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Interconnected firms' relationships as a source of a competitive advantage

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The mainstream economy poses the opinion that a competitive advantage lies in resources, and, consequently - in competences as well - being a share of a single company and remaining under its sole control. Recently, some researchers (e.g. Castaldo, 2007; Lavie, 2006) have revised that approach and tend to emphasise the role of other sources of competitive advantage in business strategy, which embrace new, intangible assets. Such assets are being born and developed only within the inter-firm relationships built in network environment. Thus, the presented paper focuses on relational-based approach towards gaining relational rent. It aims at discussing the sources of an appropriated relational rent and, presenting - after Lavie, a new types of rent extracted from alliance networks. Next, the author presents some empirical evidence from healthcare market in Poland. Inter-organizational relations represent the central level of analysis of the achievement of relational competitive advantage. Empirical results indicate the crucial role of trust and commitment in the market relationships. They are the key success factors which enable the service providers to build a differentiated market position. The researched organizations pose effective communication between the parties of the relationship and the satisfaction resulting from the mutual respect and recognition as the components of value offerings.

JEL Classifications: M10, M31, I11

Keywords: Enterprise, relationship management, competition, relational rent, partnership.

Introduction

Intensification of competition has undoubtedly been the most important economic process of the 90's. As a result managers face wide and deep changes in the status and the direction of the tools of market competition. Classic instruments, like quality or technology, are no more enough to compete and gain the competitive advantage. Therefore, there are needs for search for new tools in this area, and to propose the guidelines of an approach to meet theses needs. The aim of this paper is to discuss the relation-based sources of competitive advantage and to propose the guidelines of an approach to meet these needs.

The theoretical background of the competitive advantage

The competitive advantage in the XX century

The sources of economic rents and maintenance of competitive advantage have received considerable attention in the economic literature for years, just to mention the works by Penrose (1959), Porter (1980) or Slater (1996). A way to achieve a business competitive advantage is implementation of such competition strategies, which could ensure the company a better position in the market. Competition strategy is thus a process of accumulation and effective utilization of rent generating resources. Such rent categories, like cost leadership or unique sales position, will be classified as classic. As Baden-Fuller and Stopford (1994), as well as Thwaites et al. (1998) argue, the contemporary, dynamic environment requires a happy connection of a cost-based and distinctive-attribute-based positions. Taking a competitive position implies investing in the organization's resources and abilities.

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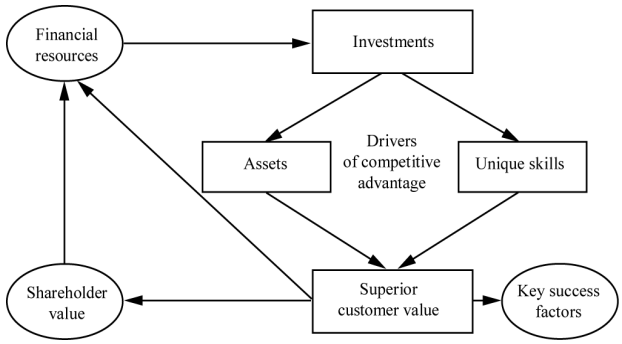
The years 1970's and 1980's of the 20th century, at least on the North-American and West-European markets, represented struggle for taking a market position based on a unique products, which could be well distinguished among the competitors' offer, or for settling in an attractive niche. The primary focus of creating and maintaining competitive advantage over rivals in the 1980's was still achieving a cost or differentiation position. In order to achieve such an attractive position a company should be able to execute the necessary discrete activities, in a more effective and/or more efficient way than its rivals (Matthyssens and Vandenbempt, 1998). Additionally, a superior performer possesses not only an attractive position, but also unique and hard to imitate resources. Competitive strategy thus becomes the art of nurturing, accumulating and deploying rent-yielding resources, rather than a sole focus on deceiving one's product-market competitors or erecting entry barriers (Foss, 1996). Figure 1 displays a model of competitive advantage.

FIGURE 1. COMPETITIVE ADVANTAGE: SOURCES AND CUSTOMER VALUE



Source: Matthyssens and Vandenbempt (1998, p. 341).

