Available online at www.sciencedirect.com
ScienceDirect
Industrial Marketing Management 37 (2008) 677–685
INDUSTRIAL MARKETING MANAGEMENT

Resource linkages and capability development

Chia-Wen Hsu [a,b,1], Homin Chen [a,*], Lichung Jen [a,2]

[a] Department of International Business, National Taiwan University, N0. 85, Sec. 4, Roosevelt Road, Taipei 106, Taiwan
[b] Department of International Business, Yuan-Ze University, No. 135, Yuan-Tung Road, Chung-Li, Taoyuan 320, Taiwan

Received 25 March 2006; received in revised form 6 March 2007; accepted 6 December 2007
Available online 10 January 2008

Abstract

In this paper, we examine the different resource linkages sought by manufacturing firms through strategic alliance. We look closely at the impact of manufacturing activities on choice of resource linkage. Using a sample of Taiwanese firms, we found that product development ability and marketing distribution channels are the top priority resource linkages that Taiwanese manufacturing firms seek to establish. The authors also found it interesting that marketing know-how was not a resource commonly sought by Original Design and Manufacturing (ODM) firms, nor by Own-Brand Manufacturing (OBM) firms. Some implications are further discussed. Instead of outsourcing production to external suppliers, Taiwanese OBM firms remained committed to manufacturing as a core competence when they established their own brands overseas.

Keywords: Resource linkages; Strategic alliance; Marketing distribution channels; Product development ability; Marketing know-how

1. Introduction

Strategic alliances have gained increasing popularity across all business sectors in recent years. A strategic alliance is a cooperative agreement between firms in which partners may contribute resources, technology or firm-specific assets (Chen & Chen, 2002, 2003; Murray & Kotabe, 2005). Through strategic alliance, partners can learn or acquire from each other the strategic capabilities that are not available within their own organizations (Nohria & Garcia-Pont, 1991). Such alliances may also contribute to business efficiency and be an important source of sustainable competitive advantage (Dyer & Singh, 1998). For Newly Industrializing Economy (NIE) firms like those from Taiwan, forming strategic alliances with advanced country firms is an important channel for gaining market access and new technologies (Chen & Chen, 2003). In particular, use of such alliance activity can be critical for Small and Medium-sized Enterprises (SMEs) to improve their competitive positions (Arend, 2006; Beekman & Roobinson, 2004).

We are now seeing increasing numbers of Asian brand names successfully establish a presence in the world market. In 2004, eight Asian companies ranked among the world's top 100 most valuable brands. By 2006 that number has increased to eleven, most being Japanese (Business Week, 2006). Many of these firms were probably unheard of 40 years ago. Beginning in the mid-1980s, Japanese companies began to develop alliances with Western partners to create greater competitive synergy and leverage their brand presence. Examples of these alliances include Toshiba's strategic partnership with Motorola, and Canon's partnerships and joint ventures with Texas Instruments, Hewlett-Packard, Apple, and Motorola. As a result of establishing strong brand names, Japanese companies have created immense economic leverage for themselves (Wee, 1994).

In fact, in the initial phase Japan produced and sold many of its products through American and European distributors, very often under the distributors' brand names. They had to be camouflaged by using American and European brand names (Kotler, Fahey, & Jatuscripitak, 1985). As Japanese products improved in quality and gained market acceptance in the 1970s, Japanese companies began to embark systematically and relentlessly on brand development and image building, with the result that Japan has since established strong brand names in the world market (Wee, 1994). Following Japan's success, other Asian NIEs such as Korea and Taiwan have been employing the same

* Corresponding author. Tel.: +886 2 33664969; fax: +886 2 23641843.
E-mail addresses: d92724010@ntu.edu.tw (C.-W. Hsu), hmchen@management.ntu.edu.tw (H. Chen), lichung@management.ntu.edu.tw (L. Jen).
[1] Tel.: +886 2 33664969.
[2] Tel.: +886 2 33664983.

0019-8501/$ - see front matter © 2007 Elsevier Inc. All rights reserved.
doi:10.1016/j.indmarman.2007.12.001

trajectories. Firms begin with the development of a strong brand in home markets, then, utilize Original Equipment Manufacturing (OEM) brands to expand and become familiar with international markets (Cheng, Blankson, Wu, & Chen, 2005).

Compared to the other Asian NIEs, the South Koreans are probably the most successful in the area of brand development with their three brands, Samsung, Hyundai and LG, making the top 100 list in 2006. In pursuing a monolithic brand strategy like the Japanese, the South Koreans have demonstrated that they also can be successful in the world market. Firms from neighboring NIEs, such as Acer from Taiwan and Haier from China, are likely to follow in their footsteps (Hobday, 1995, 2000).

