Abstract and Keywords

Extant work has identified many aspects of market formation including the mechanisms and processes associated with the origins of new markets and the trajectories of market emergence. However, the critical role of interfirm alliances in the formation of new markets still remains unexplored. This chapter brings forward interfirm alliances as a critical tool for firms to fuel the formation of new markets, which are often characterized by high levels of demand, supply, and regulatory uncertainty. To take a systematic look at the role of alliances in market formation, the chapter first describes the different alliance forms under the general categories of dyadic and multipartner alliances. Within these categories, the chapter discusses the potential impact of the respective alliance type on reducing different levels of uncertainty and catalyzing market emergence. It also provides an extensive discussion of the challenges that firms typically face within each type of alliance with regards to market formation. The chapter concludes with directions for future research in exploring alliances as tools for market formation.

Keywords: new markets, market formation, interfirm collaboration, alliances, uncertainty
Collaborative Market Making: The Critical Role of Dyadic and Multipartner Alliances in the Formation of New Markets

Market formation involves the creation of commercial viability for the new industry. Economics-based studies depict market emergence as the interplay of new technology and unsatisfied demand (Horii, 2012) and suggest that it is a self-reinforcing process where sales take off after critical mass is achieved (Agarwal & Bayus, 2002; Klepper, 1997). In addition to this economic explanation, sociologists have provided their own explanations of market emergence as a process of negotiating an economically viable position for the emerging industry in the wider socio-economic and institutional context (Burr, 2006; Leblebici, Salancik, Copay, & King 1991). According to this lens, customers’ interpretations of potential uses, utility, and legitimacy of the product are determined by institutional and cultural factors (Khaire, 2014; Lounsbury et al., 2003; Munir & Phillips, 2005), leading to organizations working not only to illustrate the viability of the new technology in a new market (Phaal, O’Sullivan, Routley, Ford, & Probert, 2011) but also to institutionalize new patterns of interactions between different actors (Leblebici et al., 1991).

Nascent markets are characterized by a lack of clarity on which products/technology will prevail (Anderson & Zeithaml, 1984, Porter, 1980) and which distribution channels will be suitable, leading to a general uncertainty about the eventual direction of the market (Klepper & Graddy, 1990). An early distinction about different uncertainty types derives from Abernathy and Clark (1985), where they differentiate between two key types: demand uncertainty and supply uncertainty. The first type, demand uncertainty, arises from the perception that consumer preferences are not easy to predict in nascent markets (Aldrich & Fiol, 1994; Benner & Tripsas, 2012; Atuahene-Gima & Li, 2004; Jaworski & Kohli, 1993). This can be due to the unpredictable cognitive recognition of the value of a new product or service (Hargadon & Douglas, 2001; Rao, 1994; Rosa, Porac, Runser-Spanjol, & Saxon, 1999), as a result of rapid changes in consumer preferences or other reasons producers are unable to estimate the level of demand (Tripsas, 2008). Demand uncertainty is known to be alleviated when producers can engage in product experimentation (Tushman & Rosenkopf, 1992) or market research, develop a technological frame (Kaplan & Tripsas, 2008), construct narratives (Lounsbury & Glynn, 2001), create collective producer identities (Kennedy, 2008; Navis & Glynn, 2010), and build stable relationships with consumers (Fligstein & Dautor, 2007; Weber, Heinze, & Desoucy, 2008).

Supply uncertainty is a second primary type of uncertainty, which exists when there is a dearth of knowledge or capabilities of firms to secure the needed inputs, capital, partners, and other critical resources to effectively develop and deliver the product to market. Supply uncertainty is more pronounced when there is a lack of producers and suppliers of a new product or service or when the existing techniques to produce are perceived to be unpredictable (Dixit & Pindyck, 1994; McGrath, 1997; Anderson & Tushman, 1990, Ozcan, 2018). Firms can reduce supply uncertainty by developing supply-side role structures, investing in research and development (R&D), building venture skills and production knowledge, strengthening supplier relationships and joint ventures, and developing industry standards and complementary technologies (Van de Ven, 1993).
We deliberate a third type of uncertainty, which we call regulatory uncertainty. Regulatory uncertainty emerges when new market formation requires a defined institutional space to govern the production, distribution, and consumption of associated artifacts (Dosi, 1982; Rosenberg, 1982; Van de Ven and Garud, 1994). Especially disruptive technologies (e.g., in communications) may not allow regulators to define such an institutional space fast, because their pace of development may outpace existing legislation and industry norms. Thus, regulatory uncertainty typically arises when new market formation is accompanied by disruptive technology in regulated markets (Ozcan and Gurses, 2018). Extant work, particularly in corporate political strategy, shows that to reduce regulatory uncertainty, firms may try to be active also in the political arena, by using corporate political strategies such as lobbying and by building supportive constituencies to influence regulators (De Figuierdo & Tiller, 2001; Gurses & Ozcan, 2015; Schuler, 1996).