The 1990's, whose key characteristic was progressive globalization, brought about homogenization of market offers, and, consequently, a change of perspective of competitive advantage building. A distinct turn towards the intangible resources of the company in the form of its peoples' competence and abilities can be seen in studies and works by Hamel and Prahald (1994).

The competitive advantage in the XXI century

The new century's theoretical ideas strongly expose the role of values underlying the widely-understood relationships as foundations for building a durable and long-term competitive position. This gets close to the network approach, which has to be linked to the industrial marketing and purchasing group (IMP), as developed by Scandinavian researchers still in 1990's (Anderson at al., 1994). Their work resulted in a transcription of the social exchange perspective and social interaction network to the standards of business relationships and networks, where the latter are defined as a pattern of at least two interchangeable relations between companies being partners in certain business. A dyad of this type becomes a part of the network, and the company's position in this network is determined by interactions and connections with its partners, as well as by capital, social and personal connections. The network approach stresses the issues of duration and stability of relations, which drew attention of some contemporary researchers of sources of competitive advantages. The issue of value in relationships and its role at building a durable competitive position among networks of interconnected market entities is discussed also by an interdisciplinary stream (Easton and Araujo, 1994; Gulati at al., 2000). Their opinion is based on the assumption that interchangeable processes are involved in social relationship material and the economic exchange cannot liberate itself from the

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burden of non-economic exchange, such as friendship, courtesy or other sociologic factors. Therefore, studies on social constructs accompanying the market exchange are a key to identification of factors conductive to emerging relationships themselves, but to creation of competitive position in a long-term perspective. A synthetic section of a three-stage approach to creation of competitive advantage is presented in Table 1.

TABLE 1. THE EVOLVING FOCUS OF STRATEGY

	Competition for products and markets	Competition for resources and competencies	Competition for relational value
Strategic objective	Defensible product-market position	Sustainable competitive advantage	Continuous self-renewal and value creation among stakeholders
Major tools	- industry analysis - competitive analysis - market segmentation and positioning - unique product	- core competencies - resource-based strategy	- vision and value - flexibility and innovation - front-line entrepreneurship and experimentation
Perspectives	Strategic planning	Networked organization	Cooperation in networked organisations
Competition scope	Competition among companies	Competition among companies	Competition among networks of companies
Key strategic resource	Financial capital	Organizational capability	Human relations and inter-organizational relations

Source: Based on Bartlett and Ghoshal (2002, p. 35), Mathyssens and Vandenbempt (1998, p. 341)

A relation-based approach to creation of competitive advantage is sometimes called the third leg in strategy theory (Contractor and Beldona, 2002). The starting point is here polemics with a management-established resource-based view (RBV). This strategic approach discusses how companies gain above normal competitive advantage. It assumes that competitive advantage deals with resources owned and controlled by a single company. The RBV suggests moreover, that resources enable the generation of economic rents and quasi-rents and name four characteristics of resources essential for gaining sustainable competitive advantage, e.g., value, rarity, imperfect imitability, and imperfect substitutability (Barney, 1991). Barney's formulation of the RBV highlights the role of the resources as all types of assets, organisational processes, knowledge, and capabilities. Although the RBV focuses on the sources of competitive advantage that are possessed or controlled by the sole firm, it perceives the meaning of the internal cross-relations. The firm's competitive advantage is influenced by interactions and combinations across internal resources of the company. Thus, the business competitive advantage can be understood as a function of the combined values and rarity of all company resources and resource interactions (Lavie, 2006). Such a competitive advantage lies within the mutual trust and commitment of alliance partners.

As discussed above, the trust resource concept has highlighted the role of trust-based relationships in gaining a truly competitive advantage. It has been also recognised in the literature on social capital (Lin et al., 2001; Nahapiet and Ghoshal, 1998). All authors fully acknowledged the value the company should attribute to its capacity of developing relationships and network-specific intangibles. In particular, Dyer and Singh (1998) point out how competitive advantage resources depend mainly on the firm's relation-specific investments, the definition of complementary resources, the regular sharing of knowledge developed at an inter-organisational level, and the efficiency of governance mechanisms. They favour the self-enforcement governance mechanisms over systems based on the presence of third parties and pay their attention on informal mechanisms. The former ones are based on trust and reputation. They represent true relational resources and

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cannot be developed on a short-term basis. More specific, the following mechanisms characterise the relational resources and safeguard their rent (Dyer and Singh, 1998):

- inter-organisational assets interconnectedness;
- partner scarcity;
- resource indivisibility;
- complexity of the institutional environment.

