating, exploring and exploiting, sharing and protecting, and working close together and keeping a distance. This creates inherent tension in the relationship. Even though the partners are competitors, they still have different out- or unspoken interests, goals and expectations of the relationship (Gnyawali *et al.*, 2016).

### 2.2.1 Tension due to market and product overlap

The concepts of market commonality and resource similarity were put forward in Chen’s (1996) study on competitive dynamics. Market commonality and resource similarity define the competitive dimension of cooptation (Dorn *et al.*, 2016; Galvagno and Garaffo, 2010; Peng *et al.*, 2012). Market commonality is defined as “the degree of presence that a competitor manifests in the market overlaps with a focal firm” (Chen, 1996, p. 106). The degree to which the partners in cooptation operate in the same markets or focus on the same segments determines the market overlap between them. Resource similarity refers to “the extent to which a given competitor possesses strategic resource endowments comparable, in terms of both type and amount, to those of the focal firm” (Chen, 1996, p. 107). Resource similarity results, for instance, in to what degree the partners’ products are similar or overlap. Figure 1 maps where tension is low, moderate and high in cooptation, according to the degree of overlap in markets and products.

**Figure 1** Tension due to market and product overlap

Source: Adapted from Virtanen and Kock (2021)

Empirical studies have verified that direct competition, in terms of similarity in products and markets, may cause conflicts (Gernsheimer *et al.*, 2021; Tidström, 2009), reduces the probability of survival of coopetition (Dussauge *et al.*, 2000; Park and Russo, 1996) or impacts the outcomes of coopetition negatively (Kim and Parkhe, 2009). Crick and Crick (2021) also conclude that coopetitors work with those that are targeting complementary (and not overlapping) product-markets.

#### 2.2.2 Tension due to proximity to the customers and strategic importance

Partners in coopetition can cooperate by jointly creating value in input functions distant from the customers, and compete by individually appropriating value in output functions close to the customers (Bengtsson and Kock, 2000). Competitors may cooperate in, for instance, research and development, but compete in the commercialization stage (Chin *et al.*, 2008; Ritala *et al.*, 2009). Accordingly, research suggests a functional separation as a solution for managing tension.

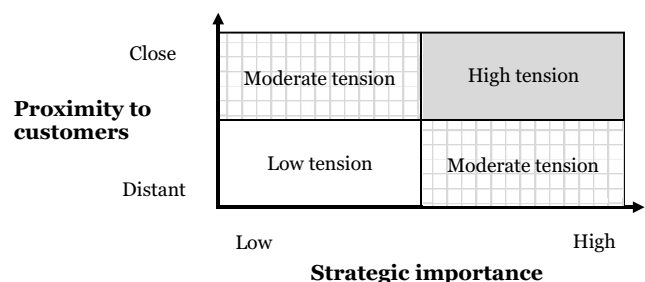
On the other hand, empirical research has also identified that coopetition can include output functions such as marketing and sales (Lindström and Polsa, 2016; Ritala and Tidström, 2014). A conclusion is that it is not only the proximity to customers that defines the level of tension. The strategic importance for the partners and the intensity of the coopetition activities are also influencing factors. Tension is high in coopetition in core business operations, as the possibility of the creation of common value is higher, and therefore the possibility of private value appropriation is higher (Luo *et al.*, 2007). Tension is lower in coopetition of an operative nature. Intense, strategically important coopetition increases dependence, either on the partner or on the relationship or both. Dependence is a double-edged sword. It is an antecedent to coopetition (Luo, 2007) but also increases or decreases tension in relation to actions taken (Akpınar and Vincze, 2016; Padula and Dagnino, 2007). Figure 2 maps tension according to proximity to the customers and strategic importance of the competition functions and activities.

Unintended knowledge and information transfer are often mentioned as risks in coopetition (Bouncken *et al.*, 2018; Ritala, 2009). The risk increases in coopetition that is strategically important to the partners (Wu, 2014). The nature of the knowledge and information possibly

transferred is also dependent on the proximity to the customers. For instance, in output functions, information of a commercial nature concerning markets and customers is critical. Gast *et al.*'s (2019) results indicate that cooperating competitors share knowledge of a general nature, but protect core, firm-specific commercial knowledge. Bacon *et al.* (2020) conclude that firms in coopetition need "to tailor knowledge exchange practices to the competitive nature of each relationship" (p. 307) (see also Estrada *et al.*, 2016). Appropriate routines are necessary to handle cooperative relationships (Czakon *et al.*, 2020).

#### 2.2.3 Tension due to goal congruence and prospect of return

In coopetition, the partners' explicit or implicit goals may differ in their temporal orientation (Fang *et al.*, 2011) when it comes to economic interests and strategies deployed (Gnyawali *et al.*, 2016). Goal congruence is not only about the goals being equal or different, but also about their compatibility or fit (Czakon *et al.*, 2020; Dorn *et al.*, 2016; Tidström, 2009). According to Tidström *et al.* (2018), mutually agreeing on strategic goals and reviewing them regularly provides structure, predictability and transparency to a cooperative relationship, and helps to prevent ambiguity and conflicts. Thus, the stronger the common stake, the weaker the level of tension (Akpınar and Vincze, 2016). The risk for private benefit extraction is lower when the common benefit potential is high (Arslan, 2018; Gnyawali and Charleton, 2018; Letcher *et al.*, 2021). Tension is lower when

**Figure 2** Tension due to proximity to customers and strategic importance

Source: Adapted from Virtanen and Kock (2021)



the partners' goals are compatible. Tension may arise when a partner in coopetition perceives their goal attainment is being impeded by the other (Tóth *et al.*, 2018).

