



Client dependence and vendor innovation: The moderating role of organizational culture[☆]



Shanthi Gopalakrishnan, Haisu Zhang*

New Jersey Institute of Technology, University Heights, Newark, NJ 07102, United States

ARTICLE INFO

Keywords:
Innovation
Dependence
Organizational culture
Vendor-client dyads

ABSTRACT

With the dramatic increase in technological interconnectedness between firms and the overall speed of technological change, organizations depend on each other to survive and stay competitive. While it is generally believed that dyads and networks can offer advantages over internal development in the innovation process, the authors suggest that it is not necessarily the case. Using a sample of 120 vendor firms that work in information technology industries in the Indian subcontinent, they find that client dependence in the inter-organizational relationship decreases vendor innovation. To resolve this dark side of business relationships, they further examine how the organizational culture can impact the dependence-innovation relationship. In line with organization literature, the authors distinguish two sub-dimensions of outcome-oriented culture: performance orientation, which reflects a firm's internal focus on employee performance, and competitiveness, which reflects a firm's focus on external competitors and markets. It is found that a vendor's competitiveness facilitates innovation, and that it weakens the negative effect of client dependence on vendor innovation. However, performance orientation strengthens the negative effect of client dependence on vendor innovation. Accordingly, in order to prevent themselves from falling into the dependence trap in the innovation process, firms need to build an externally oriented competitive culture and avoid overemphasizing their internal performance.

1. Introduction

With the dramatic increase in technological interconnectedness between firms and the overall speed of technological change, organizations depend on each other to survive and stay competitive. Change is ubiquitous and innovation facilitates the process of adaptation to change. It is believed that inter-firm collaboration can at times offer advantages over internal development in the innovation process (Fisher, 2006). Studies examining inter-organizational relationships have argued that “cooperative competency” in dyads and networks derived from the concepts of mutual adjustment and relational capability affects new product development success (e.g., Sivadas & Dwyer, 2000). This stream of research has examined a variety of factors that facilitate innovation such as: relationship length and industry characteristics (Gassmann, Zeschky, Wolff, & Stahl, 2010), power balance between partners (Furnari, 2016; Hingley, 2005; Özen, Uysal, & Çakar, 2016), and the nature of interaction between partners (Nooteboom, De Jong, Vossen, Helper, & Sako, 2000).

Despite the importance of relational dependence, there are conflicting findings about its impact on innovation in partner

organizations. Intuitively, a strong inter-organizational relationship between partner firms is expected to foster innovation. However, some studies have argued that excessive dependence in certain circumstances can create power imbalances and produce rigidities where the partners become more technologically conservative and less innovative (Gassmann et al., 2010; Johnsen & Lacoste, 2016); whereas in other circumstances dependence allows partners to trust, communicate and coordinate, which enables them to explore innovative options (Sivadas & Dwyer, 2000; Varadarajan & Cunningham, 1995). In this research we attempt to better understand the phenomenon of dependence in the client-vendor dyad. In recent times, client firms are becoming increasingly dependent on their suppliers (Johnsen & Lacoste, 2016; Wathne & Heide, 2000). As such, we focus on client dependence, and examine whether a high level of client dependence hinders vendor innovation. To further understand the effects of dependence, we adopt a contingency perspective and consider organizational culture as a contextual variable. We suggest that different levels of cultural values can either strengthen or weaken the effect of client dependence on vendor innovation.

Organizational culture is defined as “a complex set of values, beliefs,

[☆] The authors would like to thank the Center for Software and Information Technology Management at IIM Bangalore, Dr. Abhoy Ojha and Aditya Moses for their help in organizing the data collection.

* Corresponding author.

E-mail addresses: sgopalak@njit.edu (S. Gopalakrishnan), hzhang@njit.edu (H. Zhang).

assumptions and symbols that define the way in which a firm conducts its business” (Barney, 1986, p. 657). There is sufficient anecdotal and research-based evidence that organizational culture plays an important role in innovation (e.g., Büschgens, Bausch, & Balkin, 2013; Chandler, Keller, & Lyon, 2000; Gopalakrishnan, Kessler, & Scillitoe, 2013). Many different cultural values are related to firm innovation, such as innovative culture (Chandler et al., 2000), participative decision-making (Hurley & Hult, 1998), and emphasis on flexibility vs. control (Quinn & Rohrbaugh, 1983).

In this research we take interest in the organizational culture profile (OCP) developed by O'Reilly, Chatman, and Caldwell (1991) where they take an outcome-oriented view to assess the person-organization fit. This was subsequently modified by Sarros, Gray, Densten, and Cooper (2005) who have suggested that the tool can also be useful in assessing whether organizations are in need of cultural change (Marmenout, 2007). While early studies often viewed outcome-oriented culture as a single aggregate construct, some researchers have found that it is not uni-dimensional (Saeed, Yousafzai, Paladino, & De Luca, 2015; Sarros et al., 2005). Instead, it should be categorized into two sub-dimensions: performance orientation, which reflects a firm's internal focus on employee performance, and competitiveness, which reflects a firm's external market focus. Such a distinction underlines a key facet that impacts the extent to which firms assimilate environmental factors and use them to become more adaptive and innovative. Performance orientation amplifies employees' enthusiasm for their work and the job outcomes whereas competitiveness exemplifies the extent to which the firm stands out in the competitive market.

