

RELATIONS AS A SOURCE OF THREAT TO ENTERPRISE

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Abstract:

Searching for new sources of competing advantage, necessary for enterprises existing in modern conditions sometimes results in unexpected threats. Using relational advantage, bringing expected benefits, causes however threat to enterprise resulting from possible opportunist behaviours of partner. Opportunist behaviours have been the subject of theories for a few decades, however, possible ways of defence are an area of far less identified. Referring, among others to game theories, examples of such defensive behaviours which are counted to two groups of enterprises can be presented: with strategic and operational character.

Keywords: relational advantage, organisational opportunism, prisoner's dilemma, defensive behaviours.

1. INTRODUCTION

Possessing competing advantage is one of the basic conditions of a successful company. One of the newer types of advantages is relational advantage. Potential benefits resulting from it are very attractive, however, on account of relations with other companies threats resulting from possible behaviours with opportunistic character appear. Owing to this, managements of enterprises entering relations, in particular with companies which for some reason can have advantage over them, should have the awareness of threats which result from opportunistic behaviours of a partner in relations. The aim of this article is identification of companies' behaviours, which may limit potential threats which expose the company through entering into relations in some respect stronger entity. For this purpose, achievements of organizational game concept, in particular a prisoner's dilemma, modified in such a way to correspond to relations between enterprises.

2. RELATIONAL COMPETITIVE ADVANTAGE

Conditions of modern enterprises functioning, cause that life circle of competitive advantages is getting shorter and shorter, while aspiration for gaining long-lasting advantage should develop in aspiration for creating short-period sequences of advantages. Incentive to such enterprises' behaviours is fundamental function of competitive advantage, which M.J. Stankiewicz included in the definition of competitive advantage: competitive advantage is „an ability to such a use of competitiveness potential which is enabled by effective enough market offer making and effective competing tools, that it provides creating a value added.” (Stankiewicz 2005, p. 172)

According to assumptions of reserve approach towards competitive advantages, their source are resources possessed by an enterprise. They make up its competitiveness potential. (Stankiewicz 2005, chapter II) The necessity of creating new short-period competitive advantages presents enterprises with a requirement to discover new resources or new uses of presently possessed resources, which might enable to gain competitive advantage. One of the resources, which potential of creating competitive advantages has been developed relatively recently, are enterprises' relations which show among others relations between enterprise and persons in an environment. (Stankiewicz 2005, p. 107)

The meaning of relations to generate the values by an enterprise (i.e. realization of the competitive advantage functions) can be seen, among other, in views of C. K. Prahalad and V. Ramaswam, who were dealing with creating values in the course of relations between enterprise and its customers. According to them, the value does not originate from the product or communication network and information technology which is a support to the system, nor even from social network including institution's employees and wider customers' community. The value results from experience of collaboration, in which an active part is taken by the customer at a particular time, place and context of particular event. (Prahalad & Ramaswamy 2005, p. 21) It is obvious that without special relations with specific features between enterprise and its customers, collaborating the value would be very difficult or even impossible.

A large significance attached to relations may be also noticed in views of K. Oblój, who among four identified by himself kinds of competitive advantages distinguishes the advantage of service system. (Oblój 2002, pp. 112 – 114) It assumes permanent, close and direct relation between supplier and consumer. The process of creating such relations requires a careful selection of consumers for whom the stability of relations, offering such a combination of products and services will be precious, so that they be a solution to some particular consumer's problem and to go beyond the role of a passive supplier. For effective gaining an advantage system of service, it is necessary to search for organizational and economic determinants of the process of building up relations between consumers with a particular supplier, loyalty, confidence and high costs of changing a supplier. Advantage of the service system means costs and efforts of both parties, because a supplier invests in getting to know the consumer and adapt a service system to him, on the other hand a consumer bears the additional costs in the form of lower flexibility and freedom of future choices. (Oblój 2002, p. 116)