Coopetition has a low probability of survival (Dussauge *et al.*, 2000; Park and Russo, 1996). Therefore, there must be some prospect of return on investment to make it worthwhile. The partners' goal may be congruent, yet they may have different prospects of return (Gnyawali *et al.*, 2016). Prospect of return may not only be measured in financial terms, but also in terms, for instance, of process and product quality improvement, cost reduction and efficiency, and resource sharing (Peng *et al.*, 2012). Gnyawali and Charleton (2018) use the concept of value creation intent, describing in broader terms what partners in coopetition may expect from the relationship (Czakon *et al.*, 2020; Seepana *et al.*, 2020). A low prospect of return may weaken the partners' will to, for instance, share resources. Sharing of resources is the *raison d'être* of coopetition. Seepana *et al.* (2020) also emphasize the importance of knowledge sharing in coopetition. Reluctance to share resources and knowledge may lead to poor performance and an unstable relationship, thus raising tension. Figure 3 maps tension according to goal congruence and prospect of return.

The upper right-hand corner of the matrix illustrates a situation of high tension, where both goal congruence in the relationship and the prospect of return therefrom are low. There has been sparse discussion in the prior research of prospect of return as a cause for inherent tension. The strategic importance of coopetition naturally reflects the prospect of return, and vice versa. The prospect of return may be higher in strategically important coopetition, at least in the long term. A lower prospect of return may be accepted in coopetition of an operative nature, for instance, to strengthen the relationship and mutually adapt to the partner, which in the long run may produce a return.

### 3. Methodology

Hoffmann *et al.* (2018) call for more process-oriented coopetition research based on case studies. Given the purpose of this study, a case study method is relevant. Case studies enable in-depth insights of empirical phenomena and their contexts (Dubois and Gadde, 2002) and are suitable for studying business relations (Halinen and Törnroos, 2005) and processes in SMEs (Chetty, 1996). The base for this study is an

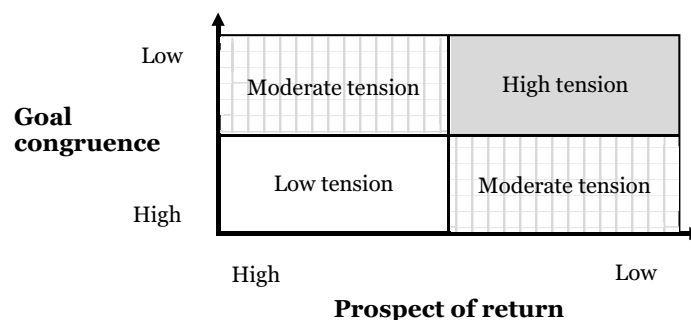
embedded single-case design (Yin, 2013). An embedded single-case design is advantageous when multiple subunits exist within the case and examining these subunits provides additional insight into the focal phenomenon (Ozcan *et al.*, 2017). Two manufacturing SMEs in coopetition are studied, referred to as AlfaFur and BetaFox. The units of analysis are their past dyadic coopetition with other competitors, their present coopetition with each other and their view of possible dyadic coopetition with other partners in the future. All the examples of coopetition arrangements analyzed contain no horizontal restriction of competition (e.g. fixed pricing, limitation of and sharing markets, etc.), and therefore fulfill legislative requirements.

Single cases have been an important method to advance the field of coopetition (Fernandez *et al.*, 2014b; Granata *et al.*, 2018; Ritala *et al.*, 2009; Yami and Neme, 2014). Dubois and Gadde (2002, p. 558) argue that "when the problem is directed towards analysis of a number of interdependent variables in complex structures, the natural choice would be to go deeper into one case instead of increasing the number of cases." Ozcan *et al.* (2017) recommend single cases to study complex and rare organizational change processes at a fine-grained level of detail as well as over time. Other researchers also plead for a single-case design, as it may provide a powerful means of deriving insight from rich data (Dyer and Wilkins, 1999; Langley, 1999; Siggelkow, 2007). The case in this study can be interpreted as a representative case (Yin, 2013). It captures common types of coopetition between manufacturing SMEs, where the firms are relatively similar in size and resources and the cooperative activities are intense. The richness of data enables the comparison of insights across units of analysis, and identification of patterns (Gnyawali and Song, 2016).

The use of in-depth interviews as a data collection method is common in case studies. In this study, the main data collection method was semi-structured interviews with the senior managers of the focal firms. The initial themes and open-ended questions were mainly raised to start the discussion, after which probing was used to uncover the opinions and experiences of the informants. Data from internal documents, newspaper articles, the internet and brochures complemented the interviews.

Nine interviews were conducted. The informants were well-informed, which resulted in well-elaborated answers. Overall, the interviews took around one-and-a-half to two-and-a-half hours to complete, and were tape-recorded. Miles *et al.* (2013)

**Figure 3** Tension due to goal congruence and prospect of return



Source: Adapted from Virtanen and Kock (2021)

recommend writing memos during the collection of qualitative data. This was done during the interviews, and included intuitive ideas, preliminary thoughts and assumptions. Informal discussions often continued after the interviews. Those discussions dealt with the same topics and confirmed the information from the formal interviews.

