

Unmasking conflict in vertical coopetition

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Abstract

Purpose – The purpose of this study is to increase understanding about vertical coopetition from the perspective of interrelated conflict episodes on multiple levels.

Design/methodology/approach – The empirical part is based on a qualitative single case study of a cooperative buyer-supplier relationship in the manufacturing sector.

Findings – Conflicts in vertical coopetition evolve from being merely functional and task-related to becoming dysfunctional and relationship-related, as the level of competition increases. The nature of conflict episodes influences the development of vertical coopetition, and therefore, the interrelatedness of conflict episodes is important to acknowledge.

Practical implications – Although a conflict is considered functional within a company, it may still be dysfunctional as far as the cooperative relationship with the buyer or seller is concerned. Competition may trigger conflicts related to protecting own technology and knowledge, which may lead to termination of the cooperation, therefore coopetition should be managed in a way that balance sharing and protecting important knowledge to get advantages of coopetition.

Originality/value – The findings enhance prior research on vertical coopetition by offering new perspectives on causes of conflicts, their management, outcomes and types. The value of taking a multilevel approach lies in the ability to show how conflicts occur and influence other conflicts through the interrelatedness of conflict elements on different levels.

Keywords Case study, Conflict, A multilevel perspective, Vertical coopetition

Paper type Research paper

1. Introduction

The simultaneous existence of cooperation and competition that is coopetition, has recently attracted interest both in practice and research (Chai *et al.*, 2019; Crick, 2020a; Crick and Crick, 2019; Liu *et al.*, 2020; Tidström *et al.*, 2018). Coopetition can be defined as “a paradoxical relationship between two or more actors, regardless of whether they are involved in horizontal or vertical relationships, simultaneously involved in cooperative and competitive interactions” (Bengtsson and Kock, 2014, p. 180). The intention of coopetition is to create value (Gnyawali and Ryan Charleton, 2018), by combining the advantages of cooperation and competition through combining resources to reach a stronger position in the global competition (Liu *et al.*, 2020).

Most coopetition research focuses on horizontal relationships, and there is little academic research on vertical coopetition (Chai *et al.*, 2019; Lacoste, 2012). Vertical coopetition is different from a cooperative buyer-seller relationship in that it involves cooperation and competition simultaneously. It may be challenging to balance the opposing forces of cooperation and competition in buyer-seller relationships. Therefore, it is important to enhance the knowledge of the competitive aspects of

buyer-seller relationships by focusing on vertical coopetition (Dorn *et al.*, 2016).

In existing research, there are several perspectives of vertical coopetition. First, vertical coopetition can be seen as “on-going exchange relationships of goods and/or services between firms that are simultaneously involved in both cooperative and competitive business activities with one another” (Soppe *et al.*, 2014, p. 552), as vertical partners in value chains (Chai *et al.*, 2019). Second, vertical coopetition has been related to supplier relationship management, where it is viewed as the tension between value creation and appropriation (Lacoste, 2012). Third, vertical coopetition can be seen from a market-based perspective, and relate to two competing firms that are involved in a supplier-retailer relationship concerning a specific product. Here, competition is horizontal and cooperation vertical and takes place at different levels of the firms’ value chain (Robert *et al.*, 2018). A similar perspective is to view vertical coopetition as a situation where a firm is a buyer or supplier in a relationship

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with a competitor (Dowling *et al.*, 1996; Lechner *et al.*, 2016). This means that the firms collaborate in a client-supplier relationship, and are competing upstream or downstream of this cooperation (Pellegrin-Boucher and Le Roy, 2009). This is the perspective of vertical cooptation that we apply in our study.

A study by Pellegrin-Boucher *et al.* (2013) shows that vertical cooptation usually starts with long-term vertical collaboration between the firms, that suddenly also becomes competition because of competitive action taken by one of the firms. Cooptation naturally involves a tension of two opposing logics, namely, cooperation and competition, which may lead to conflicts (Gnyawali *et al.*, 2016; Le Roy and Fernandez, 2015; Sabri *et al.*, 2020; Tidström, 2018). Conflicts in business relationships have attracted scholars from the traditional buyer-supplier relationship viewpoint (Shahzad *et al.*, 2020) and cooptative relationship view (Tidström, 2018). Conflict management is one critical success factor in business relationships, as conflict outcomes may be functional or dysfunctional for the relationship (Eckert and Rinehart, 2005). Dorn *et al.* (2016) describe the cooptation literature as relatively undeveloped in terms of addressing tensions and conflicts.

As far as vertical cooptation is concerned, tensions are typically related to the degree of vertical integration and to shares of margins and price negotiations (Wilhelm, 2018). However, there are recent calls for research on why conflict arises, how to manage conflict and how it evolves over time in vertical cooptation (Johnsen and Lacoste, 2016). The importance of time is stressed in prior cooptation research (Tidström and Hagberg-Andersson, 2012), which implies that cooptation develops over time based on interrelated conflict episodes. Therefore, we argue that conflict in vertical cooptation should be viewed from a dynamic perspective, as one conflict episode influences another. Moreover, the interrelatedness of the conflict episodes influences the development of vertical cooptation.

In addition to being dynamic, conflicts in cooptation are also multi-level. A recent study (Crick, 2020b) shows that cooptation-oriented mindsets and cooptation-oriented behaviors may take different forms on different levels of cooptation. Cooptation research includes a recent, but little recognized, research stream focusing on conflicts from a multilevel perspective (Gnyawali *et al.*, 2016; Raza-Ullah *et al.*, 2014). A multilevel perspective implies studying a phenomenon on multiple levels, such as the individual level, intra-firm level and inter-firm level. Dorn *et al.* (2016) stress that most cooptation research focuses on the inter-firm level, whereas research on the intra-firm level is scarce. Cooptation is an inter-firm level phenomena, but it has effects on other levels as well; for network, intra-firm and even for individual level (Hani and Dagnino, 2020; Rajala and Tidström, 2017; Sabri *et al.*, 2020). Therefore, it is important to study cooptation as a multilevel phenomenon occurring on different levels of analysis (Hani and Dagnino, 2020). Existing research on vertical cooptation has focused on the intra-firm level that is the buyer (Chai *et al.*, 2019). There is a call for more research on conflict from the perspectives of both the buyer and the seller that is the inter-firm level (Celuch *et al.*, 2011; Lacoste, 2012; Tang *et al.*, 2017).

