



# Organizational antecedents of cross-functional coopetition: The impact of leadership and organizational structure on cross-functional coopetition



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## ARTICLE INFO

### Article history:

Received 14 July 2014

Received in revised form 12 May 2015

Accepted 16 May 2015

Available online 10 December 2015

### Keywords:

Cross-functional coopetition

Leadership

Organizational structure

Organizational culture

## ABSTRACT

Cross-functional coopetition (the joint occurrence of cooperation and competition between departments) has received increasing interest from academia and practice. However, there is still little evidence on how cross-functional coopetition can be fostered. We investigate in how far leadership styles (consideration and participation) and organizational structures (centralization and formalization) can be employed to enable a firm's management favoring cross-functional coopetition between departments. Analyzing survey data from 234 German companies, we demonstrate that both consideration and participation have a positive effect on cross-functional coopetition. Additionally, we find that formalization has positive effect on cross-functional coopetition, whereas the effect of centralization is negative. We show that our findings are valid for a multitude of organizational cultures. Finally, we derive implications for research and practice as well as avenues for future research.

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## 1. Introduction

Looking at the examples of Samsung and Sony, who jointly developed the LCD technology in order to compete for market share, or Citroen, Peugeot and Toyota, who jointly developed and still produce several car models under one holding, it becomes obvious that cooperative and competitive forces jointly influence important strategic decisions in our fast changing business environment (Bengtsson, Eriksson, & Wincent, 2010b; Walley, 2007). This observation also holds true for the intrafirm level. For instance, Shell had two internal consulting departments that competed for business but were also obliged to share knowledge and cooperate with each other (Luo, Slotegraaf, & Pan, 2006). Such competitive and cooperative interactions between departments imply complex interdepartmental relationships that are challenging for both the firm's general management and the department itself.

Relationships between social actors, e.g., individuals or firms, have for long been assumed to be either cooperative or competitive in nature. Hence, both cooperation and competition have individually received a lot of attention in academic research (e.g., Chen, 2008; Walley, 2007). In contrast, coopetition, defined as the simultaneous pursuit of cooperation and competition (Brandenburger & Nalebuff, 1996), draws from the

dynamic and complex interplay of cooperative and competitive forces, which appears to be a paradox at first sight (Raza-Ullah, Bengtsson & Kock, 2014; Yami, Castaldo, Dagnino, Le Roy, & Czakon, 2010). Initial studies investigated the effects of competition between firms and within industry networks on performance outcomes, such as firm performance, innovation, or organizational learning (e.g., Bengtsson & Kock, 2000; Gnyawali & Park, 2009; Ketchen, Snow, & Hoover, 2004; Peng & Bourne, 2009; Ritala & Hurmelinna-Laukkanen, 2013). Contrarily, only few studies focus on coopetition on the intrafirm level, i.e., coopetition between departments within a firm. One of the few studies from Tsai (2002) evaluates the effect of competition and other coordination mechanisms on knowledge sharing in a multiunit organization. Based on an analysis of a multinational enterprise, Luo (2005) develops a theoretical model and argues that the coordination system, including factors such as centralization, formalization, and specialization, is one of the key determinants of complex intrafirm coopetition that helps firms to maximize returns from coopetition. Luo et al. (2006) analyze coopetition between functional areas within a firm in order to demonstrate that, albeit complex, simultaneous competition and cooperation enhances customer and financial performance.

To date, the focus of research on intrafirm coopetition has been placed on consequences, such as knowledge sharing (Tsai, 2002), quality of shared knowledge (Ghobadi & D'Ambra, 2012a, 2012b), or customer and financial performance (Luo et al., 2006). On the contrary, several scholars call for further research on organizational antecedents (Bengtsson, Eriksson, & Wincent, 2010a; Bengtsson & Kock, 2014; Gnyawali & Park, 2009; Luo et al., 2006). However, empirical research on antecedents is scarce.

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This is surprising in so far, as firms are faced with the highly complex task of carefully balancing both cooperation and competition between departments. Balancing cooperation and competition is challenging and raises managerial complexity since reasons to cooperate and compete vary. This leads to continuous risks of unbalanced interactions which in turn might reduce potential gains from coopetition (Raza-Ullah, Bengtsson, & Kock, 2014). Those challenges appear on the level of the firm's general management but also for each department leader that may suffer or gain from the complex coopetition paradox. Thus, it is crucial to develop our understanding on the factors that influence the coopetition paradox in order to enable the management of a firm favoring coopetition between its departments. However, extant research leaves crucial gaps to be filled in this context. Since the complexity of cross-functional interactions between departments cannot be explained by a single factor (cf. Edmondson & Nembhard, 2009; McDonough, 2000; Pinto, Pinto, & Prescott, 1993), a set of factors needs to be analyzed in order to fill these gaps.