Each interview was fully transcribed as soon as possible after the interviews, and the transcripts were sent to the informants for confirmation. The memos written during the interviews were compared with the transcripts, and aided in the confirmation of the final conclusions. The analysis started with reading through all transcripts and memos to get a general grasp of the data. After the reading, the data were categorized into themes. Content analysis was used to summarize the management, sources, levels of strength and dynamics of inherent tension in coopetition between the focal SMEs (Tesch, 1990). To support conclusions drawn and highlight the closeness between data and the presented results, direct quotations are included in the text (Gnyawali and Song, 2016).

### 3.1 Case description

AlfaFur is a Finnish SME in the machinery and metal business and was established in the late 1970s. AlfaFur's operations are divided into three business areas: mini loaders, production automation applications and machines and equipment for fur farming. At the time of the study, the firm had around 50 employees. The focus in this study is its fur farming business. This area has historically been one of AlfaFur's core businesses, in which they are a world leader measured by international market shares. Besides Finland, their most important markets are in Scandinavia, Europe, the Baltic countries and the USA.

The fur farming industry is highly volatile, due to fluctuating economic conditions and rapid changes in fashion trends. Further, attitudes toward fur farming as a business are changing. In some countries, fur farming is partially or totally banned for ethical reasons, while in others, such as AlfaFur's and BetaFox's home country Finland, there is ongoing discussion. In 2020, news media reported that the COVID-19 virus was detected in, for example, Danish, Dutch, Polish and Swedish mink farms, which even more fuels the discussion about the legitimacy of fur farming. However, in the international markets, price competition is hard, although not decisive. A critical competitive advantage is product development and automation. The equipment and machinery life-cycles are becoming ever shorter and customers want to automate hard manual work. Another key resource is to be represented by the right dealers. The number of potential dealers is not that high, especially when many have a contract with AlfaFur's competitors. AlfaFur's main competitors, other than BetaFox, are from Denmark.

BetaFox is also a Finnish SME in the machinery and metal business, primarily in the production of machines for skinning and preparing furs. BetaFox was established in the 1980s, and at the time of the study had around 20 employees. BetaFox's product line for fur farming is quite narrow. BetaFox focuses mainly on fox farming customers, while AlfaFur focuses on both mink and fox. The machines for skinning and preparing mink and fox furs are principally the same, adapted to fit the size and composition of the furs. At the time of the study, BetaFox's main markets were in Finland and Norway. Since

then, Norway has banned fur farming and the business will be phased out by mid-2020. A smaller number of customers are to be found in the other Nordic countries, Russia, the Baltic countries and the USA. BetaFox is the world leader in its own niche. The main competitors hail from Finland, but their market shares are marginal.

### 3.2 Coopetition between AlfaFur and BetaFox

AlfaFur and BetaFox had experience of cooperating with other competing partners before they started to cooperate with each other. In the 1980s, AlfaFur functioned as an agent for a Danish competitor (in this article called DanComp), importing their machines in Finland. When AlfaFur started exporting to the Soviet Union, they also sold DanComp's products in that market. However, the arrangement did not last. When the Soviet market grew, DanComp started to sell directly to the Soviet customers. The arrangement eventually ended when the former partners reverted to being strong contenders.

BetaFox's past coopetition was of a different nature. Their cooperation partner in Denmark was initially not a competitor, rather a dealer importing their machines (in this article named DanImport). A risk with dealerships is that the partners can become competitors, due to knowledge and information spillover. This happened to BetaFox. DanImport became a competitor when it began to manufacture similar machines as BetaFox and sold them in the Danish market. The dealership agreement was terminated after a short while, as the direct competition between the partners became overwhelming.

AlfaFur and BetaFox initiated their coopetition in the middle of the 1990s. At the beginning, a third partner (also an SME, referred to here as GammaFarm) was also involved. All three SMEs are active in the same industry. The competition between the firms was in the 1990s destructive, as the world markets were and still are limited. The starting point for the coopetition was to focus on different products, which together would build an overall solution for the customers. The coopetition was organized so that sales would be managed by AlfaFur. However, despite the arrangement, GammaFarm wanted to sell directly to the customers, which led to it exiting the partnership. GammaFarm is still active in the industry, now manufacturing complementary products and not competing with AlfaFur and BetaFox. The relationship between GammaFarm and its former coopetition partners can now be described as coexistence.

The present coopetition between AlfaFur and BetaFox is still built on the same principles as at the outset. The partners focus on products, which combined represent a competitive advantage in the markets. The coopetition focuses on the production and sales of pelting equipment for fox furs. BetaFox develops and manufactures the equipment, while AlfaFur markets and manages the sales thereof, through local dealers. AlfaFur's ideas about new equipment are passed to BetaFox for further development. The coopetition does not have an organizational unit of its own. Instead, the coopetition activities are incorporated into everyday operations. Were the coopetition for some reason to end, a situation of direct competition between AlfaFur and BetaFox would probably arise again.

Possible upcoming markets for AlfaFur and BetaFox are China, Russia and Poland. Local competitors in those markets are currently few in number, but if the local markets grow, the

competition will eventually rise. Growing markets will probably provide AlfaFur and BetaFox with an incentive to initiate cooperative arrangements with the local competitors, mainly in the form of dealership arrangements. However, the long-term development of the markets is still uncertain. China, Russia and Poland are low labor cost countries, which may create downward price pressure in the fur farming industry. Lower prices imply that the will to invest, for example in machines, will decrease among the farmers in the traditional markets. On the other hand, the quality level of the furs produced in the new countries is uncertain. It is also not known whether the farmers in the new countries will ultimately focus on mink, fox or both. This may impact at least BetaFox's interest, as the firm focuses on the narrow niche of fox farming.