Alliances can improve firms’ strategic position in nascent markets in a variety of ways. First, alliances can provide financial resources that enable firms to share costs and risks with each other as they invest to reduce uncertainty in various ways (Miner, Amburgey, & Stearns, 1990; Ohmae, 1989; Van de Ven & Polley, 1992). In addition, alliances can help firms reduce demand uncertainty by letting firms pool resources in market research and create narratives and collective identities (Gurses & Ozcan, 2015). By cooperating with an important potential customer or a competitor, firms can signal that the market will become established (Eisenhardt & Schoonhoven, 1996; Ozcan & Eisenhardt, 2009; Navis & Glynn, 2010). Firms can also collaborate collectively to reduce demand uncertainty, as in the case of US microbreweries that jointly establish a producer identity and product category through collaborations within the Association of Brewers and the Institute of Brewing Studies (Carroll & Swaminathan, 2000; McKendrick & Carroll, 2001).
## Table 14.1 Types of Market Uncertainty

<table>
<thead>
<tr>
<th>Description</th>
<th>Demand Uncertainty</th>
<th>Supply Uncertainty</th>
<th>Regulatory Uncertainty</th>
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<tr>
<td>Perception that consumer preferences are not easy to predict in nascent markets</td>
<td>Lack of knowledge or capabilities of firms to secure needed inputs, capital, and partners to effectively develop and deliver the product to market</td>
<td>When disruptive new technologies do not have a defined institutional space to be regulated</td>
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<tr>
<td>By establishing collective producer identities and by cooperating with prominent partners to signal that the market will become established</td>
<td>Pooling resources in research and development, collaborating to enhance compatibility between various products within a value chain, mobilizing actors to support a common technology standard, jointly investing in complementary technologies</td>
<td>Through trade associations and social movements</td>
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Alliances can also help firms reduce supply uncertainty by pooling resources in R&D (Powell, White, Koput, & Owen-Smith, 2005), collaborating to enhance compatibility between various products within a value chain (David & Greenstein, 1990), mobilizing actors to support a common technology standard (Garud, Jain, & Kumaraswamy, 2002), or jointly investing in complementary technologies (Adner & Kapoor, 2010). For example, Navis and Glynn (2010) describe how the emergence of the satellite radio market was characterized by supply-side uncertainty and how key players formed partnerships to secure investment and develop technologies such as broadcasting satellites and receivers.

Finally, alliances can reduce regulatory uncertainty through firms’ joint efforts to legitimize a new market. For instance, Esparza, Walker, and Rossman (2014) showed how firms collaborated through trade associations to reduce regulatory uncertainty and build the cognitive and sociopolitical legitimacy of the nascent gourmet food truck market when challenged by incumbent firms and government. On the other hand, Uzunca, Ritering, and Ozcan (2018) observed how UK sharing economy platforms (e.g., Airbnb) used collaborative projects with state actors (e.g., municipalities, fire stations, the health department) to alleviate regulatory uncertainty surrounding the nascent sharing economy field. Finally, firms may use less formal but perhaps even more powerful forms of collaboration such as social movements to reduce regulatory uncertainty by pressuring regulators toward regulatory change in favor of the nascent market via public support (Sine & Lee, 2009).

As summarized previously, the extant literature suggests that alliances can help firms fuel market formation in various ways. However, it is still quite unclear which types of alliances help in what ways, and what roadblocks might arise in the process. To explore
these issues, we first review the different alliance forms under the general categories of dyadic and multipartner alliances. Within these categories, we discuss the potential impact and challenges of each form for market formation. Finally, we conclude with a summary and directions for future research in exploring alliances as tools for market formation.

Alliance Forms and Their Role in Market Formation

Before delving into various forms of alliances, it is helpful to start with a definition. In his seminal paper, Gulati (1998) defines alliances as “arrangements between firms involving the exchange, sharing, or co-development of products, technologies or services” (p. 293). Resource dependence theory suggests that firms cooperate with other firms to reduce uncertainty and resource constraints (Pfeffer & Salancik, 1978); thus, they form alliances when they have resource needs that can be fulfilled by another firm or set of firms. Especially in new markets, environmental factors such as demand uncertainty increase the firm’s dependence on outside resources (Eisenhardt & Schoonhoven, 1996; Dickson & Weaver, 1997). In addition, supply uncertainty may dictate firms’ access to R&D resources they do not possess through alliances (Powell et al., 2005). Therefore, resource dependency is a key motivation for firms to form alliances in such markets. Although researchers in the social embeddedness tradition have demonstrated that a firm’s social network is a primary determinant of which alliances will be formed (Uzzi, 1997; Gulati & Gargiulo, 1999), we argue that social embeddedness and previous network ties may play less of a role in alliance formation in new markets, because the high uncertainty and turbulent environments associated with new markets may force firms to rule out those social considerations in order to survive in these environments.

