



Are relational ties always good for knowledge acquisition? Buyer–supplier exchanges in China



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ABSTRACT

Relational ties between manufacturers and their suppliers serve as an important strategic resource for value creation and realization. However, conflicting evidence exists regarding their role in the acquisition of specific knowledge. This study proposes that relational ties have a nonlinear effect on specific knowledge acquisition and that this nonlinear relationship is conditional on contract specificity and competitive intensity. Results from a sample of 385 manufacturer–supplier exchanges in China demonstrate that a buyer's relational ties with its major supplier have an inverted U-shaped effect on specific knowledge acquisition from this supplier; this inverted U-shaped relationship is stronger (steeper) when contract specificity is high and competition is more intense. These findings suggest that managers should understand the benefits and downsides of relational ties in acquiring specific knowledge and avoid building highly embedded ties when they draft detailed contracts or competition is highly intensive.

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1. Introduction

The acquisition, assimilation, and exploitation of heterogeneous, valuable, knowledge-based resources contribute critically to a firm's competitive advantage and superior performance (Hunt and Davis, 2012; Nonaka, 1994; Tsang, 2002). Research in supply chain and strategic management indicates that abnormal returns derive from not only resources within a firm but also those outside of the firm's boundaries (Cheung et al., 2010; Cousins and Menguc, 2006). Attaining external resources often involves acquiring knowledge from external ties (Capaldo, 2007; Carey et al., 2011). For example, firms embedded in cohesive ties could gain access to complex, noncodified information (Li et al., 2010a; Perry-Smith and Shalley, 2003), whereas loosely connected firms can obtain novel and nonredundant information from exchange parties (Capaldo, 2007; Hansen, 1999).

In supply chain management studies, researchers highlight the positive role of relational ties in fostering performance and knowledge acquisition (Carey et al., 2011). As Cousins et al. (2006) show,

increased socialization between the buyer and supplier contributes to the creation of relational capital that leads to deeper interfirm communication. Li et al. (2010a) find that manufacturers can gain access to tacit, hard-to-imitate knowledge through interactions with their major suppliers. Carey et al. (2011) further argue that social ties act as conduits for information flows. Through frequent, in-depth interactions with channel members, firms acquire both observable and, perhaps more important, tacit components of knowledge (Yli-Renko et al., 2001). However, recent supply chain management research cautions about the potential dark side of highly embedded ties (Lechner et al., 2010; Villena et al., 2011). Lechner et al. (2010) posit that highly connected ties create a lock-in trap and harm the performance of strategic initiative units by creating pressures to reciprocate with existing partners. Villena et al. (2011) argue that strong ties also may become a source of blindness by restricting information flows and increasing the risk of opportunistic exploitation. Thus it remains unclear whether relational ties facilitate or inhibit knowledge flows between embedded parties.

Moreover, though relational ties offer a critical informal governance mechanism, extant studies rarely consider how relational ties, formal mechanisms (e.g., contracts) jointly affect knowledge acquisition (Carey et al., 2011; Li et al., 2010a). Early studies argued that relational ties would offer effective, self-enforcing safeguards, provide access to privileged, difficult-to-copy know-how, such that

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contracts would become unnecessary (e.g., Dyer and Singh, 1998; Uzzi, 1997). More recent developments instead posit that by specifying roles, rules, procedures, contracts provide an adaptation framework in which trusted parties can coordinate knowledge transactions (Li et al., 2010a; Zhou and Xu, 2012). Because firms deploy both formal, informal mechanisms to govern exchanges, more assessments are needed to understand the joint effect of relational, formal governance mechanisms in affecting knowledge acquisition.

In addition, the value of relational ties is likely conditional on the industrial context that surrounds the exchange (Acquaah, 2007; Ketokivi and Schroeder, 2004). At the industry level, business decisions and outcomes depend critically on the degree of competitive intensity (Porter, 1985). When competition is high, many rivals fight for limited resources, which lead to resource instability and sparseness (Ang, 2008). Facing a high level of competition, firms also may find it difficult to attract quality partners (Li et al., 2008), so they use collaborative ties as buffers against competitive forces and pathways to much needed technologies and skills (Wu and Pangarkar, 2010). In this case, competitive intensity may complicate the relationship between relational ties and knowledge acquisition.

