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AUTHOR COMMENTARIES - 2008

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Dr. Jeff Dyer & Dr. Harbir Singh

A Featured Paper from *Essential Science Indicators*SM

According to Essential Science Indicators from Thomson Reuters, the paper, "The relational view: Cooperative strategy and sources of interorganizational competitive advantage," (Dyer JH and Singh H, Academy of Management Review 23[4]: 660-79, October 1998) is currently ranked at #2 among Economics & Business papers published between January 1, 1998 and April 30, 2008. At present, the paper has 561 cites.

The paper's authors are Dr. Jeff Dyer and Dr. Harbir Singh. Dr. Dyer is the Horace Beesley Professor of Strategy in the Department of Organizational Leadership and Strategy at Brigham Young University's Marriott School. Dr. Singh is the Mack Professor of Management, the Acting Chairperson of the Management Department, and the Co-Director of the Mack Center for Technological Innovation at the Wharton School of the University of Pennsylvania. Both authors are among the top 20 authors in the field of Economics & Business.

This month, ScienceWatch.com *talks with Dr. Jeff Dyer and Dr. Harbir Singh, about the paper's impact.*

SW: Would you please sum up your 1998 *Academy of Management Review* paper, "The relational view: cooperative strategy and sources of interorganizational competitive advantage," for our readers?

The main contribution of the "relational view" paper was that it outlined a theory for considering dyads and networks of firms as a key unit of analysis for explaining superior individual firm performance. The strategy field is fundamentally concerned with explaining differential firm performance, and before the *relational view* paper two prominent views dominated our perspective regarding the sources of supernormal firm profit returns. The first or *industry structure view* (IS), associated with Porter (1980), suggests that supernormal returns are primarily a function of a firm's membership in an industry with favorable structural characteristics (e.g., relative bargaining power, barriers to entry, etc.). Consequently, many researchers focused on the industry as the relevant unit of analysis for explaining why individual firms differ in performance. Some firms performed better because they were members of industries with attractive structural features.

The second view, the *resource-based view* (RBV) of the firm, argues that differential firm performance is fundamentally due to firm heterogeneity rather than industry structure (Rumelt, 1984, 1991; Wernerfelt, 1984; Barney, 1991). Firms that are able to accumulate resources and capabilities that are rare, valuable, non-substitutable, and difficult to imitate will achieve a competitive


Harbir Singh

advantage over competing firms (Rumelt, 1984; Barney, 1991; Dierickx & Cool, 1989). Thus, extant RBV theory views the firm as the primary unit of analysis, and the search for competitive advantage has focused on those resources that are housed *within the firm*.

The relational view paper offered a view which suggested that a firm's critical resources may span firm boundaries and may be embedded in *inter*firm resources and routines—that *idiosyncratic interfirm linkages* may be a source of relational rents and competitive advantage. Thus, the primary purpose of the paper was to examine how relational rents are earned and preserved. We identified four potential sources of *inter*organizational competitive advantage: (1) relation-specific assets, (2) knowledge-sharing routines, (3) complementary resources/capabilities, and (4) effective governance. We examined each of these potential sources of rent in detail, including identifying key sub-processes. We also discussed the isolating mechanisms that serve to preserve relational rents. Finally, we discussed how the relational perspective may offer normative prescriptions for firm-level strategies that contradict the prescriptions offered by the industry structure view and resource based view.

This final issue—offering different prescriptions for firm behavior—is particularly important if the relational view is worthy of being considered alongside the IS and RBV as a prominent theoretical lens for understanding differential firm performance. Let us offer two brief illustrations of how the relational view may offer different normative implications for the strategies firms should use to achieve high profits.