In terms of forms of alliances, joint ventures, licensing alliances, joint R&D programs, joint marketing programs, and partial equity investments are typically counted as dyadic alliances (Kale & Singh, 2009). Although alliances and buyer–supplier relationships were traditionally considered as two distinct forms of direct interfirm ties (Koka & Prescott, 2008), this separation has become fuzzier over time as buyer–supplier relationships are known to be developed not only for economic reasons but also for tacit knowledge and access to external resources, such as in the famous example of Toyota’s supplier network (Clark & Fujimoto, 1991; Dyer & Nobeoka, 2000; Helper, 1991).

Toyota’s supplier network is also important as an example of how alliances that go beyond dyadic relationships and include a wide array of firms have become critical in today’s business landscape (Contractor & Lorange, 2002; Gulati, 1998; Wassmer, 2010). In many key industries, such as computer hardware and software, telecommunications, electronics, pharmaceuticals, and air transportation, firms are engaged in multiple simultaneous strategic alliances (Anand & Khanna, 2000; Gulati, 1998; W. H. Hoffmann, 2005, 2007; Lavie, 2006, 2007; Lavie & Miller, 2008; Ozcan & Eisenhardt, 2009; Parise & Casher, 2003). As stated previously, traditional alliance research has predominantly focused on
Collaborative Market Making: The Critical Role of Dyadic and Multipartner Alliances in the Formation of New Markets

dyadic alliances (Wassmer, 2010), but multifirm alliances, in both the formal (e.g., supplier or R&D networks) and informal sense (e.g., industry-wide collective action), have gained quite a lot of traction recently, particularly when it comes to market formation, as explained later in this chapter.

To examine the impact of alliances on market formation, we thus use a classification of alliances in terms of the number of firms in collaboration and differentiate between dyadic and multipartner alliances, as detailed next.

Dyadic Alliances and Market Formation

Although alliances between two firms are typically formed for firm-level benefits, such alliances can have a significant catalyzing effect on market formation, particularly when they involve large and resourceful firms. As mentioned earlier, nascent markets demand significant resource deployment in the development and legitimation of new products and services as well as the establishment of buyer-supplier relationships to reduce various kinds of uncertainty (Klein, 1977; Tushman & Anderson, 1986). Although large firms are known to often delay entry into nascent markets for this very reason of high uncertainty (Ingersoll & Ross, 1992; Miller & Folta, 2002; Ozcan, 2018), the early involvement of established and resource-rich firms in nascent markets can help catalyze the market in various ways, such as in the case of NutraSweet in the artificial sweetener market or Netflix in the online streaming media market (Lee, Struben, & Bingham, 2017). The involvement of large firms in market formation often occurs through dyadic alliances, either with other large firms or with small and innovative firms (see Table 14.2, for a detailed description of dyadic alliances and their role in market formation), as detailed next.
Table 14.2 Types of Dyadic Alliances and Their Role in Market Formation

<table>
<thead>
<tr>
<th>Description</th>
<th>Types of Dyadic Alliances</th>
<th>How they can contribute to market formation</th>
<th>Potential complications</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small-Small Firm Dyadic Alliances</td>
<td>Typically not enough to fuel market formation as small firms do not have sufficient resources and legitimacy</td>
<td>Large firms not allocating sufficient resources to a nascent market; cultural differences creating difficulties in communication/coordination (Ozcan, 2018)</td>
</tr>
<tr>
<td></td>
<td>Large-Small Firm Dyadic Alliances</td>
<td>Partnering with large firms can function as important proxies for quality for small firms, and large firms may benefit from niche technological expertise of small firms</td>
<td>Difficulty in reaching an agreement due to diverging plans for the new market (Lee, Struben, &amp; Bingham, 2017) and beliefs about relative bargaining power (Ozcan &amp; Santos, 2015)</td>
</tr>
<tr>
<td></td>
<td>Large-Large Firm Dyadic Alliances</td>
<td>When the new market requires complementary resources from different kinds of large firms or large firms from different industries</td>
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Large-Small Firm Alliances

Extant literature shows that there is an increasing number of entrepreneurial activities in nascent markets (Mezias & Kuperman, 2001; Sine & Lee, 2009). At the same time, firms established during the early days of a new market often lack resources and legitimacy to develop and sell their products as technological, organizational, and financial resources are scattered and asymmetrically distributed, prompting organizations to collaborate (Powell et al., 2005). Recent studies have shown that an effective way to mitigate these external and internal risks is for entrepreneurial firms to partner with large and resourceful firms (Baum, Calabrese, & Silverman, 2000; Stuart, Hoang, & Hybels, 1999).
Collaborative Market Making: The Critical Role of Dyadic and Multipartner Alliances in the Formation of New Markets

Small firms face high demand uncertainty in nascent markets, they can use their affiliations with already established and large companies as a signal of quality to attract customers (Stuart et al., 1999; Ozcan & Eisenhardt, 2009), as those established companies are perceived to have strong partner evaluation and management skills. Similarly, key audiences may use these affiliations to decide if the product category as a whole is feasible and appropriate on a normative basis (Faulkner, 1983; Podolny, 1994).

