

JOURNAL OF SMALL BUSINESS
STRATEGY

COOPETITION AS A SMALL BUSINESS STRATEGY: IMPLICATIONS FOR PERFORMANCE

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ABSTRACT

This paper explores coopetition, a strategy that combines cooperation and competition in addressing relationships between firms. We examine the underlying nature of coopetition, and evaluate the extent to which it represents a relevant strategy for small firms. Inherent problems are identified when attempting to collaborate with competitors. We propose an approach to measuring the coopetitive tendencies of small firms. The measurement approach centers on three underlying dimensions: mutual benefit, trust, and commitment. Applying this approach, we assess the relationship between coopetition and firm performance. Based on a survey of 647 small firms in Turkey, a strong, positive relationship is identified. Theoretical and managerial implications are drawn from the findings.

INTRODUCTION

Having a superior product or resource advantage is often not enough to ensure the sustainability of emerging ventures (Sherer, 2003). For these firms, their ability to compete may be tied to their ability to cooperate. This seemingly paradoxical statement reflects the complex nature of the competitive environment facing entrepreneurial organizations. Turbulent external conditions exacerbate the liabilities of newness and smallness that afflict small, emerging firms (Laine, 2002). Dynamic, hostile, and complex environmental conditions also result in an increased emphasis on innovation as a source of competitive advantage. Yet, the high expense and risk associated with innovation can be especially problematic for smaller firms

operating with limited resources and that are especially vulnerable to environmental discontinuities (Parker, 2000).

In these circumstances, collaborative relationships with competitors may represent a viable strategy. Parker (2000) notes that firms experiencing high rates of technological and other environmental change, and firms confronting greater product variety in the market, are especially likely to pursue cooperative relationships. A number of researchers cite competitive intensity itself as a major factor driving firms to pursue a strategy of cooperation (BarNir and Smith, 2002). Collaboration is a means of leveraging resources, and can be a useful method for protecting a firm's market position (Dyer and Singh, 1998). Kanter

(1994) suggests that cooperative relationships represent a type of corporate asset that can produce “collaborative advantage”.

As strategic factors affecting a firm’s market position, cooperation and competition have historically been approached independently by researchers. However, pursuing both strategies simultaneously has been the focus of a number of recent studies (Bengtsson and Kock, 2000; Garcia and Velasco, 2002; Gnyawali and Madhavan, 2001; Luo, 2005). When a firm is engaged in both competition and cooperation in a given relationship, the behavior is termed “coopetition.” The purpose of the current study is to explore the phenomenon of coopetition in a small business context. Attention is devoted to establishing the nature of coopetition and identifying factors that affect a firm’s tendency to cooperate with a direct competitor. The unique nature of coopetition when pursued by small ventures is investigated. Based on the literature, a theoretical model of coopetition is developed that centers on three core dimensions: mutual benefit, trust, and commitment. Conceptualized in this manner, it is posited that coopetition should affect company performance. The model is tested using a cross-sectional sample of Turkish firms. Implications are drawn for theory and practice.

COOPERATION AND COMPETITION: COOPETITION

Coopetition occurs when two firms cooperate in some business activities while simultaneously competing with one another (Luo, 2005). Hence, elements of both cooperation and competition are present. Laine (2002) explains that coopetition means that two firms might cooperate by coordinating their purchasing and service provision operations at the same time that they are competing in the manufacturing and marketing areas. Bengtsson and Kock (2000) discuss collaboration between competing firms operating in different product

categories. These perspectives could lead one to conclude that coopetition is a simple mix of both cooperation and competition. However, Dagnino and Padula (2002) argue that coopetition involves the merging of cooperation and competition to form a new kind of strategic relationship between firms. What they term the ‘coopetitive system of value creation’ is consistent with Kanter’s (1994) position that cooperation leads to competitive advantage when the focus is on new value creation.

Degrees of cooperation and competition are possible in a given coopetitive relationship. Bengtsson and Kock (2000) describe three types of relationships based on the weight given to each behavior: cooperation-dominated, competition-dominated, and equal relationships. Dennis (2000). In discussing networked relationships, they distinguish dominated networks and equal-partner networks. The side of the coopetitive relationship that is more heavily weighted can be influenced by the nature of the activities performed by the firms. For instance, Bengtsson and Kock (2000) found that when activities performed by two firms in a relationship have greater distance from buyers, the firms tend to cooperate more frequently. When activities are closer to buyers, such as customer service activities, they tend to compete more intensely. This phenomenon also appears to be tied to resource heterogeneity. Where each firm has unique resources not held by the other, and each firm perceives that sharing the resources does not undermine its own competitive position, cooperation will be stronger.

Coopetition entails both benefits and costs to the participating firms. In terms of benefits, Garcia and Velasco (2002) found that cooperation with competitors has a positive effect on performance of particular business activities, coordination of product lines, and technological diversity. Spence, Coles, and Harris (2001) discuss the ability to gain access to external knowledge sources, while

Bengtsson and Kock (2000) found that coopetition can serve as a mechanism for organizational learning, especially as it relates to core competencies of competitors. Other observers emphasize cost sharing, shorter lead times, more stable supply sources, access to scientific resources, and opportunities for scale economies as direct benefits (Dowling & Roering, 1996). Dussauge, Garrette, and Mitchell (2000) use the case of joint manufacturing to demonstrate cost savings from coopetition. Parker (2000) illustrates how collaboration enables firms to respond better to customers.

From a more strategic vantage point, cooperation with competitors can enhance company flexibility and give the firm more control over market uncertainties (Borch & Arthur, 1995; Dennis, 2000). Gummesson (1997) suggests that sufficient levels of competition keep managers alert, while sufficient levels of collaboration make them feel secure. Garcia and Velasco (2002) argue that organizational benefits derive from the 'creative tension' that is fostered by coopetition. Competition ensures the relationship remains dynamic by forcing both sides to innovate and improve, and by driving out inefficient firms, ineffective relationships, and old technologies. Firms cooperate to be more effective by achieving synergy and they compete to realize the advantages of this synergy (Zineldin, 1998).

