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The role of horizontal and vertical new product alliances in responsive and proactive market orientations and performance of industrial manufacturing firms

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ABSTRACT

This study examines different roles of new product alliance partners in enhancing responsive market orientation (RMO) and proactive market orientation (PMO) of industrial manufacturing firms in the context of learning in business-to-business (B2B) relationships. A survey of 146 firms shows that horizontal new product alliances with competitors provide access to similar industrial knowledge and know-how and thus help improve a manufacturing firm's RMO through exploitative learning. Although vertical new product alliances with suppliers may grant access to similar domains of knowledge, the findings of this study do not provide any support for their effect on a manufacturing firm's RMO. In contrast, the study shows that vertical new product alliances with research institutions provide access to a broader knowledge base and greater know-how with higher levels of non-redundancy and thus help improve a PMO through explorative learning. In addition, the results suggest that both RMO and PMO developed in different types of new product alliances enable a manufacturing firm to improve its new product performance and eventually its overall performance.

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1. Introduction

Business-to-business (B2B) new product relationships (hereinafter, new product alliances) with different types of alliance partners, including horizontally and vertically connected partners, can provide several benefits to participating firms, such as easier access to new knowledge, reduced costs and risks associated with developing new products, and enhanced opportunities for gaining new competencies (Rindfleisch & Moorman, 2003; Thomas, 2013; Xu, Wu, & Cavusgil, 2013). However, although new product alliances can be beneficial for participating firms, they may not produce value for or meet the diverse needs of their customers (Garud, 1994; Rindfleisch & Moorman, 2003). From a market orientation (MO) perspective, firms may adopt a responsive and/or proactive MO approach to satisfy customer needs. Learning from diverse types of alliance partners (i.e., competitors, suppliers, and research institutions) may help support either responsive or proactive MO (Koza & Lewin, 1998). This study examines the potential for partnering firms to develop a responsive market orientation (RMO) and/or proactive market orientation (PMO) through their involvement in new product alliances and, thus, to enhance their new product and firm performance.

RMO pertains to a firm's set of behaviors prioritized on the creation of superior value for expressed or current customer needs (Narver, Slater, & MacLachlan, 2004; Rindfleisch & Moorman, 2003; Slater & Narver, 1995; Yannopoulos, Auh, & Menguc, 2012). Conversely, PMO focuses on understanding and creating distinctive value for customers' latent or future needs (Narver et al., 2004; Slater & Narver, 1995; Yannopoulos et al., 2012). Although responding to expressed customer needs through RMO plays a critical role in achieving short-term value creation, proactively addressing latent customer needs through PMO helps ensure an ongoing value-creation process (Blocker, Flint, Myers, & Slater, 2011). In B2B marketing, new product alliances provide the potential for partners to develop successful performance outcomes through both RMO and PMO.

Extant B2B marketing studies have mainly focused on the role of B2B dyadic relationships in a firm's RMO toward expressed customer needs within a vertical channel system (Hernandez-Espallardo & Arcas-Lario, 2003; Rindfleisch & Moorman, 2003) and in horizontal alliances with competitors (Rindfleisch & Moorman, 2003). However, evidence on how new product alliances affect the development of PMO is lacking. Some empirical studies have examined how new product alliances affect firm behaviors by using insights from entrepreneurial orientation and innovativeness (Antoncic & Prodan, 2008; Duysters & Lokshin, 2011; George, Zahra, & Wood, 2002; Inemek & Matthysens, 2013), but to date, no studies have examined the relationship between new product alliances and PMO. Moreover, they do not make any direct

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inferences on how the roles of horizontal and vertical new product alliances may differ in creating RMO and/or PMO.

Furthermore, how vertical new product alliances with suppliers or research institutions may affect a firm's MO remains unclear. From an organizational learning perspective, research institutions, which possess a broader knowledge base than other vertical alliance partners (e.g., suppliers), may not necessarily have the same effect on their partner firms' MO (Un, Cuervo-Cazurra, & Asakawa, 2010). In addition, there is limited research on the performance implications of MO in a B2B alliance context (Siguaw, Simpson, & Baker, 1998). In the context of B2B marketing, business relationships can maximize the effect of a firm's level of orientation toward expressed and latent market needs on its performance (Boso, Story, & Cadogan, 2013).

This study addresses these voids by examining the effects of diverse types of new product alliances, including horizontal alliances with competitors and vertical alliances with suppliers and research institutions, on an industrial manufacturing firm's level of RMO and PMO and, in turn, its new product and firm performance. Drawing from organizational learning theory and research on MO, we assume that horizontal new product alliances with competitors and vertical new product alliances with suppliers help develop a firm's RMO through exploitative learning in the creation of value for expressed customer needs. We also assume that vertical new product alliances with research institutions help develop a firm's PMO through exploratory learning in the creation of value for latent customer needs. Finally, we propose that RMO and PMO developed in different types of new product alliances subsequently help enhance a firm's new product performance and overall performance.

2. Theoretical background

MO involves generating intelligence about the market and, in particular, customer needs and preferences, disseminating that intelligence across a firm's diverse functional units, and responding to such intelligence in the form of organizational operations (Kohli & Jaworski, 1990; Slater & Narver, 1995). In B2B marketing, MO has been examined in the context of dyadic business relationships (e.g., Elg, 2002, 2007). In today's product-market competition, allying with a network of partners in new product development (NPD) ensures economies of scale in processing market information and helps firms keep pace with changing customer needs and market velocity to achieve new ways of delivering superior customer value (Day, 2011; Elg, 2007). Thus, it is important to understand how a firm's MO emerges as a result of different learning practices occurring in the firm's alliances.

