



Release capacity in the vendor selection process



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ABSTRACT

This study draws from the knowledge theory of the firm to introduce the release capacity concept to the vendor selection process. The study proposes that suppliers' release capacity – a form of knowledge diffusion that describes the transmission of a sense of a supplier's tacit knowledge to manufacturers – influences their performance during vendor selection. The authors identify two release capacity dimensions: visualization, during which knowledge is embedded and diffused through a visual encoding process, and socialization, during which a sense of the supplier's knowledge is released through a social construction process. The authors use data from the equipment supply industry to empirically test their predictions. The findings show that the release capacity dimensions affect the market's aggregate responses during the formation of consideration sets and preferences. These findings contribute to integrating developments on the source side of the knowledge diffusion process with the vendor selection research tradition.

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Knowledge is one of the most fundamental firm assets (Grant, 1996a). According to the knowledge-based view, firms exist because they are superior to markets in sharing and transferring knowledge (Grant, 1996b; Kogut & Zander, 1992). In addition, firms with better knowledge management practices can outperform their peers (Grewal & Slotegraaf, 2007; Sinkula, 1994; Szulanski, 1996).

Developing knowledge internally is, however, a complex task. Like other resources, knowledge accumulates through effortful, long-lasting, path-dependent processes that require specialization (Day, 1994; Spencer, 2003). If a manufacturer specializes in a few knowledge domains, this specialization may weaken its capability to master other knowledge domains that the business requires. Manufacturers therefore rely on suppliers who are knowledgeable in domains that lie outside their own specialization pathway, but are still critical for their value system (Moeller & Svahn, 2006; Wuyts, Stremersch, Van den Bulte, & Franses, 2004). For example, in the digital photography industry, Nikon strives to excel in optical performance, low-light image capturing, and image processing, but relies on external suppliers for some high-capacity sensors, which cameras need to capture image details. Manufacturing these components require fine-grained knowledge advancements, which Nikon engineers do not necessarily target, but which suppliers with a more specific focus on electronics, like Sony, do.

A key question arises from this reasoning: How can a manufacturer with a gap in a given knowledge domain understand how much a supplier knows of that domain? On what basis would this manufacturer assess the supplier's knowledge during vendor selection?

On the demand side, scholars have addressed this problem by suggesting that manufacturers “need to make in order to know” (Parmigiani & Mitchell, 2009) and by empirically showing the advantages of hybrid strategies, for example, when manufacturers strive to control knowledge by simultaneously manufacturing and outsourcing (Parmigiani, 2007; Parmigiani & Mitchell, 2009).

This paper examines the supply side, proposing that suppliers “need manufacturers to know in order to buy” and empirically showing the impact of a supplier's knowledge release strategy aimed at influencing vendor selection. More precisely, the aim is to test the effects of the transmission of a sense of a specific knowledge type – the supplier's tacit knowledge or know-how (Grant, 1996b; Polanyi, 1966) – during the formation of consideration sets and vendor preferences (e.g. Gopalakrishna & Lilien, 1995). The core argument is that a supplier can develop the ability to associate a sense of its tacit knowledge with a representation of this knowledge, which triggers a learning effect in the manufacturer. This learning effect is demonstrated by a greater capability to analyze the market and identify the supplier with the highest value creation potential. The choice to include such a supplier in the consideration set and to request a quotation for its offering reflects the manufacturer's capability.

Scholars have shown growing interest in advancing their understanding of how knowledge-driven markets work (Burton-Jones, 2001; Guilhon, 2001; Teece, 1998). Specifically, they have provided

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theoretical support for manufacturers being more likely to express their preference for a vendor if they learn about its know-how during the selection process. First, this introduction to a supplier's know-how allows manufacturers to understand the benefits they might extract for their operations from an interaction with this supplier (Ulaga & Eggert, 2006). Second, this introduction allows manufacturers to recognize the supplier's capability bases (Moeller, 2006), from which they will infer the efficiency, innovation, or networking potential of the supplier (Moeller & Toerrien, 2003).

Scientific research, however, has not yet reported conclusive results on the role that a supplier's know-how plays during vendor selection. Anecdotal evidence supports the surmise that a supplier's know-how release may influence manufacturers' responses during the selection process. For instance, in a multiple case study of the automotive, IT, and textile industries, Zerbini, Golfetto, and Gibbert (2007) examine different types of capabilities and find some evidence that tacit supplier knowledge becomes apparent before manufacturers choose a vendor, which subsequently influences their decisions. However, there is as yet no empirical validation of these exploratory findings. Although researchers know that manufacturers find suppliers' know-how and capabilities 'tacit and not easy to benchmark' (Moeller & Toerrien, 2003: 109), it is unclear how supply-side actions can resolve tacit knowledge's ambiguity and translate this ambiguity into favorable market responses (Fahy, Hooley, Greenley, & Cadogan, 2006; Golfetto & Gibbert, 2006).

This study probes this direction in greater depth, shedding light on some of the knowledge diffusion practices that suppliers of industrial equipment adopt. Further, the study provides a rationale for the early and swift release of know-how in the vendor selection setting. First, the study conceptualizes release capacity, drawing on the knowledge theory of the firm (Grant, 1996a; Kogut & Zander, 1992; Nonaka & Takeuchi, 1995) and on research on knowledge assimilation processes (Cohen & Levinthal, 1990; Zahra & George, 2002). Specifically, the study introduces the following two release capacity dimensions: (i) Visualization, which embeds tacit knowledge during the communication process and makes it accessible through a visual encoding process, and (ii) socialization, which associates a sense of the supplier's knowledge with its know-how by means of a social construction process shared with the manufacturer.