Coopetition also involves costs to the parties. Parker (2000) notes that being in a relationship can cause additional financial and time costs that offset the gains from the relationship. Being in a relationship can also cause firms to experience a loss of control over key activities or resources, including control over proprietary information (Hakansson & Ford, 2002). Firms are especially vulnerable when partners become less committed to the cooperative side of the relationship or focus only on their own benefits (Amaldoss, Meyer, & Rapoport (2000).

Some researchers conclude that cooperation

between competitors can hinder or delay the innovation process and slow investments in new technologies (Amaldoss *et al.*, 2000; Gomes-Casseres, 1997; Jorde & Teece, 1989). Others suggest that rivalry and conflict between firms can hamper each company's performance when they attempt to collaborate. For instance, Robson and Bennet (2000) argue that collaboration in a horizontal relationship has no positive influence on firm performance. They suggest that many collaborative relationships actually have negative outcomes including reductions in sales, profits, and numbers of employees. Alternatively, Gulati (1998) finds that higher performance can result when such collaboration creates new opportunities for the partnering firms.

Apart from these costs, coopetition poses unique challenges for each partner. Firms must develop the managerial skills and capabilities necessary for mastering simultaneous competition and cooperation with another firm. Particular challenges exist in overcoming the differences between firms and protecting joint investments and trade secrets (Zineldin, 1998). Further, parameters must be established regarding areas in which information is shared. Dependencies between firms in a relationship can also cause problems when developing and implementing marketing strategies for the firms individually (Wilkinson & Young, 2002). Even though they act together in many ways, the actors in the relationship also aim to reach their own objectives, so the firms face difficulties in setting the appropriate strategies without undermining the competitor's overall objectives.

A key managerial challenge involves maintaining the relative balance in levels of cooperation and competition with another firm. Maintenance of the relative balance can play a key role in determining firm performance (Garcia & Velasco, 2002). Cooperation results in a certain level of dependency on the partner. Where scarce resources are being shared, the providing firm for a given resource must make ongoing

decisions regarding how much to invest in maintaining and upgrading the resource. The receiving firm may have an incentive to reduce their dependence over time and achieve more control (Luo, 2005). At the same time, the competitive side of the relationship is a critical incentive for internal efficiencies and ongoing innovation. Management must be vigilant in determining the extent to which coopetition adversely impacts company efficiency and the productivity of innovation efforts (Tsai, 2002).

Coopetition arguably should enhance each partner's strategic position in the marketplace. Each firm continues to manage its ongoing strategic position while cooperating with a given competitor. Yet, these strategic positions are dynamic, and are driven by the firm's evolving strengths and weaknesses. Moreover, new marketplace opportunities are continually becoming available to a given firm. Strategies become subject to modification, leading to changes in resource allocation decisions. Over time, the incentive to invest more in cooperating or competing with a given firm will change (BarNir & Smith, 2002).

Coopetition and the Emerging Enterprise

Research on coopetition has focused primarily on larger and/or multinational companies (Dagnino & Padula, 2002; Dussauge *et al.*, 2000; Kanter, 1994). For their part, it would seem that emerging firms confront a distinct set of circumstances that affect the logic of pursuing a cooperative strategy.

Compared to their medium- and large-sized counterparts, smaller ventures are more vulnerable to environmental forces, especially given the limited cash reserves and debt capacity of such organizations, their frequent over-dependence on a limited product/service line, and their tendency to rely on a niche customer base. These firms frequently suffer from a relatively limited market presence, subjecting them to

significant demand fluctuations, aggressive competitor forays, and lack of support from suppliers and distributors. Aldrich and Auster (1986) discuss the 'liability of smallness' in terms of problems in raising capital, fewer tax advantages, and proportionately greater costs from regulation compared to larger firms. Moreover, especially at the early stages of the venture, entrepreneurs are unfamiliar with their roles and the roles of the firm, and are apt to commit a variety of errors and blunders. This phenomenon has been characterized as the 'liability of newness'.

These circumstances would seem to suggest a strong incentive for coopetition within these firms. Coopetition offers potential resources to the severely resource-constrained firm, and represents a vehicle for entering markets the firm is otherwise unable to enter. Separately, while technological advantages can enable a small firm to compete in major markets dominated by larger players, limited resources and capabilities prevent small firms from research and development activities that result in major innovations (Afuah, 2000; Verhees & Meulenbergh, 2004). Relationships with competitors can allow the firm to develop or use technologies it otherwise could not develop on its own. In addition, relationships offer potential scale economies for the small venture, as firms benefit from joint volume opportunities (Gomes-Casseres, 1997; Volery, 1995). Scale economies achieved in this manner allow small firms to lower their costs, reduce capital expenditures, and achieve a larger market presence. Moreover, cooperation allows for organizational learning in key areas where the firm is under-developed and under-resourced.

It can also be argued that small firms should find cooperation with competitors relatively easy. Their fixed commitments are often limited, operations are less constrained by structure, controls, and formal policies, image and market positioning are not well-established in the minds of key publics, and

external networks are not well-defined or solidified. Bird (1989) notes that they can innovate more quickly, are typically less concerned with retained earnings or payout of profits, have employees with less vested interest in how things are done or resources are allocated, and their managers and employees experience more role ambiguity. Woo, et al. (1990) found evidence of entrepreneurs more readily willing to experiment with different competitive options than to refocus decisions related to the scope of the enterprise.

Conversely, while flexibility tends to be a strategic advantage, small firms can also develop "organizational inertia." Woo, et al. (1992) report evidence that inertia can limit the strategic flexibility of small firms as a function of changes in organization size, prior experience of the entrepreneur with similar products, and ownership and age of the venture. However, they also found a dynamic environment would offset this inertia.