To address these research gaps, we build on a relational view (Dyer and Singh, 1998) and transaction cost economics (TCE) (Williamson, 1985) to examine how a manufacturer's relationship with its major supplier affects its acquisition of specific, complex knowledge. Our study contributes to supply chain and knowledge management literature in several ways. First, previous studies limit their attention to the linear effects of relational ties; we investigate the nonlinear impact of relational ties on specific knowledge acquisition by considering both the benefits and risks of relational ties. Whereas prior research emphasizes how strong ties benefit the acquisition of specific, complex knowledge, we argue that very strong ties may be *detrimental* for such knowledge acquisition. Second, extending extant literature on formal and informal governance, we assess the interaction effect between relational ties and formal contracts on knowledge acquisition. Third, because firm strategies are bound by the surrounding context, we consider the contingent role of competitive intensity on the relationship between relational ties and knowledge acquisition. With these efforts, we aim to uncover the nonlinear and contingent relationships between relational ties and interfirm knowledge acquisition.

2. Knowledge acquisition through buyer–supplier ties

Knowledge acquisition refers to the extent to which a firm obtains information resources from its exchange partners (Tsang, 2002).¹ Several types of knowledge can be acquired from external ties, namely product, process, and management knowledge (Capon and Glazer, 1987). Accumulated management knowledge influences the organizational design of a firm; product and process knowledge determine the firm's fulfillment of production tasks and operational performance in a supply chain (Germain et al., 2001). Product and process knowledge, manifested as the set of skills and technologies involved in product manufacturing, is characterized by complex, product-specific features (Modi and Marbert, 2007). Such knowledge is most likely acquired through interfirm

ties and connections and almost impossible to acquire through market exchanges (Nonaka, 1994). Accordingly, we focus on how relational ties affect the acquisition of specific, complex product and process knowledge, instead of novel knowledge.

By integrating external know-how into their own knowledge structure, firms improve their capability to develop and manufacture their own products (Hunt and Davis, 2012; Yli-Renko et al., 2001). For example, apparel manufacturers connected with different fabric suppliers can better design and produce garments if they grasp the material contents of each fabric and acquire the tacit skills to work with these fabrics (Uzzi, 1997). In the IT industry, hardware companies interact frequently with their software suppliers to understand complex software codes and design matching hardware products.² In this regard, acquiring external product-related knowledge and technologies from supply chain partners reinforces the focal firm's core competencies for manufacturing its current products and also stimulates the formation of specific skills for developing future competencies (Paiva et al., 2008).

Yet the amount of knowledge a firm can acquire from strategic partners depends on their willingness to share information and know-how (Yli-Renko et al., 2001). Because firms possess unique resources to support their own competitive advantage, they remain always sensitive and reserved in their knowledge sharing with external partners (Kale et al., 2000). Therefore, firms undertake facilitating initiatives, such as building relational ties, to enhance partners' cooperative incentives and create opportunities for knowledge acquisition (Villena et al., 2011).

2.1. A relational view of knowledge acquisition

Individual or organizational embeddedness is important to the acquisition of information and knowledge (Burt, 1992). Gulati (1998) proposes two aspects of embeddedness, structural and relational, such that the former focuses on structural properties of networks (e.g., structural holes, network centrality; Burt, 1992), while the latter addresses the strength of ties at the dyadic level (Granovetter, 1973). In line with a relational embeddedness view, we theorize that *relational ties* reflect the dyad between a manufacturer and its major supplier, characterized by varying interaction, trust, mutual commitment, and reciprocity (Poppo and Zenger, 2002).

According to the relational view, a firm may dedicate specific investments to improving its exchange relationships, create complementarities with its partner's external resources, or devise information sharing routines to facilitate knowledge transfer (Dyer and Singh, 1998; Lavie, 2006). Dyer and Singh (1998) further posit that self-enforcing structures such as cohesive relational ties have the greatest influence on the promotion of knowledge flows. Functioning as reliable information conduits, relational ties facilitate flows of high-quality information and fine-grained knowledge (Rowley et al., 2000). As a social governance mechanism, relational ties also secure and enhance knowledge flows among exchange parties through accumulated social capital and intensified collective norms (Dhanaraj et al., 2004).

The efficacy of relational ties for facilitating knowledge flows depends on their strength. *Tie strength* is a function of interaction frequency, emotional intensity, intimacy, and reciprocity between exchange parties (Granovetter, 1973). Accordingly, relational ties represent a continuum, with weak ties at one end and strong ties at the other. Weak ties imply infrequent, distant relationships between loosely connected parties, whereas strong ties feature high levels of closeness, reciprocity, and indebtedness

¹ We refer to the activity by which a focal manufacturer acquires knowledge "from" its major supplier, which is different from "acquiring knowledge with" another party. This latter activity is more evident in the context of strategic alliances, such that allied companies communicate and develop shared knowledge stocks for product co-development (Koka and Prescott, 2002). In our buyer–supplier contexts, the focal manufacturer acquires knowledge from its major supplier to develop its own products, which makes "acquired from" activity more relevant.

² This information came from in-depth interviews with senior purchasing managers.

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