The focal cooperative relationships and the changes therein are summarized in Figure 4. They are more thoroughly presented and analyzed in Section 4. AlfaFur's and BetaFox's opinions about potential cooperation in the future are also presented in Section 4.

## 4. Findings

### 4.1 Mapping market and product overlap

The cooperation between AlfaFur and BetaFox stipulates that AlfaFur manages marketing and sales, and BetaFox manufactures the products, which are jointly initiated, planned and developed within the cooperation framework. According to the arrangement, AlfaFur receives a commission for their part. Sales in the export markets through local dealers are managed solely by AlfaFur. The *modus operandi* of the cooperation allows BetaFox to sell to domestic customers that contact it directly. Accordingly, sales in Finland are executed by both partners, and BetaFox pays a commission to AlfaFur. Even though BetaFox is not involved in the sales and marketing activities in the export markets, they still have personal contacts with many of the customers, as the market is limited.

Prior to cooperation between AlfaFur and BetaFox, they manufactured competing products, sold to the same customers. There was a high overlap in products and markets in the fox farming niche (illustrated by a triangle in Figure 5). The cooperation arrangement has altered the situation, and today

the partners focus on complementary products (illustrated by a hexagon in Figure 5). They still target the same customers, but as explained previously, the arrangement stipulates how the partners manage the situation with direct competition for customers. The degree of product and market overlap and transition from the past to the present situation is mapped in Figure 5.

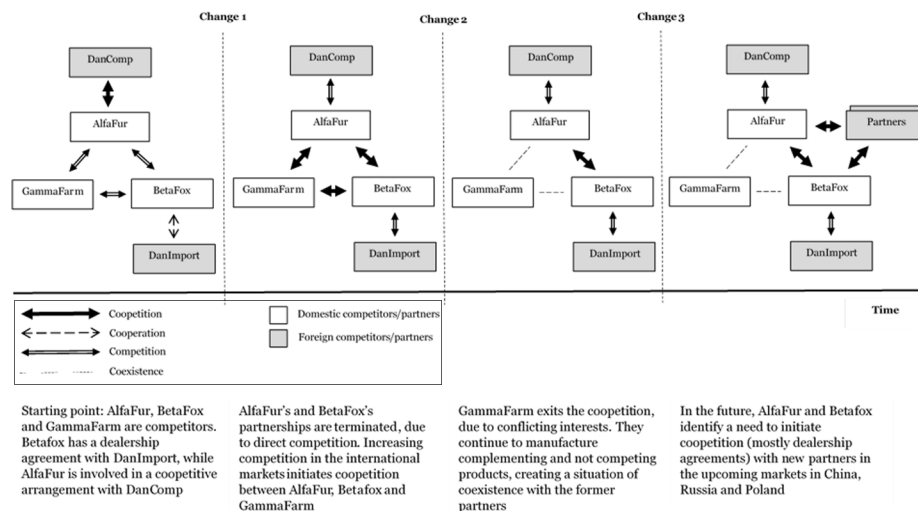
Earlier, AlfaFur functioned as an agent for DanComp, both in Finland and the Soviet Union. The product overlap was high, but market overlap low, as DanComp did not focus on Finland and the Soviet Union (illustrated by a circle in Figure 5). A growing Soviet market was tempting for DanComp, so it decided to bypass AlfaFur and sell directly to Soviet customers. Besides the product overlap, a market overlap became evident, leading eventually to the arrangement being terminated in the Soviet Union. The partners continued their cooperation arrangement in the Finnish market for a while, but the breach of trust and AlfaFur's fear of DanComp bypassing them also in Finland eventually made the partners going separate ways:

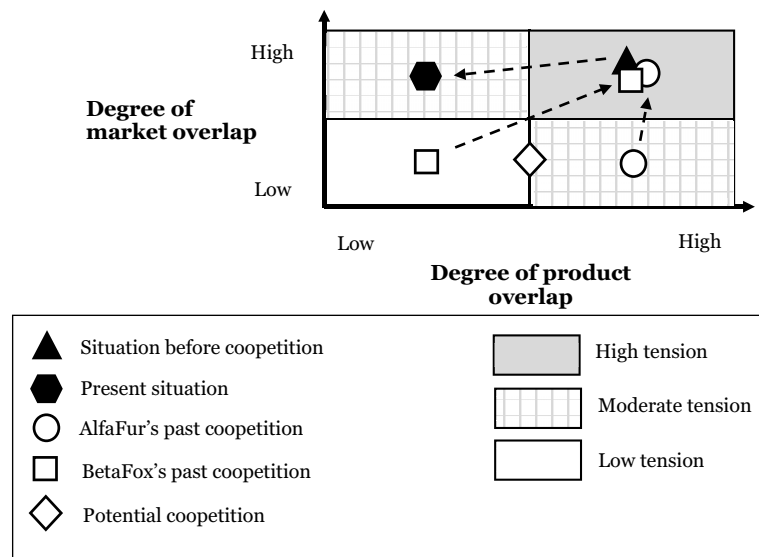
It worked well in the beginning. But when our Danish friend started to make deals directly with the customers in the Soviet market, it felt impossible to continue the partnership. They didn't want a piece of the pie, they wanted the whole pie. (CEO, AlfaFur)

BetaFox cooperated earlier with DanImport in Denmark. DanImport was not a competitor, instead its role was to function as an importer or a dealer for BetaFox products. There were no overlaps in either products or markets (illustrated by a square in Figure 5). DanImport began to manufacture the same machines as BetaFox, thus becoming a competitor in the Danish market. The degree of overlap in markets and products became high, implying that BetaFox perceived it impossible to continue the partnership. DanImport also had no intention to continue the relationship.

