The performance effect of inter-firm adaptation in channel relationships: The roles of relationship-specific resources and tailored activities

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ABSTRACT

This study aims to investigate the effects of relationship-specific resources and tailored activities on relationship performance. Based on the Industrial Marketing and Purchasing group's actors–resources–activities (ARA) model, this paper critically reviews the transaction-cost and organization-design literature emphasizing a negative aspect of firms' resources or activities customized to relationship counterparts that cause transaction or coordination difficulties. This paper presents the results of a quantitative study by using survey data collected from 375 business units of Japanese manufacturing firms. The results show resource specificity and activity tailoredness positively influence relationship performance. We investigated the role of vertical integration as a moderator, in order to examine the performance effects more precisely. In contrast to a proposition of the transaction-cost and organization-design literature that low (high) specificity and tailoredness fit a low (high) vertical-integration level, one of the results suggests that even under a low integration level, performance increases as relationship-specific resources increase. We explored another moderator, as per the ARA model's assumption that the nature of complementarity among heterogenic resources and between the resources and activities of different firms will significantly influence relationship performance. We found that the performance effect of wholesalers' activity tailoredness increases as manufacturers' exploitation capacities as a knowledge-based resource increase.

1. Introduction

Researchers of the Industrial Marketing and Purchasing (IMP) group have provided useful frameworks for analyzing business-to-business (B2B) relationships. One of them is the so-called actors–resources–activities (ARA) model, which is used to capture B2B relationships and posits three layers or dimensions for characterizing relationships: actor bonds, resource ties, and activity links (Ford, Gadde, Håkansson, & Snehota, 2011; Håkansson & Snehota, 1995). IMP researchers have sometimes defined concepts in unique and different ways, compared to definitions of similarly named concepts by other academic groups. For example, Lenney and Easton (2009) define the term "commitment" in the ARA model uniquely and differently from general B2B researchers, so that the concept may enrich the model. "Adaptation" in the model is another concept unique to the IMP group. As inter-firm adaptation in B2B relationships develops over time, firms' resources will become specific to the relationships; their activities will be coordinated with and adjusted to each other (Ford et al., 2011; Håkansson & Snehota, 1995). In this paper, we articulate, from the viewpoint of the framework, that we can capture the important roles of

actors' resources that are specific to relationships with counterparts (i.e., so-called relationship-specific resources), as well as their activities that are tailored to their counterparts. These assertions differ from the assumptions inherent in the transaction-cost and organization-design views.

Relationship-specific resources refer to site, physical, human, and dedicated assets in support of a particular relationship, which are less valuable to alternative relationships (Williamson, 1985). In transaction-cost economics (TCE)—as a prevailing perspective related to relationship-specific resources or assets—such specific resources are thought to create hold-up problems and increase transaction costs, in association with actors' opportunism; in this sense, the negative aspects of specific resources are emphasized (Klein, Crawford, & Alchian, 1978; Williamson, 1979). Besides the resource dimension, activities of actors could be specifically tailored or customized to their counterparts in relationships. For example, it is often observed that sales and logistics activities of distributors are tailored to specific manufacturers. This activity tailoredness will increase actor interdependence. According to the organization-design view, higher interdependence can lead to higher coordination costs (Langlois, 2002; Langlois & Robertson, 1995;

Sanchez & Mahoney, 1996).

Obviously, previous conceptual studies emphasize the dark sides of relationship-specific resources and tailored or customized activities in relationships—that is, the cause of transaction and coordination difficulties. Why, then, do firms often invest willingly in relationship-specific resources and customize their operational activities to certain counterparts, in spite of the potential risks therein? Several reasons have been raised by previous empirical studies: the lock-in, bonding, and performance effects of relationship-specific resources (Brown, Crosno, & Dev, 2009; Rokkan, Heide, & Wathne, 2003). That is, TCE is thought to emphasize the lock-in effect that poses hold-up and opportunism problems. On the other hand, the ARA model assumes the positive effects of both relationship-specific resources and tailored activities on relationship performance. As B2B relationships develop, close interactions among actors are promoted; the actor bonds, resource ties, and activity links thus become tightly bound. Close interactions among actors result in outcomes such as collaborative innovation and value creation (Håkansson, 1987). Adaptation is a dynamic process as it emerges in B2B relationships over time. While buyers and sellers adapt to each other and are interdependent, their resources become specific to their partners; their activities become tailored to each other over time (Ford et al., 2011; Håkansson & Snehota, 1995; Hallén, Johanson, & Seyed-Mohammed, 1991; Metcalf, Frear, & Krishnan, 1992). That is, relationship performance (such as value creation and cost reduction) is assumed to increase as adaptation develops.

