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Market orientation and communication methods in international strategic alliances ☆

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ABSTRACT

This article discusses factors affecting the success of international strategic alliances, specifically market orientation and communication methods. The study empirically compares market orientation and methods of communication with strategically allied SMEs (small and medium enterprises) in countries with different cultural values (i.e., United States and Korea). The findings indicate that market orientation and communication methods in an international strategic alliance between US and Korean SMEs have distinct differences. For example, the results show that market orientation and communication methods differ according to the number of foreign partners within an alliance and the duration of an alliance. The article highlights some managerial implications that might occur due to the differences between American and Korean SMEs operating an international strategic alliance.

1. Introduction

A strategic alliance is a collaboration between two or more companies wanting to establish and maintain a cooperative relationship due to complementary capabilities based on core competencies and various activities (Thomas and Trevino, 1993). A recent increase in such partnerships between multinational companies is a notable phenomenon, especially in the area of international business (Kim, 2008).

Various factors need consideration to deeply understand how partners' characteristics and specific market conditions impact these alliances due to cross-cultural relationships. In particular, communication methods play a key role in providing products and services while accurately identifying the mutual demands and benefits (Mohr and Nevin, 1990); both activities are very important when a strategic alliance merges across countries. The degree to which a company is market oriented impacts the communication within or between firms as well. Such firms that create strategic alliances depend on market information pertaining to present and future customer needs to be successful (Jaworski and Kohli, 2000). For that, a study is necessary to address the questions of how to manage different factors within an international strategic alliance. Despite the importance of market orientation and communication methods, very few strategic alliance studies focus on these issues.

Research on international strategic alliances includes both theoretical and empirical studies. However, most empirical studies in this stream of research utilize case studies to examine what factors influence the outcome of a strategic alliance. These studies suggest management implications on creating successful alliances through applying the factors (Brouthers et al., 1995; Douma et al., 2000; Graebner, 2004; Stiles, 1994; Voss et al., 2006). However one limitation of case studies includes the inability of clearly verify relationship effects between variables. More sophisticated empirical analysis is necessary to provide evidence on how factors can affect such alliances.

This article compares and analyzes strategic alliances between small and medium enterprises (SMEs) in the US and Korea verifying the differences in their market orientation and communication methods. Some firms favor a strategic alliance as a core alternative in the era of infinite competition (Wiklund and Shepherd, 2009), but such alliances are not an alternative that solves every corporate issue. Many strategic alliances fail due to mismanagement and partner conflicts stemming from corporate culture differences and management's lack of clear understanding regarding such differences. And while a clear understanding makes a difference, the number of strategic partners and the duration of the alliance relationships can also impact international strategic alliances.

Problems result from such culture differences between companies, however almost no prior studies present details of possible resolutions of the issues arising from the number of alliance partners or the duration of the alliance. The purpose of this study, then, is to compare market orientation and communication methods in international strategic alliances involving substantial cultural differences based on the number of partners within the alliance and the duration of a strategic alliance.

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The focus of this study is on non-capital strategic alliances rather than capital alliances because market orientations and communication methods are more important in the former when it comes to overseas market transactions (Kang et al., 2000). Accordingly, the importance of the study is not only to compare factors that affect the outcome of these alliances but also to highlight managerial implications for alliances between companies by going beyond its obvious necessity and effect.

2. Theoretical hypotheses

Market orientation is the creation, distribution, and application of market information throughout the organization reflecting present and future customer needs (Jaworski and Kohli, 1993). The focus of market orientation is mainly on the use and flow of information. The factors that constitute a market orientation structure include intelligence generation, intelligence dissemination, and intelligence responsiveness. In intelligence generation, the information includes not only the explicit needs of customers already under consideration but also the future needs and external factors that affect such customers. This perspective is a starting point for market orientation and includes present and future customer needs, competitor information, and market data (Narver and Slater, 1995). Intelligence dissemination refers to the sharing of market information with every constituent of the organization. Intelligence responsiveness refers to how organizational constituents individually make decisions based on the shared market information and actively use it in their activities. A market orientation focuses on the process coordinating and integrating market information into the functional, operational activities based on the information (Jaworski and Kohli, 2000).

