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# COMPETITION VERSUS CO-OPERATION

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The topic of this paper is ‘competition versus co-operation’ and the question I seek to answer is whether we could choose between them on the ground that one of them is better than the other. The answer is difficult because both of them have advantages and disadvantages too.

Before going into this analysis I find it necessary to say some words about market forms because co-operation does not characterize all types of market. First of all in some market forms there are few sellers or customers (for example in oligopoly situation) who can work with each other. But what can be the motivation for firms to choose co-operation? The answer is information, that is the most important thing for competitors on the market.

In economics, the main criteria by which one can distinguish between different market forms are: the number and size of producers and consumers in the market, the types of goods and services being traded, and the degree to which information can flow freely.

The major market forms are the following:

- *Perfect competition*, in which the market consists of a very large number of firms producing a homogeneous product. Everybody accepts the price which evolves in the equilibrium of supply and demand of the market. Anybody can enter or leave the market free of charge.
- *Monopolistic competition*, also called competitive market, where there is a large number of independent firms which have a very small proportion of the market share. All sellers differentiate their products in package, in size or in other characteristics, so they are their own products’ single sellers (monopoly). At the same time, they are in competition for the costumers at the market.
- *Oligopoly*, in which a market is dominated by a small number of firms which own more than 40% of the market share. Its position is between monopoly and perfect competition. This market form occurs frequently in practice.
- *Oligopsony*, a market dominated by many sellers and a few buyers.
- *Monopoly*, where there is only one provider of a product or service.

- *Natural monopoly*, a monopoly in which economies of scale cause efficiency to increase continuously with the size of the firm.
- *Monopsony*, where there is only one buyer in a market. (Kopányi, 2002)

Competitive market systems require sellers and buyers to be well informed about supply, demand and prices. Large, well-organized wholesale markets facilitate the attainment of this ideal situation by providing information on market trends, prices and quantities marketed. The information system providing this service not only enhances the efficient management of wholesale markets, but also acts as a basis for the sale of similar products outside the market. The importance of information on market trends and prices is recognized in all countries with well-developed marketing systems. The establishment of new wholesale markets offers special opportunities for setting up market information systems, with emphasis being placed on full, fast and reliable information. Full information in this context covers the quantities of products marketed, stored and transported; the range of products, stocks, sources, destinations, varieties, quality and packaging; as well as market and price trends. The market can be described as truly 'transparent' when such information is available. Reliability of information depends on the training, personal abilities, honesty and experience of reporters. Unqualified personnel with other responsibilities should not be entrusted with collecting and disseminating information. Frequent cross-checking of information should be undertaken, even if it is collected by qualified and trained staff since inaccurate or distorted information can harm the interests of producers and consumers. Speed in collecting, recording and disseminating data is vital in a competitive economy.

Competitive markets involve a large number of buyers and sellers transacting on the basis of available information. Large-scale operators, however, tend to have a comparative advantage over small-scale operators by investing in private networks and systems (both formal and informal) that enhance access to market-sensitive information and the capacity of processing and storing it. Small-scale operators often base their decisions on incomplete or even inaccurate information. The state has a key role in promoting efficient and reliable market information systems because competitive, effectively coordinated markets require that all market participants should be perfectly and equally informed since basic information is a public good. This facilitating role of the state should be perceived as an ongoing

process and not as a single act. It must also be seen as a logical sequence of the fundamental decision to expand the economic role of the private sector and the commitment to maintain competitive markets. The problem is that there is no perfect competition in practice. The goal of regulation is to facilitate and maintain competition on the markets, but oligopolies and monopolistic competitions are often found in economies where the information system is not perfect. Persons have to co-operate because of the information which can effect extraprofit or survival.

There is a very good example for successful co-operation: *China*. With an average annual GNP growth rate of 9.9% over the last 15 years, China has become the world's third largest economy. The most important factor was the development of relationships with Chinese customers, partners and employees based on shared goals, co-operation and trust. Many interviewees spoke of the importance of developing relationships with local Chinese companies or individuals based on a willingness by both sides to help each other achieve their objectives, a willingness to place a high priority on each others' goals, and the development of trust through long term reliability. And what is the key?

- Building relationships with Chinese customers, partners and employees based on shared goals, co-operation and trust.
- Building culturally sensitive marketing and promotion strategies. Constantly evaluating and improving these strategies.
- Having more extensive international and China-based experience. Learning to assume that the Chinese should be treated by international standards.
- Investing locally in China using joint ventures to a greater extent.
- Using less formal interaction patterns as the basis for relationships with Chinese customers, partners and employees.

One question arises quite naturally in this context: Besides getting information can co-operation be useful in other fields as well? And if the answer is yes, are they licensed?

