Improving firm acquisition of market knowledge through strategic alliances

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ABSTRACT

The past decade has seen increased scholarly interest in alliances. Authors have devoted attention to the factors underlying alliance formation and the attainment of alliance goals. Concurrently, scholars in the marketing strategy literature examined marketing’s contributions to firm strategy. The following paper explores the intersection between these two bodies of work: the attainment of market knowledge through alliances. Topics include the motivations underlying the desire for market knowledge, the difficulty in transferring market knowledge across organizations, and the presence of opportunism within alliances. Also included are a series of propositions and an agenda for future research.

Keywords: Strategic Alliances, Knowledge Management, Market Knowledge, Organizational Learning, Joint Ventures

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INTRODUCTION

To date, a number of unanswered questions continue to plague efforts to understand the issues surrounding interorganizational alliances. Over the years, scholars have found that as many as one-third of alliances may be considered “outright failures” (Hunt & Morgan, 1994), that the record of American businesses in alliances is abysmal (Hamel, Doz, & Prahalad, 1989), and that firms that do not participate in alliances slightly outperform firms that do participate (Yeheksel, Shenkar, Fiegenbaum, & Cohen, 2001).

And yet, many scholars stress that the appeal of interorganizational alliances remains high. Why do managers retain interest in working with potential competitors? Knowledge is the key to competitiveness; however, given the modern firm’s pressing needs for information and diverse skills, it is unlikely that one enterprise can attain all of the resources needed to prosper without help from other organizations (Richter & Vettel, 1995).

As scholars have made strides toward understanding the nuances of interorganizational alliances, there has also been much interest in assessing marketing’s contributions to firm strategy. Scholars hold that “The marketing function is equipped to play a dominant role in the context of leveraging a number of distinctive organizational skills...” (Varadarajan, 1992, p. 337), and that “there are multiple types of strategic alliances; virtually all are within the theoretical domain of marketing...” (Webster, 1992, p. 8).

What specific motivations underlie managerial interest in marketing knowledge? Certainly, improved knowledge of customers and markets benefits an organization’s new product development (Von Hippel, 1978). Likewise, “as industries mature, firms finding their traditional markets stagnating and growth opportunities severely curtailed have entered into strategic alliances...” (Varadarajan & Cunningham 1995, p. 286).

Along with the emphasis on marketing as a strategic tool has come unease. “Paradoxically, the deeper marketing is embedded within an organization... the more likely is the role of marketing as a distinct function to be diminished” (Day, 1992, p. 323). Empirical results support the notion that marketing may not play a distinctive role in shaping the modern organization. Many advances in marketing have not “filtered down” to line managers (Myers, Greyser, & Massy, 1979). Critics assert that marketers have the potential to shape firm strategy, but often contribute little (Biggadike, 1981).

In summary, interest surrounds both interorganizational alliances and marketing as a strategic tool. It follows that examining the acquisition of market knowledge through interorganizational alliances would be of value.

Scholarly Views of Alliances & Market Information

Increasingly, knowledge assets drive the world economy as well as the balance of power in alliances (Windsperger, Kocsis, & Rosta, 2009). Alliances may be the best means to disseminate “imbedded” knowledge (information that managers cannot easily articulate) to outsiders. Alliances are strategic tools that managers use to improve their firms’ standing relative to competitors (Kogut, 1988). Therefore, “cooperation becomes a low cost route for new competitors to gain technology and market access” (Hamel et al., 1989, p. 133).

More importantly, alliance partners are inevitably seeking to improve “their ability to obtain some leverage over other organizations” (Pennings, 1981, p. 444). It follows that “a laggard (slow learner)... may find itself in a dependency spiral: as it contributes fewer and fewer
distinctive skills, it must reveal more and more of its internal operations...” (Hamel et al., 1989, p. 135). But integration of learning takes time (Crossan & Inkpen, 1995).