However, research has criticized the MO concept for its exclusive focus on expressed customer needs (Narver et al., 2004; Yannopoulos et al., 2012). Several marketing scholars assert that focusing too closely on current customers makes firms become insensitive to emerging market needs and often leads them to lose their positions of industry leadership (Christensen & Bower, 1996; Narver et al., 2004; Yannopoulos et al., 2012). Thus, it is necessary to address latent customer needs for achieving a sustainable competitive advantage (Narver et al., 2004; Yannopoulos et al., 2012). These criticisms have led to the identification of two facets of MO: responsive and proactive (Atuahene-Gima, Slater, & Olson, 2005; Narver et al., 2004; Saini & Johnson, 2005; Slater & Mohr, 2006). RMO and PMO comprise the sets of behaviors that are based on a firm's attempts to address the two forms of customer needs: expressed and latent.

Responsive market-oriented firms generate deep insights into customers' wants and needs of current solutions through techniques such as customer surveys and conjoint analysis (Atuahene-Gima et al., 2005; Jaeger, Zacharias, & Brettel, 2016; March, 1991; Slater & Narver, 1998). However, RMO reduces the likelihood of generating competitive new solutions with superior customer value (Berghman, Matthyssens, & Vandenbempt, 2006) and a high degree of novelty (Narver et al., 2004); such a focus results in learning myopia, which impedes the generation of creative responses to emerging technologies and customer

needs (Atuahene-Gima & Ko, 2001). In this sense, RMO is generated through and thus reflects exploitative learning behavior (Atuahene-Gima et al., 2005; Baker & Sinkula, 2005; Jaworski, Kohli, & Sahay, 2000; Jiménez-Jiménez & Cegarra-Navarro, 2007; Morgan & Berthon, 2008; Narver et al., 2004; Tsai, Chou, & Kuo, 2008; Yannopoulos et al., 2012; Zhang, Wu, & Cui, 2015). According to Koza and Lewin (1998, p. 256), exploitation involves "refining and improving existing capabilities and technologies, standardization, routinization, and systematic cost reduction." The key objectives of firms engaging in knowledge exploitation are to maintain the status quo and deepen existing knowledge and know-how to optimize and exploit them in current product markets (March, 1991; Yannopoulos et al., 2012).

In contrast, PMO is the attempt to discover new market opportunities by uncovering and satisfying customers' latent and future needs, which are not in their consciousness (Morgan & Berthon, 2008; Narver et al., 2004). This type of approach requires an outside-in process that puts greater emphasis on exploration of changing customer needs and market trends. Proactive market-oriented firms actually lead customers (Narver et al., 2004); they also often work closely with lead users who have needs that are well ahead of mainstream customers (Jaeger et al., 2016; Slater & Narver, 1998; Von Hippel, 1986). Proactive market-oriented firms are sufficiently flexible to develop a diverse range of promising ideas to create novel customer solutions without being constrained by their existing knowledge, mental models, practices, and know-how (Jiménez-Jiménez & Cegarra-Navarro, 2007; Narver et al., 2004; Saini & Johnson, 2005). They nurture an experimental mindset by challenging existing beliefs and encouraging an open learning climate in which learning from market failure is acceptable and experimentation is the norm (Day, 2011). In this regard, PMO is generated through and thus reflects explorative learning behavior (Baker & Sinkula, 2007; Jiménez-Jiménez & Cegarra-Navarro, 2007; Morgan & Berthon, 2008). It is also parallel to the concept of vigilant market learning, which requires an open-minded and exploratory approach to be able to sense and act on weak signals about latent customer needs (Day, 2011). According to March (1991, p. 71), "exploration includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation." PMO may, at least, change entrenched customer practices and behavior and, at best, transform the whole market or industry structure and conduct (Berghman et al., 2006; Jaworski et al., 2000; Kumar, Scheer, & Kotler, 2000; Narver et al., 2004).

3. Hypotheses

NPD is a strategic activity in which firms may use new product alliances to create superior customer value and improve business performance (Lambe, Morgan, Sheng, & Kutwaroo, 2009; Lin, Wu, Chang, Wang, & Lee, 2012; Rindfleisch & Moorman, 2001, 2003). New product alliances refer to formalized collaborative arrangements among two or more organizations to jointly acquire and use knowledge related to the research and development (R&D) and/or the commercialization of new products/processes (Rindfleisch & Moorman, 2001). Firms can achieve a sustainable competitive advantage by accessing this knowledge, particularly tacit knowledge, which is valuable, rare, and difficult to imitate and substitute (Barney, 1991). In a B2B alliance context, firms have the potential to exhibit market-oriented behaviors as a result of learning through their dyadic interactions with other organizations.

Drawing from March's (1991) exploration-exploitation framework of organizational learning, we suggest that firms forming alliances with different organizations show differences in their learning motivations and practices (Koza & Lewin, 1998). Some firms may jointly exploit their existing knowledge and know-how, while others may explore new opportunities. New product alliances emphasizing exploration are more likely to develop new knowledge and discover more innovative solutions for customers (Hoang & Rothaermel, 2010). In contrast, new product alliances focusing on exploitation expend efforts to deepen existing knowledge by making incremental changes and

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