Integration, knowledge creation and B2B governance: The role of resource hierarchies in financial performance

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ABSTRACT

Knowledge is a critical competitive resource for firms that increasingly exploit resources and capabilities combined with those of channel partners to create new knowledge. However, the opportunism risks inherent in any B2B relationship require firms to employ governance mechanisms to protect their interests. These tensions call for further study of how B2B partners exploit combined resources to produce new knowledge. This research employs a Resource Hierarchy View of resource bundling to describe the ways that firms integrate internal and external processes to achieve financial performance through knowledge creation, and the role that relational governance approaches play in enabling those resource combinations. The study finds that normative and formalized governance forms both enable complex combinations of knowledge creation and integration resources in a way that affects financial performance more than either resource could in simpler combination. However, there are differences in how knowledge is created through internal and external process integration.

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1. Introduction

Knowledge creation is a frequently cited means of achieving competitive advantage for individual firms and business-to-business partners (De Luca & Atuahene-Gima, 2007; Farrell, Oczkowski, & Kharabsheh, 2011). Efficacious knowledge creation results from the synthesis of unique knowledge inputs from individual agents, as in collaborative B2B relationships (De Luca & Atuahene-Gima, 2007). Knowledge creation can therefore fuel product and process innovations (Sinkula, Baker, & Noordewier, 1997), which enable the firm or supply chain to alter their operations to increase their chances of achieving competitive advantage (Esper, Fugate, & Davis-Sramek, 2007).

For firms in collaborative business-to-business (B2B) relationships to harvest the advantages of knowledge creation through the sharing of knowledge-based resources, they require the capability to effectively structure relationships through governance forms (Mouzas & Ford, 2012), and to integrate internal and external processes with their B2B partners (Geyskens, Steenkamp, & Kumar, 2006; Pulles, Veldman, & Schiele, 2014). B2B relationships themselves represent an important resource, which firms can utilize to enhance their resource combinations (Ford, 1980; Håkansson & Snehota, 1995; Håkansson & Waluszewski, 2002). However, a question arises regarding how complex resource combinations, such as organizational knowledge, contracting and integration capabilities, contribute to firm performance through knowledge creation.

While Barney (1991), and Hunt and Morgan (1995), among many others, cite the importance of resources in helping firms achieve competitive advantage, they also point out that simply assembling resources is insufficient to yield benefits, unless those resources can be advantageously bundled. Many scholars have examined the motivations and means by which firms extract value from resource bundles, resulting in a rich body of literature on resource exploration and exploitation (e.g. March, 1991; Garcia, Calantone, & Levine, 2003; Atuahene-Gima, 2005). Koza and Lewin (1998) first introduced the exploration-exploitation concept in an inter-organizational context, suggesting that firms are motivated to form alliances in order to leverage existing resources and capabilities, or to seek out new opportunities. While firms should seek a balance between exploration and exploitation activities (March, 1991), recent research suggests that developing ambidexterity between exploration and exploitation is difficult, and can harm short-term performance (Ho & Lu, 2015). In addition, scholars find that where supply chain interdependence is low, exploitation contributes more to long-term performance than exploration (Gatti, Volpe, & Vagnani, 2015).

Recent research extends resource exploitation concepts to examine the processes of inter-organizational resource interaction through B2B relationships (e.g. Mouzas & Ford, 2012; Ciabuschi, Perna, & Snehota, 2012; Hammersvol, 2012). For example, Mouzas and Ford (2012) find that the exploitation of extant knowledge-based resources in B2B
relationships is dependent upon both the normative relationship between firms as well as the explicitly stated conditions of the knowledge-sharing arrangement. Thus, the utility of resources that require coordination between firms are subject to the firm’s ability to structure governance forms to balance the benefits against any inherent opportunism risks (Heide & John, 1988).

Still, is despite tensions between collaborative advantages and opportunism risks, research has also shown that the benefits of such resource combinations can result in innovative solutions and sources of competitive advantage. For instance, Häkansson and Wulawuszewski (2007) find that as firms interact and combine existing resources, new, unique resources emerge. This suggests that the question of how B2B partners achieve performance outcomes through knowledge creation is at least in part, a function of (a) how B2B relationships are structured and (b) how partner firms exploit extant knowledge-based resources and integration capabilities to arrive at innovative solutions.

This research focuses on firms’ exploitation through alliances, and the resources firms combine and leverage to jointly enhance competitive advantage. While much of the exploitation literature focuses on the characteristics of the B2B relationship, a paucity of research exists that examines the characteristics of the resources these firms choose to combine and exploit (Melander & Lakemond, 2015).

