



Knowledge development through co-opetition: A case study of a Japanese foreign subsidiary and its local suppliers



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ABSTRACT

Based on qualitative interviews with members of a focal firm located in China and five of its local supplier firms, and on non-participant observations of focal firm-supplier transactions, we identify the cooperative and competitive routines that were managed and orchestrated by the focal firm and contributed to local knowledge development through Yin-Yang dynamics. Harnessed together in Yin-Yang dynamics, these two contradictory yet complementary and mutually transformative routines drove and supported core suppliers' active contributions to new knowledge development while challenging them to remain close to the focal firm.

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1. Introduction

Introduced to the literature on strategy and international business by Brandenburger and Nalebuff (1996), the concept of co-opetition has become a key term, characterizing the simultaneous presence of two opposing forces of competition and cooperation (Dagnino & Rocco, 2009; Gnyawali & Madhavan, 2001; Luo, 2007; Walley, 2007; Yami, Castaldo, Dagnino, & Roy, 2010). The idea that firms can play dual yet antithetical roles as both competitors and collaborators has advanced understanding about various intra-organizational (Ritala, Välimäki, Blomqvist, & Henttonen, 2009; Tsai, 2002) and inter-organizational relationships (Bengtsson & Kock, 2000; Lado, Boyd, & Hanlon, 1997; Luo, 2004; Padula & Dagnino, 2007) for value creation (Dagnino & Padula, 2002; Lado et al., 1997) and knowledge development (Baglieri, 2009; Ritala et al., 2009).

Co-opetition can involve an agreed project or strategic alliance with two or more partners (Doz & Hamel, 1998; Khanna, Gulati, & Nohria, 1998; Ritala, 2012). It may also be construed as a strategic perspective that firms can adopt as a way of identifying co-dependencies vis-à-vis suppliers, rivals, customers and complementors (Afuah, 2000). In this paper, we shall focus on a situation involving one China-based manufacturing subsidiary of a Japan-headquartered MNC, as a focal firm with core local suppliers, in

which these stakeholders enact co-opetitive routines. There has been substantial research on inter-organizational knowledge creation and sharing among Japanese manufacturing firms and their suppliers (Dyer, 1996; Dyer & Nobeoka, 2000; Fruin, 1997; Sako, 2004), but such research has emphasized cooperative approaches (Dyer & Singh, 1998) and has not fully examined the dynamics of co-opetition (Okura, 2007). Although Wilhelm and Kohlbecker (2011) claim that 'it is precisely the tight connection between cooperation and competition that plays a central role in the process of knowledge co-creation' (p. 67), just how these dualistic yet opposite forces can be subsumed by a focal firm under a co-opetitive strategy vis-à-vis local suppliers to achieve knowledge development remains unclear.

In modern paradox theory (Eisenhardt, 2000; Lewis, 2000), inconsistent states in organizational life are conceived as static, conflicting extremes, whereas traditional Yin-Yang thinking assumes that opposites complement and shape one another as part of an unfolding and dynamic relationship. We shall draw on the traditional Yin-Yang principle (Fang, 2011; Jing & Van de Ven, 2014) to illuminate how a focal overseas subsidiary of a Japanese MNC manages competition and cooperation among its local suppliers, so that these forces 'interplay with each other to form a dynamic and paradoxical unity' (Fang, 2011, p. 34), and enable the subsidiary to derive knowledge-related benefits (Nonaka & Takeuchi, 1995). We shall thereby show how the socio-institutional contexts that are engineered by Japanese firms (Johnston & Selsky, 2006; Tezuka, 1997) can be represented by the Yin-Yang principle.

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The rest of the paper is structured as follows. In the next section, we shall review the main literature on co-opetitive knowledge development in Japanese firms, and provide background theoretical explanations about the Yin–Yang principle. We then introduce our case study research methodology. In the findings section, we shall identify and illustrate the cooperative and competitive routines involving local suppliers that were driven largely by the focal firm. We also illustrate the interplay between cooperative and competitive routines and their impact on the development of new locally situated knowledge and capabilities. In the conclusion, we highlight the main contributions of our study, along with implications for practice, limitations and suggestions for future research.

2. Theoretical background

2.1. Co-opetitive knowledge development in Japanese firms

Prior research on Japanese production networks has identified how focal firms within their respective networks can go about solving practical problems by co-operating with their local suppliers in creating, sharing, integrating, and distributing network-specific knowledge (Bastos, 2001; Dyer, 1996; Dyer & Nobeoka, 2000; Hong & Snell, 2013; Maitland, Nicholas, Purcell, & Smith, 2004). Engaging with suppliers in cooperative knowledge development routines can enable focal firms to embrace a wide range of knowledge creation and conversion processes that involve suppliers, and which, taken together, can encompass socialization, externalization, combination and internalization (Nonaka, 1994; Nonaka & Takeuchi, 1995).