At the same time, small firms may have less to bring to a co-competition-based relationship. Their core competencies are in the developmental stage, and learning in these organizations is not likely to be as well-organized or systematic as in larger companies. Separately, co-competition requires attention and investments that can distract entrepreneurs from critical growth and development demands within their ventures. Also, requisite skills in selecting appropriate firms with which to cooperate, and in formulating a workable relationship agreement may be limited in small firms. Yet, errors in these areas can have a devastating impact on these firms.

Ongoing market changes have a notably strong effect on early stage firms, especially those with poor planning skills, insufficient financial resources, and managers having limited professional experience (Premaratne, 2001). An interesting paradox arises. On the one hand, co-competition may better enable the

firm to adapt to changing market conditions (Hakansson & Ford, 2002). On the other hand, changing market conditions serve to modify the relative costs and benefits of a co-competition-based strategy, and the smaller firm may be less adept at deciphering these changes, estimating the evolving costs and benefits, and making the necessary adjustments to the co-competition-based relationship.

Dimensions of Co-competition

Conceptual work on co-competition has tended to treat the competitive and cooperative dimensions independently. An example can be found in the work of Luo (2005), whose sub-dimensions of cooperation included strategic interdependence, subunit form, and technological linkage, while sub-dimensions of competition included local responsiveness, market overlap, and capability retrogression. Yet, the decision to cooperate with competitors does not involve two separate behaviors, but instead requires a set of ongoing actions that are intricately interwoven. The nature of how the firm competes becomes defined by how it cooperates, and vice versa. As such, it is our contention that these dimensions must be considered simultaneously.

More specifically, competition with another firm within one's industry represents the status quo. The decision to cooperate with this firm while continuing to compete with them thus entails a departure from conventional practice as well as from the conventional managerial orientation or mindset. Our ability to properly conceptualize co-competition requires that we approach the cooperative behavior within the context of the competitive behavior.

We propose that three key dimensions underlie the formation of a synergistic relationship with a competitor: mutual benefit, trust, and commitment. There is a duality to each of these dimensions. Each is defined not simply by the interaction between two parties, but by the competitive

context. Hence, one firm trusts the other to meet the requirements of collaboration or sharing, but also not to undermine the ability to compete. Levels of commitment are made that reflect an investment in the competitor while not undermining the firm's own competitive needs and capabilities. Similarly, mutual benefits are ultimately the result of how the relationship impacts each firm's ability to compete. Let us explore each of these dimensions in more detail.

Mutual Benefit

Work on dyadic relationships tends to highlight the importance of trust and commitment (e.g., Morgan & Hunt, 1994). Relationships are pursued to the extent that they are instrumental in achieving utility for the firm. Accordingly, a dyadic relationship must benefit both parties in organizationally meaningful ways, even if the benefit is not equal for both parties (Adler, 1967). Svensson (2002) stresses the importance of mutual benefit in his work on the measurement of mutual dependence between partners in a relationship. It is our contention that, without mutual benefit, the dimensions of trust and commitment cannot adequately capture a cooperative relationship.

Benefits can derive both from competition and cooperation. The difference is that the competitive side of the relationship does not require a mutuality of benefit, while the cooperative side cannot occur without mutual benefit. This distinction is based on the fact that the competitive side of a cooperative relationship involves conflicting interests, while the cooperative side involves compatible interests (Bengtsson *et al.*, 2003). A firm participating in a cooperative relationship with its competitor will have the advantages of pooling resources and capabilities to compete effectively with the other competitors in the market (Amaldoss *et al.*, 2000; Hakansson & Ford, 2002). Dowling and Roering (1996) argue that altering the flow and pooling of unique resources is the main reason for cooperation. Wilkinson and Young (2002) suggest cooperation is a strategy for resource

acquisition while competition is a strategy for marketplace advantage.

It has been suggested that the degree of distance between competitors determines the structure of their relationship (Bengtsson & Kock, 2000). Structure is also affected by the power each party has over the other, and the corresponding dependency of each party on the other (Garcia & Velasco, 2002). Relationship structure, in turn, affects the motivation to identify and act upon opportunities for shared interests. Bengtsson *et al.* (2003) identify four relationship structures among firms: competition, coexistence, cooperation, and cooperation. The level and importance of mutual benefit will differ among these different structural forms, with both arguably being greatest in a purely cooperative relationship. In a cooperative relationship, both will be significant, but determination of benefit levels is typically more complex. These benefit levels can also be expected to vary within the cooperative relationship depending on the relative balance in terms of cooperation and competition.

The dynamics of the relationship are also affected by firm size. Rivalry is often more intensive among firms equal in size and where the firms in a relationship perform similar functions (Gomes-Casseres, 1997). Size affects bargaining power and mutual expectation levels in the relationship.

Whether due to size or other factors, the greater the competitive rivalry between firms, the less will be the opportunity for mutual benefit. This reality is again because the competitive and cooperative dimensions of cooperation are not independent. As mutual benefits are increased, it is likely that cooperation lessens the competition between two firms. Hence, Bengtsson and Kock (2000) find that competition between firms within a strategic group is less intensive than between the firms that are not in a relationship, as competition undermines mutual benefit in the former case.

The structure of the relationship between two

firms determines the purpose and nature of the mutual benefits accruing to the partners, suggesting that each firm's perception of mutual benefit differs based on this structure (Garcia & Velasco, 2002). With a cooperation-dominated relationship, the common goal would be more important than each firm's short-term profit maximization. In a competition-dominated relationship, firms will act to achieve more advantage than the other firm. In the main, success in a cooperative relationship finds the advantages resulting from both competitive conflict and the investments required to build and sustain the relationship are outweighed by the mutual benefit received by each party.