In the discussion around potential cooperation, the informants stressed the importance of low overlap in the product range. The informants' answers are naturally influenced by their previous experiences of, for example, their Danish partners. They identified two possibilities: cooperation

Figure 4 Focal cooperative relationships and the key changes over time



**Figure 5** Mapping degree of market and product overlap in the focal case

organized in the same manner as the present coopetition, but with additional competing partners, and coopetition in the upcoming markets:

We could partner with firms that are not our head-on competitors, otherwise it isn't possible. If the products compete directly, I figure there's too much information involved. (CEO, AlfaFur)

When it comes to coopetition in sales channels, it's impossible to compete for the same customers. You cannot manufacture and sell the same product range, but a complementary range is okay. (CEO, BetaFox)

In China, Russia and Poland, coopetition would be a relevant strategy to cover the markets. If the markets grow, the informants from both AlfaFur and BetaFox opine that a strong local presence via local coopetition partners is necessary:

We probably have to seek Russian and Chinese partners. If the markets grow, we need partners as dealers, or otherwise we have to be present in the markets. (CEO, BetaFox)

Today, there are no local competitors in the upcoming markets, but with increasing demand the interest in manufacturing locally will surely grow. In potential coopetition with local competitors, the degree of market overlap would be low, as AlfaFur's and BetaFox's strategy would not be to cover demand in the markets directly, rather through dealership agreements with their partners (illustrated by a rhombus in Figure 5). The degree of product overlap would be moderate, as it can at least at the beginning be expected that the possible competitors' product line would be narrower, and their product quality level would be more modest.

#### 4.2 Mapping proximity to customers and strategic importance

The present coopetition between AlfaFur and BetaFox embraces both input and output functions, that is, both manufacturing and sales (illustrated by a hexagon in Figure 6). The partners have taken measures to avoid direct competition in sales by agreeing on mutual commissions, which gives both partners equal value irrespective of who is selling to the customers. The strategic importance of the coopetition can be

interpreted as at least moderate. The situation has been the same from the outset. The coopetition gives the partners a significant competitive advantage, but the dependence on the coopetition is not decisive for the partners' businesses. BetaFox, being a smaller firm, is now dependent on AlfaFur's sales resources, but BetaFox has actively tried to maintain contact with the customers in case of a worst-case scenario:

From our point of view, a risk with terminated coopetition is that we now have less contact with the markets. It would take a couple of years to get back, if our partner for some reason were to cancel the arrangement. We've been very thorough in maintaining some sort of contact with the markets. (CEO, BetaFox)

The proximity to customers and the strategic importance of the case of coopetition in focus is mapped in Figure 6.

AlfaFur's and DanComp's coopetition was a prolongation of AlfaFur's own activity in the Soviet market and was, therefore, not strategically important to AlfaFur (illustrated by a circle in Figure 6). Alongside their own products, they sold their competitor's products as a complement. BetaFox's previous coopetition also embraced the output-function selling (illustrated by a square in Figure 6). DanImport became a competitor, and the coopetition was terminated. BetaFox had to find new dealers in the Danish market. With hindsight of the problems in finding new dealers, the previous coopetition can be judged as having had a certain strategic importance for BetaFox's business in Denmark:

Denmark was a backlash when DanImport started to compete with us. At once, we almost totally lost the Danish market. It was difficult for us to find a new dealer. (CEO, BetaFox)

Both AlfaFur's and BetaFox's previous coopetition arrangements with each of their Danish partners were, however, not terminated solely due to functional and strategic reasons. Instead, when the situations changed, direct competition for customers due to product and market overlaps was also decisive. Additionally, the Danish partners' opportunistic behavior affected AlfaFur's and BetaFox's decisions.

AlfaFur's and BetaFox's plans on coopetition with new partners in the upcoming markets would include the output-



function sales (illustrated by a rhombus in Figure 6). The partners would function as dealers. The possible coopetition would have a certain strategic importance, as the markets are complex and having a local partner is relevant. Having a local partner is also relevant at the outset, when volumes are small, giving no reasons for substantial investments in the markets. Being market leaders, AlfaFur and BetaFox though have resources for that, if for some reasons coopetition arrangements with local partners are not initiated:

We probably must find local partners. We must monitor the markets and see if there will be an increase in the volumes. (CEO, BetaFox)

#### 4.3 Mapping goal congruence and prospect of return

AlfaFur's and BetaFox's coopetition is situated in a context where the international markets are at the least stagnating or even shrinking in the long run, even taking the fluctuations or occasional growth periods into account. Coopetition is, therefore, a means for the partners to maintain or defend their positions. The goal is to relieve the head-on competition between them, to focus and effectively use resources, which allows the achievement of cost benefits and synergies, and finally to prepare for a lack of security in demand. Together, the coopetition partners can build up a complementary product line, which the other competitors cannot achieve. The partners have a strong common stake. Their goals are strongly compatible.