Managers are often used to buyer-seller relationships that are cooperative, and therefore, it is important to increase awareness about buyer-seller relationships that also involve competitive activities. Competition increases the risk of losing core-competence and of opportunistic behavior. Moreover, vertical cooptation may lead to conflicts or termination of relationships, and therefore, it is essential for managers to understand the nature of conflicts in vertical cooptation.

The aim of this study is to increase understanding about vertical cooptation from the perspective of interrelated conflict episodes on multiple levels. The research questions are as follows: what is the nature of conflict episodes in vertical cooptation? How do vertical cooptation relationships develop through conflict episodes? The theoretical part of the study is based on prior research on horizontal and vertical cooptation, buyer/seller business relationships and conflict management. The content of the theoretical reference frame is chosen based on the fact that there are scarce studies focusing on conflicts in vertical cooptation, and cooptation as a phenomenon can be comparable in vertical and horizontal business relationships (see definition of cooptation in Bengtsson and Kock, 2014). The empirical part of the paper is based on qualitative single case study research on a cooptative buyer-supplier relationship within the manufacturing industry.

Our study has several contributions to prior research on vertical cooptation, as we unmask and shed new light on vertical cooptation from several perspectives. First, we contribute to research on vertical cooptation from the perspective of cooperation between a buyer and a seller that also competes horizontally in relation to a customer. Second, our findings add insights into conflicts and conflict management. Third, we put forward a dynamic perspective of conflicts and how they influence the development of vertical cooptation. Simultaneously, we present a new perspective of vertical cooptation, and that relates to how it can develop over time and consist of several conflicts and different competitive activities by the firms involved. Fourth, we introduce a multilevel perspective of vertical cooptation and the conflicts involved. Thereby, we respond to several recent calls for research related to cooptation.

The paper is structured as follows: the theoretical background is described in Section 2. Thereafter, follows a presentation of the methodology in Section 3 and after that, the findings of the study are presented and analyzed in Section 4. In Section 5, the findings are discussed in light of prior research. Section 6 comprises conclusions, together with managerial implications and suggestions for future research are presented.

2. Theoretical background

2.1 The nature of conflicts in cooptation

Prior research suggests conflict can be defined as a situation or episode arising from incompatible perceptions of the actors concerning the benefits and goals of the relationship (Finch *et al.*, 2013). Moreover, cooptation research shows that conflict is multidimensional and can occur on different levels (Dahl *et al.*, 2016; Dorn *et al.*, 2016; Fernandez *et al.*, 2014; Tidström, 2008, 2014) such as the inter-firm, intra-firm and the inter-individual levels. It has also been proven that activities on different levels are related in cooptation and can influence

each other (Bengtsson *et al.*, 2010; Bengtsson and Kock, 2014; Rajala and Tidström, 2017). Tidström and Hagberg-Andersson (2012) studied horizontal cooptation from a multilevel perspective and found that a business relationship tends to develop from cooperation to competition through knowledge sharing followed by sales-related activities and opportunism. Tidström and Rajala (2016) focused on vertical cooptation from a multilevel perspective and found that cooptation develops over time as a consequence of interrelated strategic practices and praxis on multiple levels. Moreover, the findings of that study showed that the activities undertaken by individuals and teams are influential in terms of shaping cooptation strategy on several levels.

In addition to a multi-level- and dynamic perspective, it is also important to recognize outcomes of conflict in vertical cooptation. Traditionally, literature on buyer-seller relationships considers conflict as a “dark side” of those relationships (Johnsen and Lacoste, 2016). For example, Grandinetti (2017) has found that buyer-seller relationships based on cooperation, where one actor behaves opportunistically, can be damaged based on trap or secret. Trap means that the other actor is aware of the opportunistic act but becomes trapped based on power and dependency, whereas secret implies that one actor keeps a secret from the other. This secret may, for example, relate to knowledge. However, a conflict can have consequences that are largely positive (Dwyer *et al.*, 1987; Lê and Jarzabkowski, 2015; Menon *et al.*, 1996; Tang *et al.*, 2017). Addressing buyer-seller relationships, Skarneas (2006, p. 568) explicated functional conflict by defining it as, “an evaluative appraisal of the results of recent efforts to manage disagreements” and argued that it refers to situations “where conflict aftermath or outcome results in long-term benefits to both exchange partners.” To the best of our knowledge, there is no existing research on functional and/or dysfunctional outcomes of conflict in vertical cooptation, although it would be important to know how to manage a cooptative relationship between buyers and sellers to attain functional outcomes.

2.2 Types and causes of conflict

In addition to the outcomes of conflict, it is important to identify the type and cause of conflict. Jehn and Mannix (2001) presented three types of conflict, namely, task conflict, process conflict and relationship conflict. Task conflict relates to the awareness of differences in viewpoints and opinions on a task. Typical task conflicts in vertical cooptation concern shares of margin and price negotiations (Wilhelm, 2018). Process conflict involves diverging views on how a task will be accomplished. Relationship conflict is defined as “the awareness of interpersonal incompatibilities, including affective components such as feeling tension and friction” (Jehn and Mannix, 2001, p. 238). Prior research has shown that task and process conflicts are functional, while relationship conflicts are dysfunctional (Parayitam and Dooley, 2009). Similar results have been found in a recent study of vertical cooptation showing a negative indirect effect of vertical cooptation on efficiency process innovation via relationship conflict, whereas a positive effect was found regarding task conflicts (Chai *et al.*, 2019).

With regard to the causes of conflict, research on horizontal cooptation has found that conflicts may be related to explicit or implicit differences in the strategies and goals of the actors (Fernandez *et al.*, 2014). Conflicts may be silent, for example, hidden priorities, divergent economic interests and different strategies and approaches (Gnyawali *et al.*, 2016). Moreover, the sharing of knowledge and other resources can encourage opportunism, where one of the parties exploits the other party’s interest (Fernandez and Chiambaretto, 2016; Osarenkhoe, 2010). The above-mentioned conflicts can all be considered task or process conflicts. As far as relationship conflicts are concerned, cooptation literature often views conflicts through a role-conflict lens (Bengtsson and Kock, 2000; Raza-Ullah *et al.*, 2014). Role conflicts stem from the tension between cooperative and competitive orientations and can be found at the organizational or individual levels. However, the role-conflict lens focuses attention on the tension created by the opposing forces of competition and cooperation and does not illustrate how conflicts can be the force that influences these opposing dualities.