Trust

The critical importance of trust in successful relationships, and especially longer-term relationships, is well-established in the literature (Farrelly & Quester, 2003; Sargeant & Lee, 2004). Trust is the basis for mutual confidence between firms. Available studies focus principally on trust in vertical relationships between firms and their suppliers, distributors, or customers. From a cooperative perspective, the concern is with horizontal relationships, where the concept of trust is less understood and often more complex. In a traditional competitive relationship, some level of trust typically exists, albeit relatively low. Firms may trust one another to not engage in certain practices, such as charging artificially low prices, or behaving unethically. In general, the companies within a given industry have certain common interests, and members of the industry are trusted by their peers not to undermine the industry welfare.

Coopetition produces a unique context for trust, in that a firm must trust its partner in two quite different arenas. According to Bengtsson and Kock (2000), cooperation and competition represent harmony and conflict between firms. The levels of harmony and conflict are quite different in horizontal, compared to vertical, relationships, and have to be managed differently. With coopetition, a partner develops trust regarding how the

other firm will share resources, communicate, meet deadlines, use information, and other aspects of the cooperative dimension of the relationship. At the same time, they must trust the partner to not engage in competitive actions that significantly undermine their own market position. Trust is especially relevant in terms of a firm's convictions regarding how the partner will balance self-interest against mutual interest.

Relationship-based trust has been associated with a number of factors. Sherer (2003) found honesty and reliability were especially important determinants of trust. Jap (2001) emphasized common expectations regarding how the benefits of the relationship are shared. Parker (2000) demonstrated that communication and timely disclosure of information between firms are significant contributors. Requisite levels of trust also tend to be associated with the degree of participation in a relationship (Gnyawali & Madhavan, 2001). Levels of participation, in turn, are influenced in part by the relative power and dependency of each party vis-à-vis the other (Premaratne, 2001). At the same time, high dependency can lead to more participation, even where trust is relatively low. Alternatively, high levels of trust can lead one to participate more, and potentially become more dependent in the process.

The challenge of trust can be especially problematic in early-stage ventures where firms are still learning how to compete. Given their limited resources and more tenuous market position, early stage ventures are more vulnerable to the adverse actions of another economic player. Especially for the embattled start-up firm, learning to trust a company that may have both the incentive and ability to put one out of business places requires considerable judgment and insight on the part of the entrepreneur.

Commitment

Commitment is defined as the desire to maintain a valued relationship through ongoing investments (Sargeant & Lee,

2004). This desire includes a willingness and ability to make both financial and non-financial investments. Garaffo (2002) examines commitment levels in cooperative relationships built around exchanges of existing knowledge, cooperative research and development activities, alliances for setting new standards, and collaborative agreements to integrate existing businesses. He notes the difficulties in estimating the real costs of different forms of commitment.

Commitment entails a process of mutual adaptation, as two parties adjust their expectations, communication approaches, operations, internal processes, and/or approaches to resource allocation to reflect one another's needs, characteristics, and requirements. This kind of adaptation results from organizational learning and ongoing knowledge development. Sherer (2003) stresses the importance of CEO support and dedication, and especially willingness to learn and share, as aspects of commitment.

The degree of each firm's commitment determines relationship viability over time. Commitment levels have been linked to benefit sharing. Amaldoss *et al.* (2000) demonstrate that, when partners share the benefits equally, commitment increases more rapidly. Yet, partners in a cooperative relationship may have an incentive to under-commit given their mixed motives. They commit at a level that detracts from the potential mutual benefits because of the perceived implications for the firm's own benefit or self-interest (e.g., Jorde and Teece, 1989). Further, because each firm's efforts in the relationship affects the success of the partner's business, the implications of under-commitment become more severe (Sherer, 2003). Hence, it has been proposed that firms pursue deliberate strategies that reduce the risk of low commitment (Amaldoss *et al.*, 2000).

Additional insights on commitment can be found in the work by Dussauge *et al.*, (2000), who explore two types of alliances, scale and link, within a cooperative relationship. The two differ in terms of resource contributions

made to the alliance. Scale alliances find partners contributing similar resources, while link alliances involve partners contributing different resource types. The relevance of each reflects the purposes of each partner. Hence, the entrepreneur seeking greater operating efficiencies might be more committed to a scale alliance, while one attempting to combine complementary resources, in order to expand business activities seeks a link alliance. Firms tend to commit to scale alliances when the focus is research and development or production resources, while link alliances are especially relevant for marketing resources.

Interaction Among the Dimensions

Trust is a primary determinant of commitment levels (Sargeant & Lee, 2004). Both trust and commitment develop over time, such that understanding either of them requires a temporal perspective. Each will influence the other as they evolve, with the interactive effect of both contributing to relationship success (Morgan & Hunt, 1994). When partners trust each other and have high levels of commitment, it is easier for them to adapt to the exigencies of the relationship, making the necessary operational changes that generate returns over time. The partners are more likely to share critical information and relevant experiences with each other. Perceived risk levels are lowered and a greater sense of security in using partner resources emerges.

Mutual benefit also influences relationship commitment (Morgan & Hunt, 1994). Firms will commit to more involved relationships when they have opportunities for greater benefits, such as lower costs, improved productivity, wider distribution, higher customer satisfaction, and better product performance. Similarly, trust has a positive effect on mutual benefit, which in turn affects relationship success. Trust is important in shaping the behaviors and intentions of the firm, in that it affects how the firm interprets the behaviors and intentions of its partner (Zabkar & Brencic, 2004). When strong, trust reinforces the

firm's belief that the other party is concerned for the best interest of the relationship, thereby lessening conflict over investment levels and benefit sharing.

Coopetition and Performance

Do small firms that engage in coopetitive strategies perform better? Do stronger coopetitive tendencies result in larger performance gains than weaker coopetitive tendencies? cursory evidence exists to suggest coopetition should have performance implications, although it may depend on the measure of performance being employed.