According to the RBV, an individual firm should attempt to protect, rather than share, valuable proprietary know-how to prevent knowledge spillovers, which could erode or eliminate its competitive advantage. However, an effective strategy from a relational view may be for firms to systematically share valuable—even proprietary—know-how with alliance partners (and willingly accept some spillover to competitors) in return for access to the stock of valuable and proprietary knowledge which resides within its alliance partners. Of course, this strategy makes sense only when the expected value of the combined in-flows of knowledge from partners exceeds the expected loss/erosion of advantages due to knowledge spillovers to competitors.

The relational view and IS view may also offer different prescriptions for firm-level strategies. For example, according to the IS view, firms should be eager to increase the number of their suppliers, thereby maximizing bargaining power and profits. States Porter (1980:123):

> In purchasing, then, the goal is to find mechanisms to offset or surmount these sources of suppliers' power. . . Purchases of an item can be spread among alternate suppliers in such a way as to improve the firm's bargaining power.

This strategy is in direct contrast to the relational view, which argues that firms can increase profits by *increasing* their dependence on a smaller number of suppliers, thereby increasing the incentives of suppliers to share knowledge and make performance-enhancing investments in relation-specific assets. By committing to a small number of suppliers, the buyer firm can guarantee them greater ex post bargaining power and therefore greater ex ante incentives to make noncontractible investments in innovation, responsiveness, and information sharing; the buyer ends up being better off by keeping a smaller piece of a bigger pie.

Thus, a relational view may differ from existing views in the normative prescriptions offered to practicing managers. The fact that there are clear contradictions between these views suggests that the IS and RBV theories of advantage are not adequate to explain interorganizational competitive advantage.

"...studies have shown that a firm's market value will be determined by the quality of its partners or will be influenced by economic events that influence its partners."

SW: How did you come up with the concept of the relational view?

Three different sets of influences drove the need for this work. First, the literature on alliances up to that point had not explicitly dealt with the drivers of rents from alliances. This was true despite a large volume of literature on alliances at the time. Second, Jeff Dyer had done some research on vertical alliances that shed light on possible drivers of rents (and competitive advantage) from alliances in general. Third, in related work on strategic acquisitions, Harbir Singh had explored the nature of synergies and the conditions under which firms could create joint value through such transactions.

Regarding the first point (the gap in the prior literature), a prevailing view on alliances focused on the contractual elements of such relationships, with a strong focus on controlling opportunistic behavior. Some work with a strategic focus did exist, but was bound in terms of particular, focused dimensions of strategy or industries in which alliances could create value. Our article on the relational view was therefore positioned to provide a conceptual framework delineating the conditions under which alliances could create joint value for both (or all) parties involved.

Another important influence on the concept of the relational view emerged from a comparative study of Toyota and its relationships with its suppliers compared with a number of competitors. Jeff Dyer worked for Bain & Company, a management consulting firm, and learned about a benchmarking study that Bain did for Chrysler comparing the cost, quality, and time to market of a Chrysler small car versus Toyota. The study showed that Toyota had a 30% cost advantage, almost one half the defects, and 33% faster product development cycle (developing all-new cars in four years versus six for Chrysler; see Dyer & Ouchi, 1993). This prompted Dyer to do a detailed study of Toyota, Nissan, GM, Ford, and Chrysler to try to understand the sources of Toyota's competitive advantage.

During this study, it became clear that Toyota used very different supplier management practices compared with its competitors (see Dyer & Ouchi, 1993; Dyer, 1994; Dyer, 1996). Toyota's suppliers located their plants in close proximity to Toyota's plants to economize on coordination, transportation, and inventory costs. They co-located over 700 "guest engineers" at Toyota's technology center to co-design vehicles with Toyota's engineers. They engaged in significant sharing of best practices with Toyota and each other through Toyota's supplier association. In short, Toyota's suppliers made a variety of relation-specific investments related to Toyota and other Toyota suppliers that had a direct impact on the cost, quality, and time to market of a Toyota vehicle. Toyota's superior profits relative to its competitors could not be fully understood without examining how Toyota's supplier network worked with Toyota and with each other.