Communication plays a critical role in providing products and services, accurately identifying mutual demands, and recognizing mutual benefits in transaction relationships between alliance partners. Open and clear communication between partners improves the accuracy of identifying the transaction environment, obtaining mutual satisfaction, understanding mutual needs, and correctly delivering those intentions (Gray and Laidlaw, 2004). Therefore, effective communication between alliance partners is essential in realizing a stable transaction.

Marketing communications is the formal and informal sharing of meaningful and timely information regarding customers between firms either domestically or internationally (Mohr and Nevin, 1990). Every firm has a formal communication system to provide information about the firm to its customers and other stakeholders using a variety of media. Generally, companies document pieces of information through either the formal communication network, or also using company reports, meetings and conferences, official letters, and/or notices. The better a company documents information, many argue the less opportunity for immediate change if need. In contrast, nearly all the information in an informal communication structure is not well-documented and opens the door for change and interpretation through the network. Some companies consider formal or official communication (e.g., periodic meetings or letters/document exchanges) more important, while other companies prefer informal or unofficial communication methods (e.g., non-periodic meetings or phone conversations). Determining the best communication method is essential to assist in accomplishing goal unity and mutual trust between the alliance partners, as well as achieving a more cooperative relationship between them (Arino et al., 2005). Marketing communications between companies in different countries present additional challenges due to possible cultural difference that exist.

Communication differences between partners of two countries can lead to cultural incompatibility (Meschi and Roger, 1994) which will impact the success of a strategic alliance, especially from market orientation and communication methods. An international strategic alliance requires cooperation between partners from different countries, and this need for cooperation raises the issue of how partners with different national cultural values interact with each other (Steensma et al., 2000).

Market orientation and communication methods differ along culturally embedded managerial practices. SMEs in the US tend to play a leading role in exchanging market information with their partners. Managers of these SMEs collect intelligence as much as possible being an active partner making the best use of market information. In contrast, SMEs in Korea are likely to share market information with their alliance partners only in response to their partners' needs in each market believing this will maintain a relationship over the long run (Klopf and Park, 1997). In the case of communication methods, SMEs in Korea have more formal and formalized communication than informal because of bureaucracy (Hwang, 1998), while SMEs in the US have less formal communication. Thus, the market orientation and communication method between global strategic alliance partners may differ by culture and national disposition. Such differences lead to the first two hypotheses.

H1. Market orientation (intelligence generation/dissemination/ responsiveness) in an international strategic alliance between US and Korean SMEs have distinct differences.

H2. Communication methods (formal/informal communication) in an international strategic alliance between US and Korean SMEs have distinct differences.

While market orientation and communication methods are important, the impact of these factors is complicated by other variables within the alliance. For example, past research indicates that as the number of partners in a strategic alliance impacts the performance of the alliance from the viewpoint of creating value and lowering cost (Piva et al., 2010). Primarily, a strategic alliance is a prominent way to secure complementary resources in which partners mutually need (Kim and Song, 1998). In an international strategic alliance, this combination of mutually complementary resources, such as a market orientation, is critical to create the value of synergy across countries and to maintain a successful business relationship with partners (Beamish and Banks, 1987; Madhok, 2006).

Firms struggling to create synergies across boundaries attempt to enter an international strategic alliance in hopes of combining its own resources with mutually complementary ones of a foreign alliance partner.

H3. Market orientation (intelligence generation/ dissemination/ responsiveness) in an international strategic alliance of SMEs differs as the number of foreign partners increases.

From the viewpoint of transaction cost theory, coordination becomes a problem if the costs of aligning actions of different partners in a transaction escalate. Even when interests are aligned, coordination problems arise due to lack of shared and accurate knowledge about the decision rules to be used by the partners in a cooperative agreement (Jung, 1999). Costs are likely to be lower when primary uncertainty increases, as unexpected future contingencies put greater demand on the joint decision-making capability of the partners in the alliance (Madhok, 2006).

A rising number of partners require an expansion in combining complementary resources, increasing potential synergy, and facilitating market orientation. In addition, more partners call for better management of systematic communications (Maltz, 2000). Systematic communication methods are more formalized communications, meaning connecting partner organizations in a structured and routine manner (Goris et al., 2002).

H4. Communication methods (formal/informal communication) in an international strategic alliance of SMEs differ as number of partners increases.