2.3 Conflict management in cooptation

Conflict management is a critical task for cooptative organizations seeking progress, such as in performance (Raza-Ullah *et al.*, 2014; Seran *et al.*, 2014). Most cooptation research focuses on two opposing principles applied to managing cooptative tensions, namely, separation and integration (Fernandez and Chiambaretto, 2016). Separation is based on the idea of separating cooperation and competition inside the company (Bengtsson and Kock, 2000; Seran *et al.*, 2014). Integration is based on the idea that individuals must develop a cooptative mindset and integrate cooperation and competition to implement a successful cooptative strategy (Fernandez *et al.*, 2014). However, research on separation/integration is mostly based on horizontal cooptation between competitors in R&D projects related to new product innovations, and therefore, separation/integration approaches may not be suitable for other types of cooptation (Pellegrin-Boucher *et al.*, 2018).

There are more suitable management techniques than separation/integration available when focusing on situations of conflict in cooptation, namely, specific styles of managing conflicts – collaboration, competition, compromise, avoidance and accommodation (Thomas and Kilmann, 1974). *Collaboration* means the search for an optimal, win-win outcome that fully satisfies all parties involved. The involved parties attempt to find new and creative solutions by focusing on both the needs of the actors and the needs of the network (Gross and Guerrero, 2000). Doing so implies both a high degree of concern for oneself and for others involved in the cooperation. For example, Shahzad *et al.* (2020) found that contract completeness between companies in a supply chain facilitates a more cooperative approach toward conflicts. *Competition*, again, is usually related to win-lose outcomes. Moreover, it often implies behavior that can be interpreted as forceful. *Compromise*, again, is associated with situations when both parties give something up and make a mutually acceptable decision (Rahim, 1983). *Avoidance* means both to low concern for self and uncooperativeness, and that the conflict is

suppressed and denied. *Accommodation* implies a focus on the benefit of the other party to one's own detriment.

These conflict management styles have been applied or recognized in research on inter-firm cooperation, such as retail networks (Bradford *et al.*, 2004) and horizontal cooptation (Tidström, 2008, 2014; Welch and Wilkinson, 2005). These styles of conflict management have not been investigated in prior research on vertical cooptation, and therefore, this study fills an important gap. Moreover, Bouncken and Fredrich (2016) argue that different types of conflict management techniques may be required for different levels of cooptation, and this will also be explored in the current study. The tentative theoretical reference frame of this study is illustrated in Figure 1.

The focus of this study is on conflict episodes in vertical cooptation. We explore types of conflict, the management of conflict and conflict outcomes on multiple levels. Moreover, we focus on the dynamics of conflict in vertical cooptation both through the interrelatedness of the elements of a conflict episode, and through the interrelatedness of different conflict episodes. The tentative framework guides our empirical study of vertical cooptation related to a buyer seller relationship consisting of vertical cooperation and horizontal cooptation.

3. Method

3.1 Research approach

The empirical study is based on qualitative single case study research. Case study research is often used in cooptation research (Dorn *et al.*, 2016) and has proved valuable when studying the management of the simultaneous existence of the opposing forces of cooperation and competition (Fernandez *et al.*, 2014; Gnyawali and Park, 2011). A single case study was considered the most appropriate research approach because the study focuses on a relatively new research subject (Easton, 2010; Eisenhardt, 1989).

A single case can also be suitable when the aim is to understand how inter-firm interaction develops over time. Using a single case study approach allows us to explore dynamics across different levels (Bansal and Corley, 2011), which is essential in understanding conflicts on multiple levels in vertical cooptation.

Although single case study research has been criticized for lacking external validity and for offering poor generalizability of its results, it has been also argued that a single case study can be useful when investigating complex structures (Dubois and Gadde, 2014). A single case study method approach allows for an extensive description and an in-depth analysis of rich data

and context dependent issues (Bodolica *et al.*, 2015; Dubois and Gadde, 2014; Melewar and Skinner, 2018). Cooptation constitutes a very specific and sensitive context that is both complex and which includes the inbuilt tensions between cooperation and competition.

A qualitative research approach is considered appropriate because the study aims to richly describe the existence of a phenomenon (Dubois and Gadde, 2014; Siggelkow, 2007) and to explore it on multiple levels of analysis (Yin, 1984). A qualitative approach is also considered suitable to capture the nature of the studied phenomenon, which is complex and dynamic and involves interaction between multiple levels of analysis (Patton, 2002).

According to Lincoln and Guba (1985, p. 202), purposive sampling concerns "maximizing information instead of facilitating generalization." The single case of this study was purposefully selected as a case exemplifying a long-term business relationship that developed over time and came to be based on both cooperation and competition. The case concerns a relationship between two companies within the manufacturing sector, namely, Alpha and Beta. Alpha is a large multinational company and has multiple suppliers of components, parts or separate products that are attached to its own products, which are then sold on to its customers. Beta is also operating worldwide with its own products that are used as components or parts of bigger solutions.

3.2 Data collection and analysis

To receive rich data and in-depth knowledge of the researched phenomenon, case studies are often based on several research methods. In this study, we have used both interviews and written documents. During the interviews, the informants told about the development of the cooptative business relationship from the perspective of conflicts. The written documents provided specific information regarding conflicts, such as the introduction of competing products, plans for how to manage conflicts both within and between the firms and agreements related to solving conflicts.

