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Dyadic specific investments, absorptive capacity, and manufacturers' market knowledge acquisition: Evidence from manufacturer–distributor dyads☆

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ABSTRACT

How do manufacturers acquire market knowledge through their partnerships with distributors? This study sheds light on this interesting question by investigating how specific investments (SIs) from both manufacturers and their distribution partners affect the manufacturers' learning about market demands and trends. Using paired-data collected from 225 manufacturer–distributor dyads in China, we find that the SIs of manufacturers and distributors both independently and interactively enhance manufacturers' acquisition of market knowledge from their distributors. In addition, manufacturers' absorptive capacity positively moderates the effect of SIs on manufacturers' learning from distributors.

1. Introduction

How do manufacturers acquire critical information about their customers' needs and demands? This question becomes increasingly important as firms' success depends more and more on their capacity to precisely understand and predict customers' behaviours and market changes (Frazier, Maltz, Antia, & Rindfleisch, 2009; Hult, Ketchen, Cavusgil, & Calantone, 2006), and to transform from a production-focused to a consumer-orientated business model (Bell, Giordano, & Putz, 2002).

A widely accepted argument in this area of research is that distributors know more about market changes and customer needs than manufacturers (Zhao, Flynn, & Roth, 2007), and distributor channels can thus be an important source through which a manufacturer learns about its market (Frazier et al., 2009; Li, Liu, & Liu, 2011). Despite these insights, the exact mechanisms through which a manufacturer benefits from its partnership with distributors for that matter has been less-elucidated (Klein & Rai, 2009). Early studies highlight that successful inter-firm learning depends on a variety of factors such as the nature of knowledge to be acquired and idiosyncratic characteristics of the partnerships (e.g., Adler & Kwon, 2002; see van Wijk, Jansen, & Lyles, 2008 for a review). What has been often overlooked, however, is how manufacturers may enhance cross-boundary learning by means of making appropriate *specific investments* (SIs), defined as idiosyncratic investments devoted into a particular partnership, which have little value if the relationship ends (Malhotra, Gosain, & El Sawy, 2005). Investigating the effect of SI strategies on firm learning has important implications in understanding how manufacturers acquire knowledge across firm boundaries, since SIs may significantly impact the dynamics of inter-firm interactions and the effectiveness of knowledge exchange between partners (Rokkan, Heide, & Wathne, 2003; Williamson, 1985).

More recent studies have begun to investigate the effect of SIs on manufacturers' learning from their distributors (Frazier et al., 2009; Klein & Rai, 2009). Some theorists maintain that SIs signal collaborative intentions, enhance trust, and build commitment between partners, which facilitate knowledge sharing (Klein & Rai, 2009; Lui, Wong, & Liu, 2009). Other theorists, however, assert that if only one partner makes SIs, the other may take advantage of the former's goodwill by acting opportunistically (Jap & Anderson, 2003). Empirically, Frazier et al. (2009) find that idiosyncratic investments from distributors and manufacturers may result in more knowledge outflow from the distributors to the manufacturers, while Klein and Rai (2009) find that distributors' IT customization facilitates more information flow from the manufacturers to the distributors. Overall, important issues regarding whether and how SIs from both sides of the manufacturer-distributor dyad affect inter-firm learning between partners have yet to be further investigated.

Specifically, we posit that two important gaps in the literature on SIs have not been addressed: (a) previous studies tend to treat SIs from

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manufacturers and distributors separately. It is unknown as to whether the two sources of SIs complement or supplement each other for manufacturers' acquisition of market knowledge; and (b) prior studies tend to emphasize the extent to which distributors are willing to share market knowledge, treating manufacturers as passive recipients of the knowledge. It has been overlooked that manufacturers' absorptive capacity can play an important role in acquiring such knowledge through SI strategies.

Addressing these two gaps would enrich our understanding of the role that SIs play in inter-firm knowledge acquisition in supply chain relationships. We approach these issues by connecting literatures on organizational learning and specific investment. We investigate how SIs in the manufacturer-distributor dyad and manufacturers' absorptive capacity influence manufacturers' learning about the market knowledge. Specifically, we ask: (a) *how do the SIs of manufacturers and their distributors independently and interactively affect manufacturers' market knowledge acquisition?* (b) *does the manufacturers' absorptive capacity play a moderating role in the relationships between SIs and manufacturers' market knowledge acquisition?* We investigate these relationships by collecting a sample of 225 pairs of manufacturers and distributors in the Chinese household appliance industry. We find that (a) SIs from both sides of a manufacturer-distributor dyad independently and interactively enhance market knowledge acquisition of the manufacturer, and (b) the manufacturer's absorptive capacity enhances the effect of SIs on its market knowledge acquisition. Departing from prior studies, we examine more comprehensively the effect of SIs on inter-firm learning, using data collected from both sides of manufacturer-distributor dyads. We also contribute to the literature of SIs by showing that partners' absorptive capacity plays a key role in boosting the role of SIs in inter-firm knowledge transfer.

