



## The positive effects of relationship learning and absorptive capacity on innovation performance and competitive advantage in industrial markets

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### ABSTRACT

This study utilized structural equations modeling (SEM) to explore the positive effects of relationship learning and absorptive capacity on competitive advantages of companies through their innovation performances in Taiwanese manufacturing industry. The results of this study showed that relationship learning and absorptive capacity positively influence upon innovation performances of companies, and further have positive effects on competitive advantages of companies. In addition, this study divided the sample into three groups by the levels of relationship learning and absorptive capacity and found that there was a significant difference of innovation performance among these three groups: 'Highly Capable Companies', 'Medially Capable Companies', and 'Lowly Capable Companies'. It is important for 'Lowly Capable Companies' to increase both of their relationship learning and absorptive capacity to enhance their innovation performances.

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### 1. Introduction

If companies want to obtain sustainable competitive advantages, they can implement strategies that exploit their internal strengths and external opportunities and avoid their external threats and internal weaknesses (Barney, 1991; Porter, 1985). In the era of knowledge economy nowadays, innovation becomes a key source of competitive advantages (Daghfous, 2004; Prajogo & Ahmed, 2006). Successful innovation is affected by several environmental and contextual factors (Roberts & Amit, 2003; Roberts, 2003). For example, to improve innovation performance, companies are motivated to engage in learning activities in order to enhance their innovation capabilities under the context of technological changes and increasing global competition. Companies can learn from one another to increase their knowledge stock by the relationship learning. In the Chinese context, "guanxi" is as well as relationship, found to be important for business trust in the Chinese social connections (Farh, Tsui, Xin, & Cheng, 1998). Guanxi means the connection and networking between one and the others, such as the connections between companies and their suppliers, clients, and customers, etc. Relationship learning means that the management can develop and promote the learning capabilities of targeted customer–supplier relationships. Within the customer–supplier relationship, relationship learning cannot be mandated by either organization, but depends on both parties' willingness to cooperate in learning activities (Selnes & Sallis, 2003).

Management can promote relationship learning by cultivating a collaborative culture and formulating specific objectives for joint learning activities (Selnes & Sallis, 2003). However, there was no research exploring the relationship between relationship learning and innovation performance. Therefore, this study wants to fill this research gap.

Besides the external relationship learning, companies need to have the internal capability—absorptive capacity to enhance their innovation performance. Absorptive capacity is defined as the ability to enable firms to effectively acquire and utilize external knowledge as well as internal one which affects their innovations (Daghfous, 2004; Fichman, 2004). Companies can not only rely solely on their external networking, but also have to develop their absorptive capabilities to obtain knowledge actively (Matthyssens, Pauwels, & Vandembemt, 2005). They need to have approaches and mechanisms to learn, to disseminate, and to exploit knowledge which can lead to the new organizational innovations (Daghfous, 2004). Absorptive capacities of firms can influence the effectiveness of innovation activities (Cockburn & Henderson, 1998).

There was no prior study exploring the influences of the external factor and the internal factor upon innovation performance. This research selected the external factor, relationship learning, and the internal factor, absorptive capability, and explored their influences on the competitive advantage through the full mediator, innovation performance, in the Taiwanese manufacturing industry. Hence, the two antecedents of the research framework in this study are relationship learning and absorptive capacity, and the consequent is competitive advantage, while the full mediator is innovation

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performance. This study addressed three research issues. First, is relationship learning positively associated with innovation performance? Second, is absorptive capacity positively associated with innovation performance? Third, is innovation performance the mediator between the two antecedents, relationship learning and absorptive capacity, and the consequent, competitive advantage?

The structure of this study was as follows. A literature review was discussed in Section 2, and three hypotheses were also proposed in this section. In Section 3, this study described the methodology, the sample and data collection, and the measurements of constructs. Next, the descriptive statistics, reliability of the measurement, correlations between constructs, and the results of LISREL were shown in Section 4. In the end, this study mentioned the conclusions and implications in Section 5.

## 2. Literature review and hypothesis development

### 2.1. The positive effect of relationship learning on innovation performance

Relationship means “guanxi” in Chinese. Guanxi in traditional Chinese society is based on formal and informal connections that promote shared social experience among individuals and organizations. It is important for companies to build up the connections, networking and relationship with key customers and suppliers (Farh et al., 1998). The origin of guanxi is from the word “lun” which is used in the Confucian ideology to advocate the concept of guanxi (Tsui & Farh, 1997). Therefore, the relation-centered culture is one of the characteristics of the traditional Chinese society. Many studies about Chinese social relations have noted that in comparison with Westerners, Chinese have much stronger tendency to divide people into different groups which are treated in different ways. The tendency to treat people differentially on the basis of the relationship with them is why guanxi is such important in the Chinese and Taiwanese societies (Farh et al., 1998). In summary, guanxi, the relationship between one and the others plays a key role which can help companies to build up trust with their customers and suppliers in the Chinese and Taiwanese societies. Thus, in contrast to previous research about relationship learning that was conducted in the Western society, this study focuses on the relationship learning in the manufacturing industry in the Eastern society, Taiwan.