A third set of influences emerged from related research on strategic acquisitions conducted by Harbir Singh. He explored the conditions under which acquirers could create value by incorporating the assets of acquired firms, and the findings had significant bearing on rents from relationships between firms. While there were several prior arguments driving the possibility of synergy from acquisitions, his empirical research showed that in most cases such synergies were factored into the acquisition price paid for the acquired firm. These findings brought two insights into the discussion on the relational view: that there must be a highly specialized and valuable customization of the assets of the transacting parties for value to be created, and that the process of realizing synergies is not costless and must be accounted for. Both these arguments found their way into the paper on the relational view.

"...a relational view may differ from existing views in the normative prescriptions offered to practicing managers."

Thus, the insight emerged that in some cases differential firm performance can only be fully explained by examining the firm's network of alliance relationships and the specific investments made by each party to create a uniquely high valued combination of assets. There were also some implications for the process by which value in the combination of assets is accessed. This led to the development of a more complete theory of how some firms develop relational rents and how they are preserved.

SW: How was the paper received by your peers when it was published?

The paper was actually received quite positively by many of our peers, some of whom likewise felt that firm performance could only be adequately explained by examining firm dyads and networks. The relational view paper helped spur a wide variety of studies on the dynamics of firm alliances and networks. In fact, an analysis of topic areas within *Strategic Management Journal* apparently showed that there have been more articles on the topic of alliances and networks during the past 10 years than on any other single topic.

One criticism that was levied was that individual firms develop capabilities to manage interfirm relationships and thus the relational view could be subsumed within the RBV. We agree that firms develop capabilities to manage firm relationships that influence their ability to develop relational rents (see Kale, Dyer & Singh, 2002). But we do not feel that relational rents can be explained solely by the RBV. To illustrate, a Toyota supplier may generate rents by actively participating in the knowledge-sharing processes in Toyota's supplier association. However, the supplier will be unable to generate these relational rents if the other members decide to exclude it from the network.

Similarly, the 23,000 member banks of the VISA organization have achieved an advantage over American Express and Discover by pooling their enormous distribution power, which allows for use of the card at more locations than its competitors. Individual banks generate profits with VISA due to the jointly created brand name and distribution network. In both of these cases, the resources that create the relational rents are essentially beyond the control of the individual firm. Moreover, studies have shown that a firm's market value will be determined by the quality of its partners or will be influenced by economic events that influence its partners. These are factors beyond the control of the individual firm.

SW: Have you developed the relational view any further since this paper, and if so, how?

We have engaged in a number of studies to empirically validate the propositions outlined in the relational view paper. For example, we have conducted a number of empirical studies (with a number of co-authors) to show how relation-specific assets can produce relational rents (Dyer, 1996), knowledge-sharing assets can produce relational rents (Dyer & Nobeoka, 2000; Dyer & Hatch, 2006), and effective governance (specifically "goodwill trust") can produce relational rents (Dyer & Chu, 2002).

We have also shown that firms do indeed develop relational capabilities that increase their ability to generate relational rents (Kale, Dyer & Singh, 2002). In addition, we have outlined the conditions under which firms should choose an alliance versus acquisition as a vehicle for accessing critical resources that reside outside the firm (Dyer, Kale & Singh, 2004). Finally, we have examined how relational rents are divided (how the "pie" is split) among collaborating partners (Dyer, Kale, & Singh, 2008).

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Dr. Jeff Dyer & Dr. Harbir Singh's most-cited paper with 561 cites to date:

Dyer JH and Singh H, "The relational view: Cooperative strategy and sources of interorganizational competitive advantage ," *Acad. Manage. Rev*. 23(4): 660-79, October 1998. Source: *Essential Science Indicators* from Thomson Reuters.

Additional Information:

Dr. Harbir Singh is featured in ISIHighlyCited.com

Keywords: relational view, interorganizational competition, relation-specific assets, knowledge-sharing routines, complementary resources, complementary capabilities, effective governance, interfirm cooperation, management.

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