American consumers have the right to expect the benefits of free and open competition—the best goods and services at the lowest prices. Public and private organizations often rely on a competitive bidding process to achieve that end. The competitive process only works, however, when competitors set prices honestly and independently. When competitors collude, prices are inflated and the customer

is cheated. Price fixing, bid rigging, and other forms of collusion are illegal and are subject to criminal prosecution by the Antitrust Division of the United States Department of Justice. In recent years, the Antitrust Division has successfully prosecuted regional, national, and international conspiracies affecting construction, agricultural products, manufacturing, service industries, consumer products, and many other sectors of the economy. Many of these prosecutions resulted from information uncovered by members of the general public who reported the information to the Antitrust Division. Working together, they can continue the effort to protect and promote free and open competition in the marketplaces of America.

A primer was issued containing an overview of the federal antitrust laws and the penalties that can be imposed for their violation. It briefly describes the most common antitrust violations and outlines those conditions and events that indicate anticompetitive collusion so that one might better identify and report suspicious activity. Most criminal antitrust prosecutions involve price fixing, bid rigging, market division or allocation schemes. Each of these forms of collusion can be prosecuted criminally if they occurred, at least in part, within the past five years. Proving such a crime does not require us to show that the conspirators entered into a formal written or express agreement. Price fixing, bid rigging, and other collusive agreements can be established either by direct evidence, such as the testimony of a participant, or by circumstantial evidence, such as suspicious bid patterns, travel and expense reports, telephone records, and business diary entries. Price fixing is an agreement among competitors to raise, fix, or otherwise maintain the price at which their goods or services are sold. It is not necessary for the competitors to agree to charge exactly the same price, or that every competitor in a given industry should join the conspiracy. Price fixing can take many forms, and any agreement that restricts price competition violates the law. Bid rigging is a conspiracy of competitors to effectively raise prices where purchasers—often federal, state, or local governments—acquire goods or services by soliciting competing bids. Essentially, competitors agree in advance on who will submit the winning bid for a contract let through the competitive bidding process. As with price fixing, it is not necessary that all bidders should participate in the conspiracy. Under the law, price-fixing and bid-rigging schemes are per se violations of the Sherman Act. This means that where such a collusive scheme has been established, it cannot be justified under the law by arguments or evidence that, for example, the agreed-upon

prices were reasonable, the agreement was necessary to prevent or eliminate price cutting or ruinous competition, or the conspirators were merely trying to make sure that each got a fair share of the market. (Antitrust Division)

### **AND WHAT IS THE SITUATION IN HUNGARY?**

The newly introduced Section 296/B of the Penal Code established the felony of 'restriction of competition in public procurement proceedings and concession tenders'. The amendment has been in force since 1st September 2005 and to the best of my knowledge no criminal proceedings have been initiated yet. (Organisation for Economic Co-operation and Development)

Since Hungary's accession to the European Union there has been a very good and successful initiation for co-operation called *cluster*.

Clusters are company alliances based on geographical proximity. Clusters are driven by competition; the relationship among companies within a cluster is characterised by rivalry, harmonisation of common, local interests and the existence of trust as social capital. Cluster enterprises are in informal contact with one another. Their transaction costs can be decreased by joint innovation adjusted to market needs through information flows within the network. In this way, the competitiveness of enterprises or a given region can rise.

Clusters are co-operative networks of businesses organised on a product basis and concentrated on a specific territory. They make use of co-operation opportunities among manufacturers, consultants, training institutions and the service industry in order to intensify their market presence. The endeavor for new, better and more efficient products and services, more advanced technology and better quality is present at all levels of the co-operation. Knowledge, intellectual and technological potential concentrated within the Cluster together with an inclination for co-operation can provide a proper environment for the development of innovations and/or their application to serial production or service provision on a large scale.

In today's global economy knowledge is the key to staying competitive. While many small and medium-sized companies are the backbone and pride of their region's economies they can find it increasingly hard to compete with the huge multinationals that dominate global business. To stay ahead of the game they need to invest constantly in new products and in innovating their production processes, which many small players just cannot afford. One approach government officials are

