COMPETITIVE AND CO-OPERATIVE RELATIONSHIPS
THE FOREIGN MARKET ENTRY BEHAVIOUR OF FINANCIAL SERVICES FIRMS

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ABSTRACT

This paper attempts to position "markets as networks" literature in the broader context of corporate strategy. Review of the literature shows that there is no direct link between economics-based literature and competition and markets as networks and co-operation. Rather, a range of competitive and co-operative behaviour is expected by each school. Two cases of international market entry by financial services firms are explored to identify the interplay of these forces. Easton's classification (1990) of relationships between competitors is expanded to make a distinction between collaboration when firms enter alliances to increase firm-specific advantage and co-operation between mutually interdependent firms. When this framework is used to explore the behaviour of the financial services cases, firms are seen to exhibit several of these types of behaviour within different relationships. Furthermore, firms may exhibit different types of behaviour within the same relationship over time.
1. INTRODUCTION

In their introduction to the "markets as networks" special issue of the International Journal of Research in Marketing, Easton and Håkansson (1996) identify one of the challenges for researchers in the field as being:

"to position the topic and the issue to make published work (...) accessible and to provide connections to the main body of the discipline" p. 407.

One of the fields in which "markets as networks" research can meaningfully be positioned is that of corporate strategy. This paper addresses the central questions which must be asked to position markets as networks literature in the broader field:

- What are the key differences between corporate strategy from an economics-based and a markets as networks perspective and
- What additional insights does the latter offer into firms' behaviour?

These questions are addressed firstly by review of both corporate strategy and markets as networks literature and by an overview of the valuable contribution to synthesis offered by the work of Håkansson and Snehota (1989) Easton (1990); Axelsson (1992) and Jüttner and Schlange (1996). Secondly, empirical data relating to the entry into Eastern Europe by two Multinational financial services firms are analysed to identify the interplay of competitive and co-operative relationships. Finally, consideration is given to the extent to which these cases can be explained by mainstream corporate strategy and what additional insights are gained from a "markets as networks" perspective.
2. THEORETICAL ANTECEDENTS

2.1 Corporate Strategy: A Zero Sum Game

A number of key assumptions underpin economics-based, corporate strategy. Firstly, the unit of analysis is predominantly that of the individual firm. This firm has a distinct boundary which is set at the limits of its control over resources (Pfeffer and Salancik 1978). Secondly, these atomistic firms compete on the basis of advantages such as superior management skills (Kindelberger 1969), the ability to differentiate products (Caves 1971) or technical advances resulting from continuous research and development activity (Hirsch 1976). Such advantages are considered to be specific to the firm.

Thirdly, these "atomistic" firms exist in a "faceless" environment, which they cannot control or influence (Håkansson and Snehota 1989):

"whatever happens to the task environment of the organisation stems from outside the organisation itself" p.189

Whilst stakeholders are identified (Porter 1980), little attention is given to building relationships with them.

Finally, firms are believed to be engaged in a zero-sum game where assumptions of "survival of the fittest" prevail and each can only gain at the expense of competitors:

"Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry and competition (...) a firm can clearly improve or erode its position within an industry through its choice of strategy." (1985: 1-2)
2.2 Co-operation or Collaboration

Despite this atomistic view of the firm, a growing body of economics-based corporate strategy literature looks at co-operative modes such as alliances and joint ventures (Porter and Fuller 1986; Contractor and Lorange 1988, Hamel, Prahalad and Doz 1989). This literature suggests that co-operative modes should be used if they confer benefits such as access to scarce resources (Jarillo 1988), flexibility in turbulent market conditions (Miles and Snow 1986) or allow clusters of small firms to compete against larger rivals (Lorenzoni and Ornati (1988). This behaviour might better be described as collaboration rather than co-operation, as is appositely expressed by Hamel et al in the title of their 1989 article “Collaborate with your Competitors and win.”