For large firms, collaborating with smaller counterparts with technological expertise has also been shown to be valuable for reducing technological uncertainty during market formation. For example, in biotechnology, incumbent pharmaceutical firms productively entered the field by acquiring expertise from new biotechnology firms (Zucker & Darby, 1997; Powell et al., 2005). Similarly, Ozcan and Eisenhardt (2009) show that the nascent market of mobile games was jumpstarted when an entrepreneurial mobile game publisher convinced the largest mobile network operator in the United States to codevelop, test, and launch a gaming platform in the early 2000s.

Recently, qualitative studies have started to uncover the pitfalls in these alliances between large and small alliances. Ozcan (2018) observes, for instance, that large firms may enter a nascent market via alliances but not allocate sufficient resources to jumpstart the market due to the lack of visibility of the market within their larger product/market portfolio. In addition, cultural differences between large corporate firms and start-ups may be a potential problem in terms of collaboration, leading to delays and dissolutions, which can be detrimental for market formation. In their paper on the collaboration between financial technology start-ups and established banks in the United Kingdom, for instance, Ozcan, Zachariadis, and Dinckol (2019) identify how banks’ security-focused culture and procedures led to lengthy testing times, causing the financial technology start-ups to run out of funds before their products could go online.

Large-Large Firm Alliances

This type of alliance can be critical for market formation, particularly when the market requires complementary resources from different kinds of large firms to reduce demand uncertainty (Gnyawali & Park, 2011; Lavie & Singh, 2012), such as in the case of mobile payments, where banks and mobile operators were interdependent on each other’s legitimacy and resources to commercialize this new service (Ozcan & Santos, 2015). Another common form of alliance between large organizations is collaborative industry-university projects to develop new technologies (Powell et al., 2005), particularly in high-tech fields such as biotechnology and nanotechnology, where established corporations ally with other large organizations such as universities, venture capitalists, federal funding agencies, professional associations, and economic development agencies (Meyer, Gaba, & Colwell, 2005). These collaborative engagements are effective ways to jumpstart new markets by reducing supply (technology) uncertainty and legitimizing the new technologies to attract investors (Spencer, Murtha, & Lenway, 2005; Vasudeva, 2009).
However, market formation is not that straightforward when dyadic ties consist of firms with relatively equal resource positions. These firms may not be in accordance to contribute to the development of the market architecture or may not come to an agreement on what the new market should be, or, if they do agree, their opinions may differ on how to form the market. For instance, we observe that market formation may be stalled by gridlock when there is competition between large organizations with respect to establishing a standard (Farrell & Klemperer, 2007). In a similar vein, Ozcan and Santos (2015) show how large firms wishing to establish the mobile payment market had difficulty in reaching agreement on the market architecture due to their prior dominance in their respective industries, which led to diverging beliefs about their relative bargaining power in the collaboration.

We note that dyadic alliances between small firms are often not powerful enough to fuel market formation. First, small firms’ capabilities are typically very niche (Hambrick, McMillan, & Day, 1982), which can limit the extent to which they can complement their partners’ capabilities to facilitate market formation. In addition, smaller firms are less likely to have abundant resources (human, physical, and financial; Sharfman, Wolf, Chase, & Tansik, 1988; Vincent, Anokhin, Örtqvist, & Autio, 2010), which can be constraining for collaboration and market formation. Thus, we expect dyadic alliances between small firms to be less likely to help form new markets. However, small firms often form and participate in alliance networks, such as in the study of Canadian biotechnology start-ups (Baum et al, 2000), which we elaborate on later in the chapter within our discussion of how alliance networks fuel market formation.

