

UNIVERSITY OF VAASA
FACULTY OF BUSINESS STUDIES
DEPARTMENT OF MANAGEMENT

Maria Nilova

**ELEMENTS INFLUENCING COOPETITIVE MODES IN
A CROSS-BORDER VALUE CHAIN**

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UNIVERSITY OF VAASA**Faculty of Business Studies**

Author:	Maria Nilova	
Topic of the Thesis:	Elements Influencing Coopetitive Modes in a Cross-Border Value Chain	
Name of the Supervisor:	Annika Tidström	
Degree:	Master of Science in Economics and Business Administration	
Department:	Department of Management	
Major Subject:	Management	
Line:	International Business	
Year of Entering the University:	2010	
Year of Completing the Thesis:	2012	Pages: 104

ABSTRACT

Looking for expansion of value chain activities abroad competitor's offer to cooperate in particular activities can strengthen or damage the company business. The managers have to choose in which activities it is more beneficial to cooperate and where to compete with a competitor. The modern managerial science calls the phenomenon cooperation and choice between cooperation and competition in activities is called a mode. Both have been proved in many previous studies; however, it is still questionable how to handle competition in a better way for the company. Thus, the current study contributes to the topic from three points: explanation of the decision about competition through the elements, cooperative modes distribution in value chain activities and competition in international activities. In other words, the study aims to identify elements that stay behind a decision of competition and its modes in upstream and downstream activities in cross-border value chain. Preliminary assumptions about the elements were gathered through the existing theories applied for competition, viz. the business network approach, game theory and the transaction cost approach. The cases of Russian companies are in focus of the empirical study.

Then the case studies done in qualitative manner through interviews and were conducted to investigate the elements from real business situations. Later the elements were grouped according to cooperative modes and theoretical approaches. Then the findings were compared with the preliminary assumptions from the theory.

The findings uncovered diversified nature of elements. Some elements could be explained by more than one theoretical approach. Other elements affected more than one cooperative mode. However, due to fusion of theoretical approaches most of the elements found in the case studies were identified and explained presenting comprehensive and versatile picture of cooperative relationships in value chain activities.

The paper sheds light on why competition emerges in cross-border value and how and why cooperative modes are distributed between upstream and downstream activities. For managers it has the main application helping to understand not only own reasons for competition but intentions of competitor before embedment in the relationships.

KEYWORDS: Competition, Elements of Competition, Cross-Border Value Chain,

Upstream Activities, Downstream Activities

1. INTRODUCTION

If you know your enemies and know yourself, you will not be imperiled in a hundred battles; if you do not know your enemies but do know yourself, you will win one and lose one; if you do not know your enemies nor yourself, you will be imperiled in every single battle.”

(Sun Tzu “The Art of War” 6th century BC)

1.1. Research background

For many years managerial theories have stated that the only possible relationship with a competitor is competition (Porter 1985, Barney 1986). But if a competitor comes with an offer to cooperate, what will be hidden behind? Is it a good will and sincere request for help or opportunistic plan? The phenomenon of simultaneous coexistence of cooperation and competition between two competitors is called coopetition (Bengtsson & Kock 2000) and drew attention of the academic society relatively recently. Coopetition as a phenomenon takes different forms (Padula & Dagnino 2007), has been classified in variety of ways (discussion in Yami et al. 2010), studied in different levels (discussion in Bengtsson, Eriksson & Wincent 2010). However, questions “What stays behind the decision of coopetition?” and “What are the reasons for cooperative relationships in value chain activities?” examined relatively modest. The current study is targeting to contribute to the mentioned gap with investigating the theoretical premises of the existing approaches looking for the elements influencing coopetition and then apply them for case studies. Furthermore, the elements will be classified according to their influence on degree of cooperation and coopetition in value chain activities.

Such theoretical premises firstly appeared in an attempt to build the models for practical application with possibility to evaluate “coopetitive advantage”, analyze its success and

manage cooperative relationships. Cooperation is often explained from the position of existing theories, i.e. business network approach (Bengtsson & Kock 2000; Hertz & Mattsson 2004), game theory (Brandenburger & Nalebuff 1995, Nalebuff & Brandenburger 1997; Padula & Dagnino 2007), transaction cost approach (Hill 1990; Park & Russo 1996), resource based view (Lado et al. 1997; Schiavone & Simoni 2011), socioeconomics (Lado et al. 1997). However, the approaches when they are applied solely, present narrow view of such complex phenomenon as cooperation. Thus, the current study uses the fusion of approaches including the business network approach, game theory and the transaction cost approach in search for more coherent explanation of cooperation.

Furthermore, there are a number of studies with the focus on the elements influencing cooperative relationships. They can be divided into two main streams. One investigates the cooperative relationships holistically perceiving a company or even a group of companies as a unit of study (i.e. Bengtsson & Kock 2000; Kock, Nisuls, & Söderqvist 2010; Gimeno 2004; Lado et al. 1997). The other stream concentrates on particular activities of value chain that fall under cooperative relationships (i.e. Arranz & Arroyabe 2008; Mention 2011; Kotzab & Teller 2003; Rusko 2011). The current study steps aside from both groups as its interest lies in the whole value chain and cooperation inside it. It is more than investigation of the particular activities and deeper than perception of a company as a solid entity, here the value chain is one of the core concepts disaggregating the company and aggregating the activities.

The value chain for the current study is assumed in a classical definition made by Porter (1985) as activities gathered by the company in the process to create value. The special interest of this study was found in cross-border value chain when activities are allocated in different countries. Nowadays almost no company operates within borders of only one country; there is a pattern of foreign suppliers, customers or both. Thus, the companies are challenged with a quest of activities allocation seeking for foreign market expansion or cost efficiency in production. The cooperation with a competitor abroad should be definitely considered as one of the options. It makes managerial choice whether to compete or cooperate in a particular activity broader but more challenging. In this case managers have to solve not only a conundrum what is in competitor's mind

in terms of business strategy, but also predict how such cooperation will benefit or not from local custom, legislation and other instances that are beyond of managerial control and different from home ones. Assembling activities in a solid value chain the company gets a number of activities that are involved in dyadic cooperative relationships and in competitive ones. Further in the paper interconnection between types of relationships (cooperative, competitive or both) in particular value chain activities is defined. Such variety of relationships are classified in cooperative modes assessing degree of cooperation and competition in different activities.

There are studies that grew to the theoretical approaches investigating evolution of company international expansion and reasoning the selection of particular activities for internationalization and operation modes (i.e. the eclectic paradigm by Dunning (2000), business network approach by Johanson and Mattsson (1988), international new ventures by Oviatt and Dougall (1994)). Moreover, from the assumption that the countries differ in terms of economic, politic, socio-cultural and other conditions, transferability of local value chain activities abroad becomes questionable. Hence, the bunch of studies is dedicated to possibility of application and elements influencing the transition of the value chain activities abroad to hostile environment (see, for example, Anderson 2009; Jacobides 2008). Consequently, expansion of the value chain activities abroad present abundant topic for research and obviously rewarded with the interest from practitioners due to its routine and vital application for business. These assumptions defined the narrow scope of the study within value chain among many issues associated with the cooperative relationships.

The empirical investigation is conducted in form of two case studies that took place in Russian companies expanding abroad. The choice of the country for the study was done due to a number of reasons. Firstly, due to its long closeness during the communist governance and planned economy, nowadays there is lack of any studies dedicated to management (Puffer & McCarthy 2011) including cooperation. However, Hofstede's study of cultural dimensions revealed considerable difference between Russia and Western countries (Naumov & Puffer 2000). Meanwhile, today Russia has a significant economical power and potential to become important player in the global market. However, among BRIC countries Russia gets the least attention from academic research

(Puffer & McCarthy 2011). Thus, despite remained bias to secrecy and low trust in Russia the studies of Russian management have practical interest for business in terms of expansion to this promising and growing market. Then, logic of small open economies that is popular in European studies of internationalization (i.e. Gabrielsson et al. 2008; Laanti, McDougall & Baume 2009; Luostarinen & Gabrielsson 2006) is barely applicable due to size of the country. Here the question of internationalization does not appear among first vital managerial issues due to big internal market and internal diversity. Furthermore, no studies conducted in Russia were found on the topic of competition. Hence, it is even more urgent to research Russian companies and their cooperative ways of doing business.

Gathering together all the propositions mentioned above the current study focuses on cooperative relationships between competitors through lenses of the business network approach, game theory and the transaction cost approach while the competitors build their cross-border value chain. The empirical part of the study applied the built theoretical framework for Russian companies. Next in the chapter the statement of the research purpose and structure of the study are offered.

1.2. The purpose of the study

There is a wide field for the research and this thesis is focused on looking at one of the issues, viz. elements of generating cooperative relationships applied for cross-border value chain. With the help of existing studies the work challenges to fill the mentioned gap through building an adequate framework of relationship between decision-making elements and cooperative modes in cross-border value chain.

Thus, the purpose of the study is to investigate elements defining degree of cooperation and competition in cross-border value chain from the perspective of a single company participating in cooperation.

The purpose makes a claim to develop firstly the theoretical perspective. Its focus lies on investigating propositions in the existing literature regarding elements of cooperation

and possible combination of cooperative and competitive relationships in value chain. Hence, the theoretical research questions are:

How is cross-border value chain influenced by coopetition and what types of coopetition modes proposed in the previous literature?

How do existing theoretical approaches explain the elements of coopetition between competitors in the expansion of company's activities abroad and building cross-border value chain?

Based on gathered existing theory the conceptual framework of relationships between elements and coopetition modes is created. Further, the empirical case study will take place with the aim of developing the framework. Thus, the empirical research questions are:

Why does the company enter coopetitive relations when expanding activities abroad?

What and why particular activities are selected for combination of competition and cooperation in cross-border value chain?

Afterwards to fulfill the purpose of the study, the theoretical conceptual framework is supplemented with findings from the case study. It will provide managerial applications to the ideas from theoretical part that suitable for future use in practice.

1.3. Structure of the study

The study consists of six chapters and their brief description is presented next. Additionally the structure is drawn in Figure 1.

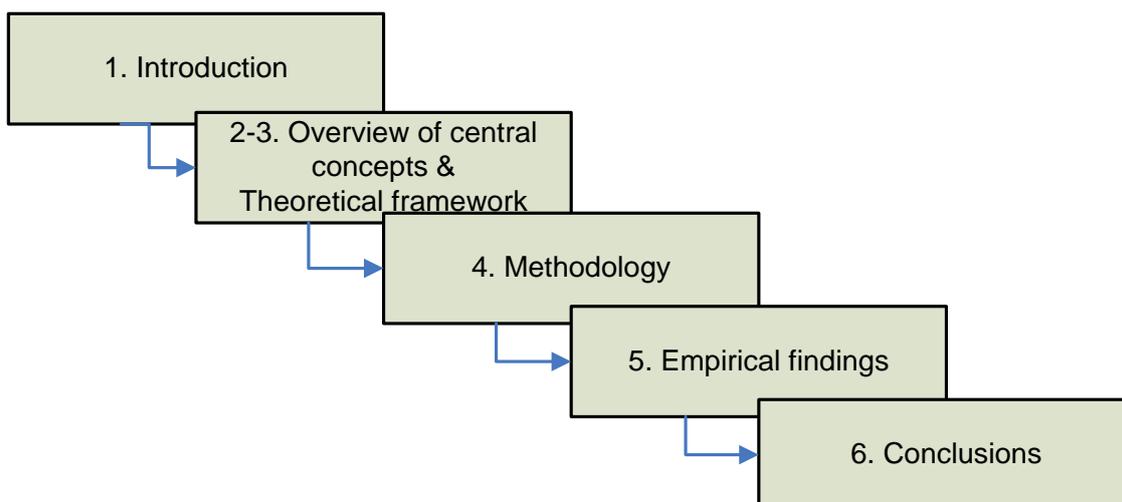


Figure 1. The structure of the study.

The first chapter gives understanding about urgency of the coepetition phenomenon. It elaborates the place of the current paper among other studies uncovering a research gap in a broad field of academic works dedicated to coepetition. Consequently, the purpose of the study is to enrich knowledge regarding elements influencing degree of coepetition and cooperation. It is narrowed even further focusing not only on the companies as a whole but on their value chains and particular activities that are supposed to have either coepetitive or cooperative nature.

The second chapter brings order in the concept of value chain in terms of the current research. It starts with definition of value creation that is a core inducement for the value chain concept. Moreover value chain is investigated in terms of activity expansion to the foreign markets. Finally, the correlation between value chain and coepetition is under discussion. That gives basis for definition of the coepetitive modes that are one of the central elements in the current study.

The third chapter is dedicated to the second central element of the study. It observes main contributions for classification of the elements influencing coepetitive modes. Three approaches have been selected for building the theoretical framework, viz. the business network approach, game theory and the transaction cost approach. Separate sub-chapters are dedicated to every approach. They contain approach understanding applied for coepetition with the focus on elements shaping coepetitive relations. In the

end of the chapter the summary explains necessity of approach fusion and based on it the theoretical framework of the study is depicted.

The fourth chapter clarifies methodology of the work; it justifies choice of semi-deduction as the research logic, qualitative approach for data analysis case study as strategy and semi-structured interviews and method to conduct the empirical part of the study. Furthermore, it explains data collection and analysis accompanied with their assess in terms of validity and reliability.

The fifth chapter uncovers the empirical part of the study. It includes description of the cases with company backgrounds. Then the findings are presented and analyzed. Based on the analysis the theoretical framework is developed.

The sixth chapter closes the study. Conclusions and implications for research and practice are there. They are complemented with limitations and suggestions for the further research.

2. CROSS-BORDER VALUE CHAIN AND COOPETITION

2.1. Understanding the value creation

The value creation is a fundamental concept in managerial science, however due to extensive application there is still no common definition of value (Woodruff 1997) or agreement on how it is created and by whom. For example, Bowman and Ambrosini (2000) perceive value as a satisfaction of customer needs but Babin and James (2010) contradict claiming that satisfaction does not play a significant role in value creation. The most common conclusion from variety of the approaches is that the value creation is a source of competitive advantage (Woodruff 1997). However, there is still uncertainty around the subject and object of value creation, viz. organization, customer or both (Grönroos 2008, Vargo & Lusch 2004). The customer value is opposed to the value of organization (Woodruff 1997). The former consider customer wishes and believes while using the product. The latter promotes delivery of superior customer value that increases value of the organization. This work adopts customer value concept as organizational value is seen as return and a consequence of customer value creation after exchange. Thus, the concept of customer value supports required level of reasoning.

Payne and Holt (2001) issued a comprehensive literature review on customer value creation. They highlighted four streams that influenced research on value creation the most: (1) consumer values and consumer value; (2) the augmented product; (3) customer satisfaction and service quality; and (4) the value chain. The first three approaches discuss about customer value as a whole and root it in customer's wishes and believes without focus on how an organization can achieve it. At the same time, the value chain approach looks inside the organization and how value is created internally and delivered to the customer that is in the purpose of the current study. So the value chain concept is adopted for further implication. In this case "value" definition is used as it was proposed in the original concept by Porter:

“...value is the amount buyers are willing to pay for what firm provides them. Value is measured by total revenue, can sell. A firm is profitable if the value it commands exceeds the costs involved in creating product.” (Porter 1985: 38)

Thus, the value is perceived in its simplest economic form and used as a final result of company's activities in an attempt to create the product that the customer desires. For the current study it is considered as a given concept and its necessity for company sustainability is not questioned. The main role is assigned for the pre-requisite of value creation, the value chain concept as it is seen as the main target where cooperative relations take place. Next the concept is explained and analyzed.

2.2. Value chain

The value chain is not the new phenomenon. Smith's task specification, Taylor's scientific management and later Toyota's "just-in-time" approaches claimed labor division as a determinant of production efficiency (Kaplinsky & Morris 2000). Finally, Porter (1985) gathered the existing concepts and created value chain approach based on "business systems" developed by McKinsey. He defined that:

“The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential source of differentiation.” (Porter 1985: 33).

Porter (1985: 39 - 43) highlighted nine groups of activities and aggregated them into two categories: primary and support. The primary activities have technological nature and involved in physical conversion of raw material to the product and delivery it to the customer. They include inbound logistics, operations, outbound logistics, marketing and sales and service. The support activities have more strategic nature and sustain the primary activities. They comprise firm infrastructure, human resource management, technology development and procurement. The graphic interpretation of the value chain is shown in Figure 2.

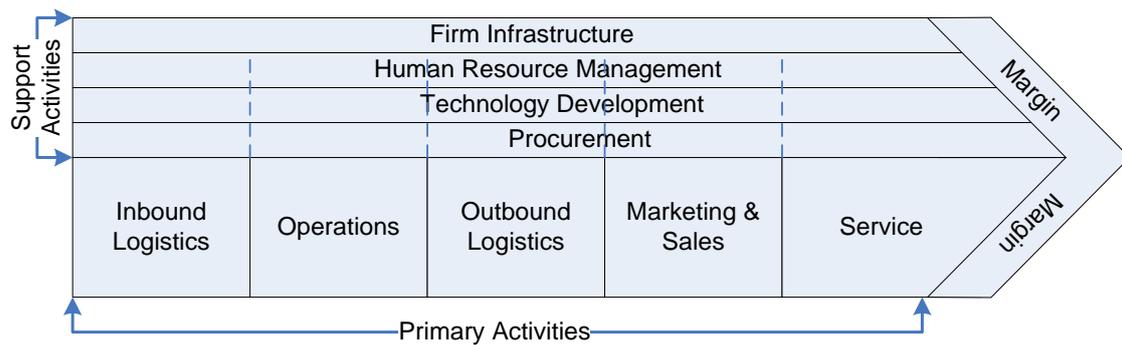


Figure 2. Porter's value chain.

The statement from Chapter 2.1 claims that value creation is a source of competitive advantage so it can be interpreted that value creation comes from excellent performance of particular value chain activities. Thus, value chain analysis helped to evaluate and optimize activity performance in the company in an attempt to maximize value (McPhee & Wheeler 2006).

Such analysis discovers the weak and strong activities (Porter 1985: 55). It helps to tune value chain and decide about particular activities that should be kept in-house due to their excellent performance. Also the analysis uncover possible activities for outsource to suppliers or even customers. Hence, in an attempt of value maximization a company concentrates on a limited number of activities and outsources the rest (Prahalad & Hamel 1990).

Despite Porter's confidence that his concept of the value chain is universally applicable (Porter 1985: 40) some criticism appeared within time. The approach was accused in limited applicability for service value chains where service transition through activities is difficult to codify (Prajogo, McDermott & Goh, 2008). To answer this challenge Stabel and Fjelstadt (1998) proposed service value chain (value shop) where value is delivered through resolution of customer problems or bringing desired changes in the system. The model offers loop the chain, so problem-solution awakes new problem-solving process. Moreover, considering increasing servization of industries and shift towards networking Norman and Romirez (1993) criticized Porter's approach for being too company-centric. In other words, the managers focused too much on possible improvement of activities but not on actual customer values and value for the whole

system. The possibility of joint effort on value creation through relations and networking stood aside of Porter's value chain. Thus, Norman and Romirez (1993) offered "value constellation" instead of value chain. McPhee and Wheeler (2006) highlighted that intangible elements among company's activities became nowadays more significant in value creation. Then they modified the original value chain stressing importance of networking and reputation.