**Transfer**

What accounts for the difficulties firms face in trying to integrate knowledge attained from alliances? All organizational learning is grounded in what has been done in the past. “The learning activities of firms are heavily constrained. Strategic management theory tells us how difficult organizational change is, as strategies reflect existing capabilities and technologies” (Dodgson, 1993, p. 80). In other words, “…As individual learning spirals its way to the organization level, dissipation in learning will occur” (Inkpen & Crossan, 1995, p. 611).

**Improved Learning in Alliances**

Strategists considering an alliance need to be aware of the bounds that exist on what can be learned before deciding to enter an alliance (Richter & Vettel, 1995), and must show patience because there are lags between the inception of an alliance and the transfer of knowledge (Inkpen & Crossan, 1995). Managers should seek a balance in selecting alliance partners; potential collaborators must be similar enough to understand each other, but not so similar that their differences permit no learning opportunities (Crossan & Inkpen, 1995).

**Outcomes**

Scholars differ in regard to how alliances impact firm performance. Some scholars suggest that firms involved in joint ventures earn less money than do other firms (e.g., Kogut, 1988). Much of the confusion regarding learning through alliances pertains to measurement: to assess learning one must separate mere adaptation from deeper changes that influence the entire organization (Lyles, 1988). Many previous studies assess alliance outcomes based on the continuation or discontinuation of the alliance (Weaver & Dickson, 1998). Critics contend that satisfaction with the alliance is the most relevant base on which to assess alliance outcomes (Larson, 1992; Tyler & Steensma, 1995).

**Marketing as a Strategic Tool**

In the 1990s a number of contingencies drove an intense interest in marketing among practitioners. Varadarajan (1992) stated that the “…strategic imperatives of the nineties augur well with the competencies of marketing and forebode a major role for the function in strategy formulation and implementation” (p. 341-2). Insights from marketing can provide the firm’s guiding philosophy: “Sound business strategy should have a marketing perspective, i.e., marketing should provide inputs to strategy generation and the evolved strategies should be tested against the reaction of consumers, competitors and other stakeholders…. A marketing perspective for the development of business strategy… (Recognizes) that marketing is not only a set of functions but also a guiding philosophy for the firm. Yet most firms tend to adopt other orientations” (Wind & Robertson 1983, pp. 12-13).

What benefits do managers associate with marketing knowledge? Strategists conceive of “…Marketing as a boundary-spanning organizational function… [that] develops certain unique
competencies within the organization” (Varadarajan, 1992, p. 339-340). More succinctly, “Marketing strategy’s difference is that it serves a boundary role function between the firm and its customers, competitors, and other stakeholders” (Wind & Robertson, 1983, p. 12). Similarly, Day (1992) holds that “These (current) trends will put an increasing premium on understanding and managing relationships in boundary-less organizations, understanding the processes by which superior customer value is created, and analyzing dynamic and fragmenting markets” (p. 327).

What benefit do practitioners hope to obtain from marketing? Properly applied, marketing knowledge can provide information concerning innovation. “The pervasive interest in creating and sustaining innovation in large scale, complex organizations places marketing in a unique position to assume a significant role in strategic management…” (Kerin, 1992, p. 332). Success through marketing requires luck, insight, or a combination of both: “Strategic market opportunities arise either because a firm is exceptionally well placed competitively or because it recognizes the opportunity, on the basis of private information, before others” (Wensley, 1982, p. 147).

Scholars note that the integrative, boundary-spanning role marketing increasingly plays leads to confusion about marketing’s contributions to firm strategy. Indeed, some scholars go so far as to suggest that “marketing is everything” (McKenna, 1991). Some fear that marketing’s distinct role may be lost: “…marketing must realize that its role in strategic planning is not preordained. Indeed, it is possible that marketing considerations may not have a significant impact on strategic plans…” (Anderson, 1982, p. 23).

