

**TOWARD A MODEL
OF
INTER-ORGANISATIONAL COOPERATION**

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SUMMARY:

The technological development along with the fall of most political barriers has made the world a smaller place. Firms, even those that focus their operations in the domestic market, face an increasing competition. These phenomena have introduced an important shift in the way the competitiveness issue must be regarded. In fact, in a growing number of cases it is a matter of being competitive in webs of relationships where the particular position assumed by one firm is likely to affect not only its own performance but also the evolution of other players. The objective of this paper is to shed a new light on competitiveness supported by collaborative arrangements. The authors develop a model of inter-organizational cooperation based on four attributes: interests, resources, activities and trust.

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INTRODUCTION

Firms are not independent entities acting on their own in the market. To develop their activity they have to interact with other firms and organizations such as governmental departments, associations or regulatory commissions. This process of interaction may give rise to lasting and stable relations through which firms adjust products, production and routines. Such relations are often built over a long period since their development requires time and resources, and may involve commitments for the future. Firms' behaviour can thus be described as a cumulative process where relationships are created and developed to guarantee firms' control over the resources they need, the selling of their output, and the pursuit of their objectives. This system of interdependent organizations engaged in the production, distribution and utilization of goods and services, forms a network where the particular position assumed by one firm affects not only its performance but also the evolution of other actors.

This paper is the outcome of a research project whose purpose is to understand the process of development of cooperative arrangements created in order to increase the overall competitiveness of small and medium sized firms involved. It is divided in four sections. The first section briefly addresses the conceptual background. After the indication of the research method, the next section presents a model of inter-organizational cooperation. The paper ends with a number of implications for both researchers and managers.

1. THE CONCEPTUAL BACKGROUND

The theoretical background is mainly based on the work conducted by the researchers of the IMP (International Marketing and Purchasing) Group. The seminal studies were carried out at the University of Uppsala and Stockholm School of Economics in early 80s (cf. Håkansson, 1982; Johansson and Mattsson, 1985). The work was further developed by other research centres both in Europe and the United States (cf. Axelsson and Easton, 1992; Naudé and Turnbull, 1998; Möller and Halinen, 1999; Smith-Ring and Van de Ven, 1999; Ford, 2002; Ritter, Wilkinson and Johnston, 2002).

This stream of research, adopting a network approach, attempts to describe and understand industrial systems in terms of three basic variables: actors, activities and resources (Håkansson and Johansson, 1992). Actors are individuals, firms, groups of individuals, groups of firms, or even parts of firms. They are goal oriented and perform activities by using, consuming and creating resources. These may have an unlimited number of dimensions, which allow for their utilization in a number of different ways. Nevertheless, for the sake of simplicity, it is usual to subdivide them in four main categories: physical resources (e.g. materials, equipment or buildings), financial resources, human resources, and intangible resources such as knowledge and brand image. When actors combine, develop, exchange or create resources they perform activities.

Within the three basic variables (actors, activities and resources), connections established among their elements tend to give rise to structures that can be conceived as networks. Actors, for instance, can be bound together not only by formal arrangements but also by product and process adjustments, logistical coordination and personal ties. In the same way, activities are related to each other in accordance with, for example, technological patterns or power-dependence relationships between actors. This means that the three networks are connected with each other forming an overall network of relations.

As Araújo, Dubois and Gadde (2003) stress, this perspective contrasts with the conventional view about organizational boundaries that adopts a hierarchical (proprietary or contractual) perspective. As a consequence, the conventional view does not capture all the resources and activities that may actually affect the performance of firms. For example, the conventional view may consider as 'external' to a firm, resources that are actually under its influence and control. This is the case of most intangible resources (e.g. knowledge, reputation and skills) which, playing often a key role in firms' effectiveness, are frequently created through relationships with other organizations.

2. RESEARCH METHOD

On the basis of this conceptual framework, the research project gave rise to a model of inter-organizational cooperation. Given the main research question – “How does a cooperative arrangement develop in order to increase the overall competitiveness of small and medium sized firms involved?” – the methodology relied on a qualitative analysis inasmuch as the investigation aimed to be simultaneously explanatory and exploratory (Yin, 1994).