Once the firm explores the sources if relational rent, it must define the models that support the defence of the relation-based competitive advantage.

Sources of relational rent

Sources of appropriated relational rent

The resource-based approach ignores the fact that the sources of this advantage are often deeply embedded within a network of firm relations. As a consequence, resources inherent to inter-firm network relations are called network resources (Gulati, 1999), and the economic rent derived from these relationships can be named relational rent.

Relational rent is derived from relation-based assets, knowledge-sharing routines, complementary resources, and effective governance mechanisms (Lavie, 2006). It can be extracted only from resources that are intentionally committed and jointly possessed by the interconnected firms. Thus, it involves the shared resources of the focal company and its partner. As suggests Lavie, the contribution of the relational rent to alliance partners' outcomes depends on the total value of theses shared resources. There are several factors that determine the proportion of relational rent appropriated by the sole company (Lavie, 2006):

- relative absorptive capacity - it is a key learning capacity that measures a company's ability to identify, explore, assimilate, and exploit external knowledge;
- relative scale and scope of resources - they affect the potential for appropriation;
- contractual agreement - it specifies the framework of the alliance/cooperation, proprietary information rights, review, arbitration, and termination clauses;
- relative opportunistic behaviour (like tendency to cheat or detect form mutual agreements) - occurs due to the fact, that contracts are incomplete and cannot specify all possible, future developments;
- relative bargaining power - it complements relative learning skills in determining rent appropriation in inter-firm relations.

Followers of the relation-based approach argue that sources of competitive advantage in the market go beyond an individual organization and encompass a network of relationships created in the business (Gulati et al., 2000). This is the value created in a business links constellation, which is a more durable source of competitive advantage, comparing to attributes of an individual company. In consequence, we can talk of cooperation-driven key competences on the market of network interrelations. From this perspective, a business relationship network - not a single organization - becomes the basic level for analysis.

The core of relational competitive advantage lies within the capability of generating above normal profits out of inter-firm relationships. Such an inter-organisational rent cannot be generated by one of the participating company alone, but only within the scope of the joint contributions of the specific partners of cooperation (Duschek, 2004). The relational rent appears when among network partners there is an exchange of physical and intangible resources and investing in inter-firm resource relations. Then, transaction costs are reduced and the value added is generated by a synergic combination of material and immaterial resources. This view is close not only to the network-based approach, but the social capital ideas too (Gulati et al., 2000; Lee et al., 2001). Mutual trust and commitment, and, thus, durability of the relationships (here: the business ones) become the contemporary dominant characteristics of market organisation' competitive advantage.

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Within the relational view there are four potential sources of inter-firm based competitive advantage, which arise due to cooperative relations among companies (Duschek, 2004): relation-specific resources, knowledge-sharing routines, complementary resources/capabilities, and effective governance.

Types of rent derived out of a partnership

Apart from appropriated relational rent, which can be derived only from the shared resources of both partners in the relations, Lavie (2006) distinguishes also three other types of rent - namely, (1) internal rent, (2) outbound spillover rent, (3) and inbound spillover rent. As a consequence, the competitive advantage of a company participating in network relationships corresponds to theses four types.

Internal rent can be extracted from the focal firm's own resources and depends on positive and negative complementarities with the shared and non-shared resources of its alliance partners. The classic economy focuses on the internal rent which results form scarcity of resources. However, when considering interconnected firms, the inter-firm resource complementarities should be incorporated.