Small businesses use a variety of measures to determine business performance. While profit is the most heavily emphasized performance indicator (Yusuf & Saffu, 2005), others argue for the importance of both financial and non-financial (e.g., innovativeness, competitive position) indicators (Jarvis *et al.*, 2000).

Combs and Ketchen (1999) use profit as an indicator of performance in a study of inter-firm cooperation. These authors demonstrate that inter-firm relationships (among non-competing firms) provide opportunities for firms to reduce costs or demand price premiums, resulting in superior profits for all parties. Ploetner and Ehret (2006) link inter-firm cooperation to rates of sales growth. Arguably, coopetition affects structural arrangements within a firm, particularly firms with limited scope and scale. Using sales volume growth, profitability, and innovativeness as performance indicators, Meijaard *et al.* (2005) provide evidence of a relationship between organizational structure and small firm performance.

Competitive position is another important performance indicator. Competition in the marketplace is a significant determinant of the activities emphasized within firms to achieve acceptable performance levels. Garcia and Velasco (2002) consider coopetition as a way firms can gain

competitive advantage. They argue that competitive positions of the participating firms will be enhanced depending on the degree of coopetition (see also Dagnino and Padula, 2002). Dussauge *et al.*, (2000) discuss strengthening one's own competitive position by leveraging the resources of another firm.

Yet, there are reasons to think that coopetition can undermine the performance of one or both parties to the relationship. Small firms can find that the cost of the relationship exceeds any future benefit, detracting from profits and undermining their competitive position in the marketplace (Garcia & Velasco, 2002). Further, the coopetitive relationship may offer certain strategic advantages that do not directly translate into financial benefits, even while the relationship entails real costs that may not be affordable given the firm's limited financial resources. Further, as noted earlier, performance benefits occur based on both parties meeting their obligations to the relationship. Common goals are more important than a single partner's profit maximization. Under-commitment by one of the parties will lessen performance of both parties, but especially the party with the greater commitment level. Similarly, a disproportionately skewed or inequitable distribution of benefits between the parties might find the disadvantaged firm performing at levels below what might have been expected absent the cooperative relationship.

THE STUDY

Limited empirical work has been done on coopetition and its performance implications, particularly within small firms. Yet, it is possible to build upon the various studies that have focused individually on cooperation and competition between organizations, as well as the research assessing factors that influence the formation and management of relationships between firms (e.g., Bucklin & Sengupta, 1993;

Hooley & Fahy, 2002; Sherer, 2003). Toward this end, cross-sectional survey research was undertaken with a large sample of owners of small firms in Turkey.

A member of the G20, a consortium of the world's industrialized countries, Turkey is one of the most promising of the emerging nations. Following the implementation of aggressive, market-based reforms over the past twenty years, Turkey is among the fastest growing economies in the world. The country has opened up its markets by reducing government controls on foreign trade and investment, privatizing publicly-owned industries, and liberalizing many sectors to private participation. Its economy is now dominated by a dynamic industrial complex in the major cities, along with a developed services sector. The country has high literacy rates, a per capita gross national income that currently exceeds most of the developing world, and a burgeoning entrepreneurial sector. As such, the experiences of Turkish entrepreneurs with cooperation versus competition would seem to offer valuable lessons for emerging companies in both developing and developed countries across the globe.

Scale Development

In developing appropriate measures, it was important to recognize that firms will behave uniquely if a relationship contains both competition and cooperation at the same time. Moreover, as noted earlier, small firms differ in a number of significant ways from their larger counterparts when it comes to establishing relationships with competitors. Based on the literature review and an assessment of available scales, the twenty-item scale summarized in Table 1 was generated to measure the three proposed dimensions of cooperation.

For the mutual benefit dimension, eight items were employed. Three of them (MB1, MB6, and MB7) were based on measures developed by Ramaseshan and Loo (1998), who report a scale reliability of 0.94. Two

measures (MB2 and MB5) were developed by Hooley and Fahy (2002), with a reliability of 0.92. MB8 was used by Sherer (2003), while the remaining three items were developed by the authors. Six items were employed to measure the trust dimension (T1-T6). These were adapted from Sherer (2003) and Ramaseshan and Loo (1998), who report a reliability score (Cronbach's alpha) of 0.94. The commitment dimension included six measures (COM1-COM6). COM1 was adapted from Ramaseshan and Loo (1998) and Morgan and Hunt (1994); COM2 and COM3 were developed by Ramaseshan and Loo (1998); COM4 is based on items employed by Bucklin and Sengupta (1993) and Sherer (2003); COM5 was adapted from Sherer (2003) and Morgan and Hunt (1994); COM6 is from scales designed by Bucklin and Sengupta (1993). Reported reliabilities were 0.89 for Ramaseshan and Loo (1998), 0.89 for Morgan and Hunt (1994), and 0.84 for Bucklin and Sengupta (1993). The items measuring the three cooperation dimensions employed five-point Likert-type response scales (1=strongly disagree to 5=strongly agree).

Three measures of performance were employed: profit, sales growth (volume), and competitive position. Given the difficulties in obtaining reliable sales and profit figures from smaller firms, various researchers have focused on reports of relative changes over time (e.g., Wijewardena & Tibbits, 1999). Hence, respondents were asked to report the changes in sales, profits, and competitive position over three years using a likert-type format.

In sum, the content validity of the measures was established through the adoption of validated instruments from previous studies. In addition, in-depth interviews with small firm owners were conducted to determine whether each measure fit the aim of the study, resulting in minor changes in the instrument prior to the pretest.