To this school belongs Thorelli’s seminal view of the network as a hybrid mode between markets and hierarchy:

“In some ways these distinctions are analogous to Williamson’s (1975) markets and hierarchies, although he would likely include as part of ‘markets’ a number of in-between forms where we would rather apply the generic term networks” (1986: 37).

From this perspective, the network is a cluster of collaborative relationships which can be adopted if appropriate.

2.3 Markets as Networks

The “markets as networks” view of co-operation can be differentiated from the above on the basis of a number of distinctive characteristics (Johanson and Vahlne 1987):
**Interdependence:** Firms are viewed as mutually interdependent. The firm’s use of assets is influenced by its relationships:

“The markets are characterised by interaction between firms in relationships where the parties have some control over each other and the organisations are not “pure” hierarchies.” (1987: 12)

The internal “marketing” and external “market” investments of actors build positions in the network (Johanson and Mattsson 1985; Mattsson 1989 which may favour and constrain subsequent activities:

“the network approach (...) emphasises dynamic, individual and interconnected exchange relationships within systems that contain interdependencies of both a complementary and a substitutive nature. It also involves both co-operation and competition between the actors.” (Johanson and Mattsson 1993: 325)

**Fuzzy Boundaries**

The markets as networks model does not assume a clear boundary between the firm and its environment. Rather, the environment surrounding the firm is:

“of a concentrated and structured kind, i.e.: it is constituted by a set of other active organisations” (Håkansson and Snehota 1989).

An example of the blurred boundary between the organisation and its environment can be seen in Hadjikhani and Håkansson’s study (1996) of the impact of the Bofors scandal on other Swedish firms in India. Bofors has a relationship with actors in the Swedish government and indirectly with the Indian government. It interacts with an environment which Axelsson (1992) describes as “full-faced.”
Furthermore, the concept of interdependence makes it difficult to establish where the boundary of control over resources lies. Accordingly, the smallest unit of analysis is not the firm, but the dyadic relationship. Moreover, network proponents argue that studies of dyads:

"draw a boundary around the focal relationship, ignoring other significant relationships that the actors involved may have" (Easton and Håkansson 1996: 408)

Hence, dyadic studies show the detail of the relationship, but do not capture some of the impacts of interdependence which come from indirect relationships (Smith and Laage-Hellman 1992).

**Dynamic Structures**

The influence of the web of relationships surrounding the firm is particularly visible when the network is viewed as a dynamic structure. Networks may be both stable and changing. Relationships may become stable and institutionalised, often as trust and commitment build and mutual adaptations are made (Håkansson 1992; Easton and Lundgren 1992). However, they are also subject to both continuous and discontinuous change (Lundgren 1992) when relationships dissolve or new relationships are formed.

Although there is a tendency within markets as networks literature to focus on long-standing, co-operative relationships, co-operation may not always be the context of the relationship. Co-operation and conflict may exist as positive and negative forces within a relationship, as may co-operation and competition (Wilkinson and Young 1994). The relative balance of these forces may also change over time.
2.4 Positioning “Markets as Networks” in Corporate Strategy

Positioning markets as networks literature within the broader field of corporate strategy is acknowledged to be important for recognition of the value of the paradigm (Håkansson and Snehota 1989; Axelsson 1992; Jüttner and Schlange 1996).

A fundamental step towards achieving this comes from the realisation that there is not a direct association between traditional corporate strategy and competitive behaviour and between markets and networks and co-operation, but that each of these literatures show a spectrum of behaviour between zero-sum competition and total co-operation.