Alliance Networks and Market Formation

An increasingly common form of alliances is alliance networks. Jones, Hesterly, Fladmoe-Lindquist, and Borgatti (1998, p. 914) define alliance networks as “sets of autonomous firms that collaborate with one another based on implicit or explicit contracts in order to create certain products or services.” An alliance network is a general term for collections of firms in collaboration where a given firm is connected to many, but not necessarily all, other firms (Das & Teng, 2002). There are several subgroups in every alliance network. A common subgroup is an alliance constellation. A constellation is an alliance network where each firm is directly connected to the rest of the firms (Gomes-Casseres, 1996; Das & Teng, 2002). The Star Alliance formed by United Airlines, Lufthansa, and a number of other airlines is an example of such a constellation. Another common subgroup is a central network (i.e., ego-network or alliance portfolio), where only one firm stands in the center with dyadic ties to all other members. It is important to note that in every alliance network, there are as many alliance portfolios as there are network members, as by definition, every firm that has more than one alliance partner has an alliance portfolio. We scrutinize the role of both types of alliance networks in market creation. In Figure 14.1 we illustrate these distinctions, and in Table 14.3 we describe the role of each multipartner type in market formation.
Figure 14.1  Illustration of alliance networks and subgroups.
### Table 14.3 Types of Multipartner Alliances and Their Role in Market Formation

<table>
<thead>
<tr>
<th>Description</th>
<th>Types of Multipartner Alliances</th>
</tr>
</thead>
</table>
| How they can contribute to market formation | **Alliance Constellations**  
Firms can use alliances as probes to experiment with components of an emerging technology and for hedging bets to reduce supply (technological) uncertainty (e.g., Gomes-Casseres, 2001)  
**Standard-Setting Consortia**  
Often central to the establishment of the technological basis and compatibilities that are required for network effects to kick in (Katz & Shapiro, 1986; Rice & Galvin, 2006)  
**Trade Associations**  
Can give firms political voice and raise awareness of the new market among the public (e.g., Gurses & Ozcan, 2015)  
**Platforms**  
By establishing a business model and set of relationships that are mutually beneficial for platform participants and subsequently creating momentum and network effects (e.g., Gawer & Cusumano, 2014)  
**Social Movements**  
Can establish cognitive legitimacy, i.e., identifying the population with the nascent market (Frank, Hironaka, & Schofer, 2000; Gurses & Ozcan, 2015) and pressure political authorities for favorable regulation (Bonchek & Shepsle, 1996; Hillman & Hitt, 1999; Ingram & Rao, 2004; Lee, 2009) |
Collaborative Market Making: The Critical Role of Dyadic and Multipartner Alliances in the Formation of New Markets

| Potential complications | Complexity of the alliances may impede individual alliances to manage alliance relationships and delay market emergence | Divergent views among consortium members or competition between different consortia may delay market emergence | Politics and divergent views among association members and dominance by large members can delay/ negatively affect market formation | Chicken-and-egg problem, particularly difficult to overcome in regulated and data-sensitive settings | Initiators are often small firms without resources and skills to organize at wide scale; they may encounter resistance from incumbents in industries the new market threatens |

Initiators are often small firms without resources and skills to organize at wide scale; they may encounter resistance from incumbents in industries the new market threatens.
Alliance constellations are often formed as a response to high uncertainty, which is typical when a new technology fuels the emergence of a new market (Gomes-Casseres, 1994). For example, in his analysis of the emerging personal digital assistant (PDA) market, Gomes-Casseres (2001) notes that the creation of PDAs required a combination of technologies from several different industries. Firms responded by using alliances as probes to experiment with components of the emerging technology, forming alliances for multiple competing technologies to hedge their bets and reduce supply (technological) uncertainty.

In this sense, a form of alliance constellation that is of particular importance for nascent markets is standard-setting consortia. Studies show that standard-setting consortia may help counteract supply (technological) uncertainties (Rosenkopf & Tushman, 1998), such as in the case of the 3G market in Japan where interfirm agreement on interface standards helped fuel market emergence (Funk, 2012). These standard-setting consortia are also central to the establishment of the technological basis (Rice & Galvin, 2006) and compatibilities, which are required for network effects to kick in (Katz & Shapiro, 1986). Research shows that such multiplayer collaborations around competence-enhancing innovations in an emerging market are typically led by large and established firms (Klepper & Simons, 2000), whereas in coalitions that emerge around disruptive innovations, new entrants tend to play a more significant role (Christensen, 1993; Gustafsson et al., 2016; Tushman & Anderson, 1986).

Though useful for market formation, standard-setting consortia are often highly political settings where firms struggle for dominance, as demonstrated by the battle between Betamax and VHS (Cusumano, Mylonadis, & Rosenbloom, 1992). In their paper tracing the development and demise of the Symbian (multipartner) alliance network, Tee and Ozcan (2019) show how alliance partners’ divergent views on the final smartphone product (e.g., touchscreen, keyboard, or stylus pen), which were driven by demand uncertainty, created tensions in collaboration, which in turn led one partner to dominate the alliance and others to quit, delaying the standard-setting process for smartphones significantly in the process.

