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Conceptualizing competition and rivalry in a networking business market☆

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ABSTRACT

Competition is considered a driving force of markets, but how competing shapes the business network is not so clear. We contribute to the literature by exploring competing as a firm process. We analyze business competition literature according to a structural and social constructivist dichotomy. This highlights firm behavior and priority of goals as pointers of competitive processes. We apply the concept of goal priority for a firm's line of action to characterize competing, whether primarily towards the customer or first focusing on the activities of another firm. We explore the distinctions between non-competitive, competitive and rivalry firm activity using a case study of exporters and importers of fine wine to Denmark from South Australia. We find that change in the business network is provoked by competitive processes. We conclude with managerial implications and the opportunities for future research.

1. Introduction

The market as network concept offers an alternate understanding of economic coordination by firms and actors (Johanson & Mattsson, 1985). Competition between sellers and among buyers is central to the economic concept of the market. But Ford &Håkansson (2013) regard competition as mainly a background variable in the business network. Advancing theory about the market as network calls for a more nuanced conceptualization of competition. According to McNulty (1968, 639) there "is probably no concept in all of economics that is at once more fundamental and pervasive, yet less satisfactorily developed, than the concept of competition." The concept of competition shifts in meaning depending on the context. In the business-to-business literature the meaning extends on a scale from rivalry (Baum & Korn, 1996; Luo, 2007; Porac, Thomas, Wilson, Paton, & Kanfer, 1995) to coopetition (Bengtsson & Kock, 2014; Rusko, 2011). However, these concepts were developed within the context of inter-firm relations, whereas a broader context can open new insights. Our purpose in this paper is to explore competition within a temporal business network framework.

A search in two journals focusing purely on business-to-business marketing, the journal of Industrial Marketing Management and the Journal of Business and Industrial Marketing, revealed only simple definitions based on two firms seeking the same customer or resource. Mostly the meaning of competition was assumed. A detailed understanding of competing in the business-to-business market is missing. Research has focused instead on cooperation, which many researchers consider more important than competition (Jarillo, 1988; Kothandaraman & Wilson, 2001). For example after 30 years of industrial market research Ford and Håkansson (2013, 1023) believe that competition provides "a very limited explanation for the process of network evolution and relationship development". Yet Dollinger and Golden (1992, 713) argue that "firms cooperate to compete". And in everyday business, competitive intensity is a reason for innovation (Tsai & Yang, 2013).

In the business-to-business literature competition is defined by a structural logic, where firms seek the same customer or goal (Macdonald & Ryall, 2004; Sa Vinhas & Anderson, 2005; Tidström, 2009), or competition is regarded as socially constructed (Porac et al., 1995). There is however, very little literature concerning a process perspective of competition. Exceptions are Easton and Araujo (1994) and Turnbull, Ford, and Cunningham (1996) where competing is an interactive process undertaken over time between firms. In this formulation competitiveness is concerned with the nature of management, and so according to Whipp, Rosenfeld, and Pettigrew (1989) there are two important dimensions: time and the level of competing. In business markets, structural competition is known to lead to change in the business network (Biggemann, Kowalkowski, Maley, & Brege, 2013; Tidström & Hagberg-Andersson, 2012). But what are the underlying competitive processes that lead to these network changes? Pettigrew (1997, 338) defines a process as, "a sequence of individual and collective events, actions, and activities unfolding over time in a context." Our

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broad research question is: what characterizes a firm's process of competing in business markets?

In this paper, we contribute to the literature by exploring the process of competition. We do this by scrutinizing the foci of a firm's activities. We do not discuss the complex case of coopetition. Nor do we attempt to juxtapose competition with cooperation. Neither do we set out to consider the cooperation processes required to compete. We pursue only an understanding of the competing process based on a single firm's activities. Our approach is to focus on this simple form and develop a process framework to understand competing. We see this as a single step, the first advance towards a framework for understanding competing as a process.

The paper is structured in the following manner. First we consider how competition is defined and applied in business markets according to structural and social constructivist applications. This leads to the development of a process framework for analyzing competition. In a third section we present a case study in which managers elaborate their understandings of competition. Next, we analyze the case study and present some tentative results. Finally, we present managerial implications and some areas for future research.

2. Perspectives of competition

The business literature concerning competition has its genesis in economics, social-psychology and anthropology. We see that the literature about business markets typically applies either a structural perspective on competition, or considers competition from a social constructivist view, or blends these two perspectives. Underlying each of these understandings of competition is the nature of the framework: structural versus social constructivist. We proceed to analyze competition in the business-to-business marketing literature from these perspectives.