Following this logic, we adopt these two outcome-oriented cultural attributes, and argue that they play distinct roles in influencing the dependence-innovation relationship. We use a sample of 120 vendor firms engaged in Information Technology (IT) to test our hypotheses. Our findings contribute to extant literature in several ways. First, the industrial marketing literature has diverse views of effects of inter-firm dependence. While there has been an implicit assumption in numerous past studies about the bright side of dependence, there has been recent research that exposes its dark side (Abosag, Yeh, & Barnes, 2016; Hingley, 2005; Mitreğa & Zolkiewski, 2012). We follow the latter stream of research and examine how one firm's strategic dependence may negatively impact another firm's innovation. Furthermore, we suggest that a firm's organizational culture can indirectly influence (i.e., moderate) the inter-organizational relationship. We distinguish two sub-dimensions of outcome-oriented culture, performance orientation and competitiveness. Although prior research generally suggests a uni-dimensional effect of this culture, we find that different dimensions manifest distinct interactions with dependence, which are in opposite directions, underscoring that they are indeed distinct theoretical constructs.

2. Research background

2.1. Dependence and innovation in client-vendor dyads

The client-vendor relationship is a vertical dyad where the vendor supplies required products and services to the client. In this research we examine such dyadic relationships in the context of IT outsourcing in the Indian subcontinent. Since the 1990s IT outsourcing has grown in volume and in importance and the Indian subcontinent is a major destination for outsourced work generating \$143 billion revenue and \$1.2 trillion global spending (www.nasscom.in). As outsourcing has become more pervasive, managing these relationships on a long-term basis has become more important both from a client's and a vendor's point of view (Lee, Huynh, Kwok, & Pi, 2003).

Previous studies have explored the relationship from the client's perspective (Dibbern, Goles, Hirschheim, & Jayatilaka, 2004). For example, Jugdev and Müller (2005) examine efficiency-oriented measures from the client's perspective; Ang and Straub (1998) have focused on

the financial impact of inter-firm collaboration on the client; and Janita and Miranda (2013) investigate how product and service delivery influences the client's loyalty. However, since such a relationship is dyadic, it is essential to understand both sides of the relationship. In line with some prior studies (e.g., Ojha, 2002; Palvia, King, Xia, & Palvia, 2010), this research shifts from a client focus to a vendor standpoint.

The resource dependence theory has focused on resources that are obtained from external or third party sources by imposing certain inter-organizational ties (Pfeffer & Salancik, 1978) and vertical disintegration (Paulraj & Chen, 2007). The theory suggests that clients and vendors manage their relationships through developing structural inter-organizational links that balance power and create dependence between them (Pfeffer & Salancik, 1978). At times, the distribution of resources and competencies may be unequal between partners, resulting in asymmetric inter-firm relationships. This is likely to generate power imbalance. Some research has found that mutual dependence increases the possibility of institutional change because it induces the actors to create new shared institutions (Furnari, 2016); yet, excessive dependence encourages the party in power to maintain their status quo (Furnari, 2016). In this regard, over-reliance on business partners is likely to hinder the desire of the one or both sets of actors to change because of lack of trust, opportunistic behavior patterns, or extreme complacency in outcomes of this asymmetric relationship (Johnsen & Lacoste, 2016; Mitreğa & Zolkiewski, 2012; Rosene, 2003). Without changes, it is impossible for firms to adapt quickly to the environment, which in turn creates setbacks in their innovation processes. Additionally, either party can develop unilateral control mechanisms over the other partner (Johnsen & Lacoste, 2016). This can constrain information flow between partners creating conflicts and inconsistencies (Grayson & Ambler, 1999) that in turn may decrease learning activities and making it difficult to achieve strategic goals (Munksgaard, Johnsen, & Patterson, 2015; Yli-Renko & Janakiraman, 2008).

One critical strategic goal for firms is to stay competitive through an emphasis on adaptability and innovation. At the firm level, innovation is usually defined as the adoption of an idea or behavior, pertaining to a product, service, device, system, policy, or program, that is new to the adopting organization (Gopalakrishnan & Damanpour, 2000; Zaltman, Duncan, & Holbek, 1973). In our empirical setting of IT industries, the products and services are intangible and perishable. Also, a close interaction between the client and the vendor in service delivery processes makes it difficult to distinguish between product and process innovations. For example, an innovative solution to a client's problem in the service context can include a product associated with a service, and the process of delivering the innovation is intangible (Hogan & Coote, 2014). As a result, in this research we use a broad conceptualization of innovation as the new products and services adopted by a firm to close an actual or perceived performance gap (Gopalakrishnan & Damanpour, 2000).

We further examine the possible gaps in previous research on vendor-client or supplier-customer dyads. On the one hand, it is suggested that relationship-specific learning and establishment of trust and commitment between partners in a dyad fosters positive outcomes such as innovation and relationship longevity (Chen, Lin, & Chang, 2009; Morgan & Hunt, 1994; Sivadas & Dwyer, 2000). However, power imbalance can create a lack of trust, conflict, increased opportunism, increased complacency, all of which can have negative consequences for one or both partners (Cowan, Paswan, & Van Steenburg, 2015; Gummesson, 1999; Johnsen & Lacoste, 2016). In this research we examine whether client dependence may drive vendor complacency and affect their ability to innovate (Friend & Johnson, 2017; Rosene, 2003;). To mitigate the negative impact of dependence, we suggest that vendor firms should build an appropriate organizational culture.

Download English Version:

<https://daneshyari.com/en/article/5111022>

Download Persian Version:

<https://daneshyari.com/article/5111022>

[Daneshyari.com](https://daneshyari.com)