The analysis of the case was mainly based on primary data collected through personal interviews where informants were induced to talk about their perceptions of the issues being studied. The reasons for the concentration on individual perceptions were twofold. The first reason flowed directly from the research question. As stated before, such a question was mainly exploratory and explanatory in nature. It was exploratory mostly because of the lack of knowledge about the kind of phenomena under study. The research question was explanatory because, given that it was formulated in terms of 'how', it reflected the declared purpose of explaining the importance of the process of development. Within this context, perceptual data were useful for both understanding the rationale underlying such phenomena and suggesting directly theoretical constructs which could be strengthened by replication and extension.

The second reason for the concentration on individual perceptions had to do with the partly constructivist position assumed in the research project (Easton, 1995). According to this perspective, social reality is the product of both individual and social construction which results from the interaction amongst individual actors. This means that the major object of concern was the way actors perceived and interpreted their individual and collective experiences within the systems - e.g. economic, social and political - to which they belonged. Accordingly, instead of treating accounts as objective descriptions, individual perceptions were considered as ways through which respondents structured the systems they were in.

To complement primary data, secondary data was also collected. The justification for its use was also twofold. Firstly, it stemmed from the case-research approach adopted, inasmuch as

secondary data provided additional sources of evidence which, allowing for triangulation, were on the basis of a stronger substantiation of new theoretical insights resulting from the analysis of the three cases. Secondly, secondary data proved to be especially relevant to the comprehensive understanding of the industrial context.

3. THE MODEL

In general, inter-organizational cooperation is built over time through a process of interaction that tends to encompass both social exchange and learning (Håkansson and Henders, 1992). Social exchange has two major features. Firstly, it allows for a gradual build up of a level of trust and mutuality that is likely to improve the conditions for handling complex transactions between the parties. Secondly, social exchange tends to mobilize parties towards (or against, if desired) a specific action such as a technological development.

On the other hand, learning brings the parties closer, reduces the possibility of conflict and increases the prospects of cooperation. For instance, the joint activity of two firms may give rise to common knowledge, patterns of product or process adaptations, and operational coordination allowing for mutual adjustments and increased efficiency. In some cases, learning may also allow firms to increase their ability to innovate or to differentiate and specialize in certain products and/or markets. In sum, since cooperative exchange relationships are supported by a minimum level of social exchange and mutual learning, its outcome may be an increased adaptation and commitment between the parties, as well as an improved ability to innovate or differentiate.

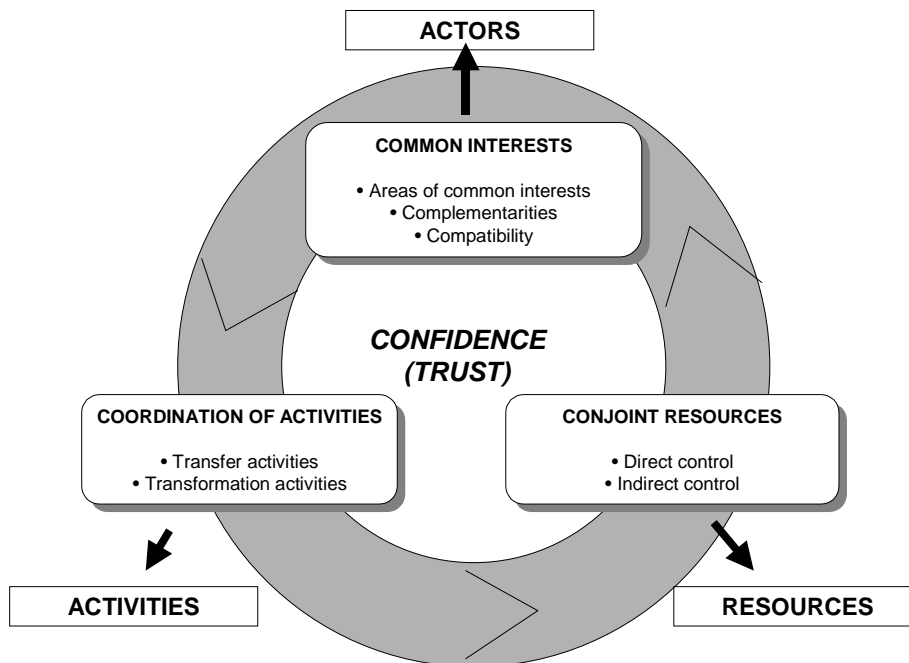
In most cases the process of creation and development of cooperative relationships do not require a high degree of formalization. Nonetheless, despite the non-existence of any contract, such informal cooperative relationships tend to assume a stable and lasting nature since they are likely to rely on trust rather than on written (and frequently unwelcome or misunderstood) contracts. According to Brito (1999), the distinction between formal and informal cooperation is important for several reasons. Firstly, formal cooperation tends to be more visible than informal cooperation. Secondly, trust is likely to play a much more central role in informal cooperative activities than in formal cooperation. This means that often formal collaborative arrangements are not in fact supported by real cooperative relationships. Finally, cooperation may involve several people with different functions and responsibilities within their organizations, but usually the key people supporting informal cooperative relationships are those directly involved in the exchange process. Indeed, although top management in some cases might have an important role in fostering informal cooperation, it is more often concerned with the establishment of formal collaborative agreements. In contrast to formal collaborative arrangements, informal cooperation is in general more random, unplanned and reliant on individual actions. It may involve the transfer of people and information, as well as the sharing of social norms.