In an attempt to generalize all the criticism it is obvious that Porter's value chain suffers from own limitation within one company while network relationships "supplier-customer" become more complicated and tangled. It is insignificant to consider value chain of one particular company when most of the activities are outsourced and they belong at the same time to value chains of other suppliers or customers. Nevertheless, from the single company perspective which is in the focus of the current research the holistic value chain is perceived more appropriate. There full transformation of one particular product from raw material or components to the final goods delivered to customer takes place. It has only one point of completed product (will be described in the next paragraph). Thus, from a single company perspective, this company is the owner of the chain, and the rest entities participating in the chain are either suppliers or customers.

Following the holistic value chain, the product transformation from raw material to customer goods is worth to imagine as a vertical flow (see Figure 3). On the top there are a number of streams mentioning supply of raw materials and components that come from different sources both in-house and outsourced. In fact, they are still the same value added activities mentioned in Porter's value chain but regrouped. They are production-oriented and called **upstream activities**. The streams of activities meet together in the point when the physical transformation of the product is completed. Further, the flow continues down but the streams begin separating. The streams of activities now represent different channels of distribution to different markets. These are marketing-oriented or **downstream activities**.

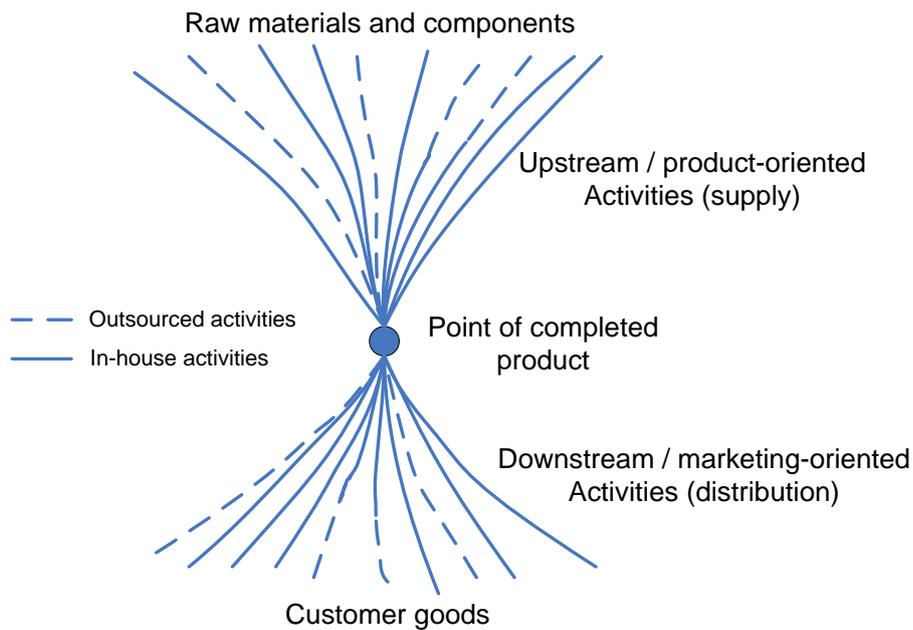


Figure 3. Holistic value chain of product transformation with upstream and downstream activities.

Applying the value chain concept to the current study upstream/downstream activity division is seen as appropriate degree of disaggregation. Considering that value chain covers the whole production-distribution cycle, such division provides necessary level of unification. Porter (1985: 36) mentioned that every value chain is unique as it is a source of competitive advantage. Thus, activities investigated separately are not suitable for comparison. Consequently, aggregation of the activities in groups is a necessary limitation to answer the research questions. Nonetheless, such measures will not affect quality of the study as competitive advantage is not in the focus of the study. Furthermore, focusing on upstream and downstream activities of the value chain this work will contribute to existing studies in cooperation with similar disaggregation principle of the value chain, viz. Rusko (2011), Bengtsson and Kock (2000), Nalebuff and Brandenburger (1997), Walley (2007: 17 for comprehensive list of studies). Particularly cooperation in value chain is discussed in next Chapter 2.4. But before it there is a necessity to give credits to the cross-border value chain as an emergent extension of the value chain concept.

2.3. Cross-border value chain

Globalization forces push companies to expand their operations abroad. It is critical decision for company success and profitability but it holds dilemma, what activities in the value chain brings more value (Prajogo et al. 2008) and what activities are better to internationalize (Sainio et al. 2011). Additionally, considering cultural differences worldwide managers meet a challenge deciding possible level of activity localization (Jacobides 2008, Anderson 2009). From the value chain perspective the managers look for best combination of activities to maximize the value creation. In case of internationalization the company is not limited with national borders and can benefit from country specific advantages (low-cost labor, advanced R&D, etc.) (Gabrielsson et al. 2008). Thus, variations of activity allocation differ from highly concentrated value chain that is tied to one country, till highly dispersed value chain, where every activity is performed in different locations (Porter 1986). Still managers must find the balance between these two extremes.

Porter (1986: 23) argued that downstream activities were more country specific and required more adaptation to the local market. At the same time, once assimilated in the local market, downstream activities create entry barriers. The upstream activities are mostly standardized and the company creates value from the economy of scale while internationalizing. However, this is not a universal pattern but an industry and company dependent issue. Barlett (1986) supported the assumption and proposed to classify companies' strategies of internationalization in a two-dimensional model of Global coordination/National Responsiveness. Thus, the decision regarding activities allocation and the level of their localization depend on the type of the strategy adopted by the company. Furthermore, Welsh et al. (2007: 430) followed the company internationalization path and discovered that selection of activities for internationalization depends on the stage of internationalization. Then Gabrielsson et al. (2008) added that selection of the activities for abroad expansion depended also on the stage of the industry life cycle.

From the above it is clear that during internationalization the value chain may require adaptation to the host country especially in downstream activities. Expanding abroad

the company cannot take for granted that excellent performance in some value chain activities will provide the same value for customers in the foreign market (Anderson 2009). There is also a contradict approach that internationalizing firm is able to enforce changes in the alien environment to shape its suitability for the existing home value chain (Jacobides 2008, Gabrielsson et al. 2008: 10). Hence, successful establishment of the cross border value chain depends much on understanding of possible differences between countries and confidence in possibility to change the environment.

Despite the variety of attempts there is still no common and universal solution how to establish cross-border value chain. The managers have to balance optimization and coordination (Porter 1985: 48) through trade-offs of locations and levels of localization bearing in mind the maximization of the total value creation. One of the most important decisions is “make-or-buy”, could be also perceived as “compete-or-cooperate” in the current study. It is especially urgent for the foreign hostile market, where players and rules of the game vary from the home market, when excellent performance of value chain activities in standardized way become questionable. Shaping cross-border value chain the managers have to decide about their partners and competitors in particular activities in the foreign market or choose a competitor for cooperation. Thus, the current study claims to investigate the elements influencing such decisions. Especially it is focused on cases of simultaneous cooperation and competition in value chain. The logic of interaction between these two phenomena is explained in the next chapter.

2.4. Value chain and cooperation

The value chain and cooperation are two key concepts in the current study. The former has been explained above. Now to show how value chain is bound to cooperation it is necessary firstly to define the cooperation itself, how it is appeared in managerial studies and what it is characterized in the current study.

Previously two types of interactions, viz competition and cooperation, were mainly recognized in traditional managerial theories. Competition was identified earlier and

defined as rivalry between two firms acting independently within industry with the purpose to provide the customer with the better offer (Bengtsson & Kock 2000). Cooperation drew academic attention later and expressed mostly in strategic alliances in form of resource combination and learning facilitation to compete with the third party (Bengtsson & Kock 2000). Interestingly the classical approach of competition is considered to be “a driving force for commercial activity” and the most beneficial for innovativeness and for the customer as it forces prices down and enlarges product assortment (Walley 2007: 13). This became later a basis for creation of the competitive policies and legislation, i.e. antitrust (Barney 1986). At the same time, the cooperation was considered as collision hampering competition and threatening free trade (Walley 2007). Hence, the approaches are clearly located on the opposite sites of intercompany interactions and for a long time there was a gap in between.

Nowadays many companies consider competition and cooperation as daily routine even though they are dichotomous. At first sight, co-existence of competition and cooperation in company relationships portfolio is apparent as there are different kinds of interactions, viz. rivalry with competitors and collaboration with partners. However, when these contradictory interactions are found in relationships between two entities, the challenge is obvious: theory of competition and cooperation applying separately cannot answer how to balance the strategy to benefit from them. The established theories are too narrow to describe the interactions coherently and a new approach is required. The solution was found in cooptation and defined as simultaneous co-existence of competitive and cooperative relationships between entities (Bengtsson & Kock 2000).

The previous studies created a grounded basis to see the cooptation as a real strategic alternative in business besides competition and cooperation. Competition sees competitive advantage in risk-taking innovativeness and cooperation looks for benefits in access to rare resources. It can be assumed that the company may practice both strategies and simultaneously (Bengtsson & Kock 2000). As a prove of the above statement there are enough cases investigating existence of the cooptation in particular companies and industries, viz. newspapers, training, tourism, retailing, financial services, port management, school education, and biotechnology (Walley 2007) car

industry, natural health care products (Tidström 2006), and even Formula-1 Championship (Solitander 2011). Additionally daily business life brings new examples of the phenomenon, viz. mutual suits of Apple and Samsung being competitors in the segment of tablet PC and smartphones and partners in spare parts supply (Yang 2011).

Despite the above, mostly contribution to the topic lies in the field of value creation and capture (i.e. Ritala & Hurmelinna-Laukkanen, 2009, Dagnino & Mariani 2010; Dagnino & Padula 2002, Lado et al. 1997) or tension between cooperation and competition within relationships between two or more entities (i.e. Das & Teng 2000; Tidström 2006; Solitander 2011). Also there are studies with focus on particular value chain activities, i.e. R&D (Arranz & Arroyabe 2008), innovations (Mention 2011), supply chain (Kotzab and Teller. 2003) or strategic moves between activities (Rusko 2011). However, among studies of cooptation there is lack of examples that are focused on value chain and sequence of its activities.

In the studies regarding influence of cooptation on value chain there is frequent opinion that on the intercompany level the upstream activities are under influence of cooperation forces, while downstream activities have competing nature (i.e. Bengtsson & Kock 2000, Nalebuff & Brandenburger 1997). Additionally, value chain is seen linearly, hence, simultaneous competition and cooperation are barely possible in one particular specific activity. It creates tensions due to different logic of harmonic cooperation and conflicting competition (Bengtsson & Kock 2000: 412).

However, it can be assumed that relationships in the value chain containing any international activities are not so linear and obvious. Instantly following the global customer, the supplier may use partnership agreements but not establishment of a wholly own subsidiaries in foreign markets. Then, for example (see Figure 4), the partner (company B) of company A for particular activities in warehousing abroad (Market B) may be one of the rivals at the same activities in home or any other foreign markets (Market A). In this case simultaneous competition and cooperation can be seen in the same activities.

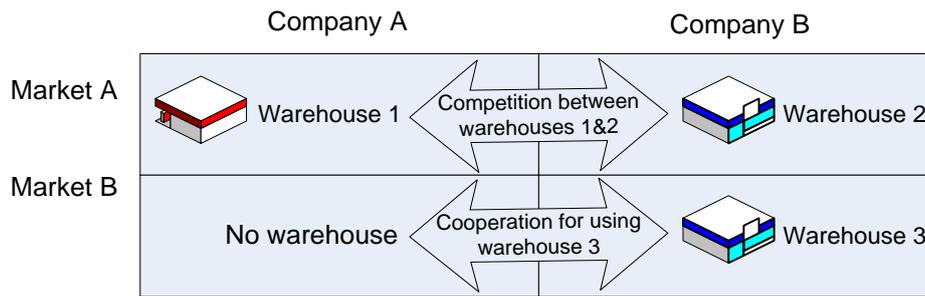


Figure 4. Example of simultaneous cooperation and competition in warehousing activity in case of cross-border value chain.

From the above, Luo (2007: 130) argues that international competition appears in “multi-points (multiple nations and multiple products) and via multi-units (multiple subsidiaries and divisions)”. As opposed to Nalebuff and Brandenburger (1997) and Begtsson and Kock (2000) rivalry actions may take place for input (upstream activities) and for output (downstream activities) while cooperation occurs in cooperative alliance focused on one of value chain activities in particular markets and with particular products as well as with a purpose to create noticeable power for interaction with external actors, viz. governments, NGOs (Luo 2007). Thus, simultaneous competition and cooperation between multinational companies take place in any activities without limitations but based on rationality of management.

Then it is a logical question what the elements are behind the choice between competition or cooperation in particular value chain activities: weak resource base, absence of local experience and relations or something else. The second issue is how to manage such multifaceted relationships in beneficial manner. However, before discovering them there is one more topic should be clarified. This is the definition of competitive modes that is applied in the current study to identify degree of cooperation and competition in cross-border activities. It is discussed in the next chapter.

2.5. Coopetition modes

As it was defined above coopetition is about cooperation and competition in relationships between entities, precisely companies in the current study. Hence,

considering this mixture it is worth to talk about degree of both strategies in relationships. For example, Bengtsson and Kock (2000) and Kock et al (2010) pointed out strong cooperation dominated relation, weak cooperation dominated relation and equal relation. Luo (2007) proposed the frameworks of cooperation intensity and diversity. Osarenkhoe (2010) studied dynamics of relationships that passes through phases of competition, cooperation collaboration and cooptation. All mentioned approaches appeared from investigating the relations as aggregated result of interactions between companies.

However, disaggregating relationships back to particular activities in value chain pure forms of cooperation and competition as well as examples of cooptation can be found in particular activities. Hence, it is possible to propose the classification of relationships in value chain activities with four choices: no relationships, cooperation, competition and cooptation (see Figure 5). Further, in the paper such choices are called **cooperative modes or modes of cooptation**. Thereby, every activity of company's value chain concerning the competitor can be located in one of four modes.

Degree of cooperation	Presence	Cooperation (no competition)	Cooptation (cooperation and competition)
	Absence	No relations (no cooperation, no competition)	Competition (no cooperation)
		Absence	Presence
		Degree of competition	

Figure 5. Cooperative modes.

Definitely absence of relationships is of no interest for the current study so the classification can be aligned accordingly as it is shown in Figure 6.

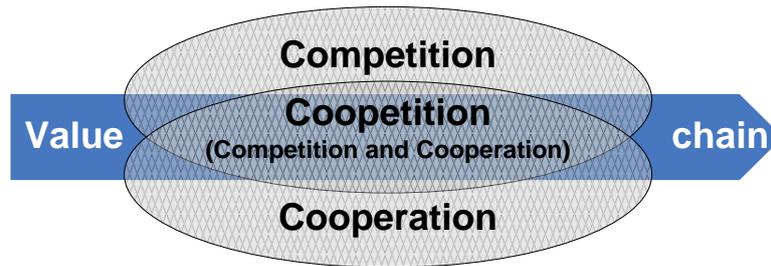


Figure 6. Coopetitive modes modified for the study.

Thereby, three modes express presence or absence of competition or cooperation in particular value chain activities and this is the measurement of degree of cooperation and competition for the current study. Such discrete approach is crucial due to explorative nature of the study and absence of continuous scale to measure coopetitive mode strength.

3. THEORETICAL FOCI FOR THE ELEMENTS OF COOPETITION

It has been mentioned above that coopetition appeared from combination of competition and cooperation. In fact, it means that there is nothing new in coopetition in terms of seeing the sense of business interactions, but novelty is in combination of the approaches that considered before contradictory and not combinable. Thus, it can be proposed that existing theories can explain the phenomenon of coopetition and there are many theoretical and empirical contributions to it (Walley 2007). The most common theories used for explanation of different aspects of coopetition are game theory, the business network approach, the resource-based view and the transaction cost approach. Since the emergence of interest to the coopetition single-approach studies were widespread, i.e. the business network approach in Bengtsson and Kock (2000), Hertz and Mattsson (2004), game theory in Brandenburger and Nalebuff (1995), Dong-Wook (2003), Ritala and Hurmelinna-Laukkanen (2009), transaction cost approach in Hill (1990), Park and Russo (1996). However, coopetition has complex nature due to fusion of two classical concepts and also because of its multi-level structure: individual, organization, mutual interorganizational and network (Bengtsson, Eriksson, Wincent 2010: 23 - 25). Hence, utilization of only one single theory may represent one-side narrow view of the phenomenon. Therefore, the synthesis of approaches became popular in an attempt to create more coherent and solid understanding of the coopetition, i.e. Lado et al. (1997), Quintana-García Benavides-Velasco (2004), Schiavone and Simoni (2011). The theoretical framework for the current study includes also a combination of the approaches.

The selected approaches are game theory, the business network approach and the transaction cost approach (Figure 7). Firstly, the business network approach is used as it highlights inevitable cooperation between all actors in the network independently of their role and position (Hertz & Mattson 2004). Secondly, game theory was picked due to its explanation of the situations when coopetition is more beneficial in relationships between companies (Brandenburger and Nalebuff 1995). Finally, the transaction cost

approach explains trade-offs between cooperation and competition with competitors and shows ambiguity of competition in terms of opportunistic risks (Hill 1990).

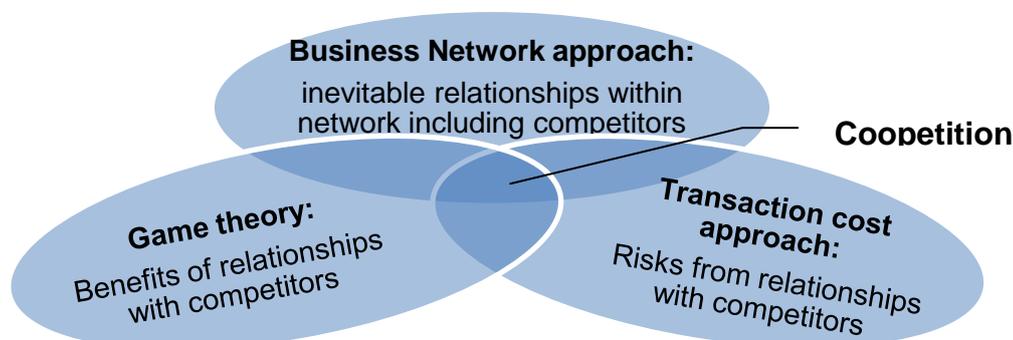


Figure 7. Combination of the theoretical approaches used in the study.

The proposed combination of approaches is exceptional and was not found to be used in other studies. At the same time, it is seen as coherent as the selected approaches complement each other in investigation of relationships between companies-competitors in business networks. While the business network approach perceives cooperation with network actors including competitors as unavoidable element of company existence and wealth, game theory and transaction cost approach supplement the former with analysis of benefits and risks from cooperative relations with competitors. Hence, being captured together the approaches provide opportunity to investigate elements of cooperative modes in cross-border value chain coherently and comprehensively.

Further there is a review of main ideas for all three approaches and their application to coopetition. Firstly, the business network approach is seen in general context and specified for the case of coopetition. Then game theory with its prisoner's dilemma and stag hunt explains how competitors benefit from cooperation. Finally, the transaction costs approach complement the study with rational and practical view on coopetition. Such review helps to create a basis for the theoretical framework of the study presented afterwards.