In total, 12 interviews were conducted; 9 with Alpha staff members and 3 with staff from Beta. We interviewed more staff from Alpha than from Beta because research access was originally granted by Alpha and Alpha also had more people involved in the interactions with Beta than vice versa. In total, 10 of the interviews were personal interviews and 2 were conducted by telephone owing to geographical distance. All persons directly involved in the interactions between Alpha and Beta were interviewed. The informants were a director (one interview), a general manager (one interview), a business unit manager (one interview), category managers (two interviews), a key account manager (one interview) strategic purchasers (five interviews) and an engineer (one interview). Interviewing people holding different positions in the organizations made it possible to gather information from the intra-firm, inter-firm and inter-individual levels. The informants were selected based on a snowball sampling method, which is a technique designed to find informants possessing rich information. In practice, the technique relies on informants leading the researcher to other informants who could advance the research in question (Janesick, 2000). The length of the interviews varied between 25 and 85 min and the average length was 49 min. All

Figure 1 Tentative framework

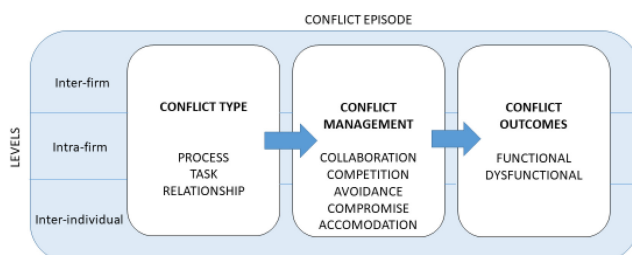


Table 1 Summary of the interviews

ID	Position	Interview duration(min)	Transcript length (pages)
A1	Category Manager	83	27
A2	Category Manager	85	32
A3	Development Engineer	47	17
A4	Director	43	15
A5	Strategic Purchaser	53	20
A6	Strategic Purchaser	29	10
A7	Strategic Purchaser	40	15
A8	Strategic Purchaser	25	11
A9	Strategic Purchaser	39	31
B1	Key Account Manager	56	11
B2	Business Unit Manager	61	21
B3	General Manager	28	12
	<i>Total</i>	<i>589</i>	<i>222</i>

(A = Alpha, B = Beta)

interviews were recorded and transcribed. Table 1 presents the positions held by the interviewees, the duration of the interviews and the length of the transcript.

In addition to the interviews, the researchers acquired information from documents including minutes of company meetings, including both internal meetings at Alpha and meetings between Alpha and Beta, presentation slides (from both types of meeting), e-mails, other documents (excel spreadsheets and to-do lists) and the web pages of the firms.

As far as the analysis of the empirical material is concerned, the interview transcripts and the documents were considered as equally important and they were analyzed in a similar way. When determining the nature of the cooptation and the conflicts, we applied a cognitive perspective (Porac *et al.*, 1995), according to which the perceptions of managers matter. Content analysis was used in the analysis of the empirical material. The analysis was inspired by the technique used by Corley and Gioia (2004), who explored a change process in an organization from a qualitative perspective. In accordance with that technique, first-order concepts are developed into second-order themes, which are combined into aggregate dimensions. The first-order concepts are derived from groups of initial concepts that are identified in the interview transcripts. Thereafter, second-order themes are identified by grouping-related and or similar initial concepts. Finally, overarching dimensions are constructed based on a categorization and grouping of related second-order themes. The aggregate dimension represents the findings of the empirical study.

The empirical material was analyzed by following the timeline; namely, what occurred and when. From a time-perspective, we were able to identify three conflict episodes; those episodes encompassed the cause, management and outcome of the conflict. In the coding of the empirical material, the conflict episodes are temporally embedded, so they are connected to each other from a time perspective, so that the first conflict episode spurs the second and the second influences the third (Halinen, Törnroos and Elo, 2013).

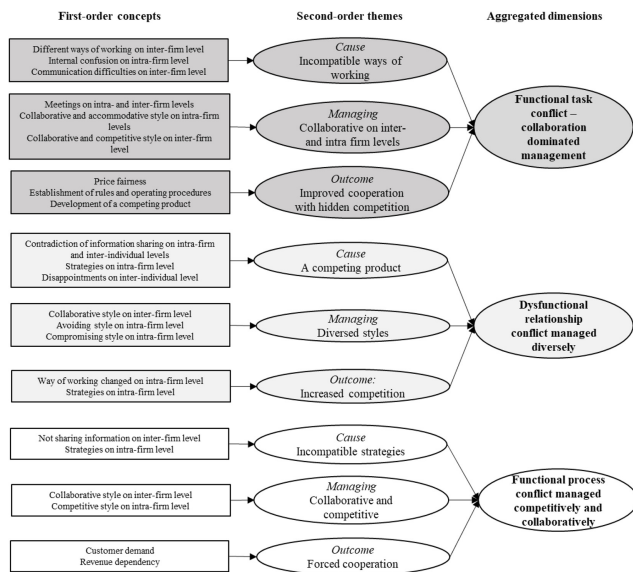
We started the coding from the interview transcripts and by considering time, we were able to categorize the material into three conflict episodes. In the second stage of the coding, we more thoroughly analyzed each conflict episode starting from

the one that occurred first from a time perspective. In relation to each conflict episode, we analyzed causes, management and outcomes. First, we used the interviewees' words and phrases to identify categories to build first-order concepts related to causes, management and outcomes. Second, the first-order concepts were grouped into second-order themes. Finally, by analyzing key concepts of the second-order themes, we were able to identify three aggregate dimensions, which represent the conflict episodes.

For example, the interviewees described their way of doing business in terms of, "Alpha traditionally dares to throw itself into new worlds [...] and creates success through doing that [...]" (Alpha employee) and "Alpha is always moving ahead [...]" and a company such as Beta [...] is like conservative, before you change something in the industry it takes 20 years [...] this is how we were behaving [...]" (Beta employee). These kinds of quotes were categorized as the first-order concept, "differences in the way of doing business on inter-firm level." The first-order concepts were then coded into second-order themes based on the tentative theoretical framework. Thereafter, these categories were combined into aggregate dimensions representing episodes of conflict. These episodes are categorized into functional or dysfunctional based on the nature of the outcome of the conflict episode, which is reflected both in managerial perceptions and in the applied conflict management style. The rich qualitative material was consequently analyzed in a thematic way and the analysis proceeded progressively from broad concepts to key themes (aggregated dimensions) (Miles and Huberman, 1994). NVivo10 was used as a tool for the analysis.

To increase the trustworthiness of our research, we gathered empirical data from both firms involved in the vertical cooptation case studied. Moreover, we used plenty of different empirical material such as interviews, e-mails, memos from meetings, PowerPoint presentations and web pages and were therefore, able to triangulate evidence from several sources. Two researchers were present for the interviews, which increased the trustworthiness of the interview material as both interviewers raised clarifying questions and later discussed the nature of the interview to ensure they shared a complete understanding of what was said. Two researchers were also

Figure 2 Data structure



involved in analyzing and coding the empirical material, which also increases the chances of presenting trustworthy findings. To ensure the transparency of our findings, the empirical material forms of the voices of interviewees' and/or written documents are shown in the analysis (first-order concepts) and the data analysis process is clarified in Figure 2 to illustrate the logic of analysis (Bansal and Corley, 2011).