As another form of multipartner, industry-level network, trade associations are also important, particularly as a political medium, in nascent markets where firms lack cognitive and sociopolitical legitimacy (Esparza et al., 2014). As Sine, Haveman, and Tolbert (2005, p. 200) describe, “Firms that use new production or distribution technologies are especially risky because various stakeholders are unfamiliar with new technologies and thus are likely to be skeptical of or even hostile toward them.” Trade associations can help develop a political voice (Akard, 1992; Aldrich and Fiol, 1994) and identify solutions to shared regulatory, market, and practical problems that are crucial to the sustained existence of a nascent market (Sine et al., 2005). Most important, they can reduce regulatory and demand uncertainty through their political and public awareness activities (Ireland, Hitt, & Vaidyanath, 2002). For instance, in their paper comparing the emergence of sharing economy platforms across three countries, Uzunca et al. (2018) show how the activities of the Sharing Economy Trade Association (SEUK) were crucial in re-
Producing regulatory uncertainty by lobbying and achieving favorable laws for sharing platforms in the United Kingdom. The authors also note that the public relations activities carried out by the trade association helped citizens get familiar with sharing platforms and thus reduced demand uncertainty. On the flipside, trade associations from adjacent industries whose resources a new market threatens can use these trade associations to block the emergence of a new market. Ingram and Inman (1996) show, for example, how hotel owners around Niagara Falls managed to pass regulation that prevented new entry, which would threaten their growth and prosperity. Similarly, the lawsuits of hotel and taxi associations against the likes of Uber and Airbnb and the consequent banning of these services in different countries are good examples of how incumbent trade associations can block new market emergence.

Just like standard-setting consortia, trade associations can be highly political settings where firms struggle for dominance and influence. Depending on their size and position in the industry, trade association members can have divergent interests and agendas (van Wijk et al., 2013). In their paper on the UK sharing economy, Ozcan, Gurses, and Mohlmann (2018) observe that the agendas and proposed activities of the larger (e.g., global) association members benefited the smaller members but also created difficulties for the smaller members to keep up and have real influence on the development of the new market.

As a final type of alliance network that is relevant for market formation, we discuss platforms. Extant research discusses how firms can orchestrate a new market and gain power in it by bringing together other firms around a “platform” (Gawer & Cusumano, 2002). Studies show that platforms, which can be seen as multiplayer collaborations, are typically formed by developing a core value proposition or infrastructure in the form of a product, service, or technology on which a large number of firms can build complementary products, services, or technologies, thus creating a loosely assembled business ecosystem for innovation (Baldwin & Clark, 2000; Baldwin & Woodard, 2009; Gawer, 2009, 2014).

Platforms can enhance interactions that create value among consumers (demand side) and external producers (supply side) and produce a multisided market (p. 300) (Rochet & Tirole, 2003). They deliver two key functions: (a) They bring together the know-how from different firms, thus reducing supply uncertainty, and (b) they link customers with these suppliers, which are trying to adapt the platform to changing customer needs, effectively reducing demand uncertainty. Firms such as Apple, Google, Microsoft, Linux, and, more recently, Airbnb and Uber have been using these two principles to build successful digital platforms and take advantage of an entire ecosystem of suppliers and users to create new markets.

Platform leaders typically need to do more than just exert technical efforts and make design and architecture decisions to form new markets. For new markets to emerge around their platforms, platform leaders must also strive to establish a business model and set of relationships that are mutually beneficial for platform participants. In the platform literature, this is known as the “chicken-and-egg problem,” where the platform leader needs to
Collaborative Market Making: The Critical Role of Dyadic and Multipartner Alliances in the Formation of New Markets

cultivate one side of the platform (e.g., consumers) to attract the other side (e.g., suppliers; Gawer & Cusumano, 2014). If successful, this leads to a momentum and subseq

tently to network effects between the platform and its complementary products or services, which can often erect a barrier to entry for potential platform competitors and allow new markets to develop around only this platform (Cennamo and Santalo, 2013; McIntyre and Srinivasan, 2017; Rietveld and Eggers, 2018). For instance, Apple has been instrumental in developing new markets, such as MP3 players (iPod), tablets (iPad), and smartphones (iPhone) due to its strong platform leadership. Nokia, on the other hand, failed to start the smartphone market with its Symbian platform because it didn’t focus on developing relationships with potential platform partners and instead focused solely on the technical features of the platform itself (West and Wood, 2014). A recent study by Ozcan, Zachariadis, and Dinckol (2019) also showed that the chicken-and-egg problem is particularly difficult to overcome in regulated and data-sensitive industries such as banking.

Collective Action and Market Formation

Finally, firms may also collaborate to employ political strategies to form the market. The political sociology of markets developed by Fligstein (1990, 1996, 2001), in particular, stresses the importance of defining governance rules that encapsulate a “conception of corporate control” (Fligstein, 1990) to make the construction of markets feasible. According to this view of “markets as politics,” not only the relationships across firms but also their formal relations with the state and regulators as well as other powerful macro actors such as labor unions, professional associations, or trade associations are crucial for understanding how markets emerge (Fligstein, 1996). Scholars like ourselves, who embrace this political view of markets, argue that collective political action is central to the formation of new markets (Lounsbury et al., 2003; Sine & Lee, 2009; Weber et al., 2008, Gurses & Ozcan, 2015; Ozcan & Gurses, 2018).