3.1. Coopetition from the business network approach

Nowadays any particular company cannot be approached in vacuum without considering the surrounding environment (Håkansson and Snehota 1989) as any entity is not self-sufficient and cannot afford possession of all the resources necessary for production from raw materials to final product. Here resources include “manpower, equipment, plant, knowledge, image and financial means to sustain the activities” (Håkansson & Snehota 1995: 30). In terms of rapid market changes self-sufficient companies are bulky and sluggish. Thus, with the purpose to adapt value chain to changes and keep it more flexible companies have to focus on a limited number of activities and outsource the rest (Jarillo 1988). The companies become more interconnected with each other. In an attempt to explain the substance of such interconnections Håkansson and Snehota (1995: 26) proposed a model of activity links – resource ties – actor bonds (ARA-model). There limited resources to pursue activities lead to growth of external activity links with other market entities-actors (including competitors). At the same time, it tightens mutual interest of companies to each other and creates bonds. In general, it means that every company is unique in terms of resource mix, carried activities and bonds, so the market becomes heterogeneous as opposed to classical Porterian theory (Håkansson and Snehota 1989) and companies need each other for successful existence.

The mentioned considerations are gathered under the umbrella of the business network approach that sees market as network. It is widely applied to explain coopetition issues (i.e. Bengtsson & Kock 2000; Tidstöm 2006, Gimeno 2004) due to profound focus on business relationships of cooperative nature. Thus, cooperation between competitors falls also under the scope of the approach.

According to the business network approach the companies are perceived as actors and they play variety of roles. The main roles are sellers, buyers and governmental organizations. So the companies interact between each other according to taken roles (Kock, Nisuls & Söderquist 2010).

The actors are embedded in relations to provide the process of resource exchange with the ultimate target to create value. Such relations are classified as vertical and horizontal (Osarenkhoe 2010). The former present mostly interactions in frames of value chain having supplier-customer character and resource exchange orientation. The latter are more equal in nature and take place between competitors and organizations sharing complementary capabilities; they target exchange of information and social-cultural activities. Additionally the relations can be divided in cooperative and competitive (Hertz & Mattson 2004: 35). The former includes both vertical supplier-customer relations and horizontal partnership between competitors. The latter are limited only with horizontal competitive relations between two or more actors towards development of relationships with the third party.

Understanding of cooptition in the network comes from perception of every actor in the network on two levels of disaggregation (see Figure 8) (Jarillo 1988). Firstly, the company can be approached as a whole in the network. Then its connection to the competitors has dyadic nature combining competition and cooperation. As soon as the company is perceived as a bunch of activities for value creation (it is the second level), its roles vary in different activities. So division of competitive and cooperative relations between activities becomes obvious. Hence, there are no boundaries to have relationships with competitors of both types at the same time.

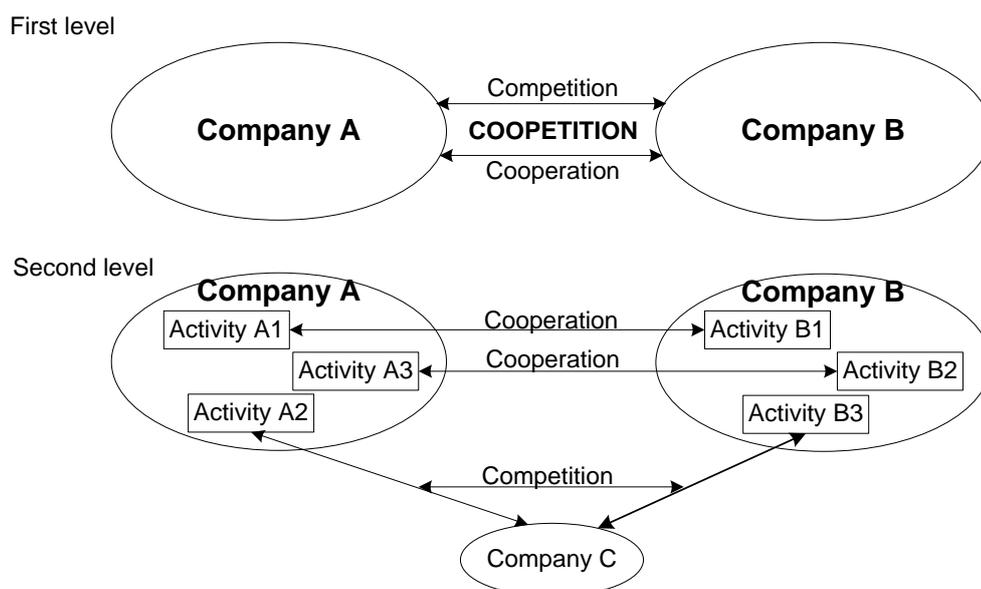


Figure 8. Two levels of cooperative and competitive relations between companies.

According to this line of reasoning the business network approach argues that the companies are naturally embedded in the relationships and they are absolutely inevitable for company successful existence and development (Håkansson & Ford 2002) including expansion of activities abroad (Lue 2004: 16). Such necessities have external character. They do not appear inside the company but come from system imbalance due to market changes. So the relationships of the company can be seen as passive and reactive forced from network. This “call for resources” may emerge, for example, from customer wish to entry foreign market and bring own supplier, governmental protection or liberal laws, lack of independent suppliers in the target market and so on. Also in such case cooperation in the network even with competitors is a way to avoid the conflict and tension for scarce resources and utilize them more efficiently.

In spite of the fact that such mutual dependencies on resources put limitations on actor actions towards each other and the third party, but they play the role of safeguard bonds against possible opportunism due to their mutual nature (Foss & Koch 1996; Steinicke, Wallenbur & Schmoltzi 2012), which is especially sensitive issue in competitor cooperation.

At the same time the business network approach argues for the pro-active position of the company in the network. It does not mean that the company can control the network (Håkansson & Ford 2002) but develop relationships in a way to maintain own position in the network to get superior treatment from other network actors (Osarenkhoe 2010). Looking for such voluntary relationships in business networks a company seizes opportunity to obtain knowledge from network or become a member of the group to neutralize possible threat and increase own importance. Such group membership effect may influence willingness in deals with non-members of the group.

Finally, it can be concluded that the business network approach is not so unambiguous. It has clear bias in favour of cooperation (Foss & Koch 1996). Hence, it is able to justify cooperative modes only partly due to its exclusive focus on cooperative relationships. Thus, to clarify competitive component of modes game theory and the transaction cost approach are applied and they are discussed further.

3.2. Coopetition in Game theory

“Business is a high-stakes game” was proposed by Brandenburger and Nalebuff (1995: 57). This short statement uncovers other approach of market perception as a game and is driven by game theory. The theory itself is value driven meaning that the companies so-called players in the market target own value maximization. However, novelty of the theory is in understanding that value maximization can be considered individually for every particular player or collectively as sum of values in the group. The basics of the theory argues that players interact with each other in the market. Their actions can be sequential or not but they always call reaction of the other parties in the game (Brandenburger and Nalebuff 1995). Game theory offers methods to calculate possible outcome from own actions as well as actions of other players.

Applied to the coopetition game theory states two types of actions, viz. cooperative and competitive. Their meaning for players in terms of action interchange can be seen mostly in two types of games: prisoner’s dilemma and stag hunt (Skyrms 2004: 1 - 4). The former explains the choice of two prisoners caught for crimes between defection and staying silent (see Figure 9).

		<i>Player B</i>	
		Stay silent	Defect
<i>Player A</i>	Stay silent	2	0
	Defect	3	1

Figure 9. Prisoner’s dilemma.

From the individual point of view defection brings bigger pay-off (no punishment in this case) but it is not guaranteed that the other prisoner would stay silent. From collective perspective keeping silence as a form of cooperation will lead to the better pay-off for the whole system (two prisoners together). This case is fully applicable to business and reflects wishes of the players to act solely in fully competitive mode with a hope to bigger pay-off and passiveness of the competitor. In fact, it turns to fierce competition from both sides and leads to pay-off reduction due to bigger expenses than in case of cooperation with competitor for a smaller but guaranteed output.

The stag hunt game explains also difference between competition and cooperation comparing individual hunt for a hare or collective hunt for a deer (see Figure 10). Thus, from the game settings one single player is not strong enough to hunt for a deer and capture its whole value solely, he can hunt only for hare that has significantly less value than deer even shared with competitors. Hence, the bigger captured value comes from the cooperation. Nalebuff and Brandenburger (1997) offered to perceive the value as a “pie”. Cooperating together in value creation within different value chain activities competitors enlarge the “pie” issued to the market. Thus, it increases possibilities to capture a bigger share of the “pie” than without initial cooperation while sharing the “pie” and competing for customers in the markets.

		<i>Player B</i>	
		Cooperate	Compete
<i>Player A</i>	Cooperate	4	0
	Compete	3	1

Figure 10. Stag hunt.

Translating these games to the plane of coopetition game theory offers understanding of permanent company benefits through different interactions with the purpose to increase captured value. In international settings requests of contemporary company growth to maintain sustainable development leads to overcoming national borders in search of new bigger or unexplored markets. This is possible to do through competition playing passive habitual win-lose game in terms of the prisoner’s dilemma with unguaranteed outcome (Brandenburger and Nalebuff 1995). Otherwise, cooperation between competitive players looks more rational as it enlarges the “pie” delivered to the market (Ritala & Hurmelinna-Laukkanen 2009) that is shared later in competition. Such relationships have win-win character and can be perceived even as more sustainable (Brandenburger and Nalebuff 1995, see discussion in Walley 2007) because they get less resistance from the side of competitors. However, win-win game requires forced interference of one of the players to turn the game from the ordinary win-lose mode. At the same time, a game change can be seen as an action to maintain own position in the market. Also similarly with the business network approach it has voluntary and pro-active character.

Additionally it is essential to understand that according to game theory the company never puts aside own interests in favour of collective ones but aligns them with others in the market increasing common output (Padula and Dagnino 2007). Comparing with the business network approach cooperation in game theory highlights group relationships where every member seeks for own benefits like in stag hunt but not to threaten other groups and networks, for example. Thus, with the same result of gathering competitors for cooperation, the influencing elements differ from the points of view of the business network approach and game theory. The business network approach is for strengthen of a company individual position with help of cooperation in the group and the purpose is to resist to the third party. At the same time game theory proposes competitor cooperation to get at the end bigger “pie” for sharing in the market but not threaten the competitors that do not cooperate.

Furthermore, the issue of trust plays a significant role in game theory especially in a repeated game (Hill 1990). Due to company search for the “pie” augmentation it tends to cooperate with players that have proved willingness to cooperate in the previous rounds of the game or there is information from other market members about reliability of company that is targeted for the cooperation. Hence, game theory justifies trust as a element that defines the degree of cooperation and competition between competitors where lack of trust shifts balance towards competition and vice versa.

Comparing two discussed approaches they observe cooperation in more constructive way. However, the purpose of the study would not be reached in a consistent way without a piece of critical perspective on the phenomenon. There is nothing perfectly positive in the real world. Thus, to add to the study a taste of modern ambiguous world and make it close to reality the transaction cost approach was added to the framework and it is discussed further.

3.3. Cooperation from the transaction cost approach

The last theoretical approach applied to the research framework of cooperation is the transaction cost approach. Its study comes from the assumption that amount of created

value depends on how and where activities are organized (Madhok 2002; Park and Russo 1996). It is partly similar to game theory assuming that partnership appears where value from collaboration will exceed the value captured in the absence of the partnership. But as opposed to the business network approach and game theory it puts aside company interdependencies and focuses on costs of activity governance and rationality. The company acting according to the transaction cost approach targets to minimize costs and selects always more economically effective way of productions.

Thus, according to the approach every entity in the market has a choice to perform any particular activity in house or outsource it (Figure 11). In the first case the company carries expenses related to “in-house ownership of assets” (Park and Russo, 1996: 877) and exchange within a hierarchy. At the same time the company meets risk regarding return on investments in own facilities, which is even higher in terms of politic, economic, social and other uncertainties while internationalization. The second choice is to outsource activities, then expenses rise from exchange through the market and consist of “the costs of negotiating, monitoring, and enforcing a contingent claims” (Hill, 1990: 501). Such expenses are called transaction costs and gave the name to the theoretic approach. However, solution of market exchange is also uncertain with the risk of opportunism that comes from human wish of self-interest seeking (Williamson, 1985 in Hill 1990). From different cultural studies (i.e. Hofstede 2011; House et al. 2004) it is clear that probability and strength of opportunism vary among cultures and individuals around the world. Hence, it challenges managerial decision making in terms of picking right cooperative mode while building cross-border value chain.

Actually, opportunism is one of the key elements of the transaction cost approach and its possibility is an integral part of any transaction (Hill 1990). Without this phenomenon market exchange would considerably prevail over in-house activities (Hill 1990) and transaction costs would be much obvious. However, the approach assumes that not all actors are opportunistic and not always (Madhok 2000). So the situation requests from managers to be aware of partner opportunism and arrange safeguards, i.e. mutual bonds, monitoring or enforcement (Hill 1990). The cost of safeguards is also a part of transaction costs. Still, the main difficulty is the accurate calculation of

safeguard amount as possibility of opportunism is hard to define especially to answer precisely who and when (Williamson 1985 in Madhok 2000).

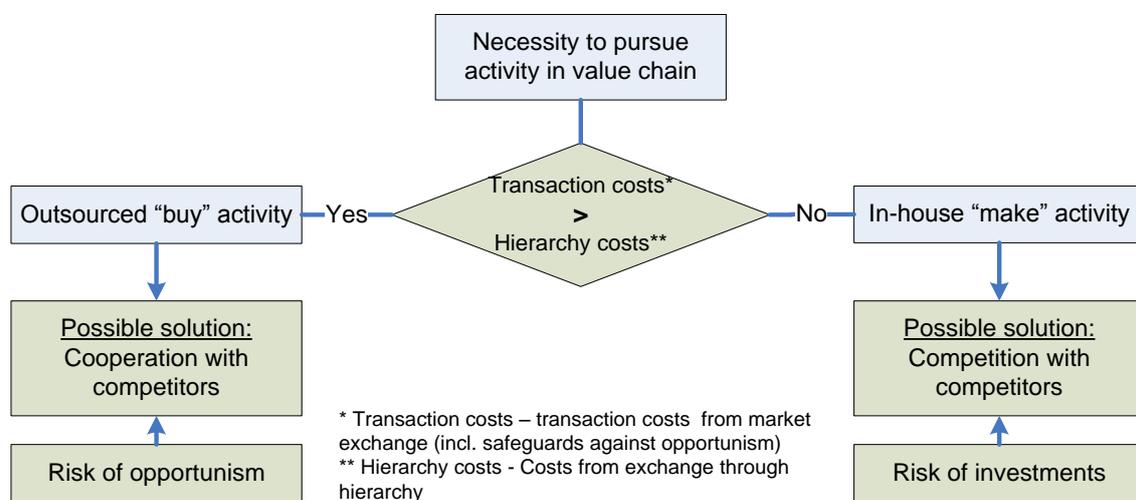


Figure 11. Trade-off between transaction costs and hierarchy costs.

In fact, the transaction cost approach looks for transactions efficiency, where governance mechanism is balanced between company risks of investments in own assets and risks of opportunism from partnership “attempting to avoid or weaken the hazards of each” (Park and Russo 1996: 877). So the theory sees cooperation not only as promising, for example, for learning facilitation on the one hand, but also as a thread for business due to opportunism on the other hand. Park and Russo (1996) even concluded that it was a very risky business when it involved cooperative relations with a competitor. It is logical as a competitor possesses better understanding of value added activities producing similar product and consequently better understanding of the area, where benefits gained from collaboration can be applied. Therefore, the risk of opportunism in cooperation is as higher as more direct the competitors and more similar their goals (Quintana-Garcia and Benavides-Velasco 2004). However, full similarity of the goals in different markets around the world is questionable due to great variety of environmental aspects shaping markets in particular countries.

Trust is another significant issue in the transaction cost approach. It is opposed to opportunism and plays a role of transaction cost abater (Hill 1990). The higher the level of trust between competitors, the easier it would be for them to settle cooperative relationships as the necessity of safeguards is lower that consequently decreases

transaction costs in favor of market mechanism. In general trust is broad term and pointed also by game theory. However, there other rationale is put behind as it was described above in the correspondent chapter.

3.4. Summary

The observation of the approaches gives the impression that they all are able to explain the phenomenon of cooperation. In fact, they do explain, so the same relationships between companies can be investigated using different logics. As any theory, three presented approaches are not universal and focus on particular issue in the relationships, hence, the fusion of the approaches gives deeper and more sustainable understanding of elements influencing cooperative mode selection in cross-border value chain by the decision-makers in the companies. The comparison of the approaches and elements explaining by them is presented in Table 1.

Obviously, the approaches have differences perceiving elements influencing degree of cooperation and competition. Thus, the business network approach sees natural embedment into relationships, i.e. there is no other choice to survive then cooperate with other network actors including competitors. At the same time game theory is more unrestricted and leave a choice to “hunt a hare” in fierce competition or “hunt a stag” in cooperation. Therefore, competitors cooperate in seek of individual outcome increase, but still the analysis takes place what is better to compete or cooperate. Opposed to two previous approaches the transaction cost approach looks critically on cooperative relationships and clarifies why not to do it. In general it can be considered that the approach complements game theory analyzing disadvantages of cooperation with competitor in terms of opportunistic risks.

Table 1. The theoretical approaches and their contribution to coopetition.

<i>Theoretical approaches</i>	<i>Main arguments</i>	<i>Explanation of coopetition</i>	<i>Elements defining degree of cooperation and coopetition</i>	<i>Key references</i>
Business Network Approach	Companies are naturally embedded in the relationships of cooperative nature to create value	Cooperation between competitors is a necessary condition of company existence	Survival avoidance of scarce resources Voluntary position maintenance – reputation in long-term relations	Jarillo (1988); Håkansson & Ford (2002); Hertz & Mattson (2004);
Game Theory	The companies play a game with sequence of moves. The moves can be cooperative and competitive nature enriching or destroying results of the previous moves	Cooperation with competitors is beneficial for both parties. Win-win strategy when competitors compete – mutual creation of the “pie”, separate appropriation of the “pie”	Own benefits through cooperation and game change (win-win) – proactive position maintenance Losses minimization from competition (win-lose) Trust and reputation in repeated game	Branderburger & Naleduff (1995); Nalebuff & Brandenburger (1997); Padula & Dagnino (2007)
Transaction cost approach	The decision about activity pursuance (in-house or outsource) is taken based on comparison of transaction costs and hierarchy costs	Weighing of opportunistic risks from cooperation with competitor and risks of investments risk from in-house activities	Risks of opportunism in cooperation Risks of investments in competition	Hill (1990); Park & Russo (1996); Quintana-Garcia and Benavides-Velasco 2004

Definitely the approaches have similarities explaining coopetitive relationships between companies. For example, business network approach and game theory highlight pro-activity in relationships with the purpose to maintain own position in the network. They consider reputation in long-term relationships (business network approach) and repeated

game (game theory) as element in favor of cooperation with competitors. Interestingly the business network approach argues that business goals convergence is fruitful for cooperation and mitigate conflicts (Håkansson & Ivan 1995). On the other hand, the transaction cost approach claims that goals convergence call conflict and less desired to build sustainable cooperation between competitors (Quintana-Garcia and Benavides-Velasco 2004).