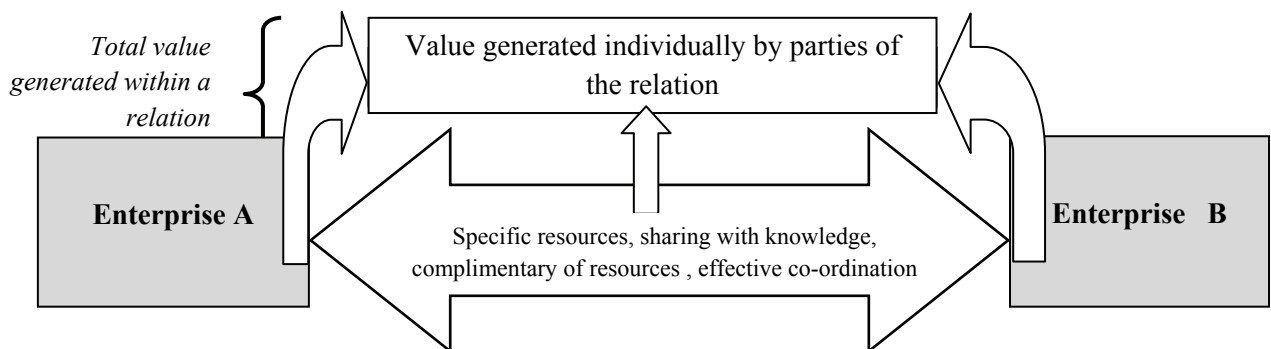
Appreciating the uniqueness and importance of relational resources of an enterprise for its functioning and success became an impulse to create relational concept of competitive advantage. J.H. Dyer and H. Singh are considered to be the creators of the concept. (Dyer & Singh, 1998) In this concept, more attention is put on specific relations of an enterprise with other companies than enterprise's own resources. It is assumed that the basic source of enterprises diversity is their relations with

surrounding, which is perceived as community of particular entities, which are connected with an enterprise by diverse relations. From the point of view, of contributing to creating competitive advantages, relations which are characterised by rarity and lack of imitation possibilities are especially useful.

Among enterprise's relations there are transactional relations, which very often take place in case of sales contracts and other partnership relations. In relational concept of competitive advantage it is assumed that competitive advantage can be gained only due to partnership relations. (Mitreĝa 2010, p. 32) They are characterised by specific for particular relation costs bore by both parties (which was also pointed out by K. Obłój), shared generation and exchange of knowledge. The precondition of successful relations creation between companies is joining complementary resources which allows to reduce the transactional costs bore by parties and to generate value in larger degrees. Such phenomena are stressed in some of the modern management conceptions e.g. in network organization and virtual organization. (Perechuda (ed.) 2000, chapters 4, 8)

Partnership relations enable so called relational rent defined as an additional outcome, generated together by participants of the relation, within relations, which could not be gained alone by any of the parties of the relations and is based on mutual, specific costs carried by relations parties. The source of relational rent are selected relation's features: special resources "dedicated" to relation, routines of sharing the knowledge, complimentary of resources, effective co-ordination. (Dyer & Singh, 1998) The diagram of the process of creating relational rent is presented in the below picture.

Picture 1: Relational rent as an additional value generated during relations between parties.



Source: own study on the base of: J.H. Dyer, H. Singh, 1998.

3. SELECTED PHENOMENA WITHIN RELATIONS

In relations between companies there are many and diversified phenomena. Some of them may be described by referring to the terms taken from biology. (Gach 2009, p. 174) For instance co-evolution meaning gradual changes occurring in two or more species, living in the same environment and interpenetrating in „ways of development”, which lead to the fact that species are adjusting to both own environment and to themselves. Adjustment may take two forms:

1. symbiosis – when the species help each other
2. parasitism – one of the species uses the other (s).

In the case of enterprises of economic character, co-evolution means creating relations between companies or entities, which are the basis of taking joint actions. These relations are used to knowledge, skills and information transfer. Moreover, they influence on spontaneous reorganization of companies for better mutual adaptation in order to increase the effectiveness of co-operation. Therefore these are relations with productive character and lead to creation of synergy effect between co-operating enterprises and in the result generating added value (relational pension). Those positively evaluated events are the most frequent motive of establishing relations between enterprises and the events are the most frequent the subject of studies concerning relations between enterprises. The success of an enterprise in to a considerable degree depends on its ability to keep a large part of created by it added values and prevent division among other participants of the relations. In order to become successful, an enterprise must have a possibility to have at its exclusive disposal the added value, even against the interests of the members of an organization and external entities. (Kay 1996,

p. 251). Two factors are of great importance in settling the way of sharing the added value between different parties connected with an enterprise. (Kay 1996, p. 256):

1. the degree to which each of them contributed to the value;
2. the number of parties, to what extent are they connected, what other possibilities they have.

