

# Inter-Firm Network Strategy and Its Relationship with Pro-Activeness and Responsiveness Market Orientation

## Conceptual paper

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**Abstract.** There seems to be scarce study to investigate the relationship between market orientation approaches and inter-firm network strategies. This study from the extant literature conceptually concluded that co-opetition can influence responsiveness as well as pro-activeness market orientation.

**Keywords:** network strategy, co-opetition, market orientation, responsiveness, pro-activeness

## 1. Introduction

In market orientation domain, there is a dearth of investigation related to the effect of inter-firms business relationships on market orientation. Marketing scholars confirmed that network factors are essential for firm's sustainability and success ability [1,2]. Beside, network factors extensively influence firm's market orientation. For instance, market knowledge is scarce and creating this knowledge is complicated; so, inter-firm networks have potential to boost knowledge access [3]. However, extant researches about the connection between inter-firm relationship and market orientation are limited [1].

Only few studies have investigated market orientation on the context of inter-firms relationships [1]. Elg [4] believed that market orientation activities are influenced by network factors and industry structure. Network and inter-organizational factors such as governance of network ties, retail power, trust and cooperation effect inter-firm market orientation [1]. Similarly, Tuominen [5] found that there is a positive relationship between network resources such as power, trust, cooperation, asymmetries, and the degree of market orientation within a firm.

Vital importance of network factors increasingly brings scholars to investigate their effects on market orientation within business-to-business relationship [1]. Most of the studies related to inter-firm have tried to investigate market orientation in the vertical relationship, however Elg [4] calls for more researches on the other network levels as well as industry, horizontal, and customer opportunity networks in order to figure out a comprehensive sight from market orientation.

Marketing researchers have found that networks are the source of competitive advantage [1]. In fact, no longer company, in most if not in all situations, cannot survive or success without linking to others and having interactive relationship [6]. Hakansson and Ford [7] explain that the business market is a network and networks describe as a "web of relationships".

A firm can at the same time have variety of relationships with other companies. The relationships between companies may form in different strategy consist of co-operation, competition, co-existence and newly strategy named co-opetition [6, 8]. Co-opetition is a new paradigm and most of scholars focused on its definition and concept [6]. Some researchers asked to figure out the antecedents and consequences of co-opetition and its relationship with other strategies [8,9]. One question was discussed by Rindfleisch

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[9]whether “managers in co-opetitive relationships are more market oriented than their competitive-centered counterparts?” Following this question may shed more light on the relationship between co-opetition and market orientation.

## **2. Methodology**

This study tries to conceptually answer this question: whether co-opetition strategy fosters market orientation approaches? Answering the question is based on the study of extensive literature review of co-opetition and market orientation. In fact, the review seeks to bring material from the past which can contribute to current theory and practice [10]. In other words, in conceptualization process, scholars try to utilize other experiences and observation in order to contribute to the current theory [11].

## **3. Literature Review**

### **3.1. Co-opetition**

For the first time, the term co-opetition was presented by Raymond Noorda [12]. A study on co-opetition by Brandenburger and Nalebuff in ([13]made the concept more familiar to other researchers. In a simple definition, co-opetition is defined “simultaneously cooperation and competition between competitors for the same products” [8]. Due to its newest concept, there is no comprehensive definition for co-opetition. This study found some of the co-opetition definitions [8, 14,20]. For example, Bengtsson and Kock [8] defined co-opetition as following: “the dyadic and paradoxical relationship that emerge when two firms cooperate in some activities, such as in a strategic alliance, and at the same time compete with each other in other activities is here called co-opetition”

co-opetition emerges the two strategies as well as cooperation and competition at the same time among competitors for value creation and value appropriation[15]. In other words, rivalries “cooperate with each other to make a pie and compete together to divide it up” [9, 21].

The most important result of co-opetition for companies is a win-win situation. However, the situation still remains uncover its benefit for customers. Primarily, few scholars implicitly discussed that co-opetition creates a win-win-win condition for companies as well as customers [6, 14, 23]. In other words, not only competitors can get benefit from co-opetition, but also customers can serve from this strategy.