The collective action of firms and associated community-building activities are instrumental to the development of new markets (Gustafsson et al., 2016; Hargrave & Van De Ven, 2006; Mezić & Kuperman, 2001). In addition to the political activities of more formal collaborations such as standards consortia and trade associations discussed earlier, collective mobilizing efforts can also include social movements (Haveman & Rao, 1997; Lounsbury et al., 2003; Rao, 2009; Schneiberg et al., 2008; Sine & Lee, 2009; Swaminathan & Wade, 2001). Social movements can be defined as an action system of mobilized networks of groups and organizations that try to achieve social change by using collective protest (see Sine & David, 2010, for a review). A common form of collective action at this level is to organize public campaigns that aim to establish cognitive legitimacy, that is, identifying the population with the nascent market (Frank, Hironaka, & Schofer, 2000; Gurses & Ozcan, 2015), and to pressure the political authorities for favorable regulation (Bonchek & Shepsle, 1996; Hillman & Hitt, 1999; Ingram & Rao, 2004; Lee, 2009).

Social movements can help the formation of new markets in several ways (Sine & Lee, 2009). First, they can help gather public support to pressure regulators and legislators, thus reducing regulatory uncertainty and paving the way for the new market to emerge
Collaborative Market Making: The Critical Role of Dyadic and Multipartner Alliances in the Formation of New Markets

(A. J. Hoffman, 1997; Schneiberg & Bartley, 2001; Schneiberg & Soule, 2005; Zald, Morrill, & Rao, 2005). Second, they can embed their values into the regulatory structure, creating supportive contexts for new types of entrepreneurial activity and generating initial resources for the nascent market, thus reducing supply uncertainty (Sine & Lee, 2009). Finally, they can serve as a valuable mobilizing structure “through which people mobilize and engage in collective action,” which can help with demand uncertainty (McAdam, McCarthy, & Zald, 1996, p. 3). For instance, Sine and Lee (2009) find that the wind power social movement led to a positive evaluation and final cognitive legitimacy of wind technology, which created more entrepreneurial opportunities and helped fuel the growth of this nascent market. In the case of cable pay TV, Gurses and Ozcan (2015) observe that entrepreneurial firms engaged in “social movement–like” collective action to construct regulative legitimacy for this nascent market.

Although collective action and social movements can be a good way to raise the legitimacy and visibility of a new market, firms that engage in them may face significant difficulties that may hinder the development of the new market. First, with the exception of cases like “Astroturfing,” initiators of social movements are often small and diffused firms that typically do not have the resources or skills to organize at a wide scale (Lounsbury et al., 2003). In addition, they may encounter significant resistance from incumbents in industries that they threaten (Gurses & Ozcan, 2015; Ozcan & Gurses, 2018), who typically have the power to influence regulators. Finally, an important contextual factor is whether the products and services that are being promoted through the social movement are important enough for consumers to be activated about them (Ozcan & Gurses, 2018). Overall, we argue that interfirm collaborations for the purpose of collective action are an important yet understudied type of alliance that can fuel market formation, particularly regarding the contextual factors that affect their success in reducing regulatory, supply, and demand uncertainty. In the next and final section of this chapter, we provide concluding remarks and avenues for future research.

(p. 302) Conclusion

Alliances have proved to be an important strategic device and an essential part of firm strategy in many key industries such as computers, telecommunications, electronics, pharmaceuticals, and airlines (Wassmer, 2010). Alliances can increase firm performance through access to new knowledge and resources (Powell et al., 1996; Khanna, Gulati, & Nohria, 1998; Stuart et al., 1999), lower transaction costs through economies of scale and scope (Williamson, 1985; Pisano, 1990), and higher legitimacy (Baum & Oliver, 1991; Stuart, 1998; Baum et al., 2000). Benefits from alliances can be particularly crucial for firms with limited resources and in highly dynamic and uncertain environments such as nascent markets because firms need a diverse and changing set of resources to prosper (Baum et al., 2000; Eisenhardt & Schoonhoven, 1996; Gulati & Higgins, 2003).

In this chapter, we argue that alliances are a critical tool for firms to fuel the formation of new markets, which are often characterized by high levels of uncertainty of various types.
Collaborative Market Making: The Critical Role of Dyadic and Multipartner Alliances in the Formation of New Markets

Studies show that firms can use alliances to fuel new markets by pooling R&D resources to reduce supply uncertainty (Powell et al., 2005), creating cognitive categories and collective identities to reduce demand uncertainty (Ozcan & Gurses, 2018; Kennedy, 2008; Navis & Glynn, 2010), and, finally, collectively pressuring regulators and other politically important stakeholders to reduce regulatory uncertainty (Esparza et al., 2014; Gurses & Ozcan, 2015; Sine & Lee, 2009).