Marketing Knowledge & Alliances

In regard to motivations for alliance formation, “virtually all are within the theoretical domain of marketing” (Webster, 1992). In spite of the recent reduction in trade barriers, firms often find that they need a foreign partner to provide market knowledge and overcome the remaining barriers to foreign markets (Lu & Ma, 2008). Also the existence of higher development costs and shortened product life cycles has motivated many managers to seek “rapid penetration of foreign markets [and to] …facilitate strategic coordination among competitors to increase market power” (Mowery, Oxley, & Silverman, 1996, p. 79).

Varadarajan and Cunningham (1995) cite four market-related motivations underlying alliances. First, “…growing recognition of the importance of entering and achieving a viable market position in all the major world markets…” (p. 285). Second, “…by forming alliances with domestic firms that are familiar with the nuances of the local environment, a firm may also be in a position to circumvent… barriers to entry” (p. 285). Third, an alliance attacking a competitor in its home market may force the rival’s “diversion of resources away from expansion into new international markets toward protecting its competitive position in the home market” (p. 285). Finally, “(a)s industries mature, firms finding their traditional markets stagnating and growth opportunities severely curtailed have entered into strategic alliances…” (p. 286).

To date, many firms have not been successful at integrating market-related insights obtained through alliances. Researchers posit that market knowledge obtained in one context is difficult to reapply in another environment (e.g. Simonin, 1999); in scholarly terms, such information has a high degree of asset specificity. It is not surprising, then, that “the effects of learning on value creation are strongest for research joint ventures, and weakest for marketing joint ventures” (Anand & Khanna, 2000, p. 295).
Market information held by a firm is often “‘knowledge of experience,’ which is quite specific to particular contexts and is rarely formulated in a logical and consistent way” (Lynskey, 1999). Similarly, “some knowledge-management practices are more difficult to transfer between firms because they are more deeply embedded, that is, highly dependent on broader contextual factors to operate effectively” (Collinson, 1999, p. 337).

If market information is often context specific, what outcomes should alliance participants anticipate from attaining market knowledge? Examining the uses of information attained through alliances reveals that market knowledge plays a relatively small role in new product development as compared to technological knowledge. Intriguingly, this result may not be indicative of a problem with market information; instead, an entirely different set of goals may be appropriate for those firms entering alliances to learn about markets (Chen & Li, 1999).

PROPOSITIONS

Researchers lack insight into those organizational characteristics that help (or hinder) the transfer of knowledge within an alliance (Lynskey, 1999). Meanwhile, there is also a gap in understanding the role market knowledge plays in alliances (Simonin, 1999; Varadarajan & Cunningham, 1995). In the following discussion “Alliance Success” refers to Weaver and Dickson’s (1998) suggestion that, given the disparate motivations underlying alliances, managerial satisfaction with the alliance is the appropriate measure of alliance performance.

Figure 1 (Appendix) explores relationships between organizational, industry and alliance variables with “success” at attaining market information through alliances.

P1: Among those alliance participants interested in obtaining market information, those whose target markets are complementary to their partners’ target markets will be more likely to report alliance success.

When alliance partners have complementary target markets, the alliance participants are more likely to consider the alliance to be a success (Bucklin & Sengupta, 1993). The reasons for this are intuitive: when alliance partners are not direct competitors, but still have some synergies between their target markets, both may benefit. In alliances where firms are direct competitors, opportunism is more likely to be a concern.

P2a: Among those alliance participants interested in obtaining market information, partner similarity will have a negative impact on the amount of knowledge acquired from the alliance partner.

P2b: Among those alliance participants interested in obtaining market information, partner similarity will have a positive impact on amount of attained knowledge that the acquiring firm is able to use.

Managers elect to participate in alliances because they hope to attain some knowledge that their firm lacks; therefore, managers actively seek out firms that possess differing skills from their own firms (Jain & Jain, 2004). If firms do not possess differing skills, there is no rationale for alliance formation.