Second, the study proposes that visualization and socialization act as sensegiving triggers (Maitlis & Lawrence, 2007). These triggers allow the vendor to transfer a sense of its tacit knowledge, thus gaining greater consideration and preference in respect of the market demand. The study empirically tests the effects of these two knowledge release capacity dimensions in the context of two European industrial equipment trade shows. The results show that both knowledge visualization and knowledge socialization affect the supplier performance in respect of vendor consideration and vendor preference. To the best of the authors' knowledge, this is the first combination and application of the two approaches in an endeavor to understand the supplier selection process in an equipment manufacturing setting.

The next section of this paper presents the theory and the research hypotheses. A description of the study design and the findings follows. The study concludes with a discussion of its implications for theory and practice, as well as of the research limitations.

1. Theoretical foundations and hypotheses

1.1. Release capacity

The premise of the presented reasoning is that knowledge transmission is the result of a sense attribution process, during which a source engages in providing a sense of what it knows (Gioia & Chittipeddi, 1991) and a recipient makes sense of what it observes and receives as inputs from the source (Weick, 1993). We refer to sensemaking as "a process by which individuals develop cognitive maps of the environment" (Ring & Rands, 1989: 342), and to sensegiving as the process of "attempting to influence the sensemaking and meaning construction

of others toward a preferred redefinition of organizational reality" (Gioia & Chittipeddi, 1991: 442).

Vendor selection is one such setting in which manufacturers try to make sense of the market environment. The suppliers, on the other hand, strive to provide a sense of their position in this environment. In this frame, release capacity refers to the supplier's ability to specify the locus of its capabilities within the space of value potential, which develops in terms of efficiency, innovation, and networking coordinates (e.g. Moeller & Toerrien, 2003). More precisely, release capacity defines the supplier's ability to transmit a sense of its tacit knowledge to buyers, thus revealing the origin of the supplier's capability basis (Kogut & Zander, 1992).

In some respects, release capacity is a concept that mirrors a firm's absorptive capacity. Absorptive capacity identifies a recipient's intake power and describes the target firm's ability to recognize the value of a source's knowledge, to assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990: 128; Lane & Lubatkin, 1998: 188). Release capacity identifies a repository source's outflow power and describes the source firm's ability to transfer a sense of its knowledge to a target entity.

Accordingly, both concepts apply to the organization as a unit of analysis and refer to a diffusion process aimed at exploiting knowledge's commercial potential. However, besides focusing on the opposite sides of the diffusion process, the proposed release capacity concept also has a narrower scope: First, the concept presumes that the source firm has the ability to recognize the value of its knowledge for the recipient, rather than incorporating this ability; second, it engenders the effect of attracting and securing the recipient's preference, rather than embedding this commercial goal. A firm's release capacity also focuses on its ability to trigger knowledge detection and knowledge evaluation in the recipient, without necessarily developing the recipient's ability to master source knowledge; that is, a firm facilitates the recipient's knowledge absorption, but does not necessarily imply all the steps of the knowledge absorption process. Finally, this study's proposed release capacity perspective targets knowledge manipulation tactics that build on a sensegiving effort and target a diagnosis, rather than a transfer outcome. In this respect, the study recognizes the stickiness of knowledge diffusion processes (Szulanski, 2002), but takes a more explicitly constructivist direction when emphasizing that the origin of knowledge identification lies in a sense attribution process (Gioia & Chittipeddi, 1991) (Table 1).

The release capacity notion also shares similarities with impartation capacity, which the strategy literature (Jane Zhao & Anand, 2009) and the industrial marketing literature (Golfetto, Gibbert, & Zerbini, 2004) have recently identified. Impartation capacity also describes a source's organizational-level form of sensegiving. However, release capacity has an important and distinctive trait: It is bound to the transfer of a sense of a supplier's tacit knowledge, which will allow the market to understand the existence, the potential use, and the value of this knowledge. Release capacity does not imply that the receptor appropriates this knowledge, or acquires the same value-creating capability, as this would only occur in a deeper teaching-learning interaction. Accordingly, a release capacity triggers manufacturers' understanding of what suppliers are capable of doing, rather than providing manufacturers with the ability to do what suppliers do.

This study argues that release capacity is particularly critical to provide a sense of a supplier's tacit knowledge (Polanyi, 1966). Tacit knowledge describes the experience, a supplying firm's knowing how to, and specifies a knowledge type that is contextual, hard to articulate, codify, diffuse, and absorb (Lam, 2000).² This knowledge form is resident in

² The concept of tacit knowledge finds a correspondence in psychology research on procedural knowledge (Lewicki P., Hill T., Bizot E. Acquisition of Procedural Knowledge About a Pattern of Stimuli That Cannot Be Articulated. *Cognitive Psychology* 1988; 20 (1): 24–37, Stadler M. A. On Learning Complex Procedural Knowledge. *Journal of Experimental Psychology – Learning Memory and Cognition* 1989; 15 (6): 1061–1069). Strategy fellows also identify the concept as know-how (Teece D.J. Capturing value from knowledge assets: The new economy, markets for know-how, and intangible assets. *California Management Review* 1998; 40 (3): 55–79). This article uses the terms tacit knowledge and know-how synonymously.

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