

**Does geography matter for inter-firm cooperation in marketing?
Evidence from Latin America and Europe**

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Abstract

This research is concerned with the factors that influence the development of marketing externalities among cluster-based firms. Theorists have consistently demonstrated the role and importance of economic externalities, such as knowledge spillovers, within industrial clusters. Less research attention has been paid to the investigation of marketing based externalities, though it has been suggested that these may also accrue from geographical agglomeration. This study explores the development of joint marketing activities and alliances between firms operating in a single industry sector and located in close proximity. Evidence is taken from Chile and Scotland. The results suggest that social networking has a greater influence than geographic proximity in facilitating inter-firm co-operation in marketing activities. The study also explored whether levels of inter-firm cooperation differed between countries with distinctly different levels of socially collectivism.

Keywords: Marketing cooperation, Regional clusters, Social networks, Salmon industry

1. Introduction

The role of regional clusters in the development and growth of entrepreneurial firms has been a key research theme within the marketing and management literature over the past two decades. The main focus of this research has been to consider issues relating to economic externalities: economies of scale or scope and the effects of knowledge diffusion or, as Krugman (1991) defined them, knowledge spillovers. While the idea of firm-level marketing externalities has been mooted as a potential benefit arising from geographic agglomeration (Brown and Bell, 2001), there has been, as yet, little research undertaken which can support such claims.

This study develops the concept of and extends the research into the beneficial effects accruing from regional industry clusters by exploring the role of geographic co-location and the influence of social networks in the development of firm-level marketing externalities. The theoretical position underpinning this study assumes that entrepreneurial influences (for example, the acquisition of social capital and the use of networks), rather than geographical co-location, are more important in the development of inter-firm cooperation (Van Dijk and Sverrisson, 2003; Lechner and Dowling, 2003). Moreover, entrepreneurial influences are likely to increase in future importance, as communication technologies, used to build networks between firms, are changing the rules of geography and co-location.

Following this introduction, the next section of this paper addresses the key aspects of the literature related to geographic co-location and inter-firm cooperation in marketing. Following this, the research methodology is discussed. The main results, conclusions and implications are then presented.

2. Theoretical Development and Research Propositions

2.1 Inter-firm networks and co-location

A new growing interest in localized networks and inter-firm relations has emerged; deriving support and competitive advantage through highly localised inter-firm relationships, place specific history, economic factors, values and culture (McNaughton and Bell, 1999; Brown and McNaughton 2001, 2002). In this study, the terms inter-firm relationships or inter-firm alliances refer to collaborative arrangements between independent firms in order to share resources on an ongoing basis (Ahuja, 2000).

Inter-firm interaction or networks in localised clusters cannot be seen in isolation. Research has focused on concepts acknowledged by Porter (1998) as being ‘social glue’. Thus, companies need to consider aspects of social structures (Gulati, 1999; Ahuja, 2000), social capital, referring to the social structures that determine who is going to interact (Davidsson and Honing, 2003), as well as the notions of embeddedness

(Granovetter, 1985; Aldrich and Zimmer, 1986; Jack and Anderson, 2002), the mechanism whereby an entrepreneur, firm or organisation becomes part of the local structure involving the creation of social ties with the local environment (Jack and Anderson, 2002). Huggins (2000) stressed the importance of co-operative activities and trustful relationships for achieving better competitive advantages for business. Furthermore, Huggins stated that social groups seem to be the most potent form of inter-firm network, and an initial informal structure is the best facilitator for this relationship. This argument stresses the importance of clusters and industrial districts as 'social network topography' (Van Dijk and Sverrisson, 2003), considering the key elements of the social relationships or 'relational mix' (Lechner and Dowling, 2003), and not only using an economic geography perspective.