Three approaches deduce similar and different elements influencing cooperative modes. Thus, their simultaneous application helps to develop more consistent overview and coherent explanation, how cooperation appears and why it is proposed as a form of relationships between companies.

Gathering together all the propositions done in the previous chapters about value chain and cooperation and in this chapter about prerequisites and perception of cooperation, the theoretical framework of the study can be assembled. It comes from the sequence of the assumptions. Firstly, to create value the company has a value chain with different activities. Such activities fall under competitive and/or cooperative relationships with market actors. Then when focus of interest is narrowed till relationships between two actors who are competitors, cooperation with its cooperative modes appears. Finally, taking broader perspective, the relationships are investigated through the lenses of theoretical approaches that raise elements for such relationships. The visualization of the theoretical framework is presented in Figure 12. It is worth to mention that in real life the presented sequence (from value chain activities to elements) is reversal and starts from the definition of the elements shaping cooperative relationships and influencing decision making in favor of cooperation, competition or both in certain value chain activities.

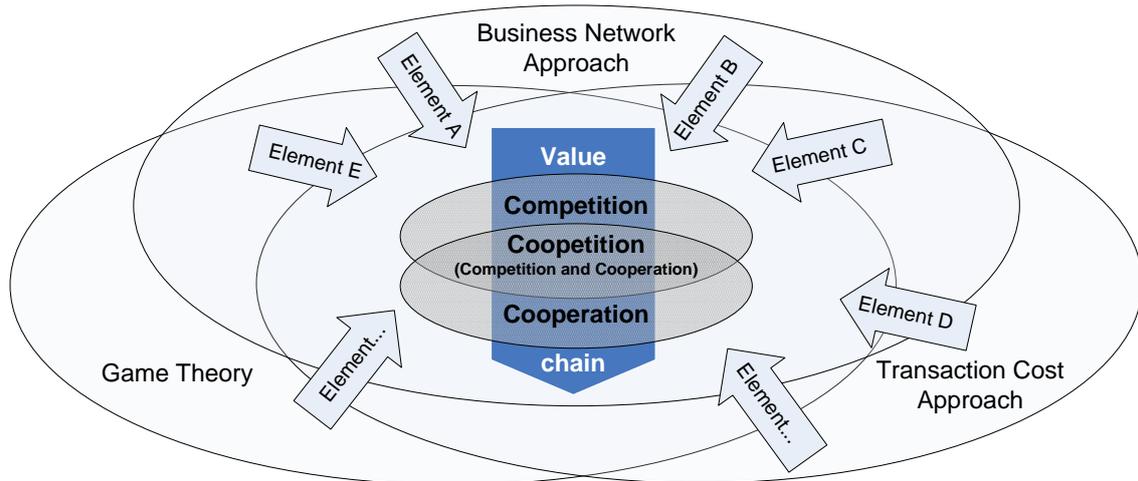


Figure 12. Theoretical approaches and elements of competition.

Further the empirical study is conducted to define particular elements influencing the patterns of cooperative relations in value chain activities. The study has explorative character as it is assumed that the mentioned perspectives on the coopetition from all three approaches are not exhaustive but was found the most applicable and obvious in search for elements influencing cooperative modes in the value chain. Consequently, the empirical study will focus on elements identification from cases and their explanation from the position of the theoretical approaches.

4. METHODOLOGY

The chapter contains the methodology applied for the empirical part of the study. Firstly, research design and its argumentation are presented. Then deployed explanation of data collection and analysis is provided. They are followed by discussion about trustworthiness of the study.

4.1. Research design

From the theoretical point of view there are a number of models and approaches to design and conduct research. The correct definition of the research design is crucial for successful answer to the research questions and positive contribution to the body of knowledge. However, consistence of the research purpose and design are not the only issues that must be taken into consideration. The constraints of the real world shape the research design significantly (Maylor & Blackmon 2005: 137). They are time and resource limitation, information confidentiality or even personal preferences of the participants. Thus, to conduct valuable research aligned with the declared purpose and real world constrains the following methods were selected:

- Semi-deduction as research logic;
- Case study as research strategy;
- Qualitative approach for data collection and analysis;
- Semi-structured individual interviews as research method.

The choice is visualized in Figure 13 and further it is explained and argued.

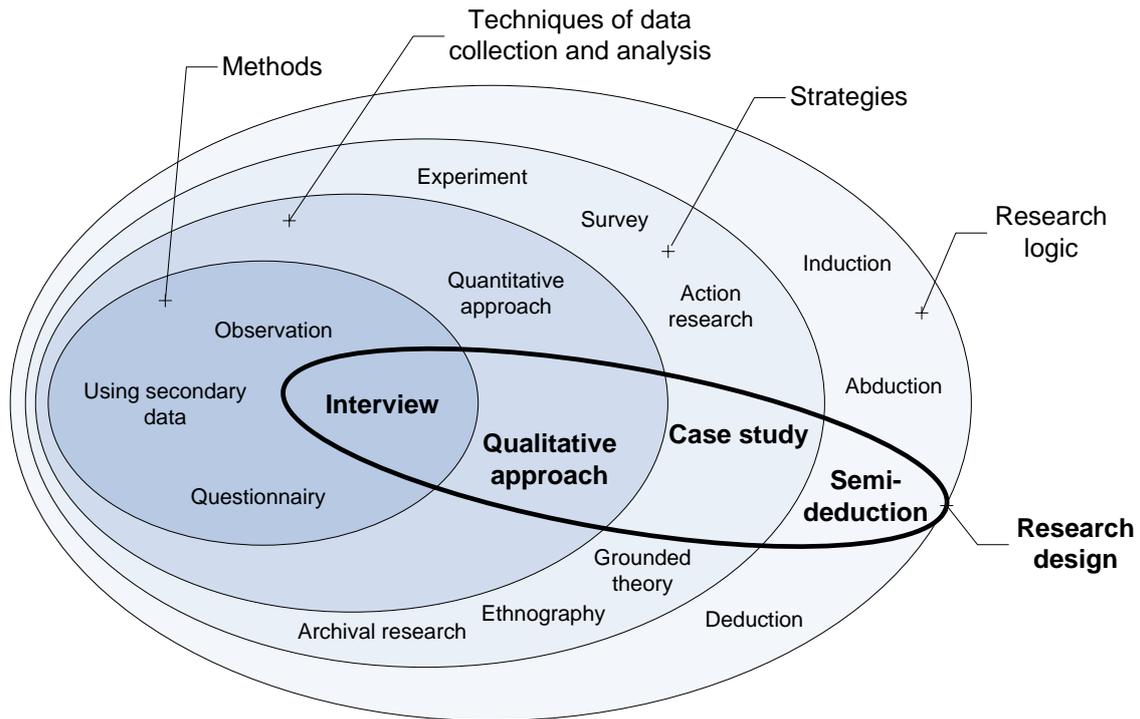


Figure 13. The research design choice.

Choice of the research logic usually lies between two, namely deduction and induction (Maylor & Blackmon 2005: 150 – 152). Deductive studies based on existing theoretical framework test hypothesis with cause-effect link. On the contrary, induction starts with the data collection and pattern analysis to generate the theory. However, both logics are too extreme to be applied in the real world in pure form. For example, Strauss and Corbin (1990: 50) as well as Bryman and Bell (2011: 12 – 13) questioned possibility of any research without background. Dubois and Gadde (2002: 555) add that “theory cannot be understood without empirical observation and vice versa”. In other words, separate application of deduction and induction are seen too dry in an attempt to develop knowledge especially in managerial studies, where a lot of grounded research has been already done and purely new areas are less likely to discover. The third logic lies in between and is called abduction. It combines inductive radical theory changes and deductive tests of existing approaches.

At the beginning the current study was planned to be accomplished in abduction. However, the logic requires the consequences of engagements between theory and empirical explorations (Atkinson & Delamont 2005) that were not possible to reproduce in time frames intended for the study. Thus, the current study is conducted in logic that

is closer to deduction. According to it, firstly, the literature on the topic was reviewed. Nonetheless, it discovered only small number of studies with focus on cooperation in value chain. They were mostly either on the whole relationships or particular activities. In such circumstances it was not possible to deduce proper hypothesis for scrutiny.

Nevertheless, taking broader perspectives on the phenomenon of cooperation the existing theories provides the basis to build the original theoretical framework. Later after the empirical study the framework has freedom to be modified and clarified according to findings. Hence, semi-deduction as research logic is adopted to generate new concerns regarding the phenomenon of cooperation particularly applied to value chain activities with connection to the three theoretical approaches: the business network approach, game theory and the transaction cost approach.

Then case study was selected as research strategy among others. This is common in many disciplines including business and management (Dubois and Gadde 2002). The case study was preferred to other strategies due to unsuitability of the rest for semi-deduction logic (i.e. grounded theory or ethnography) or impossibility to form adequate conditions to conduct, for example, survey or experiment. Hence, the research is done through looking for patterns. From realistic point of view the case study is seen as the most appropriate for the current research considering defined research logic and constraints from time and resource limitations. It can be done within short period of time that is dedicated for the master's thesis and in only one location where the case company is situated. At the same time, it provides more links between phenomenon and real life context (Yin 2003: 2 - 11; Saunders et al. 2009: 146) creating a bridge between academic knowledge and existent amendments (Dubois and Gadde 2002). At the same time case study requires usage of multiple sources for data collection that complicates procedure of empirical research but provides more comprehensive findings.

The case study strategy is criticized for being situational and specific that creates obstacles for generalization (Dubois and Gadde 2002; Yin 2003: 10; Bryman & Bell 2011: 61; see discussion in Hillebrand, Kok & Biemans 2001). Mostly, the claims are about statistical generalization. However, it is worth to understand that a particular case study cannot be seen as a sample unit, rather as a new experiment (Yin 2003: 32) doing

with the purpose to learn and seize opportunities for further development of more mass-scale studies.

The case study is specified by the unit of analysis. There is variety of possibilities from a role or individual to the whole organizations or even groups of organizations (Miles & Huberman 1994). The current work is done from the perspective of the single company (mentioned in Chapter 1.2), so a company is accepted as a unit of analysis here.

Multi-case study was a necessary addition to the research design as originally work was planned as a single case study. In reality the company that agreed to participate in the study worked in area of online business. That is not widespread in the studies of cooperation. Thus, it could be difficult to develop findings and argue about their applicability for business where exchange of physical product takes place. So the second case was found from the area of physical production to support replication and contrast (Maylor & Blackmon 2005: 246). The patterns are looked across the cases. At the same time two cases are considered enough to provide adequate depth within given time limitation.

The case study strategy supports both approaches of data collection and analysis, viz. quantitative and qualitative. Nevertheless, considering limited theoretical base the qualitative approach is selected for the study. The contrary quantitative approach is based on statistics and measurements estimated from the existing theories. It is applied when the scientist is sure about obtaining the comprehensive perspective through the questions with limited number of answers as only such information is suitable for measurement later while analysis (Saunders et al. 2009: 414). In the situation when measuring is less likely due to complexity of questions or unpredictable variety of answers, the qualitative approach is applied. The typical questions for quantitative study are “How much” and “What” in form of “how much” and “how many” (Maylor & Blackmon 2005: 153; Yin 2003: 6). Consequently, the current study aims to find meanings answering questions “Why” and “How” that are more suitable for qualitative study. Furthermore, “What” in form of exploration is used as well (Yin 2003: 6). It is argued that the richness of the study would suffer if the answers to the research

questions were restricted. Thus, the qualitative approach is adopted in search of fresh findings unlimited with theoretical interpretations.

Finally, the interviews were selected as the main method of the research. They are common for the qualitative studies (Maylor & Blackmon 2005: 185). Stephens (2009: 93) considered that they lie “at the heart of qualitative studies”. Then Yin (2003: 89) added that interviews are one of the key information sources in case studies. Among different types of interviews semi-structured individual interviews were used. Firstly, semi-structured interview were preferred to structured ones as they allow a degree of freedom from both sides of the researcher and the respondent providing deeper insights and shortcuts to the prior history especially in conversation with well-informed respondents (Yin 2003: 92). Then individual interviews were preferred to group ones as the former can be better controlled by the interviewer and output is less chaotic (Kvale 1996: 101). Consequently, individual interviews are easy for further systematic analysis and correspond to the level of author’s experience. The questions had open-ended character and did not limit the respondent with the number of answers. Such approach provides rich basis for findings (Fontana & Frey 2000) but requires caution in analysis of transcripts and dangerous with possibility of incorrect interpretation of the interview context unless proper precautions regarding interview trustworthiness are done (see discussion in Chapter 4.4).

The interview process was build based on step-by-step approach (Tidström 2006). The multiple interviews with the same respondent took place separated in time. The approach intended to build better relationships between researcher and informants to acquire more information comparing to only one interview and to get deeper insights on the topic of the research increasing understanding of the phenomenon.

The interviews were performed in several ways: face-to-face, phone interviews and internet chat. The first way is considered to be the best to capture the most details from verbal and non-verbal communication (Maylor & Blackmon 2005: 183). However, it is costly and time-consuming especially when researcher and informants are located in the different countries. Hence, face-to-face interview were complemented with phone interviews and Internet chat. The former way is often used for marketing and political

research and may be associated with reluctant participation (Maylor & Blackmon 2005: 184). However, in the current study due to limited number of participants all phone interviews and Internet chat were scheduled in advance. Moreover, these ways of interviews are benefited in terms of flexibility as they can be settled during early or late hours when it is more convenient for the respondent considering his/her hectic business schedule. Additionally, phone interviews are easier to re-settle in terms of time in case of any changes in respondent's availability.

All the interviews were recorded and transcribed. Additionally for better justification of the interviews notes were taken during the process. Both interview transcriptions and the researcher's notes represent the main sources for the analysis. Moreover, the additional sources were used to support the facts shared by respondents. They are a third-party interview, information presented in the company official web-pages and a draft of the cooperative agreement (in case 1).

To sum up the selection of semi-deduction, case study, qualitative analyses and semi-structured interviews is consistent and aligned to the purpose of the study aiming maximization of valuable contribution.

4.2. Research process

The main elements of the research process were the same for two accomplished cases. The cases were found through the personal networks, however they fulfill criteria of the research purpose (viz. cooperation with competitors in foreign activities) so can be considered appropriate.

At the beginning, the co-owners of the case companies were contacted by e-mail. It contained brief explanation of the study purpose and the criteria for selection. Both co-owners confirmed the fit to the criteria and agreed to participate in the study.

The first initial interview in the first case had the purpose of introduction into the issue. The respondent (A) was offered to discuss the issue in general, clarify the main

terminology of the business area and peculiarities of doing business. At the end he was requested to recommend any of his colleagues, who participated also in the case relationships and who would also be able to present own opinion on the issue. One additional reference was given. During the same first interview the question of participation of the counter-parties (competitors with whom cooperated) was asked. Unfortunately, the possibility was declined due to sensitive topic of the issue and fragile balance in relationships. After the first interview the investigation in the area of the company business was done, and the interview guide (Appendix 2) based on research questions and theoretical framework was created. The contact with the second informant (C) was done, he was also provided with information about the study and its purpose.

Then the interviews had follow-up character and targeted clarification and widening of the facts obtained from the initial interview. The respondents were provided with short written note with the outline of the interview a day in advance. It was considered beneficial for the research since the questions required reflection and extended answers that may be challenging to figure properly and express correctly in the moment of the interview. So the note with the interview outline gave a chance to think on the case and even remember some significant issues. The second interview in row was done with the same informant, who participated in the first preliminary interview. Then the interview with the second informant (C) took place. He was also a co-owner of the company and had decision-making power in the case issue. Both interviews had similar structure and targeted clarification of the case and more detailed explanation of the relationships.

At the beginning of the interview the respondents were asked general questions about the company, viz. company profile, business area, geographic spread of activities and markets of presence. Further the questions touched the explanation of the company value chain and responsibility for activities, i.e. in-house or outsourced. Then the situation with the competition and cooperation in the industry was discussed in home market in both cases and in penetrated market in the first case. Later the questions returned to the particular case that was under investigation. Such brief case explanation was requested again from the first informant. For the second informant (C) it was the first time. That repetitive request aimed to discover possible new information that might appear in relationships between competitors as the interviews were separated in time.

Then with all asked background it was quite obvious to move the discussion to the essence of cooperative relationships, so the respondents were asked about particular activities that fell under cooperation and competition with competitors and also about elements that influenced such choice of cooperative modes.

Three interviews for case 2 were handled with the same pattern as it is described above for case 1. However, the interview guide was modified according to specificity of the company value chain and the fact that the competition took place in the home market of the respondents.

The interviews were held during the period August – December 2011 and continued from 21 to 130 minutes. Six interviews were conducted in total: two face-to-face interviews, three telephone interviews, one Internet chat (see Table 2). Variety of interview types was caused by temporary distant locations of the author and the respondents complicated by time limitation. Furthermore, some respondents had preferences regarding the form of interview (i.e. required Internet chat instead of phone conversation). This can be explained by differences in the respondents' personal preferences (i.e. discomfort of communication by phone) and also by the preferable pattern of business negotiations, viz. chatting in online business.

Table 2. List of interviews.

<i>Case</i>	<i>Informant</i>	<i>Date</i>	<i>Duration</i>	<i>Type</i>	<i>Step</i>
1	A	04 Aug 2011	60 min	Face-to-face	Intro
2	B	13 Aug 2011	21 min	Phone	Intro
1	A	22 Oct 2011	130 min	Chat	Follow-up
2	B	29 Oct 2011	50 min	Phone	Follow-up
1	C	22 Nov 2011	51 min	Phone	Follow-up
2	D	28 Dec 2011	45 min	Face-to-face	Follow-up

Face-to-face interviews took place during working time but in neutral but convenient places (not offices) offered by respondents. It increased the possibility of interruption by phone calls, but still quiet places that were distant from respondent's usual work place provided relax atmosphere without interruptions from colleagues and work routine that

may be crucial for the interview success. Phone interviews and the chat were held in time pointed by the respondents out of standard working hours. So the respondents could answer the questions with full dedication, in convenient pace and minimum interruptions. In total one face-to-face interview and two phone interviews were interrupted by external phone calls to the respondents. But all the interviews continued after the break and were completed according to the interview guide.

All the interviews were held in Russian that was a native language for the interviewer and respondents. All the interviews were recorded with kind allowance of the respondents and transcribed later for analysis. The selected parts of the interviews were further translated into English.

4.3. Data analysis

For the analysis the transcription of six interviews were used. Date of the interview, data of interviewee, case number were mentioned for every particular transcription to facilitate data order. The transcripts were kept in original Russian language. No translation was done to eliminate any data loses. Due to modest number of interviews no computer-assisted qualitative data analysis software was used, all manipulations were fulfilled in one of the common word-processing software.

