

## Firms Collaboration in the E-Business Environment A System Dynamics Simulation

Bowon Kim

*KAIST Graduate School of Management*

*Seoul, 130-012 Korea*

*T. 02 958 3610; F. 02 958 3604*

*bwkim@kgs.m.kaist.ac.kr*

The primary research questions in this paper are why and how competing firms collaborate, not compete, in the virtual marketplace, e.g., B2B marketplace in the Internet environment. In order to answer the questions, we take on a system dynamics simulation approach: we consider two broad e-collaboration strategies:

- Exclusive e-business strategy If the firm adopts this strategy, it allocates all of its resources (available for e-business development) to its own e-business capability building only.
- Collaborative e-business strategy When the firm adopts a collaborative e-business strategy, it invests not only in its own, but also the industrys e-business capability building.

From the system dynamics simulation results, we conclude that e-collaboration pays off in the long run: although it is hard to tell whether the collaborative strategy is better than the exclusive one during the initial period, it is unambiguous that the collaborative e-business strategy performs much better in the long run.

We infer that such collaboration could occur when the firms realize that they benefit from the expansion of the market demand due to their collaboration. That is, in order for such collaboration between competing firms to be sustainable, such collaboration should create more demand in the market so that each company could earn more profit even if it gets less in terms of market share.