2.1. Structural competition

Most business-to-business literature incorporating competition applies a definition based on contested goals (cf Andaleeb, 1995; Macdonald & Ryall, 2004; Tjosvold & Wong, 1994; Tsai & Yang, 2013). Also, the research on competitive intensity (Auh & Mengu, 2005; Tsai & Yang, 2013) assumes the idea of contested goals. This follows Deutsch (1949) who, in studying social exchange, defined competition as a context where goals are 'contritely interdependent'. This means that one actor achieving a goal forecloses another from gaining their objective. This definition results from a framework where two or more firms seek a single goal, which is positioned in time; for example the goal is a specific sale to a customer and two or more firms undertake activities towards achieving this target.

In the context of industrial markets Mason (1974) applied the structural concepts of horizontal and vertical inter-firm connections to conceptualize the level of competitive intensity. He theorized that competitive intensity was a mathematical aggregation of competition at each manufacturing stage in a vertical industry structure. The layers of industry structure provided the means to arrive at a measure, but this structure also moves the process of competition into the background.

The idea of structure is also evident in the economics literature where competition is a by-product of micro-economic analysis (McNulty, 1968). In seeking to explain and understand price, economists raise a set of assumptions concerning the structure of a market (McNulty, 1968). The market configures competition as the buying and selling by actors in a period of time. McNulty (1968) observes that the process of competition is lost when the focus shifts to market structure. The reason for this is evident in a process approach (Pettigrew, 1997) because time, a main quality of process, is treated as a frozen period.

Easton and Araujo (1994) identified five 'stereotypical' forms of firm co-relation: "conflict, competition, co-existence, cooperation, and collusion" (Easton and Araujo, 1994, 72). These co-relations are found by applying different connections between actors in dyads. They defined competition as an indirect co-relation, where there is no direct interaction with the competitor, but does consider the actions of the other party. Easton and Araujo (1994) attribution of a context for competition is only as broad as the co-relation, while the nature of the wider context is left implied.

Bengtsson and Kock (1999), seeking a more dynamic context, call for a network analysis of competition. The authors consider an elongated time sequence in their analysis and apply Easton and Araujo (1994) co-relation categories, as well as adding the previously implied concept of coopetition. Their empirical data shows how re-positioning in a network, including by acquisition, successively moves a firm through all of the six co-relational categories (Bengtsson & Kock, 1999). We draw the conclusion that present network structure, and by implication present market structure, are not sufficient to characterize the process of competing. Explicitly, with a longer time-frame and in a business network, a goal of the competitive process is also to gain a relative actor network position.

More recently, Ford and Håkansson (2013) present an argument for competition as a background variable in business relationship development and network evolution. Their argument is based on four archetypal relationships in a triad structure and indicates that cooperation is the main force creating network stability and evolution. Ford and Håkansson (2013) see competition as actor-specific and defined by identifying alternatives for network position, but only "where a coherent pattern of relationship development and commitment has not been established" (Ford and Håkansson, 2013: 1023). However, this argument is based on a stable network structure.

To summarize, what is noteworthy in the contested goal conceptualization of competition is the role of time in structuring the activities of actors towards the same and different objectives. Thus, goals, configured in time and based on processes for their achievement, can provide one element for understanding the process of competing (Ellegaard & Medlin, 2012). However, this understanding requires a dynamic context. When the structure is conceptualized as stable or relatively static the competitive process is lost. And when change is incremental the focus shifts to the process of cooperation. However, as longer time periods are considered, change comes into the foreground more and the underlying firm competitive processes are again evident. Thus, an alternate conceptualization is required for firm competitive processes, one that encompasses the forward and future seeking activities of firms inside a changing context.

2.2. Social constructivist contexts

Early work on competition following a social constructivist approach focused on culture, industry groups, and anthropological explanations. For example, Whipp et al. (1989) see time and culture as important elements of competition, while Cunningham (2008) and Cunningham and Culligan (1988) noted that tribal, anthropological and industry perspectives provide the bases for understanding competitive activity. Even the anthropologist Margaret Mead (1962) has contributed to the business literature on the topic of competition. Other researchers have considered cognitive behavioral approaches to understand competition, including managers' mental models of an industry (Porac & Thomas, 1990; Porac, Thomas, & Baden-Fuller, 1989).

Following the cognitive stream and with a constructivist perspective, Porac et al. (1995, 222–223) identified the importance of managers' "local sensemaking" and the "open-endedness of industry models" in re-defining competition. These authors find competitors in "clique-like subgroups" based on managers sensemaking and mental-models (Weick, 1979; Weick, Sutcliffe, & Obstfeld, 2008). Porac et al. (1995) identified rivalry activity between firms of a similar size and operating with a similar market focus. Importantly, Porac et al. (1995, 224) note that focusing on the framework "makes competition appear to be an environmental constraint" and that an "entire theoretical vocabulary

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