An analysis of the networks literature provides an insight into the organisational processes that underlie alliance decisions. Social networks make potential partners aware of each other existence, needs and capabilities requirements for entering alliances, help to develop the trust necessary for alliances (Gulati, 1995; Gulati, Nohria and Zaheer, 2000) and, moreover, make opportunism more costly because of reputation effects (Gulati, 1995). Granovetter (1992) identified two distinct components of social structure that are influential in alliance formation: the relational components consisting in direct relationships within which the firm is embedded, and structural components which comprise the overall social network within which firms exist and which provide knowledge about potential partners that firms may acquire from a variety of social sources. By participating in alliances, firms develop capabilities in alliance formation that accrue as a result of historical process of learning and which can then be used in subsequent new alliance formation (Dierickx and Cool, 1989).

The analysis of social networks demands consideration of both structural and interactional dimensions (Shaw and Conway, 2000). One structural or morphological dimension is the 'density' or 'social cohesiveness' of a social network. This measures the extent to which social actors are connected to one another by a social relationship.

Consequently, density is an indicator of the impact that the structure of a social network can have upon the activities and behaviour of its social actors. In contrast to morphological dimensions, the interactional dimensions of social networks are specific to individual relationships. In this study, important interactional concepts include *content* which refers to the meanings and understanding of their involvement in particular relationships (for example, issues of friendship and trust) and *direction* which refers to the person from whom a relationship is oriented and provides an indication of the direction of the power of a relationship (Shaw and Conway, 2000).

2.2 Cultural influences in inter-firm co-operation

Culture also influences the types of alliances and inter-firm cooperation established between firms. Parkhe (1991) identifies three distinct factors (societal culture, national context and corporate culture) that include norms, values and personal behaviour of managers. The national context also comprises the surrounding industry structure, local institutions, such as trade organisations, as well as the role of local governments and their regulations, while the corporate culture includes the values which characterize particular organisations (Peters and Waterman, 1982). Different cultural influences that deal with models of conduct, standards of performance and inter-personal relationships in particular societies (Herbing and Dunphy, 1998) may have an effect in the cooperative behaviour that firms engage in (Chen *et al.*, 1998; Hewett and Bearden, 2001).

From this review of the extant literature, three research propositions can be formulated:

Proposition 1: Social networking has a greater influence than geographic proximity in facilitating inter-firm cooperation in marketing activities.

Proposition 2: The social elements of networking are positively correlated to the development of inter-firm cooperation in marketing activities.

Proposition 3: Countries and regions in which there is a high level of social collectivism will demonstrate higher levels of inter-firm co-operation in marketing activities.

3. Research methodology

Data for this study was collected in two main stages. Semi-structured personal interviews (during 2003 and 2004), based on a purposeful sample of twenty-two companies in two regions in Scotland and two regions in Chile drawn from a single industry, salmon farming, a sector that makes a substantial contribution to the remote-rural and regional economies of both Scotland and Chile. Stage two entailed a postal questionnaire survey and follow-up process during 2005, to the total population of companies involved in the main value chain activities of this industry (N=229) in the two participant counties.

4. Results and Discussion

Excluding refusals, by mail or post, to answer the questionnaire, an effective response rate of 25.6% (33% response rate in Scotland and 20% in Chile) was achieved. Given the confidential, strategic nature, depth and length of the questionnaire, this response rate was not totally unexpected, as it is consistent with in-depth surveys of this nature requiring time and commitment to complete.

According to the respondents, the main sources of capital in the company ownership are regional (58.5%) and national (22.6%). Only 6 companies (11.3%) declared to have some foreign ownership and 4 companies (7.5%) have a mix of them. Besides, the vast majority of companies (88.7%) are not part of any multinational conglomerate and only 6 companies (11.3%) declared to be a subsidiary of a MNE. This means that the sample comprises a robust number of local embedded companies, with more than 80% comprising local capitals (regional or national). Significant differences at $p < .05$ between countries were found for the sources of capital ($p = .025$), where Scotland is more inclined to have companies with regional capitals, compared to Chile, where number of respondent companies with regional, national and foreign capital are more alike.

4.1 Marketing activities carried out by different people

The results of this study also show that the managing director (mean=3.53; s.d.=1.432) and functional marketers (mean=3.32; s.d.=1.629) are the ones that conduct the marketing activities within the respondent companies. Significant differences between countries at $p < .05$ were found in marketing activities carried out by external people ($p=0.008$), where Scottish companies (mean= 2.83; s.d.=1.390) tend to use this options more, compared to Chilean companies (mean=1.58; s.d.=0.996). This result implies that some Scottish companies may externalise their marketing activities. Significant differences by company size were not found.