Furthermore, during the process of transcription the author's thoughts and considerations that appeared regarding the particular respondent answer were carefully written and used later to enhance data analysis. To facilitate analysis the answers were marked in accordance to the topics mentioned in the interview guide (Appendix 2).

After completion of all interviews and their transcriptions, the author became familiarized with the gathered material through repeatedly reading of the material and continuously keeping notes.

Finally qualitative content analysis (Bryman & Bell 2011: 560) was applied to the material. The method is commonly used in managerial studies and consists of data

codification with the purpose to identify recurrent instances that later unified in categories (Wilkinson 2004). Then the latter is analysed with the purpose to recognize meaning. The main difference from the quantitative content analysis is that initial categorization is not predefined precisely. Thus, the researcher has more freedom to “constant discovery” (Altheide 1996: 16 in Bryman & Bell 2011: 560). Furthermore, qualitative content analysis looks for meanings but not only for frequency counts. Hence, it reflects better the design of the current study. The initial categories for the current study were “value chain activities” and “elements of cooperation and cooptation”.

During the analysis the data was reordered based on identified patterns. Then the gathered pattern was mapped in an attempt to find the match with the theoretical approaches selected for the study or discover some new insights.

4.4. Trustworthiness of the empirical study

Firstly, the study is examined for reliability that argues the possibility of the study repetition and getting the same or similar results (Maylor & Blackmon 2005: 362). In case of qualitative study it is very sensitive question as the sample is very small and often industry, or market, or area specific. However, the detailed specification of the process, how it was done, and structured documentation for the current study increase reliability. Furthermore, the interview structure (one introduction interview + two follow-up interviews) was repeated in both cases that allows also to assess the results as reliable. Furthermore, during the follow-up interviews the explanation of the case situation was requested again with the purpose of improving reliability of the information.

Besides, the utilization of the personal networks was found beneficial generating trustworthy responses during communication with the respondents.

Then, validity of the study claims for trustworthiness of the results and avoidance of any bias and ambiguity in design of the conduction process and interpretation of the results

(Simons 2009: 127). A number of measures were taken to increase validity of the current study. Firstly, the basic precautions were done during the interview process. All interviews were conducted in the native language for both interviewee and interviewer, in other words they were done in the situation of linguistic equality (Marschan-Piekkari & Reis 2004) that minimizes ambiguity and misunderstandings during information exchange and further during analysis. Furthermore, speaking native language was essential as the respondents used a lot of industry terminology (especially case 1) and specific slang that was often a mix of English and Russian. So understanding of meaning and analysis would be difficult for non-native speaker. Then to secure correctness of translation the translated parts were given for back translation to Russian to a person who spoke Russian as mother tongue and had English studies in background. The result of back translation was compared with original. The appeared discrepancies were corrected and back translation was repeated till elimination of all discrepancies.

Furthermore, to increase validity triangulation in form multiple sources and evidences was applied for the data collection (Yin 2003: 97). Thereby, the interview process since the beginning was designed based on multiple informants. This method secures confidence in obtaining objective data addressing the same facts and mitigates individual influence and subjectivity. Furthermore, the respondents were selected among persons who were well informed and directly participated in the decision-making in case issues. Then multiple sources of data consolidate the information obtained from the interviews. Interview from the third source, draft of partnership agreement and information available on the companies' official web-sites were used to exclude unreliable data from the material for analysis.

5. EMPIRICAL FINDINGS – DIVERSITY AND CATHOLICITY OF ELEMENTS

The chapter contains empirical part of the study. Two case studies are firstly briefly described one by one and later analyzed according to research objectives. Then cross comparison is presented looking for examples of replication and contrast. Finally, the findings are allocated in the theoretical framework and its modification is proposed.

5.1. Case descriptions

5.1.1. Case 1

The first case is about Russian company that develops and publishes games in the social network services (SNS) and mobile platforms. The essence of the case is the relationships appeared from the game launch in South Korean network in cooperation with local South Korean publisher. Such cooperation leaves room for competition between games in the portfolio of South Korean Publisher in the local market. The additional special appeal of the case is in the presence of one more company that is Russian developer and consequently a competitor of the main company, additionally it has already entered South Korean market with the same publisher. However, all relationships have dyadic character, viz. (1) between two Russian developers, between the first Russian developer and South Korean publisher and between the second Russian developer and South Korean publisher. The study participants insisted on anonymity, so in the case they are mentioned as Paco, Cado and Tuma. The contacts were made with Paco's co-founders particularly for the current study. Within the first preliminary interview Paco co-founder stated that Cado and Tuma are approached as competitors and the fact of cooperation between companies was also confirmed.

The case is found to be fruitful for the research as the situation in Paco's relationships answers the focus of research. Firstly, internationalization element takes place as the company launches the product in the foreign market. Secondly, Paco perceives Cado and Tuma as competitors and simultaneously accepts facts of cooperation in Russian and South Korean markets. Finally, the companies can be defined as competitors according to definition of competition used for the study.

One more argument regarding the inclusion of the case in the study appears from the nature of the company business. Online game industry and social network services do not have too much attention from managerial studies. However, they are the business areas with growing power and turnovers that deserve to be researched equally with industries of physical production. Therefore, the current study is one of the first attempts to know applicability of commonly used competition theory to virtual business.

Company

Among three companies mentioned above the case study takes position of Paco as the primary source of information. It is a young and relatively small company. It was founded in 2009 by two enthusiastic managers and since that time it has grown in the team of more than 30 employees. The company started from development and publishing of the games in Russian social networks. Further the business was expanded to the application for the popular mobile platforms. Currently the company is included in the TOP-10 of Russian social game developers.

The company arranges almost all value chain activities in-house (see Figure 14). They include work from the game idea till the game launch in the social network or mobile platform. All together it can be seen as the first stage including only upstream production-oriented activities. To be more specific, inside there are research for a game idea (original or adapted), game design, game mechanics and programming. The last three activities are fulfilled simultaneously and assemble the game from the idea and the first fake screenshots to mass-launch in SNS including interface creation, rounds of tests, corrections and bug fixes.

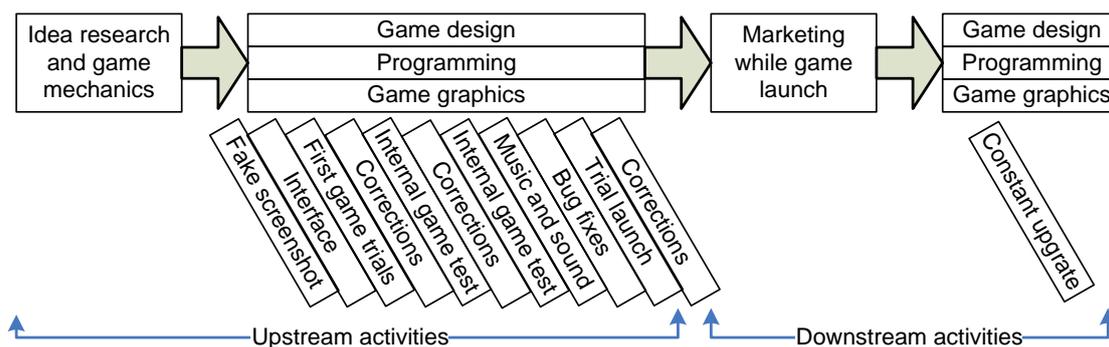


Figure 14. Value Chain of Paco.

Mass-launch in SNS starts the second stage and adds to standard programming, game design and game mechanics downstream activities, viz. marketing and promotion. They are necessary to attract players' attention to the product.

Logically the main profit contribution comes after the mass-launch. However, to maintain it on a certain level or even increase it, the game needs to be constantly upgraded to keep player interest. Such after-launch update is seen by Paco's co-founders equally important as the first-stage activities. But still these activities can be seen as downstream.

As the company's primary market locates in the Internet it is challenging to define clearly the geographic spread of presence but still main customers are located in Russia and CIS countries as the main platforms for their games are Russian SNSs. However, the company is acknowledged with the foreign markets as it has game launches in local European networks as well as in Facebook. Still Asian market stays uncover but very promising.

Situation of competition in cross-border value chain

Paco's strategy is to maximize profit from the games via their launch in different networks around the world. Hence, the company growth is possible in two ways. One is to create and launch new games in the existing networks. Another one is to launch the existing games in different networks. Paco uses normally both.

Hence, Paco is constantly looking for new markets and possibilities of growth. The idea to enter South Korean market was one of them. Attractiveness of South Korean market

was obvious. These gamers are 5-6 times more profitable than Russian ones and 1,5 times more profitable than in the USA (see the profile of South Korean social game industry in Appendix 1). Additionally South Korean publishers contacted proactively Paco with requests to cooperate.

In March-April 2011 the company decided to enter South Korean social networks with one of existing games. Licensing mode was picked as an entry mode. By the time when the decision was made, other Russian developer, and consequently a competitor of Paco in Russian market, Tuma entered South Korean market through cooperation with the same Korean publisher.

The products (games) chosen for South Korean market was firstly launched in Russian SNSs and were well known there since 2010. One of two games has no analogs in South Korean market. Another game had a similar genre with the number one in the market by Tuma.

Thus, Paco, Cado and Tuma have direct and indirect relations of cooperative and competitive nature in Russian and South Korean markets as it is shown in the Figure 15.

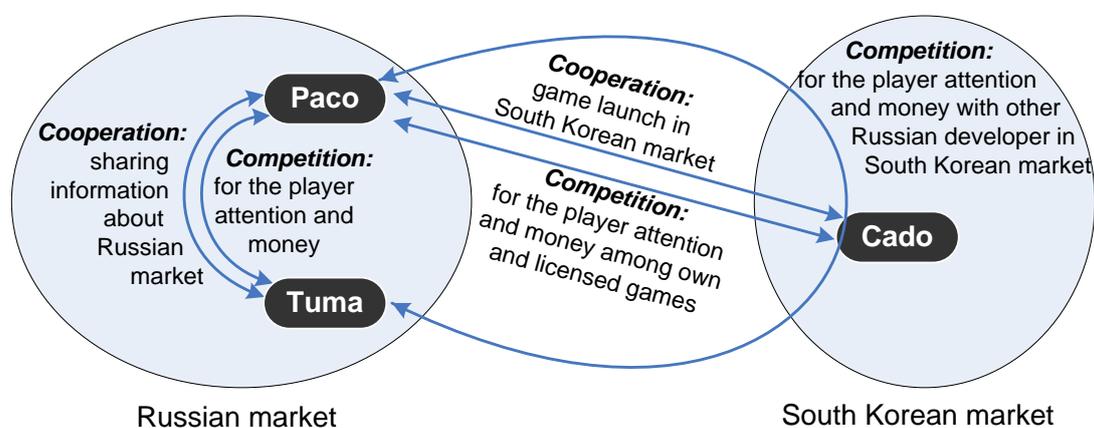


Figure 15. Cooperation and competition between companies in case 1.

Considering Russian market Paco and Tuma know each other during a period of time. They launch games in the same SNSs so they compete for players' attention and money there. At the same time, they stay in contact and exchange information about market trends and even profitability of the games. Such communication became a source where Paco knew about South Korean market and its possibilities from. In South Korean

market Paco develop games and Cado publish them. The deal required close communication in terms of game localization as Cado knew the requirements of the market and Paco possessed the tools and knowledge how to implement requirements in the game play. Simultaneously, licensed Paco's games compete for the customers and their attention with own Cado's products including licensed Tuma's games. The closer and detailed analysis of the described relationships is presented further in Chapter 5.2.1.

5.1.2. Case 2

Considering that the first case is not from the area of material production it was decided to be complemented with one more case covering the research question in more traditional environment where the physical goods is the output of the value chain.

Hence, the second case explores the situation of relations between Russian wholesaler and Swiss manufacturer of skill toys. The former distributes skill toys and other similar equipment from different suppliers including the Swiss manufacturer. The latter supplies own production to Russian market also through the authorized dealer. The essence of the case is the product that the manufacturer supplied to the wholesaler for sale in Russian market but at the same time, the product was supplied to the market through the manufacturer's own channels. Again following the request of anonymity from the participants the companies are named Nap, Vect and Bogu. Contacts were made with Nap's co-founders exclusively for the current.

The second case is found to be complementary for the first one due to similar nature and conditions where three companies were discovered in dyadic relationships of direct and indirect competition and cooperation. The fact was accepted by Nap's co-founders during the interviews. Furthermore, the actions took place in the market that is foreign for one of the case participants and this is a necessary element for the research question. Hence, the case was proved to be suitable for the current study. At the same time, it examines more traditional business dealing with physical product. Therefore, it is a promising opportunity to compare applicability of co-competition theory to business in virtual and real world.

Company

The ancestor of the case company is Russian retail chain selling skill toys and equipment for active entertainment and sport. Feeling fast growth managers decided to detach a wholesale department of the parent company in a separate entity. So Nap was founded in 2009 and is a branch of the big skill toy retailer. Currently the company employs around 20 people and sells production around Russia to the shops of the parent company and in a franchise chain.

Since the beginning Nap had the vision and strategy of business. The managers believe that the sold production must (1) have high quality and durability, (2) be desirable by both children and parents and (3) create a skill through socialization in a peer-group. All the mentioned points must support popularization of the skill toy in Russian market, at the same time business is aimed to be profitable.

Despite the fact that the parent retailer remains the biggest customer for Nap, another direction of independent development is franchising network. Thus, external customers have access to the products sold by Nap.

The value chain of Nap consists of in-house logistics, marketing and sales activities and outsourced product R&D and production (see Figure 16).

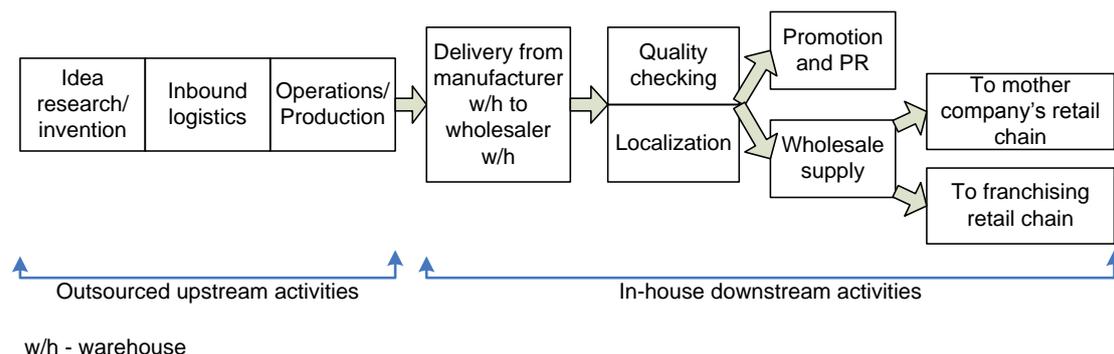


Figure 16. Value chain of Nap.

Thus, from the Figure 16 it is clear that the company outsources upstream activities and keeps in-house downstream activities.

Situation of coopetition in cross-border value chain

In 2009 Nap knew about the skill toy X from its permanent Russian supplier. The latter provided it to Russian market from Swiss manufacturer Vect (see also profile of Russian skill toy industry in Appendix 1). Skill toy X was interesting for Nap because it corresponded fully to the vision and strategy of the company and had to be included in the assortment. However, the supplier was not able to provide the product and some months later stopped distribution of Vect's products in Russia. So it was clear that the product is promising for Russian market but there was no active distribution and contacts with the manufacturer.

Nap tried to contact Vect straightly with hope to negotiate direct shipments without intermediaries. Furthermore, a closer investigation discovered that the assortment of Vect included more items corresponding to the vision of Nap, it increased interest for cooperation. In spring 2010 Vect finally answered Nap that another Russian wholesaler Bogu was nominated as official distributor of Vect in Russia.

Nap continued negotiations with Vect regarding possible supply independently from Bogu. Finally, the agreement was settled. That led to situation of coopetition (see Figure 17).

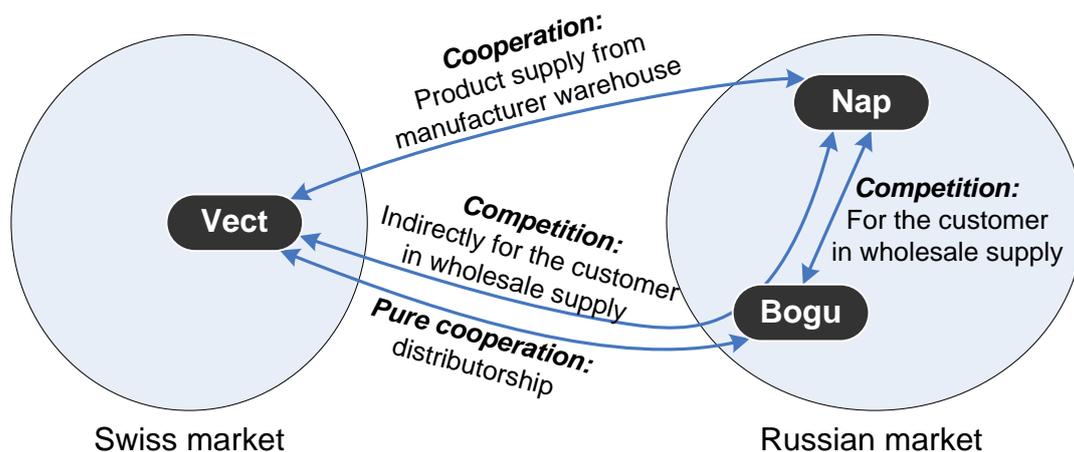


Figure 17. Cooperation and competition between companies in case 2.

There Nap cooperated with Vect in product supply to Russian market. At the same time they competed with each other in Vect's products offered to Russian customer.

However, the competition had indirect character as Vect served Russian market via the official distributor Bogu. Additionally, Bogu competed with Nap directly in other product besides Vect's items. The closer and detailed analysis of the described relationships is presented further in Chapter 5.2.2.

5.2. Analysis of the findings

5.2.1. Case 1

Why does the company enter competitive relations when expanding activities abroad?

Considering worldwide ardour for Internet and services that it provides, it is reasonable that Paco expands abroad willingly following the opportunity to benefit from the variety of local social network services around the globe. However, it does not mean that every single network is a target for penetration.

“It is not so obvious sometimes with some networks [SNS] and publishers, whether there is money or not. In other words, it would be spent time for launch and we would earn no profit.” (Respondent A)

Subsequently, Paco defines about foreign market penetration based on proper reliable information about game monetization fulfilling the main company goal, namely profit maximization. In case of South Korean market, Tuma, Paco's competitor in Russian market, was such source of information.

“We had intentions towards internationalization. However we might not consider South Korea [unless information from Tuma], or pay attention to it significantly later.” (Respondent A)

Further, the management decides about entry mode. As a rule, the selection is usually between arranging activities in-house or cooperation with a local company that has already some set-ups in the target market.