3.3 Empirical setting

Our longitudinal case study focuses on a traditional multinational manufacturing company, Alpha and its relationship with a supplier, Beta. The collaboration between the companies started around 1990, and at that time, the relationship was mutually beneficial and friendly. One of Alpha's business units sells a solution; and a crucial part of that solution is supplied by Beta. That crucial part of the solution is not a component, it is a self-contained product and it is actually the main business of Beta. Alpha is the second biggest customer of Beta.

The solution business was initially a marginal business for Alpha, but it began to grow around 2008. In 2009, the growth of the solution business was continuing apace, and Alpha established a team to handle it. Over time the solution team developed its own more compact substitute for Beta's product. The product was launched in 2010 and since then the relationship between the companies has been competitive. Both companies have developed products that compete with those of the other company, while simultaneously cooperating by acting as buyer and seller in relation to one another.

In recent years, Alpha's purchases from Beta have decreased owing to Alpha pursuing a deliberate strategy to increase the sales of its own product. However, Alpha is still forced to buy some products from Beta to supply spare parts for products sold previously. In 2016–2017, approximately one-quarter of the solutions were still sold with Beta's products, which constitutes a significant volume of solutions as that area of business has grown dramatically over the years. It is possible to identify several conflict episodes in this competitive vertical

business relationship, and these are elaborated upon in the next section.

4. Findings

4.1 Functional task conflict – collaboration dominated management

The cooperation between the companies started in 2008, when they operated as buyers and sellers in relation to each other and they openly shared product-related information. This access to information improved the buyer's knowledge in terms of what it could demand from the supplier but also served as a resource for the development of a competing product. Simultaneously, as the supplier provided the buyer with the particular product, the buyer started developing a similar product, and thus, the relationship between the companies also included competition. According to an informant (A2 category manager), the buyer viewed both customers and suppliers as potential competitors and had a strategy of expanding its business from a value-chain perspective.

Between 2009 and 2010, the first conflict episode occurred and it concerned the *product-related issues of modifications and price*. During this time, demand increased for the buyer's solutions, and it needed the supplier to modify the supplied product to fulfill customer demands. This was complicated by the fact that the companies on an inter-firm level had interaction difficulties because of different ways of doing business. Alpha was bold and wanted to take over untouched business areas, while Beta was more conservative and quite slow to adopt new approaches.

Alpha traditionally dares to throw itself into new worlds[...] and creates success through doing that [...] (Alpha, A1 Category manager).

Alpha is always moving ahead [...] and a company like Beta [...] is [...] conservative, before you change something in the industry it takes 20 years [...] this is how we were behaving [...] (Beta, B2 Business unit manager).

Furthermore, at an intra-firm level, there were problems in Alpha concerning communication between units. Coordinated internal communication between individuals in different units was rare and many different individuals talked with the supplier from different perspectives, which from the supplier's viewpoint meant that different individuals from Alpha asked Beta for different product changes, without knowing that someone already had asked for a different type of change. Sometimes even conflicting changes were asked for.

[...] also in this case, in our organization, in some cases it is more difficult because we do not even internally know what we want [...] (Alpha, A5 strategic purchaser).

Also Beta faced challenges on an intra-firm level, and these were related to changes in personnel. The changes led to temporary shortages in personnel, which again caused problems on an inter-firm level as Beta did not respond to Alpha's inquiries and Alpha could not deliver solutions to its customers on time.

The reason for this (not answering inquiries for up to 4–5 weeks) according to Beta is that there have been many personnel changes within Beta in recent months. At the same time, business has been booming and there has been a dramatic increase in inquiries. Beta is actively recruiting additional resources in order to meet customer demands but it will take some time due to the engineer shortage. (Minutes of meeting, participants A1, A2, A3, A4, A5, B1, B3)

In addition, there were interaction challenges on inter-firm level as the buyer faced increasing demand and the supplier was unable to deliver.

[...] They (Beta) were drowning in work and were not able to finish a thing, and we already asked for another thing, because our business growth was exponential [...] (Alpha, A1 category manager).

[...] (the mindset) was like we won't change that, we'll keep it, this is the model. (Beta, B1 Key account manager)

This inter-firm level conflict also caused delays in deliveries of solutions to the buyers' customers. The conflict was managed on an intra-firm and inter-firm level. On an intra-firm level, the buyer used a collaborative conflict management style by organizing an internal meeting (where A1–A5, A9 attended) to decide collectively on the required product changes. Moreover, it was decided internally to adopt a common communication strategy when interacting with the supplier and to facilitate timely deliveries by providing forecasts to the supplier.

[...] if there is something unclear, who should we contact. In such a way that it is clear to the supplier which are the open issues [...] (Alpha, A1 category manager).

Following attempts to manage the conflict on an intra-firm level, it came to be managed on an inter-firm level through a collaborative style involving a face-to-face meeting between the actors. The inter-firm meeting was purposefully arranged to find solutions to the issues related to communication and product changes. Initially, common rules of communication were agreed on, including a list of contact people. Moreover, the buyer and the seller also agreed on necessary product changes.

[...] a new set of short-term rules were established and accepted by Beta. (Minutes of meeting, participants A1, A2, A3, A4, A5, B1, B3)

The outcome of the conflict was perceived positively by the buyer because communication improved after the meeting. However, at the time of this particular conflict, the buyer had started to develop its own improved version of Beta's product to be able to modify products more easily in the future. Beta was not aware of this competitive activity. Moreover, the buyer was spurred toward competition by great business opportunities and the continuing challenges in the relationship with the supplier.

The supplier increased the price every time a product modification was made, but the increases were not approved by the buyer, which perceived that those price increases were not aligned with the supplier's costs.

[...] the price had jumped through the roof, for every single small change they charged a terrible sum of money [...] (Alpha, A1 category manager).

To manage the situation on an intra-firm level, the buyer adopted a collaborative style in internally investigating the costs of all components of the particular product and producing a cost breakdown structure. Alpha's development of its own competing product meant the firm knew the cost of components, and subsequently, the cost breakdown structure was used as a tool for conflict management at a face-to-face meeting with the supplier, A1, A3, A4, B2 and B3 were present in the meeting. During the meeting, the price-related task conflict was then managed by adopting a competitive style at the inter-firm level, as the buyer wanted a lower price and tried to convince the supplier that the price was too high.