However, AlfaFur and BetaFox do not have similar prospects of return on the relationship (illustrated by two hexagons in Figure 7). It is not equally decisive for their businesses. BetaFox is focusing on one niche only and has limited resources to build its own marketing and sales channels. The partnership gives BetaFox access to these decisive external resources (hexagon 1). AlfaFur is on the other hand focusing on several product lines and niches. Its resource base is larger, which means coopetition with BetaFox is not decisive for AlfaFur, albeit considered highly beneficial (hexagon 2):

The markets are very small. With the sales volume we have, it's almost impossible to build up our own dealer network or establish our own sales

offices abroad. We need a cooperation partner that can fix the sales. (CEO, BetaFox)

We have resources to cope without cooperation. We have a good reputation and actually know everyone we need to. But we are stronger together with BetaFox. We have both concluded that it's more beneficial to cooperate with each other than compete. (CEO, AlfaFur)

The partners' goal congruence, their prospect of return and the transition from past coopetition is mapped in Figure 7.

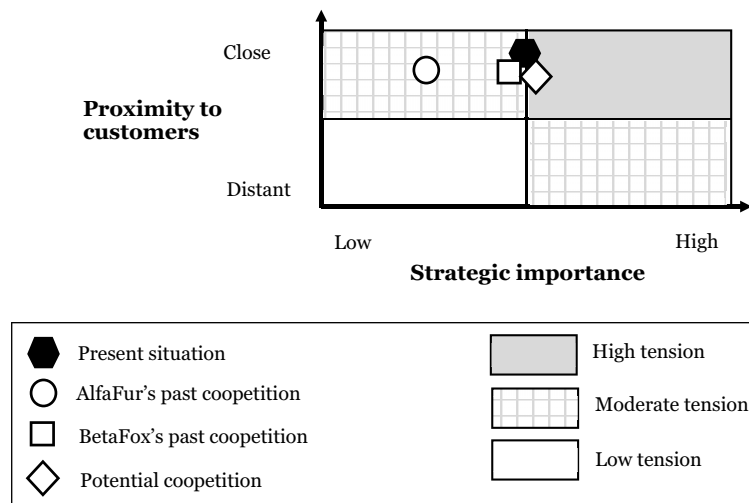
In AlfaFur's coopetition with DanComp, the partners had the same goal, namely, to sell and be represented in the Soviet market (illustrated by a circle in Figure 7). However, the prospect of return could be considered low. The arrangement was initiated as a natural side business, when AlfaFur was already active in the market. Later, when DanComp started to sell directly to the Soviet customers, the goals in the partnership changed from being cooperative to competitive (with low congruence):

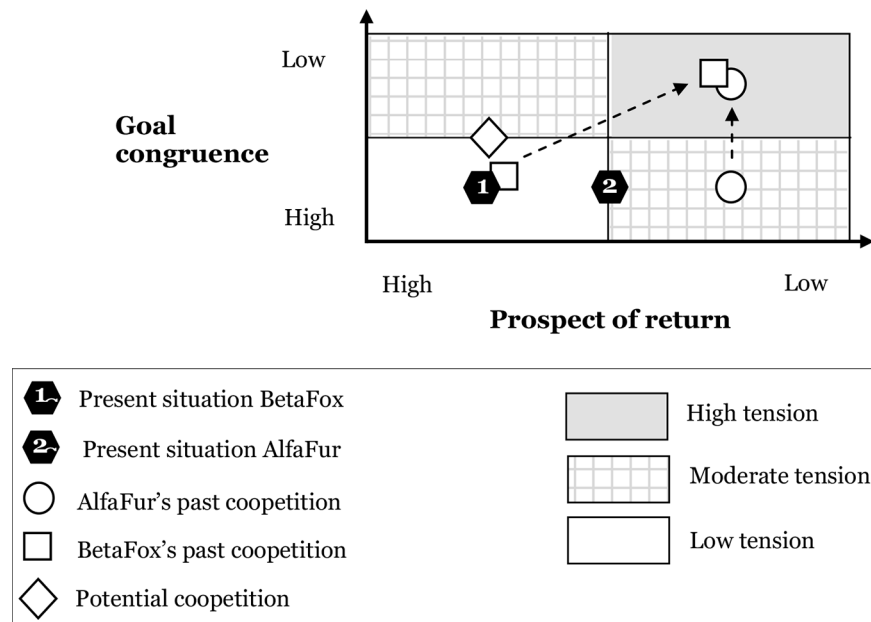
With little additional effort, we started to sell our Danish colleagues' products. But the market grew, and they wanted to sell directly to the customers. Our intentions grew apart and we went from being colleagues to competitors. (CEO, AlfaFur).

There was a similar development in BetaFox's coopetition with DanImport. BetaFox was dependent on the relationship and had a high prospect of return, at the same time as the goal congruence was high (illustrated by a square in Figure 7). It was a win-win situation. When DanImport became a competitor, the goal congruence and prospect of return diminished, and ultimately the partners decided to go their separate ways.

The goal congruence between the new partners in AlfaFur's and BetaFox's planned coopetition in upcoming markets would be moderate (illustrated by a rhombus in Figure 7). AlfaFur's and BetaFox's goal is to enter the markets, through avoiding greenfield investments. To cut costs, their partners would function as dealers, with their own intentions and expectations. On the other hand, the prospect of return would be high, and not in monetary terms alone, as the coopetition would offer other benefits. Having a local partner, with local knowledge and expertise, is a safer choice than going it alone in a market that is new, complex and risky to enter.