Table 1 - Items Included in the Coopetition Scale

We wish to assess your attitudes toward a situation where your firm collaborates with one of your competitors. Please indicate on a five-point scale the extent to which you agree or disagree with each of the following statements:

MUTUAL BENEFIT
MB1. Even though the partner is my competitor, I would not hesitate to get into the relationship if my competitive position would be enhanced.
MB2. Even though the partner is my competitor, we are open to sharing resources and information.
MB3. Even if I establish a relationship with a competitor, competition with the partner is more important to me.
MB4. When I have a relationship with a competitor, the relationship is more important than competing.
MB5. I am willing to get into a relationship only when my partner has resources such as equipment, knowledge and connections, which I do not have.
MB6. I get into a relationship with a competitor only if both companies are of similar sizes.
MB7. I get into a relationship with a competitor only if the firm is smaller than my company.
MB8. To establish a relationship with my competitor, both companies must have mutual goals and objectives.
TRUST
T1. In a relationship, I establish with my competitor, my partner must be honest and reliable.
T2. In a relationship, I establish with my competitor, I must know that my partner will not pursue conflicting relationships with other firms.
T3. Believing that my partner will try to take advantage of my firm will seriously hinder the relationship.
T4. In a relationship, I establish with my competitor, participants must be willing to share internal information.
T5. In a relationship, I establish with my competitor, internal information must not be used for any other purposes than for the partnership.
T6. In a relationship, I establish with my competitor, my partner must always be faithful to the relationship.
COMMITMENT
COM1. For the success of a relationship I establish with my competitor, I must be completely committed.
COM2. For the success of a relationship I establish with my competitor, my partner must be committed as much as I am.
COM3. Relationships I establish with my competitor are very important to my firm.
COM4. In a relationship I establish with my competitor, the success of the relationship will be higher when my partner is willing to arrange his/her firm's operations according to the structure of the relationship.
COM5. In a relationship I establish with my competitor, both parties must desire to strengthen the competitive position of the partners.
COM6. In a relationship I establish with my competitor, I determine my responsibilities and commitments according to the goals of the relationship.

Data Collection

Because the items were adapted from English language research, and the native language of respondents was Turkish, the survey items were translated. Also, as suggested by Churchill (1979), a Turkish faculty member was asked to translate the Turkish version into English to ensure that translation would match the original one and not lose meaning. Following this, the Turkish version of the questionnaire was pre-tested with a separate sample of 50 small firm owners to determine whether the questions expressed the statements clearly. Based on the pre-test, minor modifications were made to reduce ambiguity.

The final survey involved a mail survey sent to owners of a randomly generated sample of 1,000 small firms located in Ankara, the largest city in Turkey. A government listing of all such firms based on organized industry areas provided the sampling frame. Firms were selected without consideration for the sector in which they operate. All businesses in the sampling frame had between 5-25 employees. After elimination of surveys having non-useable responses, the sample included 647 completed questionnaires, for a response rate of 64.7 per cent. No patterns were identified among respondent firms in terms of industry-type. The high response rate likely reflects the limited extent to which these firms have been surveyed, the involvement of a prestigious university, a reliance on follow-up telephone calls, and an offer to provide respondents an executive summary of the findings.

Finally, company age was used as a control variable in the study, as age has potential implications for the firm's approach to coepetition and the subsequent impact on performance. Older firms may achieve higher performance levels because their expertise and experience, while younger firms may grow rapidly and perform better due to new innovative ideas and dynamic management (Wijewardena & Tibbits, 1999). The median age of the sampled firms was 9.4 years, and so the sample was

partitioned based on this median split.

ANALYSIS AND RESULTS

Assessing the Coepetition Scale

The proposed coepetition scale was evaluated using a three-step approach. First, exploratory factor analysis (EFA) was employed for classifying the items to reflect the underlying structure of the construct. Second, confirmatory factor analysis (CFA) was employed to determine the acceptability of the data. Finally, the reliability of the scales measuring each of the identified factors or dimensions was examined.

Exploratory factor analysis is a useful preliminary technique for scale construction, and is used to purify items. Before the analysis, Kaiser Meyer Olkin (KMO) and Bartlett's Test of Sphericity were used to determine if the correlation matrix is appropriate for factoring. A KMO of .92, exceeding the .60 level suggested by Gursoy and Gavcar (2003), and a Bartlett's Test of Sphericity with $p < .001$ together indicate that factor reduction by exploratory factor analysis can be applied to the data (see Table 2).

Principal axis factoring, rather than components analysis, was used as a variable reduction method. Principal axis analysis seeks the least number of factors which can account for the common variance of a set of variables. Principal component analysis should not be used if a researcher wishes to

obtain parameters reflecting latent constructs or factors (Widaman, 1993). Items with a $> .50$ extraction value were eliminated (see Table 3). The final results produced an 11-item scale. In the new scale, mutual benefit is represented by three items (MB1, MB2, MB7), trust by three items (T1, T2, T4) and commitment by five items (COM1, COM2, COM3, COM4, COM5).

Table 2 - Results for KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.915
Bartlett's Test of Sphericity	<i>Approx. Chi-Square</i>	6538.557
	<i>df.</i>	190
	<i>Sig.</i>	.000

Table 3 - Results for Factor Reduction

Items	Extraction	Items	Extraction
MB1	.825	T3	.346
MB2	.767	T4	.712
MB3	.233	T5	.279
MB4	.417	T6	.288
MB5	.322	COM1	.668
MB6	.402	COM2	.712
MB 7	.686	COM3	.675
MB8	.393	COM4	.373
T1	.696	COM5	.747
T2	.694	COM6	.675

Confirmatory factor analysis using LISREL 8.2 (Jöreskog & Sörbom, 1998) was performed to assess the unidimensionality of the proposed dimensions. The overall chi-square statistic was $(41)=316.08$, $p=.000$. However, the analysis was conducted with a large sample, and chi-square values will be higher as sample size increases (e.g., see Kelloway, 1998). Widely used fit indices exceeding .90, and .87 when adjusted for degrees of freedom (AGFI), indicate an adequate fit [Goodness-of-Fit Index (GFI) =.92; Comparative Fit Index (CFI) =.96; Normed Fit Index (NFI) =.95; Non-Normed Fit Index (NNFI) =.95]. The Root Mean Square Error of Approximation (RMSEA=.10) was at a level supported by Steiger (1990) and the Root Mean square Residual (RMR=.03) was lower than the recommended level of .05.