using to encourage innovation in small and medium-sized enterprises (SMEs) is the formation of clusters—local groupings of businesses whose activity is connected, either horizontally or vertically. By assisting collaboration among SMEs or between companies and research institutions that are involved in related activities, a cluster can help improve the capacities and competitiveness of businesses in a given region. The approach has proven especially effective in assisting the growth of businesses providing new technologies. REGINS, a project that receives most of its funding from INTERREG IIIC East, uses cluster management to encourage business activities among companies in Oberösterreich, Austria, the Stuttgart Region in Germany, the Lombardy Region in Italy and the West Pannonian Region in Hungary. Regins is a grant-giving Regional Framework Operation (RFO), a programme that launches calls for sub-projects involving different types of partners in several regions. RFOs unite institutions that might otherwise not work together, opening the way for their international co-operation. By establishing clusters, RFOs like REGINS also bring immediate results. Most of the more than 30 REGINS sub-projects are involved in research and development, or new technologies. These businesses support the kind of knowledge-oriented economy that Europe is trying to encourage. The objective of REGINS is to stimulate know-how transfer between the partners on such topics as cluster management, regional innovation and SME support policies focusing mainly on the automotive, logistics and biotechnology sectors.

The concept of clusters has been part of official Hungarian economic policy since the late 1990s. Under the Széchenyi Plan introduced in January 2001 and meant to boost the Hungarian economy, Hungarian clusters received funding in an effort to support domestic entrepreneurial community. Groups of firms could qualify for financial support if they complied with the cluster definition and could fulfil a number of other requirements under the RE-1 programme.

In 2000, the Orbán Government elaborated the Széchenyi Plan, named after a famous 19th century Hungarian count and economic reformer. This was a strategy document outlining priorities for economic development to improve convergence with European Union by mobilising the business sector and the regions. The plan, in terms of which the state would co-finance implementations of development projects, did not encompass all areas of the economy, but—for efficiency reasons—concentrated on key priorities. It promoted enterprise support, regional development, housing construction, tourism, research and development, motorway construction and

infrastructure development. By concentrating 2-3% of Hungarian GDP on its defined goals, it intended to set the Hungarian economy into motion, particularly through the mobilisation of the domestic entrepreneurial community. However, the main part of the Széchenyi Plan did not explicitly focus on cluster development. Nonetheless, the regional economic development sub-programme of the Széchenyi Plan aimed at combating Hungary's regional inequality has a strong focus on SME development at regional level. One of the regional development programmes introduced was the Cluster Development Programme (RE-1). The policy follows a top-down approach and seeks to improve the competitiveness of enterprises, develop co-operative production systems and networking, strengthen the innovation capabilities of the subcontractors of the present multinationals as well as exchange information and raise awareness.

Although studies on clusters show that top-down policies meant to build clusters from scratch are often unsuccessful, public intervention has played a catalyst role in supporting budding clusters. Seen in this light, the Cluster Development Programme can be considered a suitable cluster-building model in Hungary. Of course, this does not mean that clusters would not and will not emerge without official support but the Cluster Development Programme was conceived to significantly accelerate this process. During the existence of the programme from 1 January 2001 to 2 August 2002, thirteen projects were allocated a total of approximately EUR 1.2 million. The most important results, apart from the birth of these officially sponsored clusters, included a change in mindset with regard to network-type co-operation, helping SMEs to work together and build social capital from below.

When the Széchenyi Plan officially came to an end with the change of government in 2002, the support for clusters continued in the framework of the Technology Development and Innovation Plan launched by the Ministry of Economy and Transport. Cluster development in Hungary was also shaped by EU enlargement and Hungary's entitlement to receive EU funding.

*The following table summarizes the most important information about clusters:*

Responsible Authorities	Cluster Policies or Initiatives	Main objectives	Priority Areas	Financial Support	Results & Examples of Clusters
National and regional government. At the national level, cluster development policy is the responsibility of the Ministry of Economy and Transport.	The PKG groups the five biggest Hungarian clusters and gives them financial and non-financial support (grants, real estate, information, etc.).	<ul style="list-style-type: none"> <li>• Develop co-operative production systems and networking</li> <li>• Improve competitiveness of the enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• Automotive</li> <li>• Wooden furniture</li> <li>• Electronics</li> <li>• Food production</li> <li>• Textile</li> <li>• Thermal waters</li> </ul>	Under the Szechenyi Plan's RE-1 subprogramme 2001-2002, aimed at establishing regional clusters. Central government allocates €1.4 million to Hungarian clusters	22 officially recognized clusters

*(www.klaszter.lap.hu)*

The first cluster in Hungary was established at the end of 2000. Since then many more have been created, but these are still at an early stage of discovering, learning, managing, experiencing clusters. Officially there are 21 clusters in Hungary. Why are there so many? Because there are no laws or regulations on clusters, which would determine what exactly a cluster should look like, so anybody can call its network a cluster. The Company Law will be (should be) modified in the future to include regulations on clusters as well. Organisations which won the RE-1 tender 'Establishment of regional clusters' in 2001 are called clusters and the definition given in this tender is used now as a criteria for clusters. This large number of clusters (21) could emerge because the Ministry of Economy and Transport supported 80% of them, and bureaucracy hardly ever faces its mistakes.