To take a systematic look, we examined alliances in terms of dyadic versus multipartner alliances and showed that cases of market formation through dyadic alliances is less common compared to multipartner alliances, simply due to the sheer amount of resources and effort needed to overcome the demand, supply, and regulatory legitimacy that characterize nascent markets. Dyadic alliances that fuel market formation typically involve large firms that can provide the nascent market with the necessary legitimacy and resources through collaboration with universities, other large firms, or small and innovative firms. In many cases, however, it is multipartner alliances that play a key role in market formation. These may take the form of standard-setting consortia, which help to reach an agreement on interfaces and standards between multiple players (Funk, 2012); trade associations, which protect the rights and interests of the new market members, particularly against incumbents from adjacent industries (Ozcan & Gurses, 2018); or platforms, which create mutually beneficial collaborative relationships between players with diverse roles and resources that are useful in the nascent market (Gawer, 2009).

Although the studies we reviewed in this chapter begin to paint a picture of market emergence through the lens of alliances, they have significant shortcomings. First, market formation is a phenomenon that has not been researched extensively, primarily due to the necessity of observing a multiplicity of actors longitudinally to create a realistic account of the process. In addition, the nonemergence of potential new markets is often neglected by researchers due to the small number of real-time data collection efforts (Ozcan & Santos, 2015). Finally, current studies of market formation are typically single case studies that cannot compare and contrast the role of the context of the phenomenon (Lee et al., 2017). We argue that contextual factors matter greatly for the power of various types of alliances to fuel market formation. For instance, for small–large alliances, it is important that the new market in question is of strategic importance for the large firm; otherwise, it may not commit enough resources to develop the market, causing the small partner to run out of money while waiting for the market to take off. For alliances between large firms, another critical factor is the power position of these firms within their own industry and their previous history of collaboration, as monopolistic players from different industries may face cognitive inertia in switching to a collaborative mode in a new market. For the case of standard-setting consortia, we argue that when demand uncertainty is high, standard setting can be difficult due to a high level of disagreements between allied firms in deciding on the appropriate standard.

Another critical contextual factor that is understudied is the level of regulation in the industry. Recent work (e.g., Ozcan, Zachariadis, & Dinckol, 2019) shows that uncertainties regarding regulatory categorization of new players can affect large firms’ willingness to
work with them due to unclear legal liabilities. In addition, the close relationship between incumbents and regulators that is present in many regulated industries (e.g., “revolving doors”\(^4\); Eckert, 1981) can make it more difficult for firms to start a new market through collective action if the new market threatens the resource stream of incumbents in adjacent industries. Future researchers should explore the role of these and other contextual (e.g., economic, institutional, geographic) factors to further advance our understanding of the best strategies and configurations to manage alliances to catalyze market emergence. Embedded multiple case studies where the formation of a global market is examined at the country or regional level can be a good approach in looking at the role of alliances and the moderating effect of contextual factors on market formation (e.g., Ozcan & Santos, 2015).

More broadly, future studies should also explore when alliances matter for market formation and when they do not. Conceptual efforts such as that by Lee et al. (2017) are good steps in further exploring the relationship between alliances and market formation, paving the way for empirical work in the area. Exploring the role of alliances in market formation has the potential to provide critical insights into strategy and entrepreneurship (e.g., which alliances small vs. large firms can form to fuel market formation) and into macro-level phenomena such as what fuels/prevents the emergence of new markets and how existing industries are in turn transformed through the emergence of these new markets.

References


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Notes:

(1.) We define a market as a structured context for exchange (Fligstein, 2001) in which resources are mobilized and organized by a set of producers to deliver a particular offer tailored to the needs and desires of a set of customers. We can thus speak of the automobile market that addresses the need for mobility or the wireless payment market that addresses users’ desire to make fast and secure transactions with their phones. This perspective conceives markets as a type of institution that introduces stability and regularity into the behaviors of economic agents rather than just a trading place (Fligstein, 2001). According to this view, a market is different from an industry, although these two concepts are often used interchangeably in the literature. We can define industries as a collection of firms that provide products or services with vertical (i.e., value chain) or horizontal (i.e., complements or substitutes) links to each other (Porter, 1980). A market can materialize at the convergence of industries, and firms that make up an industry can establish different markets.

(2.) Different types of lines denote different types of alliances including joint ventures, R&D alliances, buyer-supplier relationships, licensing agreements, and so forth.
(3.) Astroturfing is the practice of masking the (typically corporate) sponsors of a message or movement to make it appear as though it originates from and is supported by grassroots participants (Howard, 2005).

(4.) That is, individuals passing between roles at legislators or regulators and the private organizations affected by the legislation and regulation.

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