The results of the CFA are summarized in Table 4. Items loaded on their respective dimensions and all maximum likelihood estimates (MLE's) were $>.70$ and highly significant ($p's<.001$) (the lowest t-value was 26.50 for COM5). Also in Table 4, composite reliability coefficients for the dimensions, which draw on the standardized loadings and measurement error for each item, exceeded the recommended level of .70 (Shook et al., 2004). The Commitment scale had the highest level of reliability (.91). Reliabilities for the Trust (.89) and Mutual Benefit (.88) scales as well as the total composite reliability (.92) of the model were acceptable. Reliability was also assessed for the measures of performance. A Cronbach alpha of .82 indicates that the performance scale is internally consistent.

In the CFA, the dimensions were allowed to

intercorrelate freely (Vandenbosch, 1996). As shown in Table 5, correlation coefficients between Mutual Benefit and Trust and between Mutual Benefit and Commitment were .51 and .52, respectively. These findings support the importance of Mutual Benefit, together with Trust and Commitment, when considering cooptation as a strategy. It is noteworthy that the correlation between Trust and Commitment (.82) was higher than the correlations among the other dimensions. High positive correlations (>.72) were also found among items representing each of the dimensions.

Convergent validity refers to the homogeneity of the dimensions (Churchill, 1979). It exists when t-values are larger than 2.58 and items have standardized loadings higher than .70. Convergent validity can also be evaluated by examining the correlations among the items capturing each of the dimensions. Higher correlations between items indicate convergent validity. Inter-item correlations for each construct ranging from .72 - .84 for items in each construct (see Table 5) support convergent validity.

Discriminant validity occurs when measures of a construct are not correlated with measures of other constructs. As the estimated correlations between constructs were not 1.00, discriminant validity is also indicated (Jones & Suh, 2000). However, as the correlation between Trust and Commitment was quite high, combining the two dimensions may be appropriate. Nevertheless, subsequent results for a model combining these dimensions were weaker than the original.

Relating Dimensions of Cooptation to Performance

Next, the model linking dimensions of cooptation to Performance was evaluated [$\chi^2(24)=69.78$, $p=.000$; RMSEA=.05; RMR=.03; GFI=.98; AGFI=.96; NFI=.99; NNFI=.99; CFI=.99]. The findings suggest that Mutual Benefit and Commitment have a

significant, positive effect on Performance. The t-value for the Trust dimension was non-significant (<1.96 for a two-tailed test). Elimination of Trust from the model produced similar parameter estimates (.30 for effect of Commitment and .09 for effect of Mutual Benefit on Performance). When considering individual items, two measures of Mutual Benefit (MB2, MB7) and three of Commitment (COM1, COM2, and COM6) were positively associated with Performance.

Separately, multi-group analysis was used to identify whether the relationships between dimensions of cooptation and performance differed for younger versus older firms. Goodness of fit statistics ($\chi^2=932.66$, $p=.000$; RMSEA=.26; RMR=.29) suggests that the two groups do differ. For younger firms, [$\chi^2(24)=63.12$, $p=.000$; GFI=.97; AGFI=.94; NFI=.98; NNFI=.98; RMSEA=.06; RMR=.03], the effects of Mutual Benefit (.12) and commitment (.19) on performance were similar to results of the aggregate sample. For older firms, ($\chi^2(24)=89.03$, $p=.000$; RMSEA=.11; RMR=.04; GFI=.92; AGFI=.85; NNFI=.94, CFI=0.96) both Commitment (.22) and Trust (.30) had significant, positive effects on performance.

CONCLUSIONS AND IMPLICATIONS

This study has examined cooptation as a strategy for small ventures, identifying unique challenges when these firms attempt to collaborate with competitors. A scale to measure the cooptative tendencies of smaller firms has been proposed and validated. Following exploratory factor analysis, an eleven-item scale representing mutual benefit, trust, and commitment was produced. Attention has also been devoted to establishing the theoretical basis for these dimensions together with a description of their underlying characteristics. Using a large, cross-sectional sample of small Turkish ventures, the findings suggest that cooptation is not unusual among such firms. In addition, while other studies on inter-organizational relationships have tended to emphasize the impact of trust and

Table 4 - Validity and Reliability of Models

Dimensions	Items	Model 2			Composite reliability coefficient
		MLE	Stand. Err.	t- values	
Mutual Benefit	MB1	.95	.03	31.54	89.29
	MB2	.89	.03	28.71	
	MB7	.87	.03	27.59	
Trust	T1	.90	.03	29.35	87.83
	T2	.92	.03	30.08	
	T4	.89	.03	28.52	
Commitment	COM1	.88	.03	28.34	90.89
	COM2	.90	.03	29.17	
	COM3	.87	.03	27.54	
	COM5	.85	.03	26.50	
	COM6	.85	.03	26.62	

commitment on decisions within collaborating firms, the results indicate that cooperative tendencies are associated with all three dimensions. Moreover, these other studies have tended to focus on vertical

relationships between organizations, such as in a value-added chain or distribution channel, whereas the current research has concentrated on horizontal relationships.