For example, the purchasing department of Toshiba's Yanagicho Works set up a suppliers' association as a channel for socialization, with 'mutual study and effort' as a core philosophy (Fruin, 1997). Leading Japanese manufacturing firms typically offer training courses and seminars for suppliers, through which the focal firms externalize the processes and principles of their exemplary systems for quality control, production management, continuous improvement and knowledge sharing, and assist suppliers, through internalization, to emulate the design of the key systems (Fruin, 1997; Fujimoto, 2000; Liker & Wu, 2000; Sako, 2004). Toyota sends its engineers to help iron out production-related problems at supplier sites (Dyer & Nobeoka, 2000).

Within a typical Japanese production network, while the focal firm 'actually teaches the know-how to enhance the supplier's organizational capabilities' (Sako, 2004, p. 304), the direction of knowledge flow within such networks is not exclusively one-way. Focal firms typically provide channels for suppliers to share their own expertise (Nonaka, 1994), and arrange for major suppliers to undertake joint problem solving, self-study (*jishuken*), or product development activities with them, thereby combining expertise (Dyer & Nobeoka, 2000). Such joint activities may be undertaken by temporary task forces with specific short or medium term goals, or they may be more permanent arrangements, structurally embedded within an inter-organizational design (Bastos, 2001; Dyer & Nobeoka, 2000; Fruin, 1997; Padula & Dagnino, 2007). Newly developed solutions arising from joint activities can be disseminated throughout the supplier network (Hong & Snell, 2013).

Cooperative knowledge development routines, such as those described above, comprise one type of 'institutionalized inter-firm processes that are purposefully designed to facilitate knowledge exchange between alliance partners' (Dyer & Singh, 1998, p. 665). Competitive routines comprise the other type (Cusumano & Takeishi, 1991; Sako, 2004). While expecting to cooperate with the focal firm on a bilateral basis, the suppliers typically face ongoing competitive forces that are generated both outside and inside the buyer–supplier dyad (Padula & Dagnino, 2007).

Since Japanese manufacturers prefer to engage in intensive information exchange and mutual development activities with a limited number of 'tier-one' suppliers (Dyer & Nobeoka, 2000), current members of this core group and suppliers that are aspiring to join them undergo continual performance comparisons and therefore face constant pressure to enhance or maintain their relative status within the focal firm's knowledge sharing network (Afuah, 2000). The focal firm may increase competitive pressure to engage in continuous improvement by adopting 'parallel sourcing' (or 'taper integration') strategies, under which the focal firm itself or a sister subsidiary serves as a supplier (Dagnino, 2009).

Accordingly, the 'intentional and proactive' use of competitive and cooperative routines (Wilhelm & Kohlbecker, 2011, p. 81), which can co-exist in varying mixes, enables focal firms to drive and facilitate the development and sharing of new knowledge and organizational capabilities across their supplier networks. On one hand, focal firms need to manage the co-operative routines that are required to integrate otherwise fragmented aspects of explicit and tacit knowledge (Nonaka & Takeuchi, 1995) that are encoded in various boundary objects (Hong & Snell, 2013). On the other hand, focal firms operate the competitive routines as a kind of 'learning race' (Khanna et al., 1998), through which the suppliers strive to outperform one another by staying ahead in the quest for salient new technologies and practical know-how.

Because the intensity with which the focal firm shares knowledge in co-operative fashion with a particular supplier depends on the membership status that is accorded to the latter (Fujimoto, 2000), firms that manage to remain in the leading group of core suppliers are much better placed to continue to absorb critical skills and capabilities through closer cooperation with the focal firm than those who fall behind (Wilhelm & Kohlbecker, 2011). This cooperative nuance compounds the constant competitive pressures, noted above, that suppliers face to maintain or increase their share of sales from the focal firm. Yet the focal firm must also offer encouragement to weaker suppliers (Tezuka, 1997, p. 88), in order to prevent a situation of imbalance from arising, in which most or all faltering supplier firms drop out of the race. Thus a core task of the focal firm is to maintain *balance* as well as synergy between the paradoxical forces of competition and cooperation (Chen, 2002, 2008).

Thus, the literature on Japanese production networks suggests that the knowledge creation processes by the focal firm together with its key suppliers involves co-operative and competitive forces that are dynamic, interdependent and mutually reinforcing, yet also need to be balanced. We now shall go on to explain the core ideas of Yin–Yang, and how they can be related to the concept of co-opetition. We shall then argue that Yin–Yang may better serve as a guiding principle than modern paradox theory, which, by contrast, assumes bipolar (either/or) and static inter-organizational relationships (Lewis, 2000).

2.2. Yin–Yang and co-opetition

The principle of Yin–Yang, which has its origin in ancient Chinese philosophy, encompasses two dialectic forces (Li, 2012). While Yin signifies the 'female' cosmic energy of yieldingness, softness, femininity and submissiveness, Yang indicates the 'male' energy that is often associated with unyieldingness, hardness, masculinity and domination (Chen, 2008). But it is the co-existence of these two dialectic forces that form the symbol of Yin–Yang, which is denoted by a circle with two equal halves divided by a curved line.

In order to understand how the Yin–Yang principle works, we need, first of all, to embrace holistic thinking by conceiving that all organizational phenomena should contain the two apparently paradoxical forces that comprise Yin–Yang. Following Fang (2003),

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