Employing Constantin and Lusch’s (1994) resource typology to contrast Resource Advantage Theory (Hunt & Morgan, 1995) with Vargo and Lusch’s (2004) Service-Dominant Logic (SDL), Madhavaram and Hunt (2008) suggest that resources occupy a value hierarchy based on the complexity with which they are bundled. Thus, the firm’s need to exploit the resource and structure combinations that aid them in creating knowledge from their B2B relationship processes echo a need expressed in the literature to explore “the question of which factors enhance collaborative learning” (Hammervold, 2012; pg. 135). Moreover, use of the Resource Hierarchy View (RHV) in examining how governance forms, process integration, and knowledge creation influence firm outcomes also addresses Madhavaram and Hunt (2008) assertion that “marketing should focus on specialized skills and knowledge as operant resources that provide competitive advantage” (pg. 80). Scholars often view firm relationships (Häkansson & Wulawuszewski, 2002), knowledge-based resources (Wiklund & Shepherd, 2003; Cohen & Levinthal, 1990) and integration capabilities (Adams, Richey, Autry, Morgan, & Gabler, 2014; Grant, 1996; Wu, Sengun, Kim, & Cavusgil, 2006) as valuable resources, and relationship governance (Adams et al., 2014; Chi, 1994; Mouzas & Ford, 2012) as a means of leveraging those resources. When considered from the RHV, this discussion prompts two research questions:

RQ1: How do complex combinations of integration capabilities and knowledge-creation resources contribute to performance outcomes for firms?

RQ2: What role do relational governance forms play in fostering complex combinations of integration capabilities and knowledge-creation resources?

These research questions also address a call by Melander and Lakemond (2015) regarding the role of different governance forms and knowledge. Likewise, they answer De Luca’s and Atuahene-Gima’s (2007) call for further study of internal and external factors that mediate the role of innovation resulting from collaborative relationships.

Therefore, grounded in a resource hierarchy view, this research describes an empirical study of 640 business managers that tests a series of relationships between governance forms, integration, knowledge creation, and performance. The study results suggest that governance forms – regardless of format – can foster performance outcomes through knowledge creation, but only by leveraging resources that allow for process integration between firms. Thus, the influence of relationship governance on performance relies on complex, mediated relationships among the integration and knowledge creation resources to reach their full potential.

2. Conceptual development and hypotheses

Resource-theories – such as the Resource-Based View (RBV; Barney, 1991), Resource Advantage (RA; Hunt & Morgan, 1995), Knowledge Based View (KBV: Grant, 1996; Wiklund & Shepherd, 2003; Olavarrieta & Friedmann, 2008) and Dynamic Capabilities (Teece, Pisano, & Shuen, 1997) – are frequently employed lenses in B2B relationship research (Fawcett, Wallin, Allred, Fawcett, & Magnan, 2011; Golick & Smith, 2013; Kristal, Huang, & Roth, 2010; Rogers, Lambert, Croxton, & García-Dastugue, 2002; Rungtusanatham, Salvador, Forza, & Choi, 2003; Wu et al., 2006). Recognizing an increase of use of resource-centric theories in marketing, there have been recent attempts to subsume RA – along with other resource-oriented theories – under RBV, using the term Resource Based Theory (Kozlenkova, Samaha, & Palmatier, 2014). However, this effort does not explicitly incorporate the Resource Hierarchy (Madhavaram & Hunt, 2008) concept, the grounding theory in this research.

Scholars have employed resource theories to describe how firms enhance their capabilities and increase competitive advantage through collaboration. Some authors propose that the exploitation of resources in collaborative B2B relationships has supplanted vertical integration as a basis for competition due to the expense of the increasingly varied assets and expertise required to satisfy demand in today’s complex markets (Christopher, 2005). Firms motivated to combine resources with B2B partners for exploitative purposes seek to develop and leverage existing knowledge and resources to achieve their performance goals (Rosenkopf & Nerkar, 2001; Grant & Braden-Fuller, 2004).

In B2B relationships, research identifies knowledge sharing as a key relational norm (Amir & Schoemaker, 1993), and knowledge creation is dependent on collaboration between B2B partners (Kahn, Maltz, & Mentzer, 2006; Koza & Lewin, 1998). Literature suggests that the exploitation of existing knowledge resources in collaborative B2B relationships provides firms with new, unique and difficult to imitate knowledge that can result in competitive advantage (Tzokas & Saren, 2004). Indeed, the SDL paradigm identifies knowledge-based operant resources are a fundamental source of strategic benefit (Vargo & Lusch, 2016). Thus, to determine how firms harvest performance from new knowledge created through B2B collaboration requires further clarification of the exploitation construct as well as an examination of both knowledge and knowledge sharing processes as firm and B2B relationship resources.

2.1. B2B collaboration and exploitation of resources

Within supply chains, strategic alliances between firms are defined by the functions the alliance serves, the structure of the alliance, and the consistency of attributes among alliance partners (Lavie & Rosenkopf, 2006). Exploitative B2B collaborations are defined as alliances between supply chain partners focused on commercialization activities that leverage existing resources and capabilities (Rothaermel, 2001), that rely on interfirm trust and experience to facilitate knowledge sharing activities (Gulati, 1995) and that focus on experiential learning and specialization to achieve competitive advantage (Levinthal & March, 1993).

Exploitative B2B collaboration involves downstream marketing activities that combine B2B partners’ existing capabilities and the sharing of explicit knowledge resources (Rothaermel, 2001). These activities can include knowledge creation in the form of incremental innovation used to meet existing customer or market demand (Benner & Tushman, 2003), and/or improvements to processes to increase efficiency, reliability or control (Benner & Tushman, 2002; Kyriakopoulos & Moorman, 2004). Exploitative B2B collaboration is associated with firms that share normative relationships, which facilitates knowledge...
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