TABLE 2. SOURCES OF RELATIONAL COMPETITIVE ADVANTAGE

Sources of inter-organisational competitive advantage	Brief description	Examples
Relation-specific assets	Co-specialised resources make specific investments of alliance partners possible	- Human asset specificity - cooperating partners gain mutual experiences in specific production stages and thereby establish a common language, knowledge and routines, which represent more efficient communication structures - Site specificity - allows for specific differences in production procedures that are expressed in economies of scope; sequenced stages of value chains are placed spatially close to each over
Knowledge-sharing routines	Sustainable learning and problem-solving capacities of cooperating firms	- Network partners represent the most important sources of unique ideas, which then result in product and process innovations
Complementary resources and capabilities	Distinctive network resources which create a competitive advantage through joint, synergic cooperation between the network partners that is larger than the sum of individual advantage which would have been achieved by the individual company used of resource stocks	- Compatible decision-making processes - Information and control systems in the structure of inter-firm relations
Effective governance structure	Important element, which minimises transaction costs, and maximises transaction values	- Utilisation of self-enforcement governance mechanisms, and informal self-enforcement governance structures, which contribute towards trust building

Source: Based on Duschek (2004, pp. 63-64).

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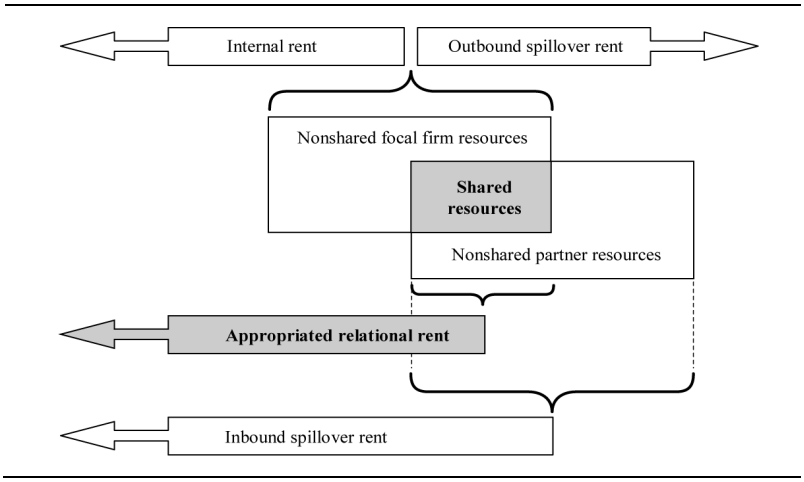
FIGURE 2. SET OF RENTS DERIVED BY THE FOCAL FIRM IN A PARTNERSHIP



Source: Lavie (2006, p. 644).

In most cases, the resources of the focal firm are subject to unintended benefits that are shared by all partners in the run. This is the impact of outbound spillover rent. Unlike other rent types, outbound spillover rent results from the transfer of benefits form the focal company to the partner.

Another type of private benefit is derived from network resources of inter-related companies. This inbound spillover rent is usually associated with horizontal alliances among competitors that enter into strategic partnership (Lavie, 2006).

Figure 2 depicts the composition of rents that the firm derives form the shared and non-shared resources of a dyadic relationship.

TABLE 3. A FRAMEWORK OF RELATIONAL RESOURCES

	Internal relational resources		External relational resources
	Resources for the production of internal knowledge (e.g. absorption)	Resources for the production of external relationships resources (e.g. key accounting)	Relational resources located outside the firm (trust)
General and firm-specific level	General capability of knowledge absorption	General sales management and key accounting competencies	Firm's image and reputation
Situation- and relation-specific level	Comprehension of a specific partner-customer's routine knowledge production	Capability of managing the relationship with a specific customer	Trust in a single partner

Source: Castaldo (2007, p. 36).

In-house relational resources and external interface resources

Apart from the discussed above (Figure 2) composition of rents from the perspective of the focal company, some authors (Vicari, 1991; Castaldo, 2007) suggest a differentiation useful to clarify the firm's relational resources. It is based on the location of such assets,

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which can refer either internal dimension of the company or the relationship (external dimension).

They might be also treated as in-house relational resources generating new knowledge (this first type is classed as internal interface resources) from those which let external trust resources develop (named external interface resources). On the other hand, relational resources might be rooted in external subjects, and are classed as external relational resources (Table 3).

Within the above framework, it is crucial to stress the difference between knowledge-generating resources and external interface resources. The previous one mostly absorb knowledge deriving from outside, and the former one - refer relationship management and third parties' trust development.