“Mainly cooperation takes place for other [than home] market expansion where it is difficult to enter by ourselves or where it is no sense [to enter by ourselves].“ (Respondent A)

“By that time [entry South Korean market] we had already experience of cooperation with publishers. In general, it makes sense to enter the market with a publisher in that case, when, firstly, we have to spend a lot of resources to enter the market by ourselves...; secondly, we know the targeted SNS poorly. On the other hand, Facebook is worth to get acknowledge by ourselves. But talking about other SNSs, there are too many. If we tried to enter every SNS on our own, we would not have simply enough strength and resources. We would spend a lot of resources and might get very little profit. But with the assistance of an intermediary [local company] we spend minimum resources and if the game does not earn money, our financial loses will be minimized.“ (Respondent C)

Hence, Paco has experienced both entry modes and evaluates their possibilities in every case separately. For South Korean market the choice was obvious due to clear reasons.

“Firstly, we do not know Korean language, so in any case it is more challenging for us to understand the market situation. Secondly, we poorly know market specificity itself.“ (Respondent C)

Thus, Paco decided to expand marketing activities to South Korean market with help of a local partner and decision was done in favor of cooperation with competitor. Close investigation of industry specificity and its value chain discovered that there was no variety of channels to deliver the game from the developer to the SNS provider. There is only one kind of actors; they are publishers. However, sometimes the developer carries the role of the publisher also, as in the investigated case. Hence, Paco had to cooperate with a competitor due to carrying both roles in the network, viz. developer and publisher. The fact of the forced cooperation was identified by Bengtsson and Kock (1999), however there it was justified due to mutual company development but not because of played roles.

This is the interesting finding as approaches observed in the theoretical part do not see cooperation with a competitor as an absolute inevitability. Even the business network approach that highlights natural embedment in the relationships (Håkansson & Ford 2002) considers coepetition as one of possibilities among other types of relationships (Bengtsson & Kock 1999). Game theory explains coepetition as alternative win-win strategy to traditional win-lose competition (Brandenburger and Nalebuff 1995).

Obviously, perceiving the question broader, namely the choice between entering of South Korean market or not, cooperation with the competitor does not look so unavoidable and a number of choices appears. But still the question is not “compete or cooperate” but limited till “compete or cooperate with the competitor”. Hence, the theoretical approaches included in the study are limited in considerations that there is no other choice than cooperation with competitors when the particular market for activities expansion is defined. Furthermore, considering huge differences in national markets at least in terms of mentioned language variety and hostile unknown environment, such “no choice” limitations could be assumed greater than in case of any activity expansion in the home market.

Additionally, the choice limitation comes definitely as Paco plays simultaneously roles of developer and publisher so any market entry for game launch with the partner would be the case of cooperation. Thus, it can be proposed that the more roles the company plays in the network, the more inevitable cooperative relations for the company. Hence, this is not the question of “why” anymore, but the issue of reality.

Except answer the question “Why enter cooperative relationships?” the case provided unexpected finding clarifying why among any other South Korean publishers Paco chose Cado that cooperated with Tuma, Russian competitor of Paco. It goes beyond the purpose of the study but was found valuable and related addition to the research topic, hence, it was included in the analysis.

Firstly, both respondents mentioned that South Korean market had other publishers and developers even there were not so much as in Russia. It means that since inception there was a choice. Hence, Paco intended to compare South Korean publishers and select the one that would offer the more beneficial conditions of cooperation. In reality it turned other way.

“In general we wanted to compare them [Cado and other publisher] in terms of offered conditions, simply speaking, who would offer more beneficial terms. Furthermore, there are a couple of local SNSs, and compared companies had slightly different positions in them... but with the second company there were some problems [in obtaining information].” (Respondent C)

Paco was disappointed with unexpected procrastinations and uncertain perspectives in negotiation with the second South Korean publisher.

“To sum up, we had some problems in communication with other Koreans; they either did not answer or did it slowly, or something else...” (Respondent C)

At the same time, Paco exchanged information with Tuma regarding its experience in South Korean market in generally and cooperation with Cado particularly.

“By that time when we were already in contact with Cado, our partners [in Russian market], or let’s better say... competitors, generally speaking, the company that we knew in the market, precisely Tuma, had already experience with South Korean publisher. They had been working with them by that moment. Tuma have positive experience from their launch and earned money.” (Respondent C)

“Yes, it [Tuma’s experience of cooperation with Cado] played some role [in our decision].” (Respondent A)

Finally, based on Tuma’s advice Paco looked for information about Cado:

“There were more variants. But Cado is number one. And they are more certain in terms of communication. There was less pointless discussion. You have to work with the strong partners.” (Respondent A)

Thus, such elements as efficiency evaluation, lack of knowledge combined with a wish to use opportunities abroad, roles played in the network, recommendation and reputation, lack of sufficient information about other possible partners, and personal belief in cooperation with the strong partner defined for Paco the choice of competitor for cooperation in building of cross-border value chain. The sequence how the elements appeared in Paco’s decision is presented in Figure 18.

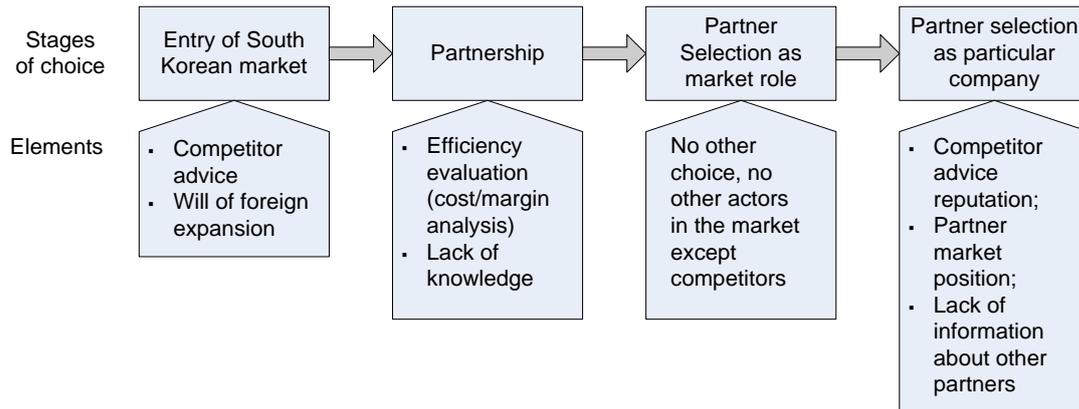


Figure 18. Sequence of elements influencing Paco's decision in favor of cooperation with competitor.

The interesting finding here is that all the elements together narrowed the choice till one candidate and pushed Paco to cooperation with Cado.

“Since the beginning, we tried to compare them, but at the end this [Cado] appeared to be the only alive possibility.” (Respondent C)

Following the described sequence it is impossible to argue that Paco had a lot of freedom and variations in decision-making while entering cooperative relations with competitor. The statement that the choice was pre-defined is too rough but it was highly affected by surroundings and external influence. The finding is in alignment with the position of the business network approach that stated company dependency on other actors in the network (Håkansson & Ford 2002). Paco's decision was certainly influenced by Tuma's experience. Definitely reputation plays its role in the case as it stated in game theory by Hill (1990).

Furthermore, proactive position is found from Paco's wish to partner with the strong network actor that is correlates with statement expressed by Hertz & Mattson (2004) or Osarenkhoe (2010) regarding a possibility to maintain network position with help of other actors to capture more value individually. However, the mentioned authors do not clarify if such cooperation for position maintenance is sensitive to pure cooperation or cooperation with competitor. The benefits from the former are obvious as knowledge exchange, connection extension and so on. However, possibility to maintain network position with help of competitor is challenging due to high likelihood of opportunism from both sides in relationships as they possess complementary knowledge and its

transfer may reduce necessity of cooperation but gaining enough confidence to act alone.

What and why particular activities are selected for combination of competition and cooperation in cross-border value chain?

From the case explanation in Chapter 5.1.1 it is obvious that extension of value chain abroad caused some changes and additions to the usual set of activities. Mainly, additions were induced by necessity of localization, i.e. translation and graphics and design adaptations. Thus, the company had to decide whether the activities, related to localization, are done solely or in cooperation with competitor. In the investigated case translation as totally new activity comparing to the home market was passed to the publisher, namely outsourced. At the same time design and graphic adaptation was conducted in-house however following the recommendations of South Korean partner.

The respondents explained clearly why it was done in such way. Paco is a small and limited in resources company. At the same time Korean language is not commonly used and difficult so it was time- and moneyconsuming to acquire own specialist for game translation. Additionally, translation is seen as fully detached activity that can be easy transferred from own responsibility to partner.

*“We give them special files that contain all text of the game in English (so-called localization file). So they translate it. Afterwards we integrate it in the game.”
(Respondent C)*

Regarding adaptation of graphics and game play the situation was totally opposite. The activities are highly critical for game success as they visualize the game and consequently define level of understanding and involvement of players. It is also obvious that visualization is highly cultural dependent. Furthermore, the game must follow legislative regulations applied in the country of launch. At first glance all this issues are complicated for foreign entity and provoke activity outsourcing to the experienced foreign partner. However the reality shows the opposite.

“It is worthless to let them into details as only we know the game and game play particularly... Sometimes... for example, other company launched in Asia, they redesigned game heroes to make them looked more like anime-characters following advice of the foreign partner. In fact they do nothing in the process of game creation but they can give advice or requirements, i.e. delete gambling.” (Respondent C)

Thus, game design and game graphics are adapted for foreign market in-house but cautiously following the advice of the competitor. That is explained with high interdependency of three processes of game creation (see Figure 14 and explanation of Paco’s value chain in Chapter 5.1.1.). Additionally, projects that already existed in Russian market were planned for market launch in South Korea so the localization changes were done based on existed stable work team and links inside it. It can be assumed that knowledge transfer, that contained internal game interdependencies, was found less effective than own carrying of the activity under competitor guidance. This finding corresponds fully to the transaction cost approach (Park and Russo, 1996) and search of efficiency in direct and transaction costs. However, influence of the competitor advice on the effectiveness of the carried activity goes definitely beyond the logic of the approach. Here game theory complements understanding arguing cooperation success by mutual interest in the result according to Nalebuff and Brandenburger (1995; 1997). This is a clear example where the bigger “pie” is created in cooperation to get then bigger piece of it separately.

The next activity that was influenced by expansion to South Korean market is after-launch marketing. It was passed to South Korean partner. The respondents reasoned it with a number of arguments.

“Firstly and mainly it is that they are local South Korean partner that knows the market. We know neither market, nor people there.” (Respondent A)

“They [local company] save a lot of our resources in terms of work with local SNS. I mean, they have already all necessary information... how to do better, what is the market situation and so on.” (Respondent C)

Thus, here the issue of adaptation definitely appears again. After-launch marketing was passed to Cado due to significant difference between home and host markets in terms of language, customer behavior, legislation and so on. The activity has clear downstream character so cooperation with competitor in it on the one hand contradicts to the

statements of Bengtsson & Kock 2000, Nalebuff & Brandenburger 1997, on the other hand it is partly in line with Porter (1986) as he claimed cooperation with local companies in downstream activities without any stress however either these companies are competitors or not.

The same after-launch marketing falls under competitive relationships between Paco and Cado.

“In other words, cooperating with Cado we compete at the same time with their other product, and compete with Russian company in South Korea.” (Respondent A)

“And three the most popular games [in Cado’s portfolio] are from other Russian developer Tuma (number 1 in Russia now).” (Respondent A)

It was difficult to answer the question why after-launch marketing was selected for competition. Generally competition in this activity is natural as it is responsible for value exchange and consequently value appropriation (Ritala & Hurmelinna-Laukkanen 2009). It reflects individual goals of captured value maximization. From game theory point of view this is the activity where “pie” is shared (Nalebuff & Brandenburger 1995). The peculiarity of the case is that competition between all three companies takes place internally within Cado’s game portfolio where games developed by Paco, Cado and Tuma compete for customer attention and money. Hence, after-launch marketing is simultaneously influenced by cooperation and competition.

The rest activities of value chain were found out of competitive or cooperative influence. Moreover they were not considered for cooperation with competitor at all.

“There are usually no other variants [of doing value chain activities]. The publisher cannot do game development and testing. We do testing anyway, there is no necessity to pass it for outsource.” (Respondent C)

The statement discovers an interesting stream of management logic. It is out of theories explaining why companies cooperate or compete but it considers common patterns in business as the main guiding principle. It means that in real situations not everything can be explained from the position of academic knowledge. The preconceived idea is in use often with deep belief in its efficiency.

The described above findings regarding particular activities of cross-border value chain and their involvement in competition and cooperation between competitors are visualized in Figure 19.

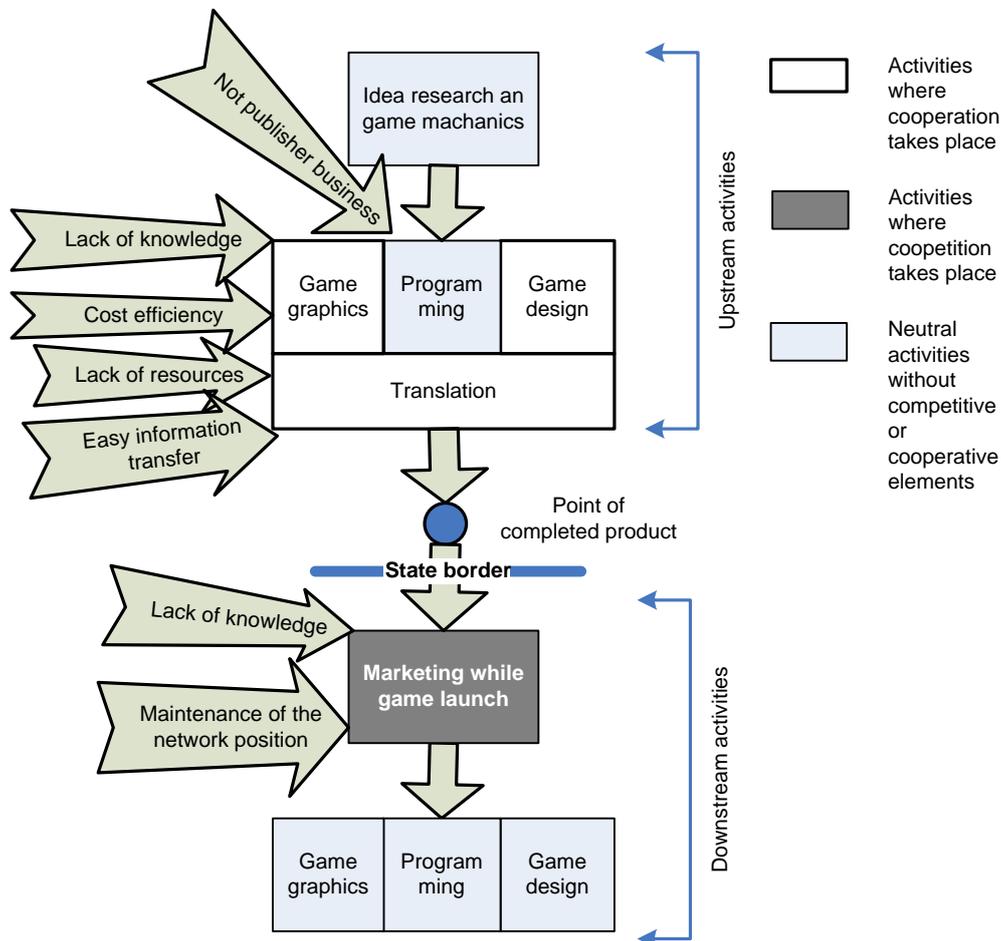


Figure 19. Elements influencing degree of cooperation and competition in Paco's cross-border value chain.

In total considering division of value chain activities in upstream and downstream the results from the case are mixed. One downstream activity, viz after-launch marketing, and some upstream activities are involved in cooperation with competitor. At the same time, the competition was identified in after-launch marketing activities that are downstream.

Such findings partly contradict to the business network approach that states cooperation in upstream activities, i.e. R&D or purchasing, and competition in downstream activities, i.e. marketing and sales (Bengtsson & Kock 2000). Additionally, the findings

found game theory limited considering only joint “pie” creation in upstream activities and its separate appropriation while downstream activities. The case shows that common efforts towards value creation continue in downstream activities in form of aggregation of all “pies” in one market place, viz. publisher portfolio. It attracts a lot of different customers so every “pie” can find own unique customer. In fact, this is logic of long tail (Anderson 2004) very typical for internet-business. Here the market and the number of customers are so big and growing contemporary that competition is not so concentrated so even one publisher can offer games with similar mechanics that will be successful. Furthermore, the confirmation of the transaction cost approach (Hill 1990) was found is rational evaluation of transaction costs of knowledge transfer, the activity was passed to the competitor responsibility where knowledge was easy-transferable and other activity with more complicated knowledge was left in-house and partnership took place in form of advisory.

As it was mentioned in the methodology chapter the delights of the case study in its closeness to the reality that gives sometimes unforeseen findings. Among expected elements defining degree of cooperation and competition in cross-border value chain, viz. lack of knowledge of the foreign market, lack of resources, high risks of own action in hostile unknown environment, reputation and so on one statement definitely steps aside.

“Well, it’s obvious! There is no sense to discuss it. There are some activities that only we can do, and some activities that can be done only by them.” (Respondent A)

Often the company does not challenge the convenient truth especially knowing from a home competitor that such work order brings profit. The company follows well-established pattern. Thus, some decisions can be explained from the position of different theories, others happen in terms of limited time and uncertain data without evaluation of all elements influencing degree of cooperation and competition in value chain. Then the most efficient way is to follow the existing practice that has been proved to be successful.

5.2.2. Case 2

Why does the company enter competitive relations when expanding activities abroad?

As Paco from case 1 Nap also expands activities abroad willingly. However in this case it is caused by search for suppliers as the products offered by Nap in Russian market is not manufactured in Russia. Thus, Nap contemporary looks for suppliers abroad fulfilling a wish of company development and growth.

“We need to refresh assortment contemporary. If we do not renew the assortment, we will begin dying out. Our clients... if we treat them good, and it happens with them very often... They come and ask: “What’s new you have?” (Respondent D)

In Russian market Nap carries pure role of wholesaler so it is possible to have unambiguous cooperative vertical relationships with suppliers. However the current case is complicated with the fact that Vect, Nap’s supplier, had also own distribution provided by Bogu in Russian market. Consequently, Vect competed with own products with Nap through Bogu in Russian market. But Nap did not look for such double cooperative-competitive relationship on purpose.

Nap understood the complexity of the situation since the beginning. The choice was based on some previous data about profitability and demand of Vect’s products.

“At the beginning we bought some Vect’s products [from old distributor], supplied it to retail and understood that the product was interesting.” (Respondent D)

“We understood that the Vect’s product is fully matched to our retailing concept. Adding it to the assortment was the right step towards the vision we followed.” (Respondent B)

In general, Nap was ready to cooperate with Russian official distributor of Vect to avoid conflict situation when two marketing channels serve one market (Gabrielsson, Kirpalani & Luostarinen 2002), however there was a number of reasons that alienated Nap from such decision. Firstly, the new official distributor Bogu had not been in full operation yet. There were still some establishing procedures. Then temporal physical

absence of the distributor was supplemented with individual perception of Nap's managers.

“When we knew who was the partner [Vect's distributor], we were very disappointed as we had had experience of cooperation with that company, and the experience was mournfull.” (Respondent D)

Being unsatisfied with what they had Nap's managers took a proactive position establishing communication with Vect. Nap's offer clarified to Vect that they have different goals in Russian market.