2. Theoretical background

Inter-firm partnerships are important means through which firms learn from each other for improving their competitiveness (Jiang, Bao, Xie, & Gao, 2016; Li et al., 2011; Malhotra et al., 2005). In manufacturer–distributor partnerships, manufacturers that effectively acquire market knowledge through interactions with their distributors are more likely to keep up with dynamics in the marketplace, and consequently enhance their financial performance (Zhao et al., 2007). Market knowledge acquisition of the manufacturer, in this study, is information, know-how, and market knowledge that the manufacturer learns from distributor partners through their social interactions in supply chain dyads. Market knowledge contains information and know-how about the product market, such as customer behaviours and needs, competitors' actions, and market conditions (Day, 1994; De Luca & Atuahene-Gima, 2007). Distributors are closer to customers and normally have more access to such valuable knowledge than manufacturers. The importance of acquiring such knowledge through distributors is also evidenced in the interviews we conducted with executives of Chinese manufacturing companies. In one interview with distributor and manufacturer representatives, for instance, an executive said, "we want to understand real-time market dynamics with the help of our supply-chain partners (distributors), so that we know how to produce products of superior value to customers and how to compete with our rivals."

Inter-firm knowledge acquisition, however, is a highly complex undertaking. Researchers find that it depends on a variety of factors, including characteristics of partnering firms, for example, size (Gupta & Govindarajan, 2000) and motivation (Szulanski, 1996), features of knowledge, for example, tacitness (Nonaka, 1991) and ambiguity (Szulanski, 1996), and nature of inter-firm relationships, for example, trust and goal alignment (e.g., Adler & Kwon, 2002; Inkpen & Tsang, 2005; Jiang et al., 2016). Despite these prior wisdom, the role of an important feature of inter-firm collaboration – SIs made by partners for their collaboration – in inter-firm knowledge acquisition has not been fully studied (Klein & Rai, 2009; van Wijk et al., 2008).

SIs generally refer to "durable investments that are undertaken in support of particular transactions, the opportunity costs of which investments is much lower in best alternative uses or by alternative users should the original transaction be prematurely terminated" (Williamson, 1985: 55). In prior studies, SIs are also known as relational-specific assets (Kim & Mahoney, 2006), asset specificities (Artz, 1999), or idiosyncratic investments (Anderson & Weitz, 1992). SIs are particularly common in supply chain and marketing channel relationships. For example, distributors often invest in training their employees to serve the product lines of particular manufacturers (Rokkan et al., 2003; Wu, Chen, Chen, & Tung, 2016). Manufacturers also invest in both equipment and human assets to support particular distributors (Ganesan, 1994).

Prior studies on SIs have mainly adopted the perspectives of transaction cost economics or relational exchange theory to understand the implications of SIs. Transaction cost economics, the most influential theory for illustrating SI issues, posits that SIs are both a source of transaction-related competitive advantage and a source of opportunistically hazardous relationships, and thus firms must design appropriate governance structures to reduce potential opportunism threats (Heide & Stump, 1995). Relational exchange theory, in contrast, argues that SIs signal a desire to invest in an enduring relationship and thus increase trust, cooperative behaviour and transaction value in the partnerships (Anderson & Weitz, 1992; Zhong, Su, Peng, & Yang, 2014). Both theories, in short, have largely focused on governance choices and transaction costs/values of SIs, rather than on learning outcomes. Alternatively, we argue from an inter-firm learning angle how SIs made by the manufacturers and the distributors influence manufacturers' knowledge acquisition in the following hypotheses.

3. Hypothesis development

3.1. The impact of SIs on manufacturers' market knowledge acquisition

Prior studies posit that SIs signal the partners' intention to develop a long-term relationship with the other, and thus may promote cooperative behaviour in partnerships (Anderson & Weitz, 1992; Zhong et al., 2014). We argue that SIs made by manufacturers and distributors can help manufacturers acquire more market knowledge by (a) establishing important communication mechanisms and (b) increasing the motivation for the distributors and the manufacturers to share or learn knowledge (Palmatier, Dant, & Grewal, 2007).

Specifically, distributors' SIs promote manufacturers to acquire distributors' market knowledge, for two reasons. First, distributors' SIs develop infrastructures that foster inter-firm knowledge transfer, such as communication platforms or advanced IT systems that facilitate knowledge sharing, as well as liaison offices for coordination and problem-solving (Klein & Rai, 2009; Kohtamaki & Partanen, 2016). Second, distributors are motivated to share more knowledge with the manufacturers to enhance their collaborative performance (Lassar & Kerr, 1996; Wu, Lii, & Wang, 2015). By investing in specific relationships, distributors' stake in the partnership increases, and consequently the interest of distributors is more aligned with that of their manufacturer partners. To the extent that the manufacturers can convert market knowledge to better designed products and services, the distributors can also benefit (Frazier et al., 2009). Thus, distributors' SIs can contribute to more transfer of market knowledge to manufacturers.

Similarly, manufacturers' SIs also contribute to their market knowledge acquisition from their distributors, for two critical reasons. First, manufacturers' SIs in equipment, personnel, and training that target specific knowledge help create efficient communication channels (Klein & Rai, 2009; Palmatier et al., 2007). Second, the manufacturers are incentivized to maximize their return from their investment in such infrastructure. The more they invest in a partnership, the more likely they will prioritize obtaining market knowledge from their

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