Sharing by an enterprise with others with added value results from the fact that it has its own interest e.g. its competitive advantage results from relation whilst keeping an attitude of partnership favouring cooperation depends on belief of other participants of a relation, that long-term benefits surpass this what can be gained in a short period as a result of opportunism. Often enterprises decide to share creating added value from rational reasons, sometimes they are forced to do so. If partners have a strong position towards enterprise they can demand from it a part of added value created by it and usually they gain it. (Kay 1996, p. 257) J. Rudniański describes such entities' behaviours very accurately, claiming that: „Having a choice of either not obeying the basic norms or not achieving a victory, the fore mentioned is usually is chosen.” (Rudniański 1983, p. 35)

Above remarks by D. Gach and J. Kay suggest that in relations between various subjects, including also entities, so called “the dark side” also occurs e.g.: presented above parasitism. Phenomena occurring on “the dark side” of inter-organization relations are usually omitted in studies [Jap, Anderson, 2003], treated as pathologies, not worthy of much interest. Presented phenomena are a result of, among others, the fact that enterprise, in some extent, forced to drive their own interest, which was accurately described by O.E. Williamson as „the pursuit of self-interest”. (Williamson, 1998, p. 60) He distinguished three levels of pursuit of self-interest” (Williamson, 1998, p. 60 and next):

- a) opportunism, called „the strongest form”, to which the transaction costs economics refers to,
- b) driving by self-interest (this is so called semi-strong form),
- c) obedience (is a weak form).

Among mentioned levels of “the pursuit of self-interest”, in the below deliberations, only an opportunism will be considered.

O.E. Williamson understood opportunism as devious aspiration to realize one own interest. He also includes in it such glaring forms as „a lie, theft and cheat”. However, more often opportunism takes more subtle forms of deceit. Opportunism is among others, revealing incomplete or deformed information or, in particular, intentionally made efforts in order to „mislead, distort, hold back, obscure or complicate issues in other way”. It leads, among others, to information asymmetry. (Williamson, 1998, p. 60) In practice, such characterised opportunism allows to assume that people are “morally weak” and we cannot count on the fact that they will be driven by honour or settled rules of co-operation in contracts. This form of opportunism may be expressed by (Jap & Anderson, 2003):

1. intentional, false image of different types of phenomena during initiating relations, distortion of information, blatant behaviours such as lie, cheating or even theft and more subtle behaviours such as false presentation of facts or incomplete reveal of circumstances, (so called opportunism *ex ante*)
2. different forms of contraventions of rules during relations, denying, withdrawing or evading in a open or secret way further involvement, evading fulfilment of promises and commitments (so called opportunism *ex post*).

Furthermore, taking into consideration the way of behaviour of relation participant we can distinguish (Jap & Anderson, 2003):

- a) passive opportunism depends on abandon, refrain from action e.g. not giving intentionally, information about familiar for one party limitations, defects which are important for achieving goals of relations;
- b) active opportunism depends on action, partially intentional lying or false presentation of physical facts.

In relative contracts (in which relations are notably based on trust) opportunistic behaviours occur when one party comes to a conclusion that (rightly or wrongly) in such case it is worth to use mutual relations in a ruthless way, even if leads to its break off. (Kay 1996, p. 91)

4. PRISONER'S DILEMMA

Opportunistic behaviours lead to conflicts and even fight, which in a classical games theory are a synonym of a game. Participants of the game play it by acting according to the strategy: to win at opponent's expense, which means that it is a zero-sum game in which victory of one participant is a defeat of the other. Players perceive each other as rivals. (Czerska & Szpitter (Ed), 2010, p. 98) Presented game characteristics allow to use them for analysis of enterprises' conduct, behaving in opportunistic manner and subjects exposed to such behaviours, the more that according to M. Crozier and E. Friedberg, the players may be the whole organizations. The same authors consider that the sources and basis of power are assets and resources which decide about the power each of the parties possess (Crozier & Friedberg 1982, p. 70), which leads to believe that these are more important of the factors that determine advance on parties within relations.