Meanwhile, the supplier used an accommodating style and acceded to the requests to lower the price. Nevertheless, the outcome of the conflict was still positive, as both parties shared the perception that the outcome was correct.

[...] they even admitted that our view was the correct one, and agreed that the price should be reduced [...] (Alpha, A1 category manager).

The outcome of the conflict was the supplier providing the buyer with lower-priced products, and both parties perceived that price fairness had been reached. Moreover, the conflict led to improved cooperation between the firms. However, the outcome is still coupled with hidden competition, as during the period of conflict, the buyer had completed the development of its own product that was to compete with the supplier's product.

4.2 Dysfunctional relationship conflict managed diversely

The following phase of the competition between the firms is characterized by a higher level of competition because of the competing product of the buyer. However, the companies still cooperated as Alpha was buying the same product from Beta that was not aware about the competing product, which Alpha had developed in silence. The launch of Alpha's competing product triggered a relationship conflict, and, more specifically, it concerned the buyer's sales of that product. An influential issue underpinning this conflict was that the buyer had shared the information, including technological aspects, on its new product in a press release.

[...] documents on their home pages [...] we got the information (about Alpha's product) from the internet and from that time on we received no more orders [...] (Beta, B1 Key account manager).

The information concerning the competing product not only reflects an influential issue on an inter-firm level but also on the intra-firm and inter-individual levels in the buying organization. On an intra-firm level, one unit preferred to share technical information about the product, whereas the unit working closely with the supplier did not. Moreover, intra-firm level interaction regarding issuing a press release was lacking and the unit working closely with Beta was not aware of the press release before it was published. Consequently, the differences in perceptions were found to be on an inter-individual level between individuals working in the different units.

[...] we panicked; it was not supposed to be public knowledge. But of course, Alpha wants to show what it can do [...] (Alpha, A1 category manager).

However, according to one of the informants (A3 development engineer), the buyer not informing the supplier about its competing product damaged the relationship with the supplier and the level of perceived competition increased.

This is in contrast with the cooperative activities of the buyer, taking place just before the press release of the competing product. At that time, Alpha had approached Beta on the subject of new joint business opportunities. However, pursuing those opportunities would have again required Beta to modify its product, something that the firm's conservative strategy meant it was unwilling to do.

they were pushing us to change [...] they saw that we were not responding as they were expecting [...] (Beta, B2 business unit manager).

The supplier's unwillingness to modify its product was not in line with the strategy of the buyer that clearly wanted to strengthen its position on the market. Therefore, when the buyer was approached by a customer in the exclusive markets who wanted to buy directly from the supplier, the buyer started offering its new own product to the customer at a price 10% lower than the supplier could offer. Simultaneously, the buyer was still buying the particular product from the supplier. This indicates simultaneous cooperative and competitive activities in the relationship between the buyer and the supplier.

After competition became evident, Beta wanted to know if Alpha was going to replace Beta's product with its own competing product. According to one informant (A5 strategic purchaser), Alpha's strategy was first to try to get a longer price contract with Beta, and thereafter to break the news of its reduction in demand.

[...] we had plans even at a quite early phase that this (selling Alpha's own product) should be the future [...] (Alpha, A3 category manager).

However, the message from Alpha to Beta was ambivalent and contained seeds of both competition and cooperation as it also told Beta that the companies could still try to identify similar kinds of joint business.

This conflict episode is also related to the inter-individual level, as some individuals at Beta were disappointed by the lack of contact from Alpha. Moreover, others were upset about the competing product. Simultaneously, this conflict also influenced some individuals at Alpha who had qualms about buying from Beta, knowing that Beta's product would eventually be replaced by Alpha's own.

[...] we knew at an early phase that our own product was under development, which was completely in contradiction to the fact that we were buying their product. (Alpha, A1 category manager)

As far as the management of the conflict is concerned, the companies adopted different management styles. Beta used a compromising style by approaching Alpha with suggestions for cooperation related to the competing product. Further, at an intra-firm level, Beta decided to develop its own product to ensure it remained competitive on the market, however, some individuals at Beta were not willing to change the existing way of working.

[...] some people really had taken it personally [...] personal opinions of two people who are no longer with the company [...] (Beta, B2 business unit manager).

Beta consequently managed this by instituting personnel changes to change the way of working within the organization toward increased competition in relation to Alpha.

Alpha used avoidance as a conflict management technique. On an inter-firm level, it was eventually decided within Alpha not to discuss the new competing product with Beta. In turn, Beta perceived that Alpha was avoiding discussing the product.

[...] we asked things about their product, they wanted to change the subject very quickly [...] (Beta, B1 key account manager).

Although there was a growing distance between the companies, on an inter-firm level, the conflict was managed in a collaborative style. From the perspective of vertical competition, this conflict episode highlights the relatedness and dynamics of cooperation and competition. When the buyer had developed a competing product the nature of the relationship between the buyer and the supplier changed from being friendly to

becoming one in which the buyer became demanding. Simultaneously, the level of service provided by the supplier to the buyer worsened; despite which, the supplier wanted to intensify the cooperation by supplying the product to the buyer. However, as an outcome of this conflict, the nature of the cooperative relationship changed from being dominated by cooperation, to one being dominated by competition.

4.3 Functional process conflict managed competitively and collaboratively

As the former conflict episode did not produce a satisfactory outcome for Beta, and the volumes of demand from the buyer dropped, the firm decided to develop a new product to compete with Alpha's product. Alpha tried to acquire information of the product, but Beta refused to give Alpha the price of the new product when Alpha asked for it.

[...] I asked if we could have a price [...] Tell us how many you need and then you will get the price, (Beta's representative) said [...] (Alpha, A6 strategic purchaser).

The quote indicates that Beta was demanding some kind of order commitment before it would reveal the price. Beta would have liked Alpha to increase the sales of its product while Alpha strategically sold more of its own products. This implies that Beta would have preferred to increase cooperation, while Alpha's activities increased competition in the relationship between the firms. The competing product of Beta was not seen as such a problem by Alpha, which had already secured a competitive advantage with the second generation of its own product. However, on an intra-firm level, individuals at Alpha were worried that the customers would start buying directly from Beta.