Easton (1990) identifies five types of relationships between competitors:

- **Conflict** in which a firm can only attain a goal at the other’s expense
- **Competition** in which firms strive for the same goal
- **Co-existence** in which the firms have goals which are not linked
- **Co-operation** in which firms work together to achieve a goal
- **Collusion** in which firms co-operate at the expense of a third party

Significantly Easton (1990) identifies the work of IMP as one of the few areas in which sociologically-based concepts of operation within a “full-faced” environment and of interconnection have been applied to commercial organisations. The markets as networks view provides insights into what Axelsson (1992) calls the “missing” perspective on corporate strategy. A distinction is made in this paper between
collaboration when firms enter into alliances to increase firm-specific advantage and co-operation between mutually interdependent firms. This paper has three aims. Firstly, to examine the interplay of the behaviours identified by Easton within two firms from the same sector entering a turbulent international market. Secondly, to look at these behaviours as dynamic rather than static phenomena. Finally to explore the extent to which the findings could be explained by economics-based views of strategy and the contribution made by the "missing" perspective of corporate strategy.

3. METHODOLOGY
This research is exploratory in nature, therefore a theory-building rather than a theory-testing methodology is preferred (Desphande 1983). A case based methodology is used in this paper, as Yin (1983) contends that the case is appropriate for the study of contemporary issues in their social context. Therefore case studies capture potential interaction between the firms and a "full faced" environment in a way which is impossible when studying the firm out of context.

A key issue in network research is defining the network boundaries. In the broadest sense all firms are connected to each other by a web of relationships (Easton 1995). If the network is disaggregated to study complex phenomena, the nature of the inter-relationships are oversimplified. Yet, holistic study of the network may tend towards describing complexity, rather than analysing critical issues. In this paper, the starting point is that of the focal organisation, or the web of:

"relations above a certain minimum degree of closeness to a focal of "hub" firm." Cunningham and Culligan 1991: 254
A higher-order focal net (Easton and Håkansson 1996) is studied which includes indirect as well as direct relationships.

4. CASE HISTORIES

The liberalisation of Eastern Europe from 1989 onwards, opened up investment opportunities in a region which represents around ten percent of world population, but is beset by high levels of environmental uncertainty during the process of transition to market economy. One of the scarce resources for firms wishing to capitalise on the factor advantages of large population size, raw materials and cheap labour (Manninen and Snelbecker 1993) is that of reliable market information. This lack has opened up market opportunities in the region for business-to-business services firms such as the Big Six accounting firms. This paper focuses on the interplay of competition and co-operation in the entry decisions of two of these firms.

The late 1980's saw a number of mega-mergers among the global players in the accounting and financial services sector. By late 1989, the global industry had shaken out to a "Big 6" firms: Coopers and Lybrand, Arthur Andersen, Price Waterhouse, Ernst and Young, KPMG and Deloitte, Ross Tohmatsu. Whilst some variation in size and degree of internationalisation is apparent, the Big Six firms can all be described as large, global players with a significant length of international experience.

One of primary motivations for the entry of the Big Six firms into Eastern Europe was the entry of major multinational customers:

"Tempted by Kazakhstan’s wealth of natural resources, accounting practice Price Waterhouse has opened an office in the capital
Alma-ata. The practice was started to meet the growing demand for advisory services from western multinationals, especially in the oil and gas sectors.” Central European, March 1st, 1993.

“It was not until one of their biggest customers (...) sought advice for [its] new subsidiary, that Deloitte and Touche quickly established offices in Budapest, Prague, Warsaw and Moscow.” Tozsde Kurir March 26th 1992

However, entry was also strongly motivated by the availability of contracts funded by agencies such as the European Community, or the European Bank for Reconstruction and Development. Press announcements of such contracts show their frequency and size:

“Ernst and Young have been selected to prepare the registration system for the Small Investor Share Purchase Programme while Coopers and Lybrand have been selected as the advisor for the public share placement “MTI news June 14th 1993.

“Romania’s five private ownership funds (POFs) are appointing advisers to help them adapt into western style mutual funds. In one of the first such appointments, a team of advisers from consultants Price Waterhouse and the UK law firm Sinclair Roche and Temperley travelled to Romania in early June for the first leg of a 12-month contract to provide legal and financial advice.” Central European June 1st 1993.

Hence, the Big Six accounting firms were competing with each other both to gain large international customers and contracts from funding agencies in the regulatory sector.