Competitive advantage based on relationship's sustainability - some empirical evidence

The methodology of the empirical study

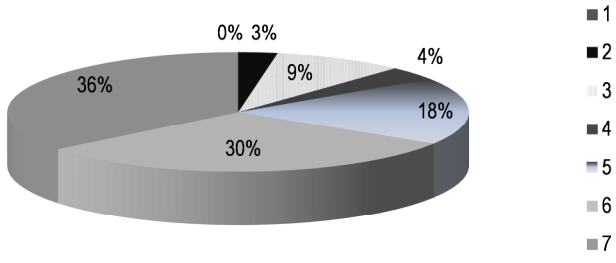
The purpose of the empirical study was to evaluate sustainability of relationships in the exampled institutional market. The sample of 109 firms representing healthcare sector was derived using Polish Yellow Pages. In particular, researched sample constitutes organisations representing and subscription health services, spa services, diagnostic services, labour medicine, pharmacy sector and medical equipment and apparatus supply.

An explanation research model was prepared, including some key (for sustainability of relationships) components, such as trust, commitment, communication and satisfaction in the dyadic "buyer-supplier" relationship. For all components of the model some dimensions were determined, as defined by 32 statements, in order to evaluate durability of relationships created by them with institutional market partners. All statements underwent an evaluation against the Likert 7-point scale, where 7 represents a total agreement with the statement, and 1 represents a total lack of approval of the contents articulated in the statement. The study, which was conducted in 2007, involved 109 people representing managing staff of some drawn companies.

The competitive strategy in the researched organizations

The firms inquired expressed clear opinions about the competitive environment, indicating that they were trying to meet their customers' needs and satisfy their preferences better than anyone else (Figure 1). The lack of identification of competitors and not using a benchmarking were confirmed by a tenth polled manager only. A big majority of the medical care managers (66% of respondents) opted for a subjective - based on understanding of customers' needs - building of market competitive advantage.

FIGURE 1. CUSTOMERS' NEEDS AS THE BACKGROUND OF THE CORPORATE STRATEGY
Answers to question: "Our strategy focuses on gaining competitive advantage based on understanding needs of our clients"



Source: Based on own primary research.

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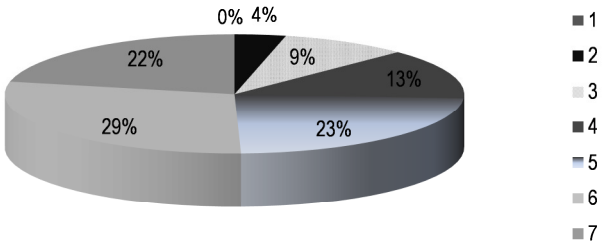
FIGURE 2. COMPETITIVE STRATEGY BASED ON MARKET TRENDS
Answers to question: "We follow market trends in order to develop our competitive strategy"



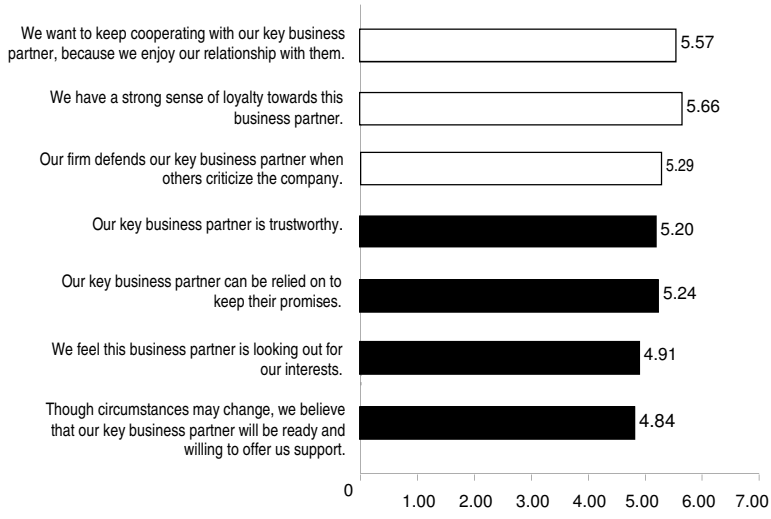
Source: Based on own primary research.