In the classical form of prisoner's dilemma, both players have the same initial situation. Results of their behaviours for the other are identical. The situation of enterprises, which stay in relations and play the game have different power being the result of, among others, diversified resources, look differently. The state of partners non-equivalence expresses in the lack of symmetry of conducts results of particular game partners. It means in particular, that egoistic behaviour of partner II will cause far less nagging results for partner I than the results of egoistic behaviour of partner I for partner II.

Considering this type of prisoner's dilemma, the author assumed that relations among enterprises are for them (at a certain moment) valuable because they enable realisation of individual goals, whilst opportunistic behaviours (egoistic), which result would be breaking up of existing so far relations, is treated as a starting point to create other, more profitable (from the point of view of a company behaving opportunistically) relations or self realisation of an operation that previously were realised by the party with which the relation was broken up. Such a conduct is effective among others, thanks to transfer between current partners of material or non-material resources (e.g. technical equipment, knowledge, skills or even relational capital), which took place in the period before the break-up of relations. In consequence of opportunistic behaviour, the party which acted in such a way, may continue activity and generate value with the exception of subject with which previously co-operated. Theoretically, opportunistic behaviours (opportunism ex post) of each subject may take the form of:

- a) severance of relations with current partner and establish new ones with another partner, who will realise the same operations but at lower costs or at least will charge customer with lower charges (which would mean that a new partner is ready to accept values appropriation by customer);
- b) severing the ties with current partner and offering a new establishment of relations (signing a new contract) but on less favourable conditions for that partner than it was before the break-up of a relation (in particular lower charges for transactions made);
- c) severing the ties with a current partner and independent realisation of transaction based on knowledge, technology, relational resources or other resources, in particular non-material gained from partner in the duration of a relationship.

The game "Prisoner's dilemma" between non-equivalent partners will be investigated on the base of the following situation. A large company (named partner I) is the main contractor of building investments orders performance of some works to smaller specialized companies. One of them was named partner II. After finishing another investment, the management of partner I, looks for ways of improvement of financial results. Solution of a similar problem is also searched by management of partner II. Both parties see the possibility of improvement their results in correction of relationship conditions with the other partner. They are also aware of possible negative results of attempt to change relationship conditions (co-operation). In case of continuation of current relations (bilateral co-operative behaviours), both parties will achieve results on a current level. However, partner I thinks that in case of breaking up relations with partner II he can change his system of creating values (change the partner or realise undertakings by himself) in order to increase the profitability of realization of the next investments. In such a case partner II would be "eliminated from the game", and if relatively fast it would not receive further orders, he might be exposed to bankruptcy. Partner II, breaking up the relationship with partner I, so to speak, "eliminates himself from the game", exposing himself to bankruptcy, but can count on establishing relations with other customer under one condition, that this relation will be more profitable for him. For partner I, negative consequence of breaking up relations by partner II, would be most of all the necessity to bear the costs of searching for a candidate who would replace partner II, uncertainty about degree of compliance with the requirements

demanded from contractors by that candidate and possible consequences of incomplete fulfilment of the requirements, mainly about qualitative and financial character. Described results were presented in the below table.

Table 1: Game „Prisoner’s dilemma” between enterprises with non-equal position .

		Partner I behaviour	
		Co-operative	Opportunistic
Partner II behaviour	Co-operative	N _I = continuation of the relation; N _{II} = continuation of the relation	P _I = reconstruction of a system of values; F _{II} = „falling away of the game”;
	Opportunistic	F _I = reconstruction of a system of values, P _{II} = „ falling away of the game”;	K _I = reconstruction of a system of values; K _{II} = „ falling away of the game”;

Used signs :

N_(I, II) – payment for co-operative behaviour – further co-operation of enterprises,

P – payment of a partner behaving in a opportunistic manner:

P_I - reconstruction of the system of values of partner I in order to improve profitability of realised undertakings,

P_{II} – „falling away of the game” of partner II,

K – consequence for common opportunistic manner of behaviour:

K_I- necessity to reconstruct the system of values of partner I, chance of the improvement in profitability,

K_{II}- „ falling away of the game” of partner II,

F – consequence for a „victim” of opportunistic behaviour:

F_I– reconstruction of the system of values of partner I, chance of improvement in profitability,

F_{II} - „ falling away of the game” of partner II;

Source: own study.