Both people and information exchanged between competitors provide an important source for cooperative relationships. In fact, when people move from one firm to another, this may give rise to the transmission of information (e.g. technological, commercial or financial) as well as to the creation of personal links. Such ties become, in most cases, the basis for stable and lasting relations between organizations. However, it is not just through people transfer that information is exchanged. Inter-competitor communication is also likely to play an active role

in diffusing knowledge. This may be concerned not only with major radical innovation but also with incremental innovation both in products, services and processes.

The cornerstones of this model of cooperation are four Cs (Figure 1): Common interests, Conjoint resources, Coordination of activities and Confidence (trust).

Figure 1 – The Model of Inter-Organisational Cooperation



Common Interests

Firstly, it is fundamental that the parties assess the existence of common interests. This is a *sine qua non* condition for the development of cooperation. Then it is necessary to see if there are complementarities, or better yet, areas that may benefit from synergies, where working together allows greater profits to be gained than if acting alone. Finally, it is important to see if compatibility exists in the development of activities carried out by the different parties. Although the former conditions have been fulfilled, sometimes the networking is missing, as the parties are not able to work in tune together. This may be caused by, for example, a culture shock between them. It is important to diagnose these aspects before advancing to more advanced forms of cooperation.

Conjoint Resources

The second condition for business cooperation is to share resources. Actors involved in alliances perform activities by using, consuming and creating heterogeneous bundles of resources that can be controlled either directly or indirectly. The difference between these two types of control is that while the former is based on ownership, the latter is achieved through relationships. The importance of indirect control stems from the fact that when an actor establishes exchange relationships with other actors, links of dependence are created and, consequently, their resources come, at least partly, under the control of the focal actor.

Coordination of Activities

The existence of an alliance requires coordination of the activities performed by the different partners. There are two basic kinds of activities: transformation and transfer activities. The former comprises those that, being directly controlled by one actor, change or improve resources in some way. Transfer activities are those, which link transformation activities and transfer the direct control over a resource from one actor to another.

Confidence (Trust)

Finally, trust is essential to the establishment and development of cooperative relationships. It demands mutual understanding, time and common experience. Some rules may be suggested:

- Avoid being the first to behave opportunistically.
- Respond reciprocally to cooperation – or lack of it.
- Do not be too ambitious when setting goals, especially if they may harm the partners or are impossible to be reached by them.
- Maintain solidarity with partners, even in difficult and uncertain situations.

4. IMPLICATIONS

This model of cooperation sheds a new light on strategic management with implications for both researchers and managers. The technological development along with the fall of most political barriers has made the world a smaller place. Firms, even those that focus their operations in the domestic market, face an increasing competition. These phenomena have introduced an important shift in the way the competitiveness issue must be regarded. In fact, in a growing number of cases it is a matter of being competitive in webs of relationships where the particular position assumed by one firm is likely to affect not only its own performance but also the evolution of other players.

The model developed in this paper attempts to represent a step further in strategic management: firms are not only concerned with markets and products; they are not even confined to the competence issue. Rather, a success key factor is knowing who can bring new capabilities into the network in order to foster the overall competitiveness. In other words, the evolution is:

Know What → Know How → Know Who

Traditionally, strategic positioning was conceived as “being in the right place and acting in the right way”. From a network perspective, the “right place” is the net because it is there that the power tends to be greater. And “being competitive” is replaced by “having power”, which means having the ability to relate to the right organizations at the right time, and to have access to their resources and processes (or even control them). The challenge seems to be to identify the sectors where cooperation is possible, through the analysis of structures resulting from the application of a model of this type, where hierarchical, functional and competitive relations exist simultaneously, throughout the value chain. Thus this model groups aspects that refer to market governance through companies and through hierarchies, adding new dimensions.

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