For instance, Hunt and Lambe [24] discussed that firms create superior customer value through cooperation with other companies. Connection to this, Kotzab and Teller [18] identified a co-opetition program namely ECR (efficient customer response) among grocery supply chain in Australian market. The program can be seen as “customer-oriented reengineered value-add management strategy” [18]. Kotzab and Teller [18] discussed that the program can bring a win-win-win result through reducing cost and improving services.

Some researchers have agreement that co-opetition relationship between competitors depends on the activity related to customers [8, 18, 23]. For instance, competitors cooperate in the activity which are far from customer as well as development of material, research and development; and compete in the activity close to customers such as sales and distributions [8, 19, 23]. In other words, competition among firms exists on the market side and cooperates on recourses [6]. Although, there is contradictory result to this finding [6]. For example, Bengtsson and Kock [8] investigated that competitors in Swedish brewery compete in the distribution and marketing whereas; cooperate in empty bottle returns. In contrast, Kock et al [6] found out that companies in the internationalization process cooperate on sales and distribution.

In co-opetition strategy, on the one hand, there is competition. Competition is a contradictory logic of interaction related to cooperation [8]. The logic is based on individual interest and zero-sum game [17]. In other words, the success of one firms means the loss of value of other companies involve in the game. Competition theory is discussed to be the core element of innovation and is known as a competitive advantage [8]. On the other hand, competitors work together based on convergent interest and mutual benefits [17] as well as searching for new opportunities [6]. There is a notion that through long term relationship companies may get accustomed to each other and prevents them to be innovative. Therefore, simultaneously cooperation and competition is the most powerful strategy among companies [6].

The insight behind co-opetition strategy defines the market as a system of interactive and dependent relationship. It follows that, paradigm in the market has shift from transactional to relationship interaction[8]. In this market, successfulness of one partner is depended on the successfulness of other partners. Extant literature shows that co-opetition behavior is increasing in channel systems [19].

Co-opetition has several advantageous. Bengtsson and Kock [8] believed it's the most powerful strategy between competitors. Numerous scholars investigated different benefits from co-opetition. For instance, competitors cooperate together more in research and development, purchasing, production, and marketing [6] as well as getting advantageous through cooperation on introduction of new products, entry into new markets, reduction of cost and risks, capability and technology transfer [8]. Beside through co-opetition, competitors can get the vital resources as well as knowledge and expertise[6, 25]. For example, a study on co-opetition showed that competitors can get the international opportunities through reducing the cost of internationalization process, cooperate on sales and distribution, increased their product range by accessing to the products of other competitors [6].

### **3.2. Market Orientation**

Market orientation locates at the center of marketing discipline and is one of the strong research efforts in the marketing context [26]. Several scholars tried to defied market orientation from different perspectives[27]. The behavior perspective defines market orientation as “organization-wide generation of market intelligence pertaining to current and future customers needs dissemination of the intelligence across departments and organization-wide responsiveness to it” [28]. Kohli and Jaworski [28] highlighted three constructs for market orientation. The constructs are market intelligence generation, intelligence dissemination, and intelligence response [28]. Market orientation takes two approaches as well as responsiveness and pro-activeness[29]. In responsive market orientation, company tries to adapt existing market trends. Companies which focus on current information act as responsiveness market orientation [30]. Furthermore, they have a tendency to concentrate on solving the existing customer's problems through improving current technology [31]. A market oriented-company which focuses only on current needs, and neglects latent needs is articulated as market driven-company [30, 32], or responsive market orientation[33,34].

in proactive market orientation, firm struggle to change the market structure or create new market [32]. Proactive market orientation defines as “second generation” of market orientation[35]. In the second generation, market orientation expands its definition to emphasis on both current and latent customer needs as well as current and potential competitors' capabilities. From this point of view, traditional techniques for collecting market information are inadequate. In fact, in order to express customer latent needs, company must use new technology, working with lead customers, implements structured customer visit program, ethnographic, and observational research [35,36].

