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"Thinking" about business markets: A cognitive assessment of market awareness

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ABSTRACT

Current conceptualizations of marketing decision-making center on behavioral and cultural aspects of information flow and inter-functional coordination but neglect the cognitive, sense-making aspects of team decision-making. To fill this gap in existing business market literature, this study provides a cognitive based model of team market awareness. Drawing on theory related to entrepreneurial alertness, the paper develops constructs of management team awareness and symmetry of awareness distribution that are tested empirically. Results reveal that the management team's ability to perceive, comprehend and predict market elements (team market awareness) leads to higher firm performance. Further, the effect of team market awareness on team performance is strengthened when the team has *asymmetric* distribution of awareness, whereby a team's members have an accurate awareness of *different* market elements. Finally, team market awareness also has a stronger impact on team performance when the team has a high level of agreement on cross-functional tactics.

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1. Introduction

Managers can acquire and share information about customers and competitors in ways hardly imaginable a few years ago. The access and affordability of information to a management team pose several questions: 1) what does it mean to be aware of the market and is it enough to have a myriad of market information available? 2) Should everyone have a holistic understanding of the market or is it enough that one or two team members are aware of elements and trends such that they complement the team's pool of insight? 3) How do market awareness and team agreement on future actions drive performance?

Utilizing Austrian economics (Kirzner, 1997), we contend that management teams that successfully exploit opportunities do so through *team market awareness* — the capability to accurately interpret a wide cache of market information. We examine the *cognitive nature* of the team's information processing; that is, how the accuracy and distribution of market knowledge impact performance within the context of management teams. Marketing research acknowledging the importance of team cognition and its link to performance has been mostly conceptual in nature (Day & Nedungadi, 1994; Hult, Ketchen, & Slater, 2005; Rico, Sanchez-Manzanares, Gil, & Gibson, 2008). We fill this gap empirically by testing a measure of a management team's cognitive abilities to accurately assess market awareness. We utilize an effective tool from the applied cognition literature for examining the awareness phenomenon (Endsley, 1995).

Another contribution lies in examining how market awareness is distributed across management teams' members. We focus on the degree of symmetry in the distribution of market awareness (variance) among team members, which manifests itself through symmetric distribution (low variance because of shared awareness of similar elements of the market) or asymmetric awareness (high variance because team members have awareness of different elements of the market). Extending previous research on transaction memory (e.g., Chiang, Shih, & Hsu, 2014), we posit that when team members have an asymmetric awareness of various market elements, team market awareness has a stronger performance impact.

Finally, we address the importance of cognitive agreement on what should be done going forward, or *team tactical agreement*. Previous research has focused on the significance of inter-functional collaboration from a behavioral perspective, but this research takes a cognitive approach to test team agreement on future tactical actions. We posit that the effect of team market awareness on performance is strengthened when teams have a high degree of agreement about what tactics to pursue going forward.

2. Theory development

2.1. Team market awareness

Kirzner's view of market opportunity exploitation contends that individuals or teams have different levels of market knowledge and innate

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sense making (Kirzner, 1997). This premise is grounded in Austrian economics and the "knowledge of circumstances" (Hayek, 1945), which finds neoclassical economic theories unsatisfactory for understanding what happens in market economies because of assumptions that 1) market conditions are at all times in equilibrium and 2) all available opportunities have been instantaneously grasped. Rather, Austrians maintain that performance variability among management teams with access to the same information is a function of how well the teams identify *mismatches* in how resources are currently allocated in the market and the way they *should* be allocated. Contextual knowledge is asymmetric, allowing managers to see patterns in information that others cannot detect (Mises, 1949). The combination of knowledge asymmetry and cognitive processing is key to management team success (Busenitz, 1996; Dutta & Crossan, 2005; Kirzner, 1997; Yu, 2001).

While the Kirznerian literature describes it as opportunity exploitation, the marketing literature alludes to "market awareness" as a managerial capability that is asymmetric across firms (e.g., Day & Nedungadi, 1994). Few marketing studies specifically define and test this mental capability of managers or attempt to measure it. However, cognition research in other disciplines provides a detailed parallel look at this concept. Most notably, the literature on situational awareness in the human factor literature suggests the importance of accurate cognitive abilities related to market awareness (e.g., Adams, Tenney, & Pew, 1995; Cooke, Salas, Canon-Bowers, & Stout, 2000; Endsley, 1995). Situational awareness is the accurate perception of the elements in the environment within a volume of time and space, the comprehension of their meaning, and the projection of their status in the near future (Endsley, 1995). Used in contexts outside of the traditional business arena (e.g., military command and control situations), situational awareness research stems from the need to understand decision-making in complex and dynamic environments (O'Brien & O'Hare, 2007).