In the analysed case, the consequences of opportunistic behaviours are not the same for the partners. The party for which effects of the opportunistic behaviours are more relative is partner I. Irrespective of the fact whether he himself or partner II behaves in an opportunistic manner, the most nagging consequence for him is the necessity of reconfiguration of the so far used system of values. This consequence may be onerous for the enterprise if finding the subject which could replace the current one, would be time-consuming and expensive. However, in our times, such a situation is unlikely, just because of very easy access to numerous databases of enterprises. Opportunism of a weaker partner may be treated as an opportunity to modify the system of values or use of more appropriate business model, better use of resources possessed by an enterprise. It can be expected that the positive effect of those changes would be increase in the value generated and kept by partner I. Therefore, in case of using up the potential of the current system of values, opportunistic behaviour – either own or partner’s – may be an impulse to positively evaluated changes. Whereas, effective system of values of a stronger partner, in case of his opportunistic behaviour can be kept, changes may only be superficial – in the composition of subjects co-operating with that enterprise. Whereas, bilateral co-operative behaviours would bring partner I maintaining the *status quo*.

Much more onerous would be consequences of opportunistic behaviours for partner II that is (as assumed) weaker. Irrespective of the fact whether he behaved in an opportunistic manner himself or partner I, the result of those behaviours would be „falling away of the game” of a weaker subject. As a result would be forced to look for a new partner – contractor with all negative effects resulting from it: limitation or suspending the operational activity, decrease in turnovers and reducing the value generated and retained, and in the extreme cases – bankruptcy. Only in the case of bilateral co-operative behaviours, partner II situation would not deteriorate.

The game „Prisoner’s dilemma”, in case of unequal position of the partners, leads to a simple observation – opportunistic behaviours of either of the parties, above the assumed conditions, are unfavourable for weaker partner. Whereas, any of the opportunistic behaviours create a stronger partner possibility to do changes in phenomena to which relations concern. Continuing the relations, without taking by any party opportunist behaviours, give both partners stabilization of the situation.

SUMMARY

Whatever relational competitive advantage may be an attractive alternative for enterprises which have already used relatively simple sources of competitive advantages, excessive dependence on partner's relation may put such enterprises in a difficult situation especially when the partner notices a chance to gain extra benefits and decides to take up opportunistic behaviours. Therefore, enterprise entering relations should consider undertaking defensive behaviours against opportunism of the other party, in particular:

- a) Potentially weaker enterprise (e.g. due to resources) may protect itself against risk by identification of contextual factors - potential sources of threats of enterprise. These can be e.g. common experiences, occurrence or lack of alternatives, reputation and achievements of the parties or unexpected benefits. Such factors may increase the range of stronger subject's power over the weaker subject. Identified factors threatening weaker enterprise may become a starting point for actions of a preventive character, serving as a protection against possible opportunism and next actions of the partner. However, one should be aware of the fact that a potential opportunist usually leads his preparations in the conditions of secrecy which hinders the identification of contextual factors .
- b) Skillful use of mechanisms constructed (Latusek – Jurczak 2011, pp. 37, 38) in order to hinder opportunistic behaviour through usage of knowledge of identified factors causing increasing strength of the partner. Constructed mechanisms such as negotiations , contracts, idiosyncratic resources can reduce the probability of opportunism occurrence from the partner's relation side through limiting the potential benefits and increase the costs of opportunistic behaviour.
- c) Making a stronger partner aware of benefits which he can achieve thanks to continuation of relations and which he will lose in case of opportunistic behaviour and breaking up relations.
- d) Limitation possibilities of using the resources of a weaker enterprise in case of ending relations, it concerns especially immaterial resources e.g. knowledge or competence.
- e) Developing own resources in such a way that the become unique, impossible to imitate and substitute, planning such a direction of enterprise development which would limit susceptibility to opportunistic behaviours of relations partners.

It can be concluded that protecting enterprise against opportunistic behaviours of partners in relations takes two forms:

- a) Strategic enterprises which allow to create a strong resource potential of an enterprise and provide enterprise with an autonomy,
- b) Operational enterprises connected with the relations forming technique with other subjects.

Both groups of activities are complementary and should be undertaken concurrently.

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