According to the resource dependence theory, an organization builds its collaborative relationships and organizes its resources in response to environmental uncertainty (De Ven, 1976; Pfeffer & Salancik, 1978). Companies are motivated to engage in relationship learning in order to obtain more control or to buffer the consequences from the environmental uncertainty (Selnes & Sallis, 2003). Companies can improve their relationship learning to facilitate the information exchange with their suppliers and customers, to develop knowledge-learning from external actors, and to update their R&D capabilities. Relationship learning means that the management can share information and develop relationship-specific memories of targeted customer–supplier relationships (Li, 2006). Within the customer–supplier relationship, relationship learning cannot be mandated by either organization, but rather learning depends on both parties’ willingness to cooperate in joint learning activities (Selnes & Sallis, 2003). Relevant partners of firms’ relationship learning are included customers, suppliers, competitors, consultants, government agencies, universities, research institutions, market research organizations, advertising agencies and sales/distribution agents (Appleyard, 1996). Several managerial approaches can enhance relationship learning, such as cultivating a collaborative culture, formulating specific objectives for joint learning activities, and developing relational trust (Selnes & Sallis, 2003).

Through relationship learning, the relevant partners of the relationship learning can identify ways to improve the quality,

reliability, and speed of information and knowledge sharing. For manufacturers, possessing more knowledge and information about their customers enables them to provide and to develop more valuable products for their customers; likewise, possessing more knowledge and information about their suppliers enables them to choose proper components and qualified suppliers to satisfy their needs and wants (von Hippel, 1994). Within rapidly changing markets, there are significant incentives for companies to develop their networking to enhance their capabilities about relationship learning. Relational capital is defined as the relationships between a firm and its upstream suppliers, downstream clients, strategic partners or other external stakeholders. Chen, Lin, & Chang (2006) posited that relational capital is positively associated with new product development performance. In addition, information sharing between the two parties in a relationship is a necessary condition of relationship learning (Huber, 1991). To develop innovations, companies can learn from their partners, customers and suppliers through their relationship learning. Previous studies have observed that there is a positive relationship between organizational learning and innovation performance (Baker & Sinkula, 2007; García-Morales, Ruiz-Moreno, & Llorens-Montes, 2007).

Selnes and Sallis (2003) developed a theory of how management can develop and promoted the learning capabilities of targeted customer–supplier relationships. Relationship learning means that a supplier and a customer can improve their joint learning activities by facilitating information exchange, developing common learning arenas, and updating their behavior accordingly (Selnes & Sallis, 2003). The relational view of competitive advantage, however, identifies relationship learning as an important approach for enhancing competitiveness and creating profits in relationships (Li, 2006). Management can promote relationship learning by cultivating a collaborative culture, formulating specific objectives for joint learning activities, and developing relational trust (Selnes & Sallis, 2003). As relational trust develops, the effective learning is increased (Selnes & Sallis, 2003). Selnes and Sallis (2003) found that the learning capability of a relationship has a strong, positive effect on performance. There is no study exploring the positive relationship between relationship learning and innovation performance, so this study wants to fill this research gap. Based on the mention above, relationship learning enables companies to obtain crucial information and knowledge from their networking members for developing innovation (Selnes & Sallis, 2003). Because relationship learning can influence learning capabilities positively, this study asserts that relationship learning has a positive effect on the innovation performance. Hence, this study implies the following hypothesis:

**Hypothesis 1.** Relationship learning of firms is positively associated with their innovation performance.

### 2.2. The positive effect of absorptive capacity on innovation performance

Absorptive capacity is defined as a set of organizational routines by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capacity (Zahra & George, 2002). Acquisition of knowledge is the ability to recognize, value, and acquire external knowledge that is critical to a firm’s operations (Lane & Lubatkin, 1998; Zahra & George, 2002). Assimilation of knowledge means a firm’s routines and processes that allow it to understand, analyze, and interpret knowledge from outside sources. Transformation of knowledge means the firm’s ability to develop routines that facilitate combining existing knowledge with newly acquired and assimilated knowledge (Zahra & George, 2002). Exploitation of knowledge is a firm’s ability to apply new external knowledge commercially to achieve organizational objectives (Lane & Lubatkin, 1998).

Acquisition, assimilation, transformation, and exploitation of knowledge are important for organizational innovation. Absorptive

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