4.2 Benefits based on location

This section shows the results of a key question that this research investigates: is geographical co-location a determinant factor for inter-firm cooperation in marketing?

Overall, enhanced reputation or credibility of the firms and products (mean=3.46; s.d.=1.196), buying intermediate goods from other firms (mean=3.08; s.d.=1.326), access to a skilled labour pool (mean=3.06; s.d.=1.162), selling intermediate goods to other firms (mean=2.90; s.d.=1.345) and providing access to better specialised suppliers (mean=2.90, s.d.=1.376), are the main externalities that the respondent's firms found more useful as a benefit of geographical co-location. This shows that active marketing externalities are not the main benefits that simple geographical co-location brings.

The results show that enhanced reputation or credibility of the firms and products (mean=3.46; s.d.=1.196), finding new customers in new markets (mean=2.85; s.d.=1.258), and greater innovation and new product development (mean=2.81; s.d.=1.172) were the main marketing externalities that respondents perceived as a benefit from geographical co-location. Although significant differences between countries were not found in these variables, Scotland (mean=3.72; s.d.=1.066) presents a slightly higher mean in the variable 'enhance reputation or credibility' compared to Chile (mean=3.13; s.d.=1.290). Besides, significant differences were found in this variable among dissimilar company age ($p=0.015$) and company size ($p=0.031$), their being younger

companies of less than 5 years, and smaller companies with less than 50 employees, the ones that found that co-location in specific territories enhance their reputation and credibility of their firms. This suggests that certain geographical areas in the agri-business/food sector are important for enhancing reputation and credibility of their products, especially for new and small company entrants. This passive marketing externality factor, may be seen linked to the country of origin effects in food products (Felzensztein *et al.* 2004), where specific regions and precise locations within regions may enhance reputation, serve as a point of differentiation and add value to the product (if the country has a positive image, of course), particularly in the case of agricultural products or foodstuff products.

4.3 Joint marketing activities

Joint marketing activities represent the clearest form of active marketing externalities that requires the active involvement of managers. Joint trade fairs participation (mean=2.89; s.d.=1.339), joint marketing delegations (mean=2.87; s.d.=1.24), and joint market information research (mean=2.84; s.d.=1.275) are the main marketing activities in which companies collaborate. However, this results should be taken carefully, as the means are relatively below 3, using a 5-point Likert scale from 1= 'not at all useful' and 5= 'extremely useful'. This may suggest a low intensity in this kind of cooperation among firms. No significant differences between countries, company age or company size was found for the different variables of marketing cooperation with other firms.

5. Conclusions

The results show that geographical co-location is not the key issue for marketing cooperation, besides social networking is considered important. 'Joint trade fairs participation', 'joint marketing delegations' and 'joint trade mission to new markets' were found to be the marketing areas with more collaborative activity, especially when they are coordinated through the trade association.

In short, the results of the exploratory interviews in Scotland and Chile confirm propositions 1 and 2. Social networking elements exert a greater influence than geographic proximity in facilitating inter-firm co-operation in marketing activities. With regard to active marketing externalities, these results show that companies engaging in inter-firm marketing cooperation do not rely on their industry trade association to facilitate this. Owner-managers of these companies demonstrate active and entrepreneurial cooperative behaviour, where taking a lead role in these activities is seen as an important element of their long-term business strategy. Adopting an active stance towards cooperation in marketing activities is crucial to the development of collaborative arrangements. These results confirm previous research (Brown and Bell, 2001) which showed that 'active marketing externalities' required action between participants of a specific regional cluster and therefore, they are different from the traditional economics-based view of externalities where the benefits or costs are outside the firm's control.

Both the general business culture of the country and the 'special' characteristics of specific regions within countries affect cooperative behaviour, creating a special environment which manifested a complex mix of co-operation and competition (Becattini, 1989; Brusco, 1990; Porter, 1998; Feldman, 1999; Dahl and Padersen, 2003).

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