New study debunks the theory of 'war-like' business competition in financial markets

January 16 2018, by Kyla Jardine

Credit: City University London

The perception of competition in business is often negatively skewed, with images of Wolf of Wall Street types running greedy firms who are out to win at any cost. In this world, competition is seen as war and retaliation, and financial markets are battlegrounds.

But a new study, 'Toward a Social Practice Theory of Relational Competing' shows that this perception of war-like competitiveness is flawed and misleading.

The research demonstrates that firms within syndicated financial markets, such as reinsurance, are just as likely to take a relational approach to competition, incorporating collaboration and reciprocity.

The goal is not to beat a rival but, for all parties to do well by contributing to and creating value for many players, even when they are rivals. For example, competitors might contribute to common standards that benefit the entire market.

The paper, forthcoming in Strategic Management Journal states the following key findings:

'Tacit mutual understanding'

Firms not in a direct, transactional relationship will actually make decisions that benefit the longer-term health of the market, rather than strictly undercutting their competitors to win at all costs. This unspoken understanding between competitors' is actually contradictory to current perceptions of players within financial and other competitive markets where price wars and retaliation are seen as common.

This relational approach to competition is not the result of one major decision maker or body, neither are firms collaborating in order to get the best deal possible. Instead, individuals are making highly skilled decisions, on a deal by deal basis, that enable the market to stay healthy, while maintaining a competitive edge for their specific firm.

Competitors' rivalrous or relational motivations are highly dynamic

Motivations shift throughout the competition on any deal and across the multiple deals on which they compete. Yet each of these micro-competitions is critical for shaping the entire competitive market for these financial products that are volatile and uncertain.

Paula Jarzabkowski, Professor of Strategic Management at Cass

Business School and co-author of the paper, said:

"The relational element in the competitive dynamics of the reinsurance industry is interesting. Reinsurance is a $260 billion financial syndicated market with large scale competition. But multiple competitors take shares in a deal at the same price and syndication is a way to share the risk and increase the chances that all competitors might survive any particularly large-scale catastrophic loss.

"Syndication generates a relational incentive for competitors, by keeping the price on a deal high through their individual quotes, which informs the eventual single market price, for the benefit of all competitors.

"A primary goal within pricing is to provide a good quality playing field for all competitors rather than necessarily to beat a rival. However, syndication does not equate to a lack of competition. As our study shows, market players remain highly competitive in also wanting a share of the best deals."

"Importantly, while not often considered in studies of competitive markets, individuals in relational markets will not engage in a race to the bottom, but rather make decisions that support the long term health of the overall market, which may include the long-term survival of competitors."

More information: Paula Jarzabkowski et al. Toward a social practice theory of relational competing, *Strategic Management Journal* (2017). [DOI: 10.1002/smj.2724](https://doi.org/10.1002/smj.2724)

Provided by City University London