[...] they (customers) try to push prices down and this (customer x) wants to buy directly from Beta [...] (Alpha, A6 strategic purchaser).

To secure its own competitive advantage, Alpha managed this situation by using a competitive style that involved reducing the price of its product to the customers, and by presenting the product's advantages over Beta's product.

[...] we have been thinking about such kind of pricing strategy that we start to offer our own product to them (customer x) [...] and in that way, we try to get 20 percent margins, smaller than we get from Beta's products but still quite good [...] (Alpha, A6 strategic purchaser).

The supplier also adopted a competitive style in continually promoting sales of its own product. Consequently, the conflict management techniques involved promoting competition because both parties tried to manage the conflict over competing products in such a way that competition came to dominate cooperation. Moreover, the issues behind this conflict relate to decisions that the companies had to make on whether to cooperate or not. However, the buyer was still forced to cooperate with the supplier because there was a customer demand for products and spare parts delivered by the supplier. Moreover, the supplier was dependent on the revenue generated by the business with the buyer, and thus, wanted to maintain the relationship. On an inter-firm level, the companies managed the conflict in a collaborative style and they continued cooperating. However, the cooperative activities was not anymore based on a long-term commitment, but

rather based on more ad-hoc activities and cooperation just because the companies were used to it.

[...] you have to negotiate; can we do this, or can we do that. Or can we supply single parts to you, because we have the knowledge [...] (Beta, B3 general manager).

[...] they seemed satisfied [...] they remained willing to cooperate and seemed quite satisfied, so accordingly we believed that everything was relatively OK [...] (Alpha, A9 strategic purchaser).

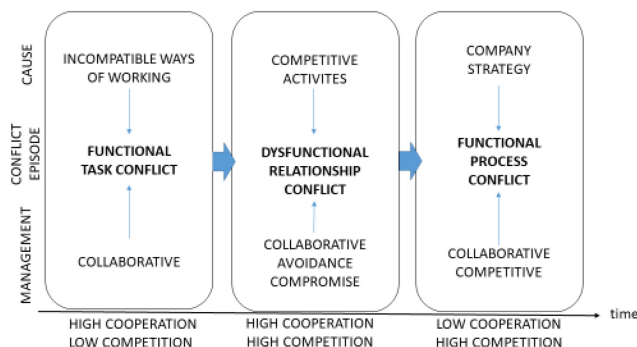
However, in the long run, the relationship between the companies may be terminated, and competition between the firms takes over cooperation.

4.4 Summary of the empirical findings

The key findings of the empirical study are illustrated in Figure 3, and are elucidated below.

It is apparent from the findings that the relationship of vertical cooperation over time evolved from high cooperation and low competition to low cooperation and high competition through a series of conflict episodes. The nature of the conflict episodes differed over time, depending on the preceding conflict episode, as well as on the causes and management of the particular conflict episode. The first conflict episode is related to a functional task conflict that is limited to product features and price fairness. The conflict naturally arose because of incompatible ways of working of the involved firms, and it was managed collaboratively on all levels, as the individuals decided to have an internal meeting to solve the internal issues related to poor communication. After that, an inter-firm meeting was arranged to solve issues related to delayed deliveries and poor communication between the firms. Even though the first conflict was managed collaboratively, Alpha wanted to secure its future business and started to develop its own version of Beta's product to be able to make necessary modifications quickly in the future. However, seeds of competitive behavior were evident at this stage, which influenced the second conflict episode that can be described as a dysfunctional relationship conflict. The conflict is characterized by increasing competitive activities and it was managed differently at different levels. Collaboration was applied on an inter-firm level, whereas avoidance and compromise were used on intra-firm levels. This indicates a desire to preserve the business relationship, although more uncollaborative management strategies were used internally. Despite the collaborative manner in managing this dysfunctional conflict, the competitive activities increased

Figure 3 Summary of the key findings



remarkably and triggered the third conflict episode that can be marked as a functional process conflict. At this stage, competition was part of company strategy, but as it was important for both firms to preserve the relationship, the conflict was still managed in a collaborative way on an inter-firm level. However, on an intra-firm level, competition was applied. This conflict can still be considered functional because it led to a desired outcome; namely, continued cooperation.

5. Discussion

The current study contributes to existing research on vertical cooperation by illuminating new perspectives on conflict episodes from a dynamic and multilevel perspective.

As far as types of conflicts are concerned, Wilhelm (2018) argues that tensions typical of vertical cooperation are related to the degree of vertical integration and to shares of margins and price negotiations. In addition, price fairness is identified as a critical determinant of customer satisfaction and sales, which are key metrics for measuring cooperation effectiveness (Crick, 2019; Sabri *et al.*, 2020). Our findings show that the nature of conflicts in vertical cooperation varies and develop over time and that episodes of conflict are related to each other. First, conflicts tend to be related to products and tasks, which can be related to shares of margin and price negotiations as presented by Wilhelm (2018). As prior research has been lacking studies exploring the effects of cooperation on prices fairness (Sabri *et al.*, 2020), our study shows that cooperation increases the knowledge of price fairness of both relationship parties, and in our case study, was found to be one of the issues increasing competitive activities. This is somewhat different in comparison with prior findings of studies of vertical cooperation, showing that perceived fairness is important for the duration of the relationship between the firms (Soppe *et al.*, 2014). Our study contributes to prior research by demonstrating that the increase of competitive activities were related to perceived price fairness.

Second, if competitive activities increase, the following conflict may be related to the nature of the relationship that can be compared with the degree of vertical integration that is found as a typical conflict in vertical cooperation (Wilhelm, 2018). Finally, even if competition is still high, and cooperation is low, the following conflict may be related to processes and ways of working within the companies. Regarding outcomes of conflict, our findings are similar to prior research showing that task and process conflicts are functional, while relationship conflicts are dysfunctional (Parayitam and Dooley, 2009). Our findings are also in line with a recent study of vertical cooperation showing a negative indirect effect of vertical cooperation on efficiency process innovation via relationship conflict, whereas a positive effect was found regarding task conflicts (Chai *et al.*, 2019). However, in comparison with prior studies, our findings add knowledge about the interrelatedness and dynamics of conflict episodes including various conflict types and outcomes. Moreover, our study empirically demonstrates that protecting product-related technology was perceived negatively in vertical cooperation, which led to a competition dominated relationship. This result adds knowledge to the study by Liu *et al.* (2020), as they argued that conflicts naturally decline when focusing on the positive complementarity of the technologies of the relationship

parties. Our findings show that product-related technology protection caused conflicts and that neither of the relationship parties were able to focus on the potential positive effects of technology complementarity because of the risk of losing the business.