**Figure 6** Mapping the proximity to customers and the strategic importance in the focal case



**Figure 7** Mapping the goal congruence and the prospect of return in the focal case

## 5. Discussion

A pattern is visible in the matrices, which map the tension configurations and their development over time. The results indicate that in the focal firms:

- competition is either avoided or terminated when inherent tension is too high;
- competition is altered so that the determinants of inherent tension equate to a level of moderate or low tension; and
- inherent tension is managed through mutually dividing the value of cooperation, via a policy for value sharing.

According to this, low or moderate tension between the cooperative and competitive dimensions enables cooperation in SMEs, which previous research also has concluded conceptually (Gnyawali and Charleton, 2018) and empirically (Tidström *et al.*, 2018). Cooperation capability enables, for example, the SMEs to initiate processes to attain and maintain a moderate level of tension (Bengtsson *et al.*, 2016). Too high tension seems to be problematic for the survival of existing cooperation, or for initiating new cooperation. Decision-makers in SMEs appear to be uncomfortable with high-tension situations. According to Letcher *et al.* (2021), cooperation is in balance when all the partners are satisfied with the level of cooperation and competition, which is in line with the findings in this study. Granata *et al.* (2018) argue that in smaller firms, cooperation is separated from competition through an outside actor organizing the activities in the cooperative relationships. This study adds insights into that argument by concluding that separation is not always needed in SMEs. An integration of the contradictory logic is possible in a situation where tension is moderate or low.

Partners' highly overlapping product portfolios and markets cause high tension (Gernsheimer *et al.*, 2021). This study

confirms that, but also identifies alternatives to deal with tension-causing overlaps. An alternative, by which to alter that situation, is to phase out head-on competition through, for instance, focusing on products that do not directly compete, or are positioned in different markets. The partners can choose to cooperate in certain markets and compete in others. It is possible to delimit the cooperative arrangement to include only specific products, for instance, developing a complementary product range for customers. Thus, the integration of a contradictory logic is enabled by, at least, a partial separation of product and market overlaps.

It is unlikely that SMEs will cooperate in, for instance, output functions such as sales when offering the same products to the same customers. To be both partner and competitor at the same time causes stress at the individual level (Näsholm and Bengtsson, 2014). The findings show that a likely response to head-on competition for customers is to alter the structure of cooperation. At least a partial separation of product and market overlaps seems to be needed to make it possible for SMEs to cooperate in output functions. However, competing SMEs can cooperate in input functions, such as research and development, enabled by the partners implementing routines to guarantee shared value from shared ideas (see also Czakon *et al.*, 2020).

Tension is high in cooperation in strategically important output functions. Previous research has discussed tension in relation to function (Bengtsson and Kock, 2000; Chin *et al.*, 2008; Ritala *et al.*, 2009), but not in relation to strategic importance. The partners either avoid cooperation in strategically important output functions or take measures to alter the relationship to make an integration of the contradictory logic possible. One solution is to cooperate in output functions that are not strategically important to the

partners' core businesses or competences (e.g. dealership arrangements with competitors in smaller markets). Another solution is to cooperate in input functions (e.g. joint purchasing), and compete in output functions, as suggested also by Bengtsson and Kock (2000). A third solution is to agree on value division. A "perfect" balance is reached when the partners equally contribute to value creation and appropriation (Bouncken *et al.*, 2020; Gnyawali and Charleton, 2018). The AlfaFur and BetaFox case adds practical insights on how this can be reached. As described in the focal case, an integration is enabled where the partners agree on how to equally divide value in sales (through a system of mutual commissions), and how to share knowledge in production and product development.

Incongruent goals and a low prospect of return cause high tension. Prior research has not pinpointed prospect of return as a cause for tension. Again, the results indicate that entrepreneurs of SMEs can integrate a contradictory logic of interaction when the partners' goals are compatible and not conflicting. They are also able to integrate a contradictory logic when they see a benefit from participating in coopetition, at least in the long run. The main point is to reach consensus on working together for a mutual benefit, rather than achieving short-term gains through opportunistic behavior. Breaching consensus has negative effects on the continuance of coopetition. Communication, commitment and a strong fit between the partners enhances consensus (Chin *et al.*, 2008).

## 6. Conclusion and implications

### 6.1 Contribution

This article discusses the dark side of coopetition between SMEs. Coopetition is a double-edge sword. On the one hand, it can be positively related to strengthening the competitiveness of SMEs, but on the other, tension may hamper the positive impact of coopetition on SMEs' performance. However, Ritala (2009) argues that coopetition is neither beneficial nor risky *per se*. Instead, it is the management of tension, or how entrepreneurs of SMEs perceive and react to tension, that determines the outcome. It is not enough solely to deploy a coopetition strategy to contribute to competitive advantage (Fernandez *et al.*, 2014b); effective management of the contradictions is also needed.

The article introduces the concept of inherent tension and frames the determinants thereof. The determinants are product and market overlaps, proximity to the customers, strategic importance, goal congruence and prospect of return. The article contributes to coopetition research by increasing our knowledge of sources of inherent tension and level of strengths, as well as identifying new perspectives on tension dynamics and management principles. It also contributes by identifying when separation of the cooperative and competitive dimensions in coopetition is eligible and when an integration of the conflicting logic is possible.