Apart from these definitions, Hills and Sarin [37] synthesized the proactive market orientation definitions in order to come up with a clear definition. Along with combination, three dimensions are interrelated together as: value creation, change, and leadership [37,38]. These dimensions may happen at different levels as well as industry, market, and products. Barlow and Sarin [37] defined proactive market orientation as” firms ability to lead fundamental changes in the evolution of industry conditions by influencing the value creation process at the product, market, and industry”.

However, researchers found out some internal antecedents for market orientation, the external factors remains scant [27].

Elg [1, 4] implicitly believed cooperation can foster market orientation. Few studies have supported this notion [5, 39]. These studies have considered cooperation as an inter-firm strategy among supply chain. However, when cooperation creates between rivalries and forms as a part of co-opetition strategy, it may bring different results. Beside, the effect of competitor's cooperation on a company to be proactive market orientation or responsive market orientation still remain uncover.

### **3.3. Co-opetition and responsiveness market orientation**

Co-opetition may help fostering responsiveness market orientation construct. For example, Elg [4] argued that cooperation among companies such as strategic alliance is probably support intelligence generation. This alliance may help companies to gather data related to consumer trends and other market factors such as new consumer segments. In other words, a competitor can access to market knowledge through cooperation with other competitors [6, 8]. In fact, sharing knowledge is one of the most significant advantageous of co-opetition [20]. Zineldin [20] recognized other advantages such as, “access to new markets, greater customer value, and access to superior technology”.

Moreover, co-opetition between SMEs and customers can assist them to share knowledge in order to survive [25]. Levy et al [25] mentioned that some SMEs design product for big companies. They should access to customer’s needs to innovate new design. Elg [4] argued that several indicators can determine market intelligence generation cooperation between companies. For instance, “joint market research program’ figures out the cooperation in market intelligence generation.

Likewise, intelligence dissemination may increase through cooperation between rivalries [1]. Competitors are likely to exchange market data formally as well as trade association, joint investment in information technology, or informally through interaction [4]. For example, using IT can be an indicator of market intelligence dissemination between competitors [4].

Similarly, Elg [1] believed that intelligence response may be fostered by cooperation. For instance competitors can joint on marketing activities to solve consumer dissatisfaction and handle quality problems[4, 8]. Connection to this, Bengtsson and Kock [8] determined that companies can reduce the cost of product with efficiency and can short the lead time. Beside, competition part of co-opetition can foster market intelligence response. Competition on market side as well as sales and distribution can contribute to market response [6, 8]. For example, competition create intense among companies to be innovative, develop products and penetrate in market [8].

### **3.4. Co-opetition and pro-activeness market orientation**

Proactive market orientation and co-opetition try to change structures as well as functions [13]. Proactive market orientation reshapes market structure in three manners as, deconstructive as well as eliminating player, constructive such as adding more players to the industry, and functional modification, for instance, shifts the function of players within the industry [30, 38, 40].

In the same way, Brandenburger and Nalebuff [13] argued that co-opetition strategy can use game theory to change the players, the rules of the game, and scope of the game. Moreover, it is likely that co-opetition strategy engage when companies are more proactive in three reasons following as enthusiasm for learning, capturing power, and improving capabilities [19, 21].

Likewise, both market orientation approaches and co-opetition are known as sources of innovation, organizational learning, capabilities and lead users [41,43]. For example, in co-opetition strategy, competition encourages companies to increase their market knowledge for innovation as well as cooperation stimulates firms to develop their quality and services [41,42].

## **4. Conclusion**

The aim of this study was to investigate the relationship between co-opetition and market orientation approaches. This study strived to conceptually find this connection. The investigation found out from the literature review that co-opetition strategy can affect market orientation. The impact is on both responsiveness as well as pro-activeness market orientation. This study postulates two hypotheses for further investigation:

- 1- Co-opetition positively has relationship with responsiveness market orientation
- 2- Co-opetition positively has relationship with pro-activeness market orientation

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