The above difference in assumptions between the ARA model and transaction-cost/organization-design views motivated us to test empirically whether or not resource specificity and activity tailoredness positively influence relationship performance. Namely, one of the purposes of this study is to examine the performance effects of relationship-specific resources and tailored activities of actors. Our hypotheses are based on the ARA model and are tested empirically in the marketing-channel context. Although we performed a quantitative study with reference to the ARA model, we did not intend to test the model per se statistically. As Håkansson (2009) points out, because the model had not been built for quantitative empirical studies and had a very specific message in the logic of the three layers, it might be difficult (or impossible) to test it holistically. Therefore, our intention is to utilize the framework's useful insights to capture the performance impacts of relationship-specific resources and tailored activities in relationships.

We pose another research question: What factors strengthen or weaken the performance effects of resource specificity and activity tailoredness? That is, our study investigates the factors that moderate the performance effects of the resource and activity factors. IMP researchers have assumed the complementarity or combination of resources of two different firms in a B2B relationship and the dependence of relationship performance on the nature of the combination (Håkansson & Snehota, 1995; Ivens, Pardo, Salle, & Cova, 2009; Mouzas & Ford, 2012; Nyström, 2012; Ritter & Gemünden, 2003). Over the past few decades, the knowledge and capabilities of firms have drawn researcher interest in exploring management and marketing theories. Our research model embraces the interactions between exploitation capacities that comprise partially absorptive capacities (Cohen & Levinthal, 1990) and relationship-specific resources, as well as between exploitation capacities and tailored channel activities.

In addition, our model contains the level of channel integration, as another moderator, to test more precisely the propositions of TCE and the organization-design view. According to the views, low (high) specificity and tailoredness align with a low (high) vertical-integration level. TCE assumes that increasing transaction costs associated with specific assets are mitigated as the degree of vertical integration increases. Therefore, to test more precisely the performance effect of resource specificity, the research model might be required to contain the degree of integration as a moderator in the relationship between resource specificity and performance. Likewise, in our model, the degree

of integration is also a moderator of the path from activity tailoredness to performance, to test a proposition of the organization-design view—namely, that the low (high) interdependency of actors' activities aligns with a low (high) vertical-integration level.

2. Theoretical background and hypotheses

2.1. Relationship-specific resources

TCE has been one of the dominant approaches by which to address issues in inter-organizational relationships. As to relationship-specific resources, TCE emphasizes a negative aspect: these resources raise the problem of higher transaction costs in inter-firm relationships, which in turn leads to vertical integration. TCE's assumed causal path from resource (asset) specificity to vertical integration is reflected in the research models of empirical studies in the early marketing-channel literature that deal with vertical integration as a dependent variable and relationship-specific resource as an independent variable (e.g., Anderson, 1985; John & Weitz, 1988; Klein, Frazier, & Roth, 1990). They articulate that resource specificity induces increases in transaction costs.

On the other hand, IMP's ARA model is based on another assumption that emphasizes a positive aspect of resource specificity. As B2B relationships develop, they come to be characterized by mutual dependency between firms, resource specificity, and difficulties in changing partners (Möller & Halinen, 2000). As a relationship develops over time, the resources of actors within the relationship become specific to each other, so that adaptation develops between the actors (Ford et al., 2011; Metcalf et al., 1992). Adaptation is a dynamic process where unique resource combinations develop to improve resource value within a relationship (Håkansson & Snehota, 1995; Mouzas & Ford, 2012). Thus, the model assumes that inter-firm adaptation facilitates relationship performance.

Resources of each actor, as well as combinations of their resources, become specific to their relationships; this takes place by virtue of adaptation processes, as relationships develop over time. This point seems to be shared with the TCE's "fundamental transformation" assumption that the condition of a large number of potential exchange partners at the outset is subsequently transformed into one of bilateral relationships, where partners with specific assets cannot be easily substituted by others (Williamson, 1985). However, the ARA model framework's assumption differs from that of TCE, on one point: the former views the transforming condition as a factor favorable to relationship performance. Inter-firm adaptation and close interactions have a positive impact on value enhancement, such as collaborative innovation and value creation (Håkansson, 1987).

Recently, the marketing channel literature has come to acknowledge the effect of relationship-specific resources on relationship performance, as they can create more value than non-specific resources can (Brown et al., 2009; Ghosh & John, 1999; Ghosh & John, 2005; Heide & John, 1988; Jap, 1999). The performance effect of relationship-specific resources can be classified into two categories: (1) operation-cost reduction and (2) value enhancement of products and services (Brown et al., 2009; Ghosh & John, 1999). By using customized physical and human resources in processes, operational costs will be reduced. The use of such specific resources also enables firms to add value to their products and services in collaboration. Thus, relationship-specific resources within marketing channels could contribute to the channels' ability to provide customers with higher quality products and services, or comparable-quality products and services at lower prices (Brown et al., 2009; Ghosh & John, 2005). As a result, such specific resources are expected to enhance channel performance in terms of operation-cost reduction and value enhancement.

Table 1 summarizes explanations of the perspectives that relate to the performance effect of relationship-specific resources. TCE has emphasized the dark sides of these resources—namely, the hold-up