



# How does proximity affect interfirm marketing cooperation? A study of an agribusiness cluster



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## ABSTRACT

This study examines marketing cooperation between firms co-localized in an agribusiness cluster, using the proximity perspective developed in economic geography. After a review of the relevant literature, we develop a scale to measure both interfirm marketing cooperation and different dimensions of proximity (cognitive, geographical, institutional, organizational and social), and test the interrelationships among these elements within the context of Chile, an emerging economy. The findings support the conclusion that interfirm marketing cooperation in the chosen agribusiness cluster is mainly dependent on social proximity. Moreover, contrary to what is found in the literature on other types of cooperation, geographical proximity is not particularly relevant.

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## 1. Introduction

Research on the role of geographic proximity between firms has grown exponentially over the last decades. Countless studies have notably discussed its role in explaining the intensity of trade flows, technological innovation and competitiveness. One of the main reasons for this interest is that geographic proximity facilitates knowledge spillovers. In what would eventually become known as the Marshall–Arrow–Romer approach, economic studies as early as the turn of the 20th century note that spillovers occur when employees from different firms in an industry exchange ideas about new products and new ways to produce goods (Glaeser, Kallal, Scheinkman, & Shleifer, 1992; Marshall, 1890). Recent research on industrial clusters emphasizes the role of knowledge spillovers in innovation and their contribution to the competitiveness of specialized and geographically-concentrated industries (Guilani, 2007; Ketelhohn, 2006; McCann, 2008). However, the benefits from co-localization derived by firms should have greatly diminished with the advent of the Internet and related information and communication technologies—the cumulative effect of which was heralded as the “death of distance.” Fifteen years later, clusters of co-localized companies continue to exist, and proximity still matters even though knowledge spillovers can occur at a distance. Why is that?

Economic geography provides a useful lens through which to address this question. In particular, Boschma (2004, 2005) and Boschma and Frenken (2010) note that geographic proximity is only one of several dimensions of proximity and that all dimensions matter in explaining positive externalities (innovation in particular) for co-localized companies. Boschma (2004, p. 8) argues that “proximity means more than geography. It is a wide concept that incorporates similarity or adherence between actors or organizations, including spatial and non-spatial dimensions.” In the same vein, Molina-Morales (2001) and Malmberg and Power (2005) note that shared resources among firms co-localized in industrial districts along with social interaction among individuals are key factors in knowledge creation and transfer. Furthermore, the existing literature has confirmed the role of joint actions among local firms in enabling them better to compete globally (e.g., Schmitz, 1999).

The study here builds on this research perspective by testing and extending Boschma's (2005) work in two directions: by looking at interfirm marketing cooperation, an underexplored area of positive externalities in clusters; and by studying a different geographic and economic context, namely, an agribusiness cluster in Chile. It aims to answer several related questions: Apart from the much investigated topic of technological innovation, how does proximity affect other positive externalities in clusters, such as interfirm marketing cooperation? How is it possible to operationalize the measurement of proximity along the various dimensions proposed by Boschma (2005), namely, cognitive, geographical, institutional, organizational, and social proximities? Are these dimensions equally important? What is their relative importance in explaining positive externalities for co-localized

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companies? Are the dimensions of proximity in developed economies also valid in emerging economies?

Interfirm cooperation in marketing activities (such as in market research, marketing delegations, trade missions, branding and sales) is particularly interesting because it has important implications for business strategies and the design of public programs (Brown & Bell, 2001; Brown, McNaughton, & Bell, 2010; Felzensztein, Gimmon & Carter, 2010; Felzensztein, Huemer & Gimmon, 2010). A better understanding of all sources of competitive advantage, including the overlooked ones such as interfirm marketing cooperation in clusters, is of tremendous importance, especially for small but fast growing economies like Chile's. Extending existing work in developed economies to the context of emerging economies, this study should provide useful knowledge for business managers (by broadening the study of interfirm marketing cooperation) and industrial policy makers (by further investigating the role of proximity in cluster settings).

The study's specific objectives are thus twofold: developing and testing a measurement scale of proximity including its different dimensions (cognitive, geographical, institutional, organizational and social); and testing the relationships between the various dimensions of proximity and interfirm marketing cooperation. To this end, the paper has the following structure. Section 2 sets out the study's theoretical background and outlines the hypothesized relationships; Section 3 provides more details about the research context and design, data collection and analytical methods; Section 4 presents and discusses the results; and finally, Section 5 concludes with the study's implications, limitations and avenues for future research.