4.1 Case A1

In the USA, A1 was not involved in the merger activity of the late 1980’s. As a result of standing alone, it went from being the largest of
the Big Eight players, to the third largest of the Big Six. In 1991, sales were $4,975 million and there were 17,000 employees. The ownership structure of the firm is that of a partnership. The firm is Anglo-American, having been formed by the transatlantic merger, in 1957, of a large US and a large UK accounting firm.

Firm A1 is highly internationalised. The first international investment activity began 70 years ago. The US part of the firm was established in 1898, and expanded into Europe with offices in Berlin (1924), Paris (1926) and London (1929). The Berlin office was closed in 1938, as the outbreak of the Second World War became inevitable. The UK part of the firm was founded in 1854. International expansion began with the opening of offices in Brussels (1921), New York (1926) and Paris (1930). By 1991, 70% of the firms sales came from its international operations. It had 100 offices in the USA and investments in 121 different countries.

After liberalisation, the firm's interest in Eastern Europe began with an investment in Hungary. This was followed rapidly by expansion, in 1990, into the Czech and Slovak Republics and in 1991 into both Slovenia and Russia. Investment in Ukraine, via both a European Expertise Service joint venture and a wholly-owned subsidiary followed in June 1992. The firm entered the Bulgarian market in the same year.

Interest in the region was stimulated by the availability of funding from the EC and the World Bank. Existing links with these bodies, via the Brussels and Washington subsidiaries of the firm, gave it a good basis to
become their advisor, especially on issues of privatisation. The decision to enter Ukraine was closely linked with the firm's involvement in the EC's Technical Assistance to the CIS (TACIS) programme on which it worked together with a small legal firm to advise on the privatisation of Ukrainian enterprises. Firm A1 has had a higher level of dealings with the EC and therefore often advises the legal firm on matters of protocol.

The firm's joint venture partner provides Eastern European expertise. They have close links with the Ministry of Economics. However, the regulatory links of A1 are such, that they see themselves as key providers, rather than users, of market information. They feed information on market developments both to embassies and to international clients.

Despite the worsening market conditions, during the period of data collection, firm A1 thrived. They gained a large, externally-funded contract in which they worked jointly with firm A2 to advise the World Bank and increased the number of expatriate staff permanently based in the market. The relationships of firm A1 are shown in figure 1.
4.2 Case A2

Firm A2 are also one of the Big Six accounting firms. After the merger of two of the big eight firms in 1987, this firm now ranks as the second largest both in the USA and in the world. In 1991, it had sales of $5,406 million and 20,000 employees. As in the previous case, the firm has a partnership structure. One of the merged firms was the result of a post-war alliance between a British and an American firm. The other part was American. Therefore, the firm’s nationality is Anglo-American, but it has partners world-wide. By 1991, A2 had investments in 100 countries world-wide and fifty eight percent of its sales were outside the USA. The firm has been involved internationally since the late 1940’s.

A2 was earlier into Eastern Europe than many of its competitors. It set up an office in Hungary in 1987. The success of this venture, and the subsequent liberalisation of the market, resulted in rapid expansion
during 1990 into the Czech and Slovak Republics, into Poland and into Moscow. Investment in Ukraine took place in late 1991. The firm set up a joint venture with two Ukrainian sleeping partners.

The decision to enter the Ukraine was made after the successful entry of a major international client. There are links between the two firms in a number of markets around the world. The Ukrainian and other Eastern European subsidiaries are viewed by the UK office as representing a relatively low level of risk. They require only a small financial investment. Most of the assets are portable and could be withdrawn from the market if necessary. The major issues, in operation in Ukraine, are those of gaining reliable information and uncertainty, as to the rate at which international firms will enter the market. Whilst business is sought with Ukrainian firms, it is recognised that, in the short-term at least, the firm is heavily reliant on international firms and contracts from the regulatory sector.

