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Perspectives on joint competitive advantages in buyer–supplier relationships

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Abstract

A critical outcome of competitive strategy is the attainment of competitive advantages. Recently, there has been a growing recognition that such advantages may reside in the boundaries of a firm—via its relationships with outside organizations. However, there is little understanding regarding how such advantages are created, eroded, and preserved in such relationships. In this paper, I summarize the findings around competitive advantages from three studies, all of which involve longitudinal empirical tests of over 200 industrial buyers and their suppliers in a variety of industries. The collective results indicate that specialized investments facilitate the attainment of joint competitive advantages and these advantages are positively correlated with economic outcomes, organizational behavior, and expectations of continuity. Competitive advantages can also be eroded over time for buyers by suspicions of *ex post* opportunism that arise within the course of the relationship. However, the detrimental effects of opportunism suspicions for both firms can be mitigated via the strategic use of various governance modes such as bilateral investments, goal congruence, and interpersonal trust. © 2001 Published by Elsevier Science B.V.

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1. Introduction

One of the key outcomes of competitive strategy is the attainment of *competitive advantages*—the resources or capabilities that enable a firm to compete more effectively in the marketplace. In the strategic management literature, the “Resource-Based View” (RBV) of the firm offers the explanation that these differences may be due to heterogeneity in differentiated or superior resources relative to competitors (Teece, 1980; Wernerfelt, 1984). More recently, there is a growing recognition that this principle is generalizable to the *boundaries* of the firm, in relationships with organizational buyers and suppliers. Particularly noteworthy is the work of Dyer (1996; Dyer and Singh, 1998) who argues the need for specialized supplier networks. These networks interrelate the use of idiosyncratic investments, knowledge-sharing processes, complementary capabilities and effective governance to create competitive advantages. However, one shortcoming of the research in this literature is that few studies specify *how* these factors interrelate to develop, maintain, and erode competitive advantages over time.

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This raises several questions in the area of buyer–supplier relationships: How are competitive advantages jointly created? How are they eroded? And how are they preserved in relationships over time? These are the motivating questions in this research. In this paper, I identify a subset of critical factors highlighted in the marketing, RBV, and transaction cost economics (TCE) literatures that illuminate how buyers and suppliers jointly create, manage, and erode competitive advantages. This is accomplished by reviewing a series of three longitudinal studies that examine the risks and returns associated with specialized, collaborative relationships between firms (Jap, 1999; Jap and Anderson, 1999, 2000). All of these papers are generated from the same dataset, involving 200+ buyers and their respective suppliers. The longitudinal nature of the data enables the examination of causality issues, which are more often assumed than tested in past research.

These papers explain general performance; they do not focus on the attainment of joint competitive advantages, although this variable is embedded within the conceptual models of each paper. The purpose of the present paper is to highlight the specific results around this variable and consider positive spill-over effects on the relationship over time. Thus, this paper makes several contributions to our understanding of the dynamics of competitive advantages at the boundaries of the firm. First, it illuminates specific empirical results from various studies, consolidating these results within one paper to provide an overall perspective of how joint competitive advantages are developed, maintained, and eroded over time. Second, it supplements the insights from these papers with additional empirical analysis that suggests that the attainment of these advantages has a strong, positive relationship with changes in the dyad's economic performance, collective functioning, and relationship stability over time. And finally, it provides a theoretical perspective on the conditions that facilitate such advantages at the boundaries of the firm.

The topic of competitive advantages at the boundaries of the firm is particularly timely, given recent growing interest in the "virtual firm" and the "extended enterprise". These discussions view organizations as decentralized networks of financially independent organizations that are coordinated in such a way as to appear and behave as one unified organization. Understanding how competitive advantages are developed between each linkage has important ramifications for the overall functioning of the organizational network.

The structure of the paper is as follows. After a brief review of the conditions that facilitate the attainment of joint competitive advantages in buyer–supplier relationships, learnings from the three empirical papers are reviewed, as relevant to the development, erosion, and preservation of competitive advantages. This is followed by a discussion of the spillover effects of competitive advantages on buyer–seller relationships and a set of conclusions regarding key learnings. Data characteristics and details regarding empirical analyses are available in various appendices.

2. Conceptual framework

2.1. Literature review on competitive advantages

In an industrial supply context, competitive advantages are defined as *strategic benefits gained over competing dyads that enable the dyad to compete more effectively in the marketplace* (Sethuraman et al., 1988). In the RBV framework, there are four theoretical conditions that underlie the achievement of competitive advantages: (i) resource heterogeneity, (ii) *ex ante* limits to competition, (iii) *ex post* limits to competition, or causal ambiguity, and (iv) imperfect mobility. These characteristics also create the backdrop for the attainment of competitive advantages in interorganizational relationships. In this section, these conditions are briefly reviewed and its relevance is discussed in an industrial supply context.

Resource heterogeneity refers to the resource bundles and capabilities that underlie production in a firm (Barney, 1991). These resources have varying levels of productivity efficiency that enable firms to produce more economically or better satisfy customer demands than their competitors. When these factors are inelastic in supply and insufficient to satisfy demand, then the low-cost firm will earn supernormal profits in the form of rents to their scarce resources. Other high-cost firms will break even. This is known as the Ricardian rents argument

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