## 2. Theoretical background, model and hypotheses

Interest grows in the issue of clusters as an approach to improving firm competitiveness and to promoting regional economic development (Delgado, Porter, & Stern, 2010; Organization for Economic Co-operation and Development [OECD], 2009; Sölvell, 2009). Creating and sustaining a competitive advantage through innovation is central in this research stream. Innovation arises from the synergy and linkages among firms, universities, government and other stakeholders in a given geographical location. Local externalities and economies of agglomeration facilitate these linkages (Ketels, Lindqvist, & Sölvell, 2006; Saito & Gopinath, 2009; Sölvell, 2009). Although clusters have been studied from various analytical perspectives (Nicholson, Tsagdis, & Brennan, 2013), little attention has been paid to non-technological innovation such as interfirm cooperation in marketing activities.

Interfirm marketing cooperation qualifies as a non-technological innovation from both the marketing and organizational perspectives. Indeed, the Oslo Manual (OECD, 2005; p. 48) defines marketing innovation as “the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing,” and organizational innovation as “the implementation of a new organizational method in the firm's business practices, workplace organization or external relations”. Mothe and Nguyen (2010) note that few researchers report on organizational and marketing innovations despite their potential for technological innovation. Interest in interfirm marketing cooperation is only a decade-old despite its contribution to enhancing firm competitiveness (Brown, McNaughton, & Bell, 2010; Felzensztein, Gimmon, & Aqueveque, 2012).

### 2.1. Interfirm marketing cooperation in clusters

Authors study interfirm cooperation from an array of perspectives and relate it to many positive outcomes, including technological innovation (e.g., Axelrod, 1984; Faria, Lima, & Santos, 2010; Heavey & Murphy, 2012; Ragatz, Handfield, & Scannell, 1997), increased performance (e.g., Gummesson, 2004; Sharma, Tzokas, Saren, & Kyziridis, 1999) and competitiveness (e.g., Gulati, Nohria, & Zaheer, 2000; Jarillo, 1988;

Schmitz, 1999). “Interfirm cooperation” is the extent to which companies voluntarily undertake similar or complementary actions to achieve mutual or singular outcomes with expected reciprocation over time (Anderson & Narus, 1990). Overall, the concept of cooperation refers to joint coordination, sharing and planning of activities, and resources and competencies among trade partners (Brousseau, 1993). Cooperation emerges when firms' goals are compatible (Parsons, 2002) and translates mainly into joint action and conflict resolution. “Joint action” is the extent to which parties undertake similar or complementary actions jointly rather than unilaterally (Heide & John, 1990; Kim, 1999). For its part, conflict resolution is the search for “mutually acceptable compromises without having to resort to formal procedures” (Ruyter, Moorman, & Lemmink, 2001, p. 274).

Product and service marketing is one of the business areas in which firms cooperate. Joint actions—and conflict resolution within the framework of these actions—can be developed across the full spectrum of marketing-related activities, from market research to new product development, distribution, communication and promotion. Felzensztein, Gimmon, and Carter (2010, p. 676) show that “inter-firm marketing cooperation captures many types of co-operative arrangements, including joint ventures, market research and joint marketing activities, joint distribution strategies, joint product development and co-branding. Such inter-firm co-operation can be either vertical with buyers or suppliers or horizontal across value chain activities.” They also position this kind of cooperation as a positive externality that creates marketing benefits through the active participation of co-localized firms in joint actions. This view is in line with Brown, McNaughton, and Bell's (2010) typology of cluster externalities which distinguishes between supply- and demand-driven externalities and between passive and active externalities. In this view, joint marketing actions are an important demand-driven and active externality in clusters. These actions include participation in trade fairs, delegations to clients, trade missions, firm referrals and information gathering/sharing.

### 2.2. Antecedents to interfirm marketing cooperation: social networks and proximity

Felzensztein and Gimmon (2008) compare three natural-resource-based clusters in Chile and show that while both social networks and geographical proximity facilitate interfirm cooperation in marketing, their effects vary among clusters. In their study of salmon industry clusters in Chile and Scotland, Felzensztein and Gimmon (2009) show that social networks and “close proximity” facilitate interfirm marketing cooperation. They also find differences across countries, which they explain by cultural aspects, in particular differing levels of collectivism in national social orientations. Based on their analysis of Scottish and Chilean clusters, Felzensztein, Huemer, and Gimmon (2010) suggest that co-location is beneficial for firms in clusters, especially with regard to marketing externalities (e.g., purchase of intermediate goods, increased reputation, and joint participation in trade fairs). Additionally, Felzensztein, Gimmon, and Carter (2010) evoke the influence of regional and national cultural environments when they argue that informal social networks help explain the relationships between geographic proximity and interfirm marketing cooperation in clusters. They also stress the need for further research into interfirm cooperation in cluster settings, including the use of representative samples and more rigorous statistical analyses in order to understand the effects of proximity on cooperation.

### 2.3. The multidimensionality of proximity

The economics and international business management literatures make extensive use of the concepts of spatial and psychic distances to explain international trade patterns and internationalization strategies. The management and industrial organization literature is more attentive to the concept of proximity in explaining innovation and

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