Dissimilarity among partners increases the amount of information a firm might potentially obtain, but does not necessarily lead to improved learning (Crossan & Inkpen, 1995). First, the nature of organizational learning makes it difficult for managers to use information from firms that differ from their own organizations. The foundation of organizational learning is the knowledge the firm currently possesses (Dodgson, 1993) and successful transfer depends on information consistent with a firm’s current knowledge base (Cohen & Levinthal, 1990).
The nature of market knowledge also makes it difficult for managers to learn effectively from other organizations. Market knowledge possesses “a high degree of asset specificity,” making the knowledge difficult to reapply across distinct business contexts (Simonin, 1999). Research reveals that a firm’s performance improves after it obtains more information about their current target markets; obtaining more information about new target markets produces more ambiguous results (Von Hippel, 1978).

P3: Among those alliance participants interested in obtaining market information, firms whose primary lines of business are later in the industry life cycle will be more likely to report alliance success.

In the early stages of the industry life cycle managers tend to focus on technological innovation, but as industries mature, managers become interested in marketing (Hagedoorn, 1993; Anand & Khanna, 2000; Varadarajan & Cunningham, 1995). Hwang and Park (2007) predict that market knowledge will be little sought during the initial or development stages of the life cycle. However, as the second stage – development – begins firms will look to acquire market knowledge. These authors do not list attaining market knowledge as a major goal of the third and fourth stages – growth and stability. Intuition suggests, however, that market knowledge will remain a key concern. As time elapses, product innovations become fewer and leaving firms to search for new markets and focus on learning more about customer preferences (Smallwood, 1973).

Given that strategic opportunities for competitive advantage flow from market information later in the life cycle, managers should report more satisfaction with market information obtained at this stage of the industry life cycle.

P4: Among those alliance participants interested in obtaining market information, the level of transactions costs associated with the alliance will be negatively related to alliance success.

Interactions between businesses involve costs that must be paid by one or both members. Specifically, the need for one or more alliance partners to invest in transaction-specific assets may substantially increase the costs of the alliance (Williamson, 1975). These costs can lead to conflict between alliance members (Bucklin & Sengupta, 1993).

When each alliance partner possesses a credible threat to injure its partner, alliance outcomes improve (Duan & Juma 2007). When power between alliance participants is unbalanced, the level of conflict rises. Given that firms seek alliances due to self-interest, it is reasonable to suggest that the differential rates of learning between alliance participants may impact organizational conduct within alliances. As time passes, many alliance participants perceive that the benefits from the arrangement deteriorate and their motivation to end the alliance increases (Ahuja, 2000). Given the relatively long period needed to learn about market issues relative to other business knowledge (Hagedoorn, 1993), it is likely that firms interested in learning about market issues will require more time than their partners do to complete the learning process. Therefore, firms interested in market knowledge will often need to commit relatively more resources to the alliance than will their partners.

P5: Among those alliance participants interested in obtaining market information, relationship quality will be positively related to alliance success.

Alliances exist on two conflicting levels: firms work together while competing at the same time (Hamel et al., 1989; Kogut, 1988). And yet, successful learning requires trust and openness with one’s partners. For the manager interested in attaining market knowledge, there is yet another challenge: market knowledge is complex and difficult to apply. A firm interested in attaining market knowledge, therefore, must trust that a faster-learning partner will not take...
advantage of the differential rates of learning. Indeed, research establishes a positive link between trust—a key component of relationship quality—and alliance success (Schumacher, 2006). A study of international joint ventures found that relationship quality was positively related to alliance success (Pérez-Nordvstdt, Kedia, Datta, & Rasheed, 2008). Therefore, for firms interested in attaining market-related information, a strong relationship with one’s partners is a must.

P6: Among those alliance participants interested in obtaining market information, duration of the alliance will be positively related to alliance success.