According to Fernandez *et al.* (2014b), both the separation and integration of cooperative and competitive dimensions are eligible for tension management in coopetition. However, this study adds to that argument by showing that it is not a question of either one principle or the other. Entrepreneurs of SMEs struggle to embrace the contradictory logic in coopetition, which implies that a separation principle is more probable in certain situations, and an

integration principle is possible in others. One conclusion is that in tension management, it is a question of combining the principles (see also Le Roy and Czakon, 2016). For example, an integration of the conflicting logic is enhanced by, at least, a partial separation of the cooperative and competitive dimensions in coopetition. The ability to embrace contradictions is enhanced when tension is on a low or moderate level (Bengtsson *et al.*, 2016), which is confirmed in this study. The successful management of coopetition also relies on mechanisms for mutual division of value, which also enhances the ability to embrace contradictions.

The novelty of this study is the framework developed, in the form of a mapping scheme. It responds to a call for empirical research to better understand inherent tension in cooperation between competing SMEs (Dorn *et al.*, 2016; Le Roy and Czakon, 2016). The framework identifies the sources of inherent tension, assesses the level of strength of tension and traces the dynamics of tension over time. It helps SMEs monitor their coopetitive relationships. It maps situations where inherent tension is high and accordingly identifies when SMEs may consider avoiding coopetition, or proactively altering the relationship to partially separate cooperation from competition. Coopetition capability, both cognitive and executed through routines, enforces the tolerance of tension to a certain level. Exceeding that level implies the entrepreneurs of SMEs shift their coopetition to a position where tension is tolerable. The framework is dynamic, and contributes to coopetition research by explaining changes in coopetition over time through changes in the tension configurations.

### 6.2 Managerial implications

The identification of coopetition as a relevant strategic alternative for SMEs to build on their competitive advantage has practical implications. The focal case illustrates how the partners work together to deal with resource constraints and competition in limited, declining markets. It also illustrates the challenges the partners have faced in the past and face in the present coopetitive relationships.

Networking is supported by governments to overcome SMEs' liability of newness and smallness. However, networking comes with a dark side, especially in coopetition. Practitioners ought to be aware of management issues such as tension management. The focal case shows that the sources and emergence of tension in coopetition changes over time, implying that the management thereof benefits from a holistic approach recognizing how tension emerge and evolve and how it can be managed through various principles and routines.

The framework developed in this study is a relevant, practical tool for SMEs to map the tension configurations in coopetition and their development over time. By monitoring the tension configurations, it is possible to foresee when there is a risk that the inherent tension is raising too high, causing conflicts. The entrepreneurs of SMEs can proactively try to act to alter the relationship, which lowers the inherent tension to an acceptable level. Otherwise, it is difficult to embrace the conflicting logic of coopetition. Tension can also be lowered or avoided through dividing the value of coopetition between the partners, via a policy for value sharing. Mutual benefits and value are likely to strengthen the coopetitive relationship over time.

This study reveals that especially the competitive dimension of coopetition is constantly monitored by the entrepreneurs and

the relationships are adjusted or terminated accordingly. Therefore, the entrepreneurs should be aware of how their own cooperative and competitive actions may be perceived by their partners and try to act on reaching mutually, complementary benefits. The partners have different goals and expectations of coopetition. As incongruent goals and unclear expectations raise tension and may be a source for detrimental conflicts, this should be openly discussed between the partners.

In SMEs the decision-making is often centralized to one person, the entrepreneur. To separate the cooperative and competitive dimensions is difficult as the entrepreneur must play the role as partner and competitor simultaneously. In such a situation, the ability to understand and integrate the conflicting logic is needed. Entrepreneurs planning to engage in coopetition should be aware of this and prepare for possible different scenarios developing over time in the relationship.

## 7. Limitations and further research

A limitation is that the study is based on a single-case study, albeit embedded. However, the focal case provided rich data, giving direction for future research. The insights from the study could enable researchers to design and conduct more systematic, large-scale empirical research on the management, sources, levels of strength and dynamics of inherent tension in coopetition between SMEs. The data collected are partly retrospective in nature (concerning past coopetition). A longitudinal study of multiple cases from different industry sectors could be relevant to further assess the framework developed, and further research the dynamics of coopetition and tension management (see also [Gnyawali and Song, 2016](#)). The temporal aspects of management efforts and how the nature of tension evolves in various stages of coopetition are relevant for further investigation. The focal firms are SMEs in the machinery and metal business. Caution should be exercised when implementing the results from this case in, for instance, larger firms. As discussed in the introduction, large firms, with a diversity of subsidiaries, divisions, business units, departments and key responsible individuals, have other options to integrate and separate the cooperative and competitive dimensions of coopetition ([Hoffmann et al., 2018](#)).

The discussion in the article focuses on inherent tension. The discussion does not explicitly consider, for example, relationship-specific motives for coopetition, and how it affects experienced tension. The nature and sources of tension, and its management, will certainly differ if coopetition is initiated by, for example, a cost- and risk-sharing motive, compared to coopetition where the motive is to innovate and develop new products (see also [Ritala, 2009](#)). However, implicitly, coopetition motives may be mirrored in, for example, the strategic importance of and prospect of return on the relationship.

The findings of the study suggest that in SMEs the will to engage in coopetition is contingent on how the conflicting logic in the relationship is managed. Unmanaged business relationships may become intolerable, resulting in conflict, and a deterioration of trust, commitment and cooperation ([Abosag et al., 2016](#)), ultimately leading to the dissolution of the relationships. More empirical research on tension dynamics and management is therefore needed. Delving more into the dynamics of how inherent tension in coopetition emerges and how, when and why practitioners in SMEs execute different

tension management principles in diverse types of coopetition is relevant.

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### Corresponding author

**Henrik Virtanen** can be contacted at: [henrik.virtanen@hanken.fi](mailto:henrik.virtanen@hanken.fi)