Environment imposes adaptation steps upon the entities. It can also serve as a benchmark for defining key factors of success. That is the case with half of the entities enquired (indications 7 and 6 in Figure 2). Their managers identify tendencies in the macro-surroundings in order to manage their organizations more efficiently. They are aware of how important it is in their strategies to take account of such phenomena as specialization or standardization in health care.

Trust and commitment in the researched relationships

Sustainability of a relationship is a derivative of the trust the partners have to each other. Trust in relationships depends upon many variables, among which the most important ones are: effective communication between the parties of the relationship and the satisfaction resulting from the mutual respect and recognition.

FIGURE 3. LEVEL OF COMMITMENT (WHITE COLUMNS) AND TRUST (BLACK COLUMNS) IN THE RESEARCHED RELATIONSHIPS



Source: Based on own primary research.

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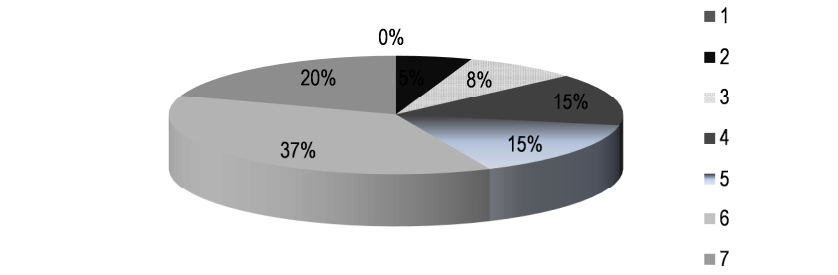
FIGURE 4. DECLARATION OF CHOOSING THE SAME BUSINESS PARTNER IN THE FUTURE
Answers to question: "If we were to choose our key business partner once again, we would not hesitate to select the current one"



Source: Based on own primary research.

In this context, the satisfaction refers to a positive emotional condition based on evaluation of the relationship quality made by both parties. This includes evaluation of both the economic and non-economic aspects of the relationship. Then, the parties' commitment is derived from the trust in the relationship, where for building values in the relationship only the affective commitment is important. The other type of a commitment is calculative one (Wetzel at al., 1998).

The source of affective commitment is an emotional predisposition to remain in the relationship. The study conducted confirms co-occurrence of these phenomena: trust and commitment to the relationship. The mean for both groups of statements (group 1- level of trust in the supplier-buyer relationship, group 2 - level of commitment to this relationship) is relatively high - evaluating the level of trust and commitment to the relationships with their key partners in business, the respondents indicated 4.8-5.6 in the 7-degree Likert scale (Figure 3).

The variables presented above are key determinants of durability of relationships created by market entities. Rent of position of interconnected enterprises in a network results from the fact of formation of a number of bonds difficult to reproduce in the case of a market exchange deprived of relation-based attributes, or transactional exchange. In particular, this refers to a bond based on knowledge, built on communication in a network of partners maintaining mutual relationships, as well as an ethical bond. The latter refers to a system of norms and value respected by all entities involved, being an informal code of conduct in the network of relations. Bond of this type makes for barriers to exit the relations.

The examined healthcare market firms presented an ability to build relatively durable relations in business networks, which was proven by the willingness to declare relationships with a key partner at half of the enquired (indications 6 and 7 in the 7-degree scale - Figure 4). It needs to be emphasized that the market concerned belongs to the most unstable and unpredictable ones in Poland, which adds up to the meaning of the B2B relationships based on the partner's mutual trust.

Conclusions

Sources of competitive advantage and rent have changed under the impact of globalisation and intensification of competition. Its main features affecting economic rent are new technologies in methods and equipment, changes in the size and scope of operational units and insecurity of the market environment. The main implications for competition involve greater significance of the market relations, greater potential for cooperation

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development in the dyadic relationships and more drivers of trusty behaviours in such relations.

To recapitulate, it can be said that the studies on achieving competitive advantage, the presented in the paper, can be treated as a promising area for integration of the relation-based view and the competition theory. Cause-and-effect relations among such variables, like the value in a relation or the competitive position, will require more in-depth studies.

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