Figure 1 - Results for the Causal Model

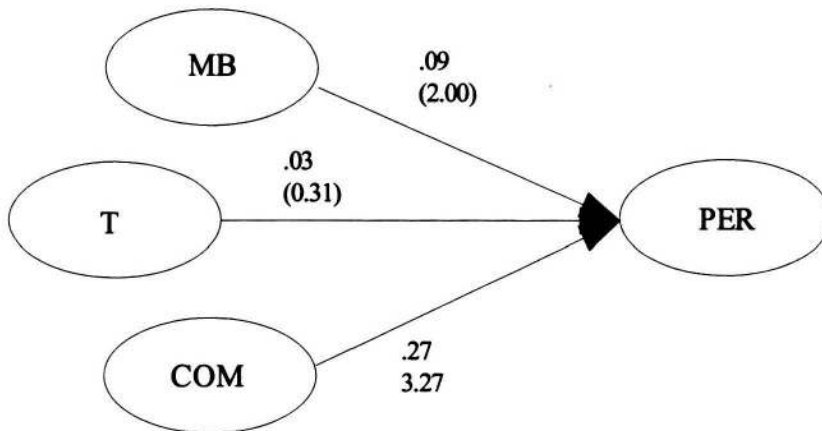


Table 5: Intercorrelations among Dimensions and Variables

	MB	T	COM	MB1	MB2	MB7	T1	T2	T4	COM 1	COM 2	COM 3	COM 5	COM 6
MB	1.00													
T	.51	1.00												
COM	.52	.82	1.00											
MB1				1.00										
MB2				.84	1.00									
MB7				.83	.78	1.00								
T1				.41	.41	.37	1.00							
T2				.45	.43	.41	.84	1.00						
T4				.46	.44	.41	.80	.81	1.00					
COM1				.43	.42	.37	.61	.65	.65	1.00				
COM2				.38	.40	.33	.72	.68	.73	.83	1.00			
COM3				.44	.48	.42	.61	.63	.64	.78	.78	1.00		
COM5				.46	.46	.41	.59	.63	.64	.73	.72	.74	1.00	
COM6				.44	.43	.41	.58	.64	.66	.72	.74	.73	.80	1.00

Hence, for small firms, partnerships with competitors are indeed predicated on mutual benefit, trust, and commitment. The findings for commitment and trust are consistent with the work of Morgan and Hunt (1994) who emphasize the roles of commitment and trust in mediating successful business relationships not involving competitors. However, mutual benefit also becomes critical when working with a competitor, and particularly, benefits related to the resources and information the firms will acquire and the market positions the firms will assume.

With regard to the trust dimension, small firms are more likely to partner with competitors perceived to be honest and reliable. Other key aspects of trust include the sense that partners will be loyal to the relationship, and not arbitrarily leave for alternative relationships, and they will consistently honor their commitments. Further, trust is strongly influenced by openness in information sharing.

For the commitment dimension, the central concern appears to be the perception that the other party is dedicated to strengthening not only their own position, but the relationship's position in the marketplace. Hence, commitment is to the success of the dyad, and so, to the achievement of market advantage by the other party. Similarly, each party has a sense of obligation and responsibility for goals and activities that contribute to relationship outcomes as opposed to organizational outcomes alone.

Yet, trust and commitment must also be coupled with a clear sense that both parties actually benefit from the relationship. While under-emphasized as a unique dimension in other research, mutual benefits obviously can take many forms. The current research suggests that small firms are especially concerned with obtaining resources otherwise unavailable to them, including key forms of information that can serve to enhance their market performance. The

perception of mutual benefit appears to be greater when the prospective partner is smaller in size than the entrepreneur's firm.

The findings also indicate that the three dimensions are significantly correlated with each other. While trust and commitment demonstrated higher inter-correlations, both were positively associated with mutual benefit. It may well be that trust and commitment are more dependent upon one another. At the same time, it would seem that mutual benefit can occur even absent high levels of trust or commitment, while actual levels of benefit realized are subject to uncontrollable influences even where trust and commitment are high.

Importantly, where evaluations on these dimensions are higher, firms appear to perform better. The proclivity to pursue cooperation, when measured in the proposed manner, is associated with enhanced financial performance. This might suggest cooperation is not so much an action of necessity as it is a coherent strategy for mitigating risk and leveraging resources. That is, although working with one's competitor entails some level of risk, it would seem that cooperation is actually a risk management strategy for the small firm. By relying on the intelligence, experience, human resources, and networks of suppliers, distributors and customers of a competitor, the entrepreneur is mitigating the firm's fixed cost investment, lessening learning costs, and exposing the firm to less trial and error. The entrepreneur is doing so at a time when the firm is especially vulnerable to the impact of inappropriate managerial decisions. It is noteworthy, though, that trust was not a driver of performance, while commitment and mutual benefit were. This finding may be due to the tangible gains associated with higher levels of commitment and greater mutual benefit. By itself, trusting a competitor is not enough to effect company performance. Firm age is also an explanatory factor in these findings. Mutual

benefit is a more significant factor in the performance of younger firms, while trust explains performance in older firms. It may be that trust takes longer to establish, and younger firms pursue cooperation when relationships of trust have yet to fully develop. An alternative explanation is that older firms may be more wary, based on experience, of the tendency of other firms to act solely based on self-interest and to achieve short-term advantage---leading them to place greater primacy on trust, and resulting in less impact on performance in the absence of trust.

The study also provides a platform from which a number of directions for future research can be identified. There is a need for more industry-specific research, in that the performance implications of cooperation may well vary depending on the cost structures, competitive intensity, technology base, and related conditions within a given industry. A host of firm-level variables also require investigation in a small venture context. Overall firm objectives (e.g., growth aspirations, rates of return sought), and company strategy (e.g., basis for differentiation, positioning strategy, transactional versus relational approach to customers) would seem especially relevant in this regard. Also important would be firm competencies, levels of resource slack by resource category, and financial structure, among others. In addition, attention should be devoted to inter-firm dynamics when smaller companies collaborate with their competitors. From a dyadic perspective, the implications of differences in the relative power positions, company ages, historical performance levels, customer base, and social and communication-related skills of the partnering firms might hold important implications for the impact of cooperative strategies. Finally, the proposed scale was specifically developed for application within small firms, and was applied to Turkish firms. As such, further work is needed to ascertain its applicability to once firms achieve certain size thresholds, and in other

country contexts. Movement forward on these and related questions will hopefully be facilitated by the scale development and testing work presented here.

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