There is competition between the large firms in the industry, but also a certain amount of community spirit. The manager of A2's Ukrainian subsidiary maintained that some information is shared between firms. Also, the firm would not wish to expand by poaching international clients from other firms. The success of A2 is also based upon gaining regulatory sector contracts in a bidding process which is seen as a contest between the major firms and smaller competitors, of different nationalities.
Despite the worsening climate, A2 also went from strength to strength during the period of data collection. Their expansion was not based upon the entry into Ukraine of more international clients, but rather upon gaining a large regulatory sector contract in which they were co-holders with firm A2. The relationships of firm A2 are shown in Figure 2.

5. DISCUSSION

5.1 Competitive and Co-operative Behaviour

Firms A1 and A2 are competitors seeking profits from a finite set of international customers and funding agencies. However, when operating as joint holders of a regulatory sector contract they must collaborate with each other. Both firms co-exist with other business-to-business services firms who supply the same international customers, or who handle another section of a regulatory contract. This is co-existence as the firms’
goals are not linked to each other. One would not lose the business based on the under-performance of the other. Firms A1 and A2 both have a local Ukrainian partner with whom they *collaborate* to compensate for the scarcity of local market knowledge. This enhances their ability to compete.

Prior to winning a contract on which they had to work together, A1 and A2 were predominantly competitors. However, after winning this contract, they had to collaborate with each other.

The above case illustrates both the complex interplay of the different types of behaviour within the web of relationships surrounding firms A1 and A2. Moreover, it shows that these behaviours must be viewed as dynamic rather than static, as the predominant relationship between the firms may change over time.
5.2 Insights from a “markets as networks” view of strategy

The major insights into strategy which are gained from a markets as networks view of strategy are those which arise from the features of networks highlighted in section 2.2. Firstly, because of its interdependence the firm does not have total control over its resources (Johanson and Mattsson 1987). Firms A1 and A2 both felt obliged to enter Ukraine in order to strengthen existing relationships with international customers and in the regulatory sector.

Secondly, the firms are operating in a “full-faced” not a “faceless” environment. Firm A2 does not feel itself at the power of uncontrollable macro-environmental forces which present opportunities and threats (Porter 1980). Rather, it interacts with governments and macro-level economic institutions in the environment. In this way, it influences the macro-environment, as well as being influenced by it.

Thirdly, it is seen that relationships with competitors need not be either competitive or collaborative as suggested by strategy literature (Porter 1980; 1985; Hamel et al 1989) but may contain elements of competition and co-operation (Wilkinson and Young 1994). Indeed, the predominant
force in a relationship may change over time. Firms A1 and A2 were predominantly competitors on entry into Ukraine. However, gaining a joint funding contract changed their relationship to one of collaboration. This may have a lasting impact on the future relationship between the firms and increase the level of co-operation to which firm A2 refers.

Finally, the impact of indirect relationships is seen (Easton and Håkansson 1996). Firm A1 and the legal firm working together on the EC contract co-exist as they have goals which they can achieve independently of each other. However, as they are serving the same customers, they may have to adjust their systems and timescale in order to meet the same customer criteria. If, as in this case, firm A1 is considerably larger than the legal advisor and has a greater number of relationships internationally with the regulatory bodies, the legal advisor may be required to adapt to the criteria agreed by A1 and the EC or World Bank (Smith and Laage-Hellman 1992).

6. CONCLUSIONS

The cases of international market entry by financial services firms show a complex interweaving of co-operative and competitive relationships.
Furthermore, the predominant force in a relationship may change over time. Viewing this strategic decision from a markets as networks rather than an economics-based strategic view shows that interdependence of their resources may influence the decisions which a firm makes. Moreover, the firm is seen to interact with actors in the environment rather than simply be influenced by uncontrollable forces in the macro-environment. The impact of indirect relationships is also considered when a network view of the decision is taken. These influences on the actions of a firm might be overlooked of the firm is viewed as an atomistic entity with complete control over its resources.

7. BIBLIOGRAPHY


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