“We made to Vect an offer that was interesting to them and they did not want to decline it. The essence of the offer was that we took the assortment that was not handled by the official distributor... So we supplied directly from the manufacturer the products that were not interesting for the other company.” (Respondent B)

Thus, Nap convinced Vect that they and Bogu could simultaneously co-exist. Since the beginning the confrontation in market and consequently the tension in competition did not look strong due to goals divergence. Such explanation of cooperation possibility is in agreement with Quintana-Garcia and Benavides-Velasco (2004).

The interesting fact is that according to the business network approach Nap was supposed to be pushed to cooperation with Bogu to avoid conflicts and tensions in the network (Håkansson & Snehota 1995) while it was not exactly what Nap wanted. Therefore, the model of cooperative relationships answered better to Nap's own interests. Such finding contradicts the business network approach where cooperation aims conflict mitigation (Bengtsson & Kock 1999). However, it is obvious that Nap did not look for conflict but more favorable conditions of doing business. Game theory gives better explanation in this case. Here company's individual wish of profit definitely bypassed convenient networking imposed externally and Nap intended to change the game as it is offered by Brandenburger and Nalebuff (1995). The sequence of decision making process in favour of cooperation with competitor is visualized in Figure 20.

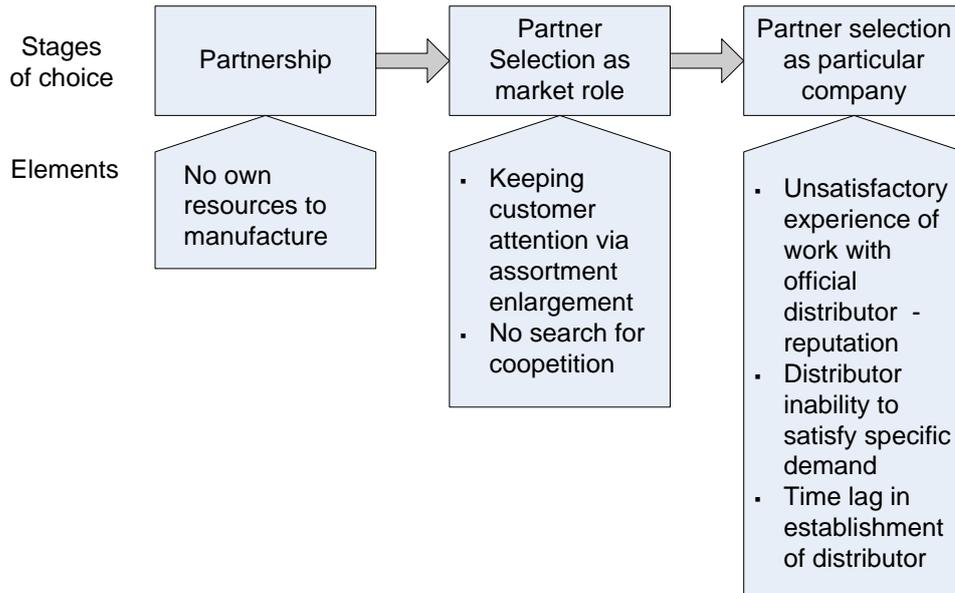


Figure 20. Sequence of elements influencing Nap's decision in favor of cooperation with competitor.

Highlighting Nap's proactive approach in the case it is still worth to mention that cooperation with Vect was not such a necessity as it was in case 1:

“There was no such vital necessity... We could not complement this particular product, but business would survive without it. In other words we could easily survive without Vect's product, but it was more interesting with it.” (Respondent D)

“It is obvious that our clients are more interested to order when the wide range of products is offered by the wholesaler.” (Respondent D)

Hence, in this case embedment in coepetitive relation did not have survival character but vice versa it was a free will with signs of network position maintenance as it is described by Håkansson & Ford (2002), Gnyawali and Madhaven (2006) and Bengtsson & Kock (1999).

What and why particular activities are selected for combination of competition and cooperation in cross-border value chain?

In this case it is not correct to consider that creation of cross-border value chain create new activities to the existing ones. In reality it expands responsibility of Nap comparing

to cooperation with home distributors according to the concept of the holistic value chain applied for the current study. At the same time, such responsibility expansion towards upstream activities was not the first experience for Nap as by that time the company had already suppliers abroad. The decision in favor of cooperation with the foreign manufacturer-supplier was based on inability to get desired product from any Russian supplier. Additionally it was also pushed by the wish to build more effective logistics system of delivery from Europe.

“...we had better logistics channels... we sent full container of mixed consignment that we filled with other our orders from Italy, Germany... In total, in my opinion, we got the same costs [as Bogu with lower price as distributor]. So we could compete with them [Bogu].“ (Respondent D).

Thus, cooperation with the foreign supplier provided Nap with flexibility in building of own supply chain, independency of distributor delivery schedule and increased control of the operations and product flow. Such elements influencing decision in favor of cooperation in upstream activities are in alignment with the logic of the transaction cost approach in Hill (1990). They aim supply chain optimization and hierarchy costs minimizations via utilization of own resources and knowledge.

The foreign manufacturer-supplier participated in the value chain activities in terms of cooperation only in production side.

“Mostly we work with all our suppliers/manufacturers in such way. We arrange everything [delivery, localization, promotion and so on] by ourselves... This is their way of work!“ (Respondent C)

There is nothing extraordinary, Nap and Vect followed the common pattern accepted in the industry. Also Vect did not have necessity to extend cooperation in other activities.

“They [Vect] are not classic vendor like Samsung, for example, that is not able to sale anything unless distributors and retailers. They [Vect] will sale anyway.“ (Respondent D)

It is obvious that Vect is satisfied with its network position and acts passively answering to external request and configure own relationships in a way that require minimum effort for maintenance.

The case may not have had an issue of cooptation and would have been an example of ordinary supplier-buyer cooperative relationships unless Vect had had other marketing channel to Russian market. Thus, the competition took place in the wholesale supply when Nap and Bogu tried to serve the same customers, viz. retailers of toy skill in Russia. The activity is downstream. At the beginning it was settled between Nap and Vect that the former would supply products only in the network of the parent company.

“We positioned ourselves as we ordered the products [from Vect] for our parent company, for its retail as we could not buy the product from the distributor Bogu. However, if we have possibility to sell by wholesale, we will not lose it.”
(Respondent C)

Thus, cooptation appeared in relationships between Nap and Vect. The elements influenced selection of cooperative and competitive relationships are summarized in Figure 21.

To sum up, this case is seen as classic interpretations of distribution cooptation and cooperation in value chain activities. Cooperation in upstream activities and competition in downstream ones confirms assumptions of Bengtsson & Kock 2000 from the business network approach. Additionally some level of assumptions from Nalebuff and Brandenburger (1995; 1997) about “pie” creation and appropriation can be detected in the case either. At least it is obvious for Vect as such cooperation brings more its products to Russian market. However, the wish to serve bigger market together (Nap and Bogu) was not proved from the interviews. On the contrary, Nap expressed an inclination to take away distribution from Bogu. Thus, it can be concluded that cooptation was optimum way of relationships in the current situation but it was not the most desired taking the long-term perspective.

Such findings are obvious from the behavior expressed by Nap in the development of relationships. Even considering favorable conditions of supply Nap could not avoid lure of opportunism. The competition became stronger, the relationships with Vect became misbalanced. The managers of Nap considered that Bogu complained to Vect about the conflict of interests and agreement infringement.

“But for him [Vect’s owner], I suppose, things like pledged word and so on are meant a lot. And his position is understandable. Finally, that company [Bogu], in my opinion, visited him. But we have not yet.” (Respondent C)

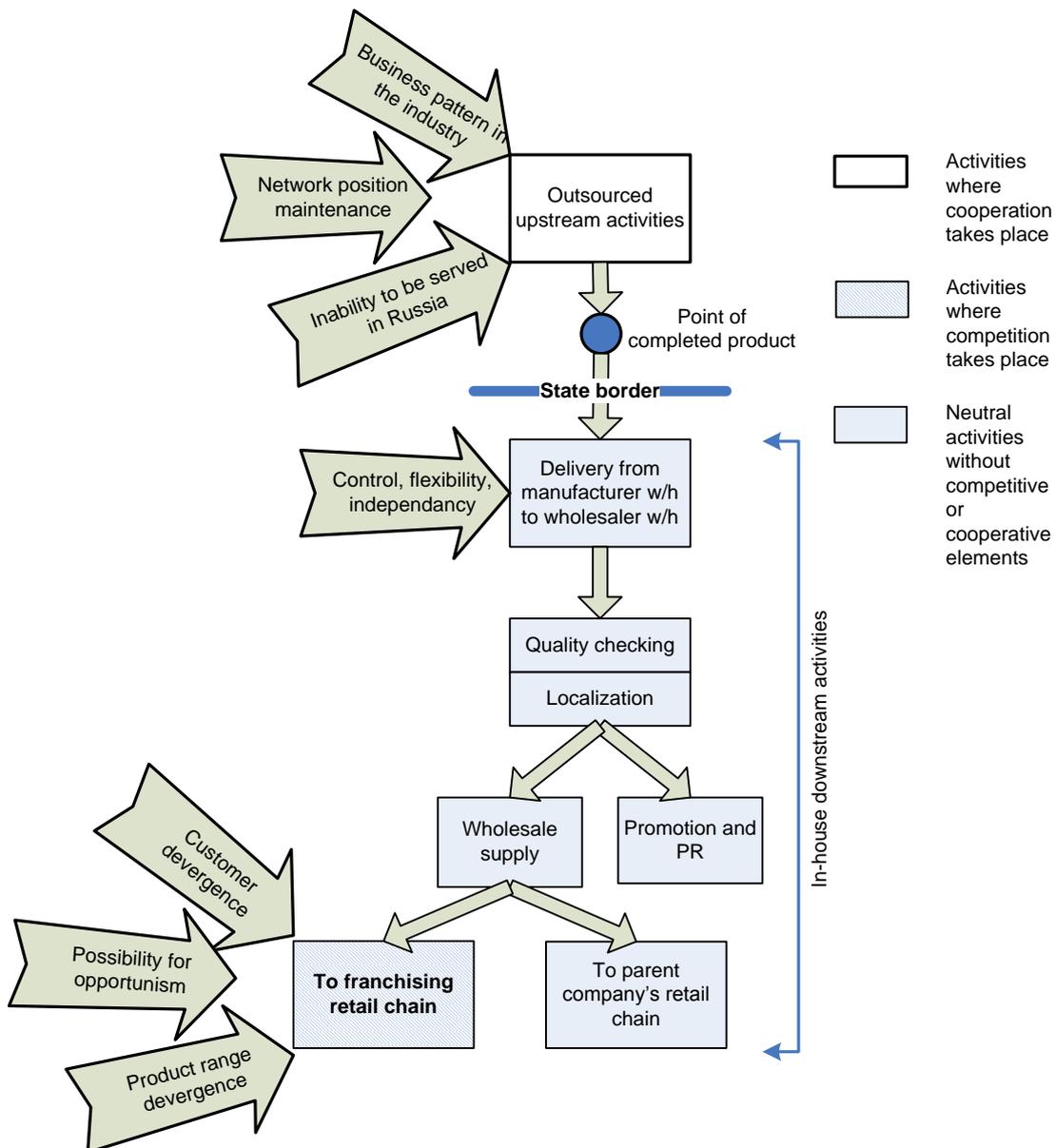


Figure 21. Elements influencing degree of cooperation and competition in Nap’s cross-border value chain.

Thus, Vect did not favor competition wishing “kids friendship” (Respondent C) or cooperative relationships of companies dealing with Vect’s products in one particular country. Unfortunately, there was no possibility to discover original reasons but managers of Nap considered that:

“The matter is that they [Vect] are already experienced, they have already shops... So we were for them as extra income but not the only sale possibility.” (Respondent C)

“... they [Vect] were not very interested to work with more than one client in one particular country.” (Respondent D)

“Consequently they [Vect] would have fewer expenses for communication; they would have one partner that provides with everything.” (Respondent D)

At the time period when the last interview took place the relationships between Nap and Vect were put on hold; the relationships between Nap and Bogu enter the phase of re-creation but the final layout was not certain yet

In total the case is interesting in such terms that the company provoked cooperative relations switched the situation from the pure cooperation with the distributor. It is very close to propositions done by Nalebuff and Brandenburger (1995) regarding changing the game for both party benefits. However, as opposed to the mentioned authors the relationships were not stable, the competition increased, then competitive relationships as inconvenient element was fully stopped switched to compulsory cooperation in downstream activities. These findings go beyond the research purpose but it is interesting and related in terms of elements influencing such decision-making. The results clearly show that wish of conflict minimization guided Vect to mitigate competitive relationships between the official distributor and a good partner. Consequently it questions applicability of game theory or the transaction cost approach to the cases where profit is not the main target of companies embedded in cooperative relationships.

Further, the comparison of both cases is presented. It summarizes and highlights similarities and differences discovered during the analysis.

5.3. Cross comparison

Firstly, there is general overlook at the companies (see also Table 3). They both are small young start-ups targeting profit maximization through contemporary search for

growth. The companies operate in different industries but in broader perspective they can be seen as part of the entertainment business. The products they provide can be perceived generally as games but in case of Nap the product is physical, and in case of Paco it is virtual and located online in Internet. Furthermore, the companies use different business models, Paco works in Freemium and Nap functions in classical wholesale-retail model. The companies are based in Russia representing big market for both industries; still Paco and Nap are open for cooperation and proactively look for partners in foreign markets. The primary reason for foreign expansion is search for new sources of profit, but secondary reasons are different due to companies' positions in the holistic value chain. In-house activities of Paco are located mostly before the point of completed product and they are upstream. So Paco looks for partners in downstream activities. Nap's in-house activities are downstream; consequently its target for partnership is suppliers and manufacturers providing upstream activities. In spite of these "activity location" differences, the issue of competition appeared in downstream activities in both cases.

Table 3. Similarities and differences in company profiles

<i>Comparison criteria</i>	<i>Similarities</i>	<i>Differences</i>	
		<i>Paco / Case 1</i>	<i>Nap / Case 1</i>
<i>General</i>	<ul style="list-style-type: none"> • small, young • proactive in expansion • home base in Russia 		
<i>Target</i>	profit maximization via constant growth		
<i>Industry</i>	entertainment	online social games	skill toy
<i>Business model</i>		freemium	wholesale-retail
<i>Position in holistic value chain</i>		upstream	downstream
<i>Source of growth</i>		new markets	new suppliers
<i>Respondents</i>	company co-owners		
<i>Competitive modes</i>	<ul style="list-style-type: none"> • cooperation in upstream activities • competition in downstream activities 	cooperation in upstream activities	

Moreover, in both cases the co-founders were interviewed. All respondents claimed that they were involved in the cases directly. Hence, it can be assumed that they have similar level of knowledge about the case situation as well as power to decide.

The analysis discovered the common elements that pushed companies to cooperation (see also Table 4). They are lack of resources and knowledge (especially in case 1) and also search proactively for business expansion. The latter appeared as way of own market position maintenance to grow profit and strengthen competitive advantage, partly as search for fame (in case1). The survival element, when cooperation with competitor takes place to rescue the business, was declined. However, in case 1 some sense of urgency was found when narrowing the scope only within South Korean market. In case 2 the urgency lied in lack of Russian suppliers of particular desired products. Logically from company positions in the holistic value chain the last element explains cooperation with competitors in different types of activities: upstream in case 2 and downstream in case 1. Generally it supplements the lack of knowledge and resources and pushes companies to cooperation in activities that they are not specialized in.

Additional element of cooperation can be seen in a wish of both companies use their own resources more effectively. In case 1 the same team of developers adapted the existing game for South Korean market. In case 2 new product flow was incorporated in existing supply chain from Europe to Russia. As a result the products for customer in case 1 and 2 were delivered in more effective way with minimized costs and consequently maximized profit and kept competitive advantage.

The most noticeable element in favor of competition is conflict infusion. However, in both cases it did not have critical and destructive character. According to Bengtsson and Kock (1999) it must exist to a certain extent unless the business network is effective. Hence, the conflict of games was in Cado's portfolio and it was manageable as it was under the control of one entity. Moreover, Cado grows game portfolio on purpose and consequently grows the conflict. In case 2 conflict was manageable till Nap extended business to Bogu's competitive domain. In fact, the element entailed conflict growth was Nap's opportunism. As a result fragile balance between cooperation and

competition was forcedly switched to cooperation. Here Vect keeps strategy of conflict avoidance and look for harmony.

In general, the coopetition model of joint “pie” creation and its separate appropriation afterwards (Nalebuff and Brandenburger 1995; 1997) can be found in both cases. However, in case 1 applying “long tail” approach it is sustainable and in case 2 it led to competitor domain infringement and later to dissolution.

Finally, in both cases the compliance with the common pattern of doing business was discovered. There were only a number of activities dedicated to cooperation or competition, the rest ones were kept in-house and had neutral character. Such decision often did not have explanation except common wisdom and compliance with previous experience and successful practices.

Table 4. Comparison of elements influencing cooperative modes in case 1 & 2.

<i>Coopetitive modes</i>	<i>Similar elements</i>	<i>Different elements</i>	
		<i>Case 1</i>	<i>Case 2</i>
<i>Cooperation in upstream activities</i>	<ul style="list-style-type: none"> • cost efficiency • lack of resources • position maintenance • common pattern 	<ul style="list-style-type: none"> • knowledge transfer • lack of knowledge 	<ul style="list-style-type: none"> • wish to grow • sense of urgency
<i>Competition in downstream activities</i>		<ul style="list-style-type: none"> • common pattern • essential element for network existence 	<ul style="list-style-type: none"> • opportunism • wish to grow • goal divergence
<i>Cooperation in downstream activities</i>		<ul style="list-style-type: none"> • sense of urgency • wish to grow • lack of knowledge for adaptation • risk of failure • position maintenance • recommendation • access to partner connections • common pattern 	

It is clearly noticeable from the table that despite appearance of similar cooperative modes in both cases elements influenced choice of cooperation or competition in value chain activities mostly vary between cases. It is especially applicable for competition in downstream activities. Such difference can be explained by different positions of the companies in the holistic value chain. Thus, in case 1 competition was not direct for Paco and took place solely in marketing activities of South Korean partner. In fact Paco did not have possibility for opportunism. The second cause for such differentiation can be found in business areas and applied business models. Online business operating in Freemium provokes gathering as many customers as possible without being affected by scarcity of resources (i.e. warehouse space for product stock). Hence, the market for online games does not suffer from competition so much because the more games, the better possibility that every customer finds the game according to own taste and preferences. The same rules cannot be applied to physical business especially for B-2-B like in case 2. There number of customers is limited, does not grow so quickly so the lure of opportunism to extend business in competitor's domain is stronger.

Second interesting observation from the comparison of the elements is that in different cases the same elements influenced choice differently. For example, wish to grow influenced choice of competition in downstream activities in case 2 and cooperation in downstream activities in case 1. It can be explained with the help of different theoretical approaches. In case 1 wish of grow caused cooperation due to lack of own resources and knowledge for such grow that is in line with the business network approach. In case 2 wish of grow could be explained by the transaction cost theory when secure bonds in cooperation was not strong enough to resist to opportunism.