Recently, this stream of literature has extended the situational awareness concept beyond individuals to teams (Sonnenwald & Pierce, 2000), with the assertion that accomplishing objectives often requires expertise from different functions or specializations, and the integration of knowledge is critical to success. In dynamic work situations, individuals cannot acquire the rapidly expanding information and therefore must work together to execute plans through *interwoven* awareness from interconnected patterns of individual team members' knowledge stores (Sonnenwald & Pierce, 2000). Given the dynamic pace in today's market environment, adaptation of situational awareness to a business context as it relates to accurately seeing and acting upon market opportunities is straightforward. Therefore, we define team market awareness as a management team's ability to *accurately* perceive, comprehend and predict elements in the marketplace.

The *perception* element of team market awareness is the overall state of basic knowledge about the environment that the management team has at any given point of time (Adams et al., 1995; Sarter & Woods, 1991). Successful management teams must initiate the cognitive exercise of *noticing* elements in the market accurately (Ardichvili, Cardozo, & Ray, 2003; Endsley, 1995). Perception develops when individuals or groups constantly prepare and expand their knowledge base so problems or changes will be recognized (Gaglio & Katz, 2001; Lumpkin & Lichtenstein, 2005). The *comprehension* dimension of awareness is the process of forming a holistic picture by combining two or more elements to form an accurate picture of the environment (Endsley, 1995). Management teams with complex and changing schemas go through this process to cement disparate pieces of information and to make connections between market elements (Baron & Ensley, 2006; Dutta & Crossan, 2005). Finally, *prediction* is the ability to accurately project the future states of the elements in the environment, at least in the near term (Endsley, 1995). Thus, successful management teams must recognize and understand patterns in the marketplace, and then translate the patterns in a meaningful way to see where markets are headed in the future (Baron & Ensley, 2006).

2.2. Team market awareness and performance

Kirzner's theory suggests that market awareness enables management teams to gain an accurate, holistic picture. This result is the ability to identify appropriate objectives or goals to pursue based upon the misallocations of resources in the market and the resources available to the firm. In aggregate, the three components of team market awareness come together in working memory as the management team engages in strategic and tactical decision-making. Without team market awareness, changes or opportunities in the marketplace are misinterpreted or missed, leading management teams to address the wrong market issues or fail to act (Lumpkin & Lichtenstein, 2005; Mitchell et al., 2002; Shepherd & DeTienne, 2005). In summary, Austrian economics suggests that team market awareness allows management teams to accurately see the gaps in the market, specifically ones that can be exploited, which results in the development of new or revised strategic initiatives that impact performance.

H1. Team market awareness has a positive effect on management team performance.

2.3. Distribution of team market awareness

A significant gap in the marketing literature is how awareness is distributed across individual members of the management team in relation to market dynamics (Kristof, 1996). In other words, team characteristics are generally measured as the average of the individual team members' knowledge, but the average does not parcel out the variance. For this research, we highlight the differences between management teams having symmetrical versus asymmetrical distributions of awareness. This constitutes the "variance" of awareness across different elements of the market among individual team members (Humphrey et al., 2011).

Specifically, asymmetric distribution of awareness occurs when a team has high levels of awareness and the awareness is mostly unshared across individual team members, i.e., individual team members are aware of different aspects of the market resulting in low overlap in awareness of the various elements of the market. For example, one person is aware of recent actions of competitors, another is aware of customer trends, and yet another team member is aware of recent financing practices. Symmetrical distribution is found at the other end of the distribution spectrum, occurring when a team has high levels of awareness and the awareness is mostly shared across individual team members. That is, individual team members are aware of the same aspects of the market resulting in high overlap in awareness of elements of the market. (Rindfleisch & Moorman, 2003). The question now becomes, "which is more effective; asymmetric distribution or symmetric distribution of awareness?"

Work on distribution of information (Brodbeck et al., 2007; Humphrey et al., 2011; Stasser et al. 2000) suggests that management teams with symmetrical information distribution (i.e., high overlap across individual team members' information and insight) run the risk of poor decision-making compared to teams with asymmetrical information distribution (i.e., low overlap across individual team members' information and insight). When team members pool shared information in discussions, these homogeneous teams spend their time discussing the "common" elements possessed by the team (Stasser et al. 2000). As the previous example suggests, members of the management team could know about competitors' recent actions and customers' reactions. However, there might be "unknown" elements such as market trends and financing practices that should also be discussed, but this information tends to be neglected. Alternately, teams with asymmetric distribution of market awareness (i.e., high variance because team members know different elements of the market) tend to address a broader range of issues that can play a critical role in decision-making (Brodbeck et al. 2007; Humphrey et al., 2011). Our

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