Market knowledge differs from other business relevant knowledge. Specifically, firms entering alliances to attain market knowledge are likely to have different organizational goals and capabilities than are those firms entering alliances to attain technological knowledge (Chen & Li, 1999).

Market knowledge’s complexity impairs managers’ ability to transfer it across organizational boundaries. Specifically, market knowledge may be more ambiguous than other types of business-relevant information (Simonin, 1999). The transfer of business skills is much more difficult to manage than the exchange of resources (Lynskey 1999).

If managers hope to attain market knowledge that is beyond their current knowledge base they should allow for an extended time to complete the learning process (Lei, 1993). The trust and commitment needed to understand fully another firm’s knowledge are only possible over an extended period (Morgan & Hunt, 1994). Empirical studies reveal no short cuts for those firms that seek to attain market knowledge (Hagedoorn, 1993).

P7: Among those alliance participants interested in obtaining market information, the number of contractual safeguards built into the alliance agreement will be positively associated with alliance success.

For the most part, scholars have paid little attention to the role of contractual safeguards in alliances (Ariño & Reuer, 2004). While the presence of asymmetric assets and goals drives alliance formation, it also causes tension (Oliver, 1990). Furthermore, firms interested in market knowledge are likely to lose in any competition to attain such knowledge (Simonin, 1999). Firms need restraints to eliminate self interest-seeking behavior when firms engage potential competitors (Williamson, 1985). Contractual arrangements prior to the inception of the alliance are one means of decreasing opportunism (Bucklin & Sengupta, 1993).

P8: Among those alliance participants interested in obtaining market information, firms whose anticipated alliance outcomes have a relatively narrow scope will report higher alliance success than will those firms desiring outcomes with a relatively broad scope.

Understanding the limits, or bounds, on organizational learning at the start of the process is the key to knowledge acquisition (Richter & Vettel, 1995). And yet, marketing’s breadth makes it unique among business functions (Varadarajan, 1992; Wind & Robertson, 1983). Those seeking to attain market knowledge, then, must be very careful when setting their goals.

A number of scholars note that firms struggle to attain market knowledge. Joint ventures centered on the attainment of market knowledge contribute little to firm value (Ananda & Khanna, 2000). Marketing knowledge contributes little to new product development (Chen & Li, 1999). Managers entering alliances to obtain market knowledge, therefore, would be well advised to heed Richter and Vettel’s (1995) advice: set reasonable, specific goals.
FUTURE RESEARCH

The most pressing need, at present, is for a model that explains those factors that predict success or failure for firms entering alliances to attain market knowledge. While, there have been a number of studies that have examined individual factors contributing to success or failure in regard to attainment of market knowledge, to date, authors have not made an attempt to examine these factors in a single model. Such a review would provide an idea of which factors contribute the most to successful acquisition of market knowledge.

Also, scholars do not understand the nature of market knowledge. (Collinson, 1999) “With only a few exceptions dealing with local market knowledge, marketing skills and know-how have yet to receive proper conceptual and empirical attention as a competency source of competitive advantage that can be transferred across alliance partners” (Collinson, 1999). To better understand marketing knowledge, scholars should go beyond examining dyads and instead consider examining a firm’s entire network of alliances as a whole. The network perspective often leads researchers to different conclusions regarding the effectiveness of a firm’s interactions with other firms (e.g., Swaminathan & Moorman, 2009).

CONCLUSION

At present, managerial interest in alliances remains high. However, many studies indicate that results obtained from such arrangements are often unsatisfactory. Managers may improve their firms’ alliance performance by better understanding the idiosyncratic nature of the knowledge they hope to attain through the alliance. While striving to attain market knowledge through an alliance, managers should bear in mind that the process may be lengthy and may lead to opportunistic behavior on the part of alliance partners.

REFERENCES


APPENDIX

Figure 1. Factors influencing successful attainment of market knowledge through alliances.

AUTHORS BIOGRAPHIES

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