From a process perspective, the conflict episodes involved different causes that could be identified on different levels. It is apparent from the findings that the nature of the causes of conflict changed simultaneously as the nature of the relationship changed. In situations of high cooperation, conflict episodes were caused by incompatible or competitive activities, whereas when the relationship turned to low cooperation and high competition, the causes of conflict were anchored in the strategies of the companies. Similarly, [Tidström and Rajala \(2016\)](#) showed that vertical coopetition develops over time as a consequence of activities undertaken by individuals, as well as activities done at intra- and inter-firm levels, which emphasizes the importance of a multilevel perspective in studying coopetition. Prior research on horizontal coopetition also found that causes of conflict may be related to explicit or implicit differences in the strategies and goals of the involved companies ([Fernandez et al., 2014](#)). This is in line with the findings of our study and consequently also concern vertical coopetition.

The findings of this study show that although the parties managed conflicts collaboratively on an inter-firm level, the relationship between the firms developed toward increased competition. That development runs counter to typical expectations and our findings differ from a similar study on horizontal coopetition ([Tidström, 2014](#)), where the most common inter-firm conflict management styles were competitive and avoiding. However, the phenomenon can be traced to the nature of vertical coopetition and be explained by the continued interrelatedness of the firms' strong dependence on each other, simultaneously with their pursuing intra-firm strategies of being independent and competing. Moreover, it is worth considering intra-firm conflict management styles that may be different from collaboration, and instead involve competing, avoiding or accommodative styles. This finding indicates that particularly in vertical coopetition it is not enough to merely recognize the conflict management style on an inter-firm level; however, both intra-firm management styles and strategies can influence future conflict episodes and the development of the business relationship.

In line with prior research ([Crick, 2020b](#); [Dorn et al., 2016](#); [Fernandez et al., 2014](#); [Tidström, 2014](#)), the findings of this study show that coopetition is a multilevel phenomenon. However, existing research on coopetition from a multilevel perspective focuses on the development of coopetition through activities of cooperation and competition. The results of the current research complement prior research by specifically focusing on conflict episodes (cause, management and outcomes) in vertical coopetition. The findings also contribute to existing research on conflict in coopetition ([Fernandez and Chiambaretto, 2016](#); [Tidström, 2014, 2018](#)) by unmasking conflicts as multilevel conflict episodes, which may improve understanding of the identification and interrelatedness of the causes, types and outcomes of conflict.

6. Conclusions

This study has several contributions to existing research on vertical coopetition. First, we have focused on a scarcely researched perspective of vertical coopetition, which includes cooperation on a vertical level and competition horizontally in relation to a customer. Prior studies of vertical coopetition often focus on cooperation and competition in the relationship between a buyer and a seller and by adding the customer to the research context, we enhance knowledge from a broader network perspective. Second, we include the perspective of both the buyer and the seller, whereas most research on vertical coopetition focuses solely on the buyer. Third, we add to prior knowledge of conflicts in vertical coopetition, by introducing interrelated episodes of conflict from a dynamic and multilevel perspective. Our findings show that the nature of the conflict episodes changes over time and that these also influence or are influenced by the levels of cooperation and competition within vertical coopetition.

When a business relationship based on vertical coopetition develops from one being dominated by cooperation, to one being dominated by competition, also the nature of the conflict episodes changes. Causes of conflict episodes evolve from being related to ways of working to becoming identified in company strategy when the level of competition is high. As conflicts in competition dominated vertical coopetition is more connected with company strategy, it may also lead to losing the advantages of coopetition as cooperation between the companies involved decreases or even ends. Strategically managed conflicts may include the protection of knowledge related to technology and business, which may hinder knowledge sharing that may be crucial for cooperation.

High cooperation and low competition are coupled with task conflicts caused by incompatible ways of working, and these conflicts are managed in a collaborative manner. When the level of competition increases in vertical coopetition, also the nature of the conflict episodes tends to be dysfunctional. As there is usually a strong dependency between a buyer and a seller, management attempts may be collaborative, although the firms internally have applied other management strategies.

6.1 Managerial implications

The dynamic nature of conflicts in vertical coopetition implies that the managerial tasks also change. Different kinds of conflict episodes require different managerial strategies. If the business relationship is dominated by cooperation, managers can rely on cooperative strategies for managing conflicts to reach a functional outcome. However, when competition becomes stronger, a beneficial managerial strategy is to first internally investigate potential solutions for the conflict, and thereafter to manage the conflict together with the other firm. However, this may still not lead to a functional outcome of a conflict. Here, the managerial challenge is related to company strategies and opportunistic behavior.

Moreover, in vertical coopetition, managers should recognize activities that occur between individuals within the firm, as these activities influence both causes and management of conflicts. It is challenging for managers to lead individuals, departments and the whole firm in the same direction concerning business relationships with other firms. This may

have implications for how conflicts are managed and lead to undesired variations in conflict management methods.

6.2 Limitations and suggestions for future research

A limitation of this paper is it being based on an empirical qualitative single case study, which makes it difficult to generalize the findings to other firms and industries. However, our empirical case demonstrates how conflict episodes involve mechanisms that influence the development of another conflict episode, which can be seen as a way of generalizing case study results to theory according to Easton (2010). Another limitation relates to conflict management, and the fact that this study was not able to include all possible techniques for managing conflicts in vertical cooperation.

Conflict in vertical cooperation is an unexplored area of research and accordingly merits further investigation. This study focused on large multinational companies within the manufacturing industry. Therefore, future research on vertical cooperation should explore conflicts within various industries, also involving small and medium-sized firms. Moreover, the findings of our study could be further explored in a cross-case study including firms in other European countries. The findings of this study indicate that the outcome of a conflict has implications on multiple levels. A fruitful area for further research would be to thoroughly investigate outcomes of conflict in vertical cooperation by including different levels of analysis such as the inter-individual, intra-firm, inter-firm and network levels. Finally, it would be relevant to study the management of conflict in vertical cooperation in terms of how conflicts should be managed to improve the performance of firms and to enhance relationships and business networks.

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