Hobday (1995) argues that the development of NIEs' manufacturing models is created by leverage strategies in terms of expanding manufacturing competences, from the simplest Original Equipment Manufacturing to more complex activities (Original Design and Manufacturing (ODM)), to fully fledged product development, manufacturing and marketing (or 'Own-Brand Manufacturing' (OBM)). Most firms will pursue this trajectory unless they lack the resources or skills to progress to the next stage.

Many Taiwanese firms have inserted themselves in global commodity chains through OEM and then ODM contracting. Most of these firms provide OEM or ODM services for international brand vendors. Few of them have "broken through" into Own-Brand Manufacturing (Cheng et al., 2005; Mathews, 1997; Yue-Ming, 2005). Even today, Taiwanese firms still rely heavily on producing products that are sold under brand names of large multinational companies (MNCs). For example, Taiwan is well-known for making products for brands such as Dell, Hewlett-Packard, and Apple. Despite Taiwan's heavy manufacturing base, there are few international brands of Taiwanese origin in the world market today. Fortunately, more and more Taiwanese companies are beginning to realize the importance of branding. Firms such as Acer, BenQ, and Asus are already investing a significantly higher level of resources into brand development.

The purpose of this article is to determine the most essential resource linkages for Taiwanese manufacturing firms entering into strategic alliances. We classify resources into four categories, namely, cost reduction, product development ability, marketing know-how and marketing distribution channels. We show that the manufacturing model (OEM/ODM/OBM) determines the type of resource linkages sought by a firm when it is allying with foreign partners to enhance its competitive strength.

The body of the paper is organized as follows. In the next section, the literature and theoretical development are discussed, and several hypotheses are formulated. This is followed by descriptions of the methodology and data used in the empirical study, and presentation of the results. Finally, the conclusions and implications drawn from this study are presented along with limitations and future research possibilities.

2. Theoretical development and hypotheses

Many firms in East Asian countries follow the "Reverse Value Chain" strategy that was developed by Wong (1999) based on Hobday's work on OEM–ODM–OBM migration strategy (Hobday, 1995, 2000). The notion of the concept is that latecomers pursue a certain strategy to develop technological capabilities: first they start developing process capability, followed by product design capability and finally new product creation/brand capabilities. This is a reversal of the normal sequence of value chain activities pursued by large, established high-tech firms in advanced countries (Wong, 1999).

Interorganizational relationship formation can help firms create value by combining various resources (Barringer & Harrison, 2000). Through strategic alliance, a firm can gain access to desired strategic capabilities by linking to a partner with complementary capabilities or by pooling its internal resources with a partner that possesses similar capabilities (Nohria & Garcia-Pont, 1991; Porter & Baden-Fuller, 1986). This has very important implications for Taiwanese firms, as they are very successful at learning from foreign strategic alliance partners (Chen & Chen, 2002, 2003).

Alliances create synergies between resources that enhance or reshape competition in the market. Such alliances have enabled many Taiwanese firms to expand manufacturing competences from OEM to ODM or even OBM within the last two decades. Firms tend to have a portfolio of reasons for alliance formation, such as cost minimization, economies of scale, gaining access to a particular resource, risk and cost sharing, gaining access to foreign markets, product/service development, learning, speed to market, flexibility, collective lobbying, and neutralizing or blocking competitors (Barringer & Harrison, 2000; Doz & Hamel, 1998). Organizations attempt to improve competitiveness by developing and bringing together new sources of technologies and skills, often resulting in the formation of a new organizational structure (Hamel, 1991; Prahalad & Hamel, 1990; Yoshino & Rangan, 1995).

Global alliances allow firms to move into international markets despite fierce global competition. They further enable firms to acquire and internalize skills from alliance partners as suggested by the resource-based view of alliance formation (Glaister & Buckly, 1996; Inkpen, 1998). For developing countries such as Taiwan, foreign partners are important sources of technological support (Jan & Hsiao, 2004). Moreover, through global alliance, firms are likely to achieve economies of scale and scope and decrease the risk of performing specific activities in different international locations (Kim & Park, 2002).

As Crossan and Inkpen (1995) proposed, it is becoming increasingly difficult for organizations to remain self-sufficient in an international business environment. This is one of the driving forces behind the popularization of inter-firm relationship building. By definition, inter-firm alliances involve the establishment of partnerships (Inkpen, 1998). These partnerships allow access to the skills and resources of other parties and provide new opportunities for upgrading and renewing existing capabilities. Alliance partnerships are initiated because they are effective as a strategy to overcome the skill and resource gaps encountered in achieving adaptation to global competitiveness.

Recent literature on inter-firm relationship building has argued that external partners can be very important for a firm's capability development (Andersson, Forsgren, & Holm, 2002; Holm, Holmstrom, & Sharma, 2005). These relationships provide