The aim of the present paper is to address these gaps in research by developing and testing a conceptual model that examines leadership styles of department leaders and organizational structures of the firm as organizational antecedents that enable the management of a firm favoring cross-functional coopetition between departments. We focus on two leadership styles—consideration and participation—representing managerial aptitudes and two organizational structures—centralization and formalization—as organizational antecedents. First, we chose to focus on consideration and participation since both “are perhaps the most visible indicators of a team leader's management style” (Sarin & O'Connor, 2009: 192). Literature on cross-functional integration between marketing and R&D departments suggests an important role of participation as an antecedent (Song & Thieme, 2006). Moreover, both consideration and participation may influence functional conflicts, collaboration, frequency and quality of communication, and team learning within cross-functional teams (Sarin & McDermott, 2003; Sarin & O'Connor, 2009). We thus assume that both consideration and participation indeed are a relevant set of leadership styles in our context. Second, our focus on centralization and formalization reflects that formal organizational structures are key elements of coordination mechanisms in the complex context of intrafirm coopetition (Tsai, 2002). The rationale for concentrating on centralization and formalization rests on theoretical grounds in the literature (e.g., Auh & Menguc, 2007; Miller & Droge, 1986). For instance, formalization and centralization are in focus of research on cross-functional integration between marketing and R&D departments (e.g., Ayers, Dahlstrom, & Skinner, 1997; Song & Thieme, 2006). Furthermore, formalization has an influence on cooperation in the context of cross-functional teams (Pinto et al., 1993) whereas centralization reduces cooperative knowledge sharing when market competition exists between organizational units (Tsai, 2002).

This study seeks to answers the following two research questions: (1) How do leadership styles as managerial aptitudes affect cross-functional coopetition? (2) How do formal organizational structures affect cross-functional coopetition? By analyzing survey data obtained from 234 German companies, we contribute to existing literature in three ways. First, unlike prior research, which has largely focused on the interfirm level, we focus on the intrafirm level and thereby advance the literature on the paradoxical phenomenon of coopetition. By delivering further empirical evidence of cross-functional coopetition on the intrafirm level, we follow several calls in this stream of research (Bengtsson et al., 2010a; Bengtsson & Kock, 2014; Luo et al., 2006; Yami, Castaldo, Dagnino, & Le Roy, 2010). Second, we extend research on cross-functional coopetition by conducting the first empirical study on its antecedents. Both leadership styles and formal organizational structures have been identified as drivers of cross-functional interaction or cross-functional new product development (e.g., Ayers et al., 1997; Sarin & O'Connor, 2009; Song & Thieme, 2006). By transferring those antecedents to the context of cross-functional coopetition, the present study builds on various calls for further research on drivers of

coopetition (Bengtsson et al., 2010a; Gnyawali & Park, 2009; Luo et al., 2006). We extend the literature on coopetition by shedding more light into how a fruitful albeit complex balance between cooperation and coordination can be obtained by the firm's management (Bengtsson & Kock, 2014). Our study provides empirical evidence that coordination mechanisms indeed influence intrafirm coopetition which has been argued by Luo (2005). Third, based on social network theory and the strength-of-ties concept, a reason for the coexistence of cooperative and competitive elements lies in relational bonds between two or more social actors (e.g., Uzzi, 1997). We add to the social network theory by highlighting how firms can employ leadership styles to influence relational bonds within and between departments with regards to cooperative and competitive forces.

Finally, we offer valuable insights for practitioners. Given the positive performance effects of cross-functional coopetition, we show how a firm's management can balance cooperation and competition between its departments using well-known organizational tools.

## 2. Theoretical premises

### 2.1. Theoretical foundation of cross-functional coopetition

Research on coopetition is neither an extension of academic research on cooperation nor competition; it has instead evolved as a stand-alone field of research (Yami, Castaldo, Dagnino and Le Roy, 2010). Coopetition refers to the paradox of simultaneous cooperation and competition in relationships between two or more social actors. Following Yami, Castaldo, Dagnino and Le Roy (2010), coopetition can be studied on at least three independent levels: The macro level covers relationships between countries, the meso level deals with relationships between firms or firm networks, and the micro level targets intraorganizational relationships such as departments or project groups. This paper focuses on coopetition between departments as the level of analysis.

The starting point for coopetition research was the work by Brandenburger and Nalebuff (1996), when they introduced the concept of coopetition from a game theory perspective. Without explicitly mentioning the term coopetition, Lado, Boyd, and Hanlon (1997) published the first academic study in this field and laid out the theoretical foundation for many subsequent studies (c.f. Bengtsson & Kock, 2014 for an overview). Since then, coopetition has received increasing interest from academia and practice (Walley, 2007; Yami, Castaldo, Dagnino, Le Roy, et al., 2010). Since the present study aims at examining coopetition on the intrafirm level, we follow Luo et al. (2006) and define cross-functional coopetition as the joint occurrence of cooperation and competition between departments within a firm. Cross-functional coopetition assumes that relationships between departments within a firm are simultaneously influenced by cooperative and competitive forces. In the normal course of business, different departments are encouraged to cooperate and share relevant market insights in order to achieve the overall objectives of the organization. Furthermore, firms organize informal social events to improve cross-functional relationships also on the personal level (Luo et al., 2006; Luo, 2005). However, interactions between departments are also competitive as functions are forced to compete for limited tangible and intangible resources, such as financial budgets, know-how, patents, or personnel (Birkshaw & Lingblad, 2005; Riege, 2005; Taylor, 2010). Thus, the interplay between and balance of cooperation and competition within a firm represents a highly complex task for the management of a firm.

Following Lado et al. (1997), coopetition theory is based on game theory, the resource-based view, and social network theory. Specifically for cross-functional coopetition, social network theory and in particular the strength-of-ties concept serve as the underlying theoretical foundations (Granovetter, 1973; Luo et al., 2006). According to the social embeddedness framework, there are two types of social ties in networks of social actors that determine their actions and behaviors (Moorman & Rust, 1999; Uzzi, 1997, 1999): Weak ties are characterized

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