To sum up the comparison uncover mixed results in terms of elements distribution influencing cooperative modes. However, on the other hand it showed value of theoretical approach fusion that complement each other explaining different and even similar elements from different perspectives.

2.1. Summary

The previous chapters represent a set of elements that was discovered from the empirical study as influencing degree of cooperation and competition in cross-border value chain activities. However, in terms of the current work it is worth to allocate the identified elements under the theoretical approaches to understand better their nature and origins of their appearance.

For facilitation of the following explanation all elements were grouped depending on influenced cooperative mode and located in the modified theoretical framework from Chapter 3.4. It was discovered that all the approaches participated more or less in formation of all three groups of the elements influencing different cooperative modes. Graphic interpretation can be found in Figure 22.

The business network approach was found as the most fruitful in explanation of the elements. However, the elements come from it are much different. Firstly, as it was proposed before (see chapter 3.1.) the business network approach did not reveal any elements influencing modes where competition took place that is in line with core assumptions about the approach (Håkansson & Snehota 1995). However, influence of elements was discovered on both downstream and upstream activities. Furthermore, the identified elements from the business network approach can be grouped in two streams caused by unavoidable company embedment in the network and voluntary search for company prosperity. The former were recommendations, access to partner connections, knowledge transfer, acquisition of missing resources or sense of urgency that is in line with findings of Chetty and Wilson (2003). Moreover, element of position maintenance is also associated with the business network approach (Oserenkho 2010) but explained more company proactive position and a wish to get the more beneficial place in the network with the help of competitor. Such fusion of reactive and proactive elements in one case handling by the company simultaneously is new for the business network approach.

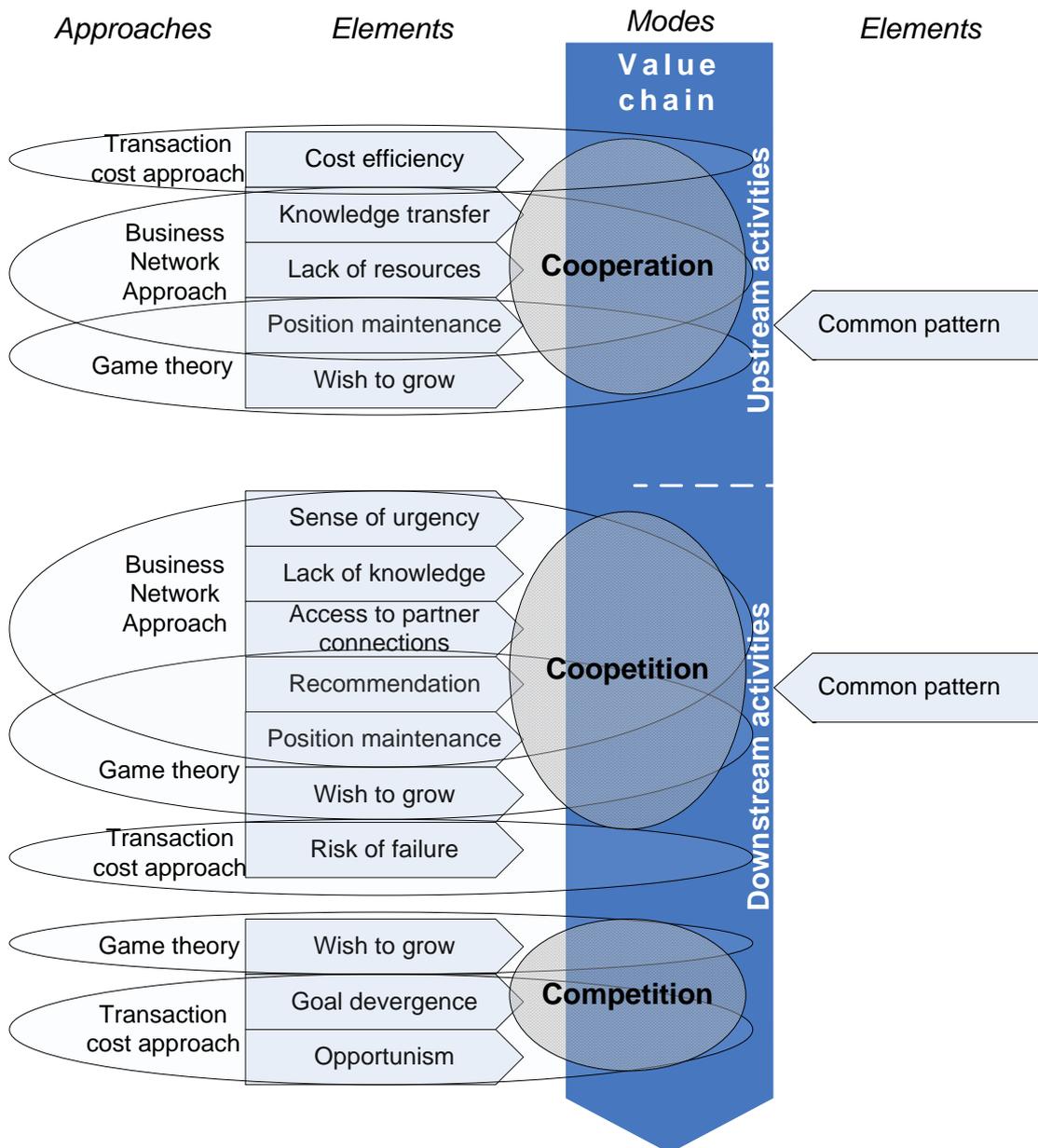


Figure 22. The theoretical framework modified after findings from the empirical study.

Then game theory justified the elements in all three investigated cooperative modes. Interestingly one particular element, viz. a wish to grow, was caused by game theory but influenced different cooperative modes. It is clear that it appeared from desire of profit gain aligned with Ritala & Hurmelinna-Laukkanen (2009) when cooperation with competitors take place to increase the “pie” and get bigger market share afterwards. As unexpected and new finding it is worth to highlight that this element guided decisions for competition in all types of modes however during practical implementation it was supported by other elements specified for every type of modes. Thus, in competition in

downstream activities it was opportunism that pushed the company towards a competitor domain. In cooperation in downstream and upstream activities it can be coupled with position maintenance to get bigger market share. In all three cases wish of grow coupled with other element explained by the approach other than game theory. Here the vitality of approaches fusion is seen. Being considered in pairs elements find better explanations of decision making.

Finally, the transaction cost approach also appears in elements for all three discovered cooperative modes. However, its contribution is relatively modest in terms of number of elements. Such finding does not have explanation and support or contradiction from literature because the applied fusion of researches has not been used before. In general it can be concluded that the logic of the approach brings rationality in the final decision evaluating costs of carrying an activity in-house against outsource and costs of gains from opportunistic behavior.

The respondents' explanations of the elements gave an opportunity to allocate some of them under two approaches simultaneously, viz. position maintenance and recommendation. They can be explained simultaneously by the business network approach (see above) and by game theory. The latter is applied in repeated games and claims that players with better reputation get easier in cooperative agreements (Hill 1990). Position maintenance through the lenses of game theory is a change game strategy, when with a wish of better own position in the market the player cooperate with the competitor and change its position for better either.

Finally, the empirical study revealed an element that does not fall under explanation of any theory applied for this work. It is a common pattern when a company follows the way that was already proved to be successful from own experience or from market intelligence.

To sum up, the findings disclosure catholicity of elements influencing cooperative modes in cross-border value chain. However applying the fusion of the theoretical approaches almost all of them can be explained and even show the areas where the approaches intersect.

6. CONCLUSIONS

The current study in area of strategic management concentrated on issues of coopetition. Precisely, it investigates elements that define degree of cooperation and competition in cross-border value chain. Theoretical part consisted of two parts observing core concepts, viz. the value chain and coopetition. The former was focused on aggregative upstream and downstream activities. The latter was narrowed to definition of coopetitive modes, that mean presence or absence of cooperative and/or competitive relationships in value chain activities. Further, coopetition modes were examined through the lenses of three theoretical approaches, viz. business network approach, game theory and the transaction cost approach, that are often applied for the concept. Literature observation on theoretical approaches helped to identify preliminary theoretical framework of elements that affect coopetitive modes. Later it was applied for the empirical part of the study with the purpose to discover particular elements and influenced coopetitive modes. The empirical study was done through case studies based on qualitative technique of analysis. Two case studies were selected as sources of information. After the analysis the original theoretical framework was revised and improved as the findings uncovered ambiguous nature of elements that can be caused by more than one theoretical approach and can affect more than one coopetitive mode.

Further, implications of the study for research and practice are presented. Finally the paper is closed with limitations of the study and suggestions for further research.

6.1. Implications for research

The study uncovered variety of elements influencing degree of competition in cross-border value chain. All of them except one were classified under one or more existing theoretical approaches. In this approach fusion is seen the main contribution of the study, it shows that firstly, approaches are mostly complementary to each other and their simultaneous application provided broader perspective on identification and

explanation of elements influencing cooperative modes. Additionally, Russian context of the empirical part is novel for competition studies and obviously requires further investigations.

The current research is a part of intensively developing managerial studies dedicated to the simultaneous co-existence of competition and cooperation in relationships between companies. The focus of the research is narrowed with area of value chain activities and particular cooperative, competitive or cooperative relationships in them. The study appears to be in the middle between two broad research streams. One is dedicated to the cooperative and competitive relationships applied to the company as a whole entity (Bengtsson & Kock 2000; Kock et al. 2010; Gimeno 2004; Lado et al. 1997). The other stream focuses on particular value chain activities (Arranz & Arroyabe 2008; Mention 2011; Kotzab and Teller 2003; Rusko 2011). Thus, the finding from the current study could be applied to develop both streams. In case of deeper investigation of cooperation and particular value chain activities (i.e. R&D, logistics, marketing) the results of the study can be used partly, narrowing the selection of findings only with activities that are included in the scope of new research. In case of holistic approach of cooperative relationships between companies the discovered elements can be aggregated and used all together.

Then in the studies about cooperation there are two perception of cooperation can be found. The first one is direct where competition and cooperation between companies appeared without any intermediary (Kock et al. 2010; Hertz & Mattsson 2004; Dong-Wook 2003). The second group of studies investigates cases of indirect cooperation when the units of study are neither direct competitors, nor direct partners, intermediary or intermediaries are in between playing aggregative role (Schivavone & Simoni 2011; Osarenkhoe 2010). The current study belongs to the mixed type as cooperation took place both directly (Case 1) and indirectly (Case 1 and 2). Due to lack of similar studies it is difficult to define if such mix influenced the discovered elements. However, findings can be used separately, for example, only from the case 2 with pure indirect cooperation.

Finally, the cases were especially selected with the availability of the internationalization aspect. Since the beginning the study targeted to contribute to the research stream where cooptation takes place between foreign companies or in foreign markets (Kock et al. 2010; Luo 2007; Chetty & Wilson 2003) with a special stress on international element in form of cultural, marketing or any other peculiarities. However, during the literature review it was found that though some studies dedicated to cooptative relationships did not highlight international aspects, they contained it that was obvious from the description (Gimeno 2004; Hertz & Mattsson 2004; Bonel & Rocco 2007). Hence, it could be concluded that the current study could contribute to such undefined researches. Still as the element of cross-cultural adaptation was found strong especially in case 1 it may be challenging to pick unambiguously elements that are universal and can be used in further studies without international aspect and elements that are specific for cases of cooptation in international environment.

6.2. Implications for practice

Continuing the line of previous studies in cooptation the current work confirmed once again inevitability and vitality of the phenomenon. For the practitioners it means one more tool in the arsenal of strategies that strengthen company's competitive advantage.

The main contribution of the study is that it can be used for analysis of cooptative relationship establishment. Its importance is seen not only in analysis of the elements influencing company internal decision making process while starting relationships with competitors but for analysis of competitors and external environment. Competitor's way of thinking is a black box however its understanding is crucial for decision making. Thus, identification of elements pushing a competitor to cooperation may help to uncover whether it is a wish of change the game to win-win situation or a ruse for opportunistic behaviour.

At the same time, the findings from the study show benefits from company proactive position in the network. The case companies won from extended communication and

further cooperation with the competitors. They looked proactively for foreign expansion even to hostile and unknown markets. They tried to maintain own network position with help of competitors and influence the external environment especially in case 2. Accordingly, they got more beneficial conditions of work. It is essentially that such proactive way of behavior does not require being totally innovative in company strategy. It is enough sometimes to analyze existing patterns and gathered information.

Finally, it was discovered that even knowledge of all possible elements influencing own decision making or decision making of competitors do not allow frequently to act in the most efficient way.

6.3. Limitations and suggestions for future research

Firstly, the list of defined elements cannot be seen as comprehensive due to limitation of time and information access. It can be proposed that range of discovered elements would be broader if it had been a possibility to contact all parties of the cooperative relationships in both cases. Furthermore, the presented elements have perceptual nature. It means, that even confirmed from different informants they are subjective as co-owners have influence to each other in daily communication. Thus, further studies can target identification of the comprehensive list of elements influencing degree of cooperation and competition in cross-border value chain through exhaustive interviews with all the participants in cooperative relations and generalization of the study regarding elements can be done through extensive survey.

Then the lack of narrow classification of the elements can be seen as a limitation as such grouping would allow to make conclusions that would be better for generalization. The future research can focus on identification a common basis for grouping the elements in more universal clusters and investigating their relationships with the theoretical approaches.

Further, the study is limited with the focus only on Russian companies as the main participants. Considering cultural differences and peculiarities of doing business

affected by the long period of planned economy, the results of the study can be challenged in application for cases in other countries. Thus, to define universal elements and country specific ones further studies can replicate the offered framework in countries and markets other than Russia. It is also a fruitful direction of research to conduct studies aiming comparisons of companies participating in cooperative relationships in different countries.

The next limitation is that the companies were not first-movers that pioneered in the cooperative relationships. It can be proposed that such “follower” effect may have reduced elements influencing establishment of cooperative relationships while foreign expansion. Some elements can be eliminated due to unaccountable following of the common convenient pattern. Hence, the future research could target comparison of elements considered by the first-movers and followers.

The study took the cases where not all companies-participants have different activities in home market and the market/s of competitors. The companies are integrated in the competitor value chain (i.e. Cado in Paco’s value chain and Vect in Nap’s one) but there is absence of the opposite integration. Therefore, the additional elements can be discovered in future research that investigates cases of cooperation in mixed value chains where activities of both or more companies are conducted in two or more markets of the companies embedded in cooperative relationships.

Finally, discontinuous measure (absence or presence) that is used for degree of cooperative and competitive relationships limits the study in terms of sensitivity to elements influence. Hence, continuous approach of degree of cooperation and competition in relationships between two companies is seen fruitful for future studies to allocate influencing elements more accurate.

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APPENDIX 1. Industry profiles

Case 1 – social game industry in South Korea

Social game industry is a part of big entertainment industry but it is young as started its development with spreading of applications in social networking service (SNS). In South Korea it happened in 2009-2010 (Pyo 2010). At the same time in 2009 the boost of applications for SNS happened in Russia (Fadeev 2011).

The publishers, developers and SNS owners play the main roles in the market. It is possible to combine all three roles in one entity but more common situation when in one country there are a limited number of big social networks (2-4) and significant amount of publishers and developers. Combination of developer-publisher role in one entity can be seen more frequent as, for example, in the case study.

The companies that develop and publish game applications use Freemium business model (Ghosh 2010) and “long tail” approach (Anderson 2004). In other words, it means that the game is distributed free-of-charge and any user plays it without payments. However, the players have to pay to speed up game events or activate optional features. The number of players paying in the social games varies in different countries but it is in average 3-5% of total active players (Fadeev 2011). Thus, the scale is a key element of profitability, and game recoument depends on how many people are attracted to the game by the marketing campaign. The main customers are students and house-wives, so-called “light gamers”, visiting social network services sporadically and shortly during the day.

South Korea has high level of Internet penetration (80,2%) and pioneered in SNS (Burson-Marsteller 2011, SK Communications, 2008). So local SNS providers Nate with the most popular SNS CyWorld, Naver and Daum keep strong market positions and such world known companies as Facebook and Google struggle behind. It is explained by high requirements to online service localization appearing from language and legislation prerequisites. However, in 2010-2011 only 28% of Internet users exploited actively SNSs, and only 14% of CyWorld users experienced application (comparing with 70% of Facebook users) (Burson-Marsteller, 2011, GlobalWebIndex,

2011, Sung-Hwan 2010). Thus, local and international application developers and publishers see a promising pool for active penetration.

Considering developers and publishers in Korea it is worth to mention that local publishers feel more comfortable with language and legislation. But they actively attract foreign developers for cooperation (SK Communications 2011).

Case 2 – skill toy industry in Russia

The skill toy industry is a part of bigger entertainment industry while perceiving the latter in the broader context of ways to spend spare time. The skill toy is dedicated to develop a particular skill how to handle the toy and make a number of tricks with it. However, being in the crossroads of active entertainment and sport the skill toy has not get mass popularity and occupies small specific niches in the market. The most famous examples of the skill toys are yo-yo, Frisbee flying disc, astrojex, Waboba bouncing ball. Many names of skill toys are used now uncapitalized but they are registered trademarks of companies-manufacturers. It happened because the invented products were novel and authentically original, so their trademarks became often commonly used as product names.

Most of the products target teenagers and youths in age 15-30 year old. At the same time skill toy is associated with sub-cultures and popularized in group of people. The strong feeling of belonging to the group creates through necessity of experience exchange to develop own skill of skill toy tricks. Thus, the skill toy may act as a socialization catalyst.

The main manufacturing companies are from Europe and the USA; however, their production facilities may be located in Asian countries due to optimization of cost efficiency on the global scale. Their products are unique and innovative, protected by patents and trademarks. Thus, these assets allow manufacturers to distribute their output worldwide working with authorized dealers, wholesalers and retailers in different countries.

The Russian skill toy market is young and started with yo-yo in 2000th. It is very fragmented and largely supported by amateurs, whose first target is not to get profit but to promote the skill toy itself. However, nowadays the professional wholesalers like the companies mentioned in the case enter the market; their primary target is profitable business. It shakes the market and makes amateurs to cooperate with each other broadening the assortment and decreasing prices.

APPENDIX 2. Interview guide

1. General Information (5-10 min)
 - Company profile/Story
 - Date of foundation
 - Turnover
 - Number of employees
 - Geography
2. Value chain in brief (10-15 min)
3. Industry in coopiting market, Market segment and place of the company (10-15 min)
 - Competition in industry
 - Cooperation in industry
4. Internationalization / foreign expansion and the case (15-20 min)
 - Why internationalization (wishes)? How did it affect value chain?
 - When did the decision come?

Supportive questions: How was it? Who initiated process? (internal managerial wish, customer, competitor, legislation changes etc.) Which activity? Decision process? Operational process? Dedicated staff?

 - Reactive/Proactive position
5. Partner selection – coopetition (15-20 min)
 - Why competitor? What are the tensions? What are the benefits?
 - What activities of value chain do you compete and/or cooperate with the partner?
 - What are the necessities in internationalization? How did it affect value chain?
 - What are the risks in internationalization? How did it affect value chain?