The clusters represent various industries: automotive, wood and furniture, electronics, thermal, food, building, textile, tourist and optomechatronic, that is they mainly come from traditional sectors. The number of 'real' clusters is about 6 to 8, of which the best are: PANAC (Pannon Automotive Cluster, PANNONFA Pannon Wood and Furniture Cluster, South Great Plain Textiles Cluster and Pannon Thermal Cluster).

The first was the Győr-based Car Industry Cluster – Panac, established in 2001 (Győr is a county seat in Northern-Transdanubia). Its founders include Hungary's five most prestigious automotive companies (Audi Hungaria Ltd, Opel Hungary Ltd., Hungarian Suzuki Inc., LuK Savaria Ltd., Rába Automotive Holding Plc), representatives of financial and advisory service companies and the West-Transdanubain Regional Development Council. The Industrial Economic Research and Advisory Society has become member of Panac too. GM Fiat, Siemens, HVB and the Széchenyi István University have 'partner status'. The



Hungarian Investment and Trade Development Agency (ITDH) also participated in realizing Panac's conference and business forum plans for the year 2004. They organized special training programs: in France entrepreneurs could study the process of becoming suppliers, and together with the car industry clusters in Vienna, Upper-Austria, Stuttgart, and Lombardy they have prepared co-operation projects in metal-work and tool engineering. PANAC is determined to fill the gap and play a co-ordinative role among the partners. PANAC views this as a crucial task in its effort to strengthen the automotive industry in Hungary, one of the most important sectors in Hungarian economy. The 73 official PANAC members receive information on PANAC activities on a regular basis. PANAC is now known as a reputable information centre for the Hungarian automotive industry.

And now here is a brief summary of the objectives, tasks and tools of the Pannon Automotive Cluster.

#### **Objectives of the Pannon Automotive Cluster**

- Foster the creation of a co-operative network of automotive enterprises in the region and increase the efficiency of this co-operation via the development of inter-company co-ordination.
- Accelerate the establishment of new supplier links and the process of becoming a supplier.
- Support the launch of investments for the improvement of competitiveness, supplier capabilities and quality.
- Encourage the innovation activities of businesses in the region.
- Initiate and actively participate in the establishment of the commercial and service providing network in the region.
- Encourage the settlement of foreign automotive ventures in the region.

#### **Tasks of the Pannon Automotive Cluster**

- Support businesses with real supplier potential interested in improving their supplier position, with special regard to Hungarian small and medium-sized enterprises.
- Map supplier links, survey the competence of potential participants, establish and organize the array of experts who can provide professional support and quality training.

- Collect innovative project ideas, co-ordinate their implementation, mediate between potential project partners.
- Create a common PR and marketing operation.
- Act as a liaison between SME's and multinational corporations, business actors and organizations engaged in economic development, and various subsystems of public administration.

#### **Tools available for the Pannon Automotive Cluster**

- The information and communication platform offered by the PANAC portal ([www.autocluster.hu](http://www.autocluster.hu)), which is a primary organisation interface for the virtual community of the cluster. Portal services to be launched include on-line member registration and data management, automotive and business news; information on new projects, funding opportunities, professional (public, member and closed group) forums, newsletters, on-line databases of members, service providers, training organisations, R&D, as well as B2B techniques.
- Development and implementation of a company diagnostics method, free of charge, completion of corporate SWOT, establishment of personal contacts, opportunities for customised services.
- Arrangement of training sessions and education courses for quality development, encouragement of company innovation processes and creation of a learning organisation.

Finally, let me introduce PANFA, another important Hungarian cluster. Panfa, a timber and furniture industry cluster in Zalaegerszeg (a county seat in Central-Western-Transdanubia) was also established in 2001, at the initiative of the Zala County Enterprise Development Fund. The timber- and furniture industry is a determinative activity in the West-Transdanubian region. About 700 small and medium-sized enterprises operate in this sector. Panfa, which has already more than 80 members, was established by 15 companies. Two-thirds of the members produce wooden goods, timber and planks and one-third of them are service companies. Panfa will build the Timber Innovation and Technological Center in Zalaegerszeg in 2 or 3 years. The site has already been selected and the plans of the project are under preparation.

Summarising briefly the benefits of clusters we can say that they utilise the advantages of their geographical position, which enable them to

- decrease transaction and transport costs;
- have a faster and more reliable information-system;
- get to know the learning-by-doing process;
- spread the risk;
- have common R&D activities;
- change constantly the expertise of industries. (Lengyel, 2004)

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