

Ambidextrous Effects of Relational-specific Investments in the OEM Transactions

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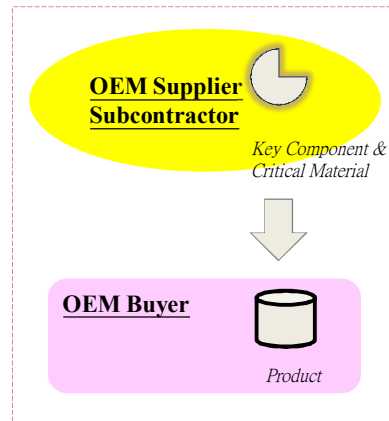
Question

- Why does Original Equipment Manufacture (OEM) suppliers choose to invest in relational-specific assets dedicated for foreign brand buyers without economic safeguards.

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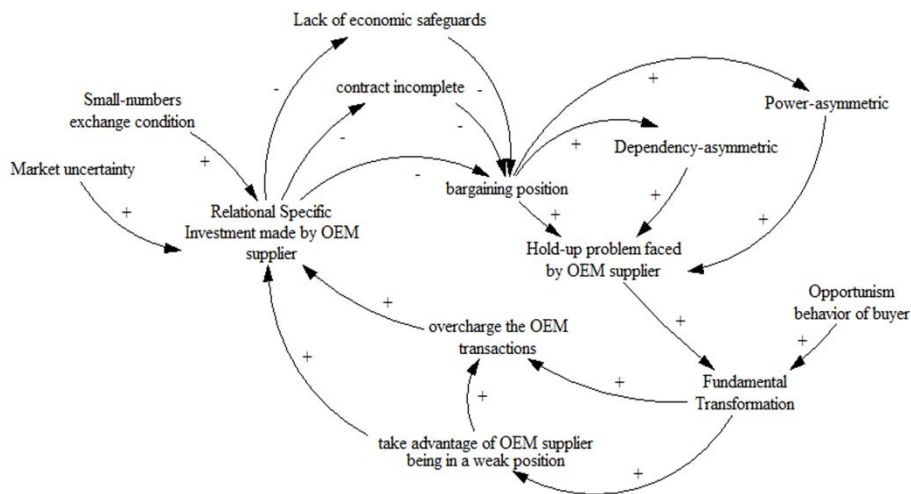
Relational-specific Investments, RSA

- The small-medium size OEM supplier with limited resources commonly makes investments in
 - tangible assets such as tools, equipment, as well as
 - intangible assets include operating procedures, systems, and project team,
 that are specialized to the requirements of an OEM contract to fulfill production specification and quality stands.



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Holdup Hazards in Transaction Costs



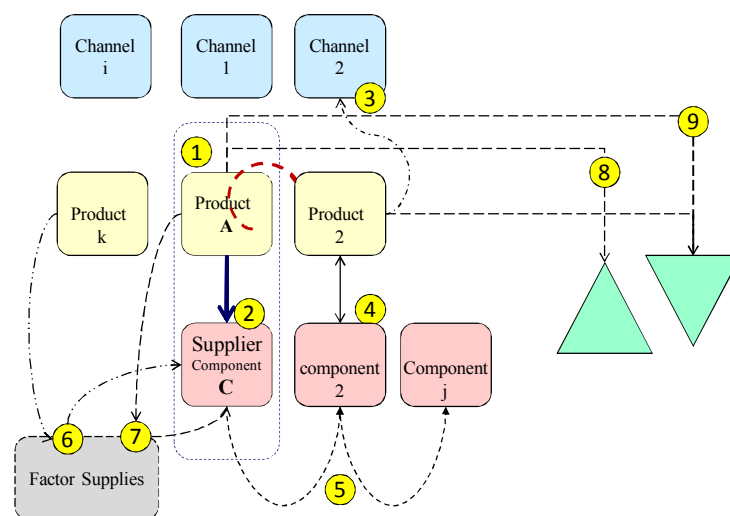
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Main Argument

- *the ambidextrous strategies* adopted by Taiwanese OEM suppliers to initiate simultaneous *both explore and exploit effects* on their capability and transaction value in vertical transaction structure by exerting relation-specific investments in dependency-asymmetric OEM-supplier transactions.

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Main Argument



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Organizational Adaptation: *both exploration and exploitation*

- Exploitation
 - the refinement and extension of existing competence
 - *search, variation, experimentation, and discovery*
- Exploration
 - experimentation with new alternatives
 - *refinement, efficiency, selection, and implementation*

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Organizational Ambidexterity

- *An individual's ability to use both hands with equal ease*
- *the ability of a firm to simultaneously*
 - *Explore: "a pursuit of new knowledge", &*
 - *Exploit: "the use and development of things already known"*
- *organizational adaptive behavior*
 - *"the basic problem confronting an organization is to engage in sufficient exploitation to ensure its current viability and, at the same time to devote enough energy to exploration to ensure its future viability"*
- *Trade-off or Balance* between align organization to exploit existing competencies and exploring new ones

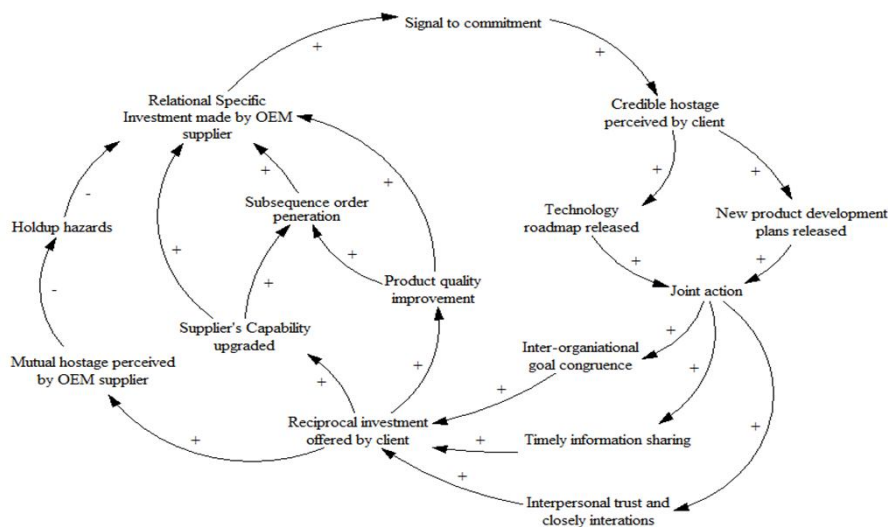
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Ambidextrous Effects of RSA

- collaboration with partners facilitates learning
 - *by accessing new knowledge residing outside a firm's boundaries, &*
 - *by collaboratively leveraging existing knowledge with partners.*
- The RSA invested by OEM supplier may become voluntary arrangements and noteworthy vehicle for exploration and exploitation *involving exchange, sharing, or joint development or provision of technologies, product or services.*
- ***Both spillover effects of knowledge & reputation lead OEM suppliers rely on unilateral relational-specific investments to gain orders from clients (Kang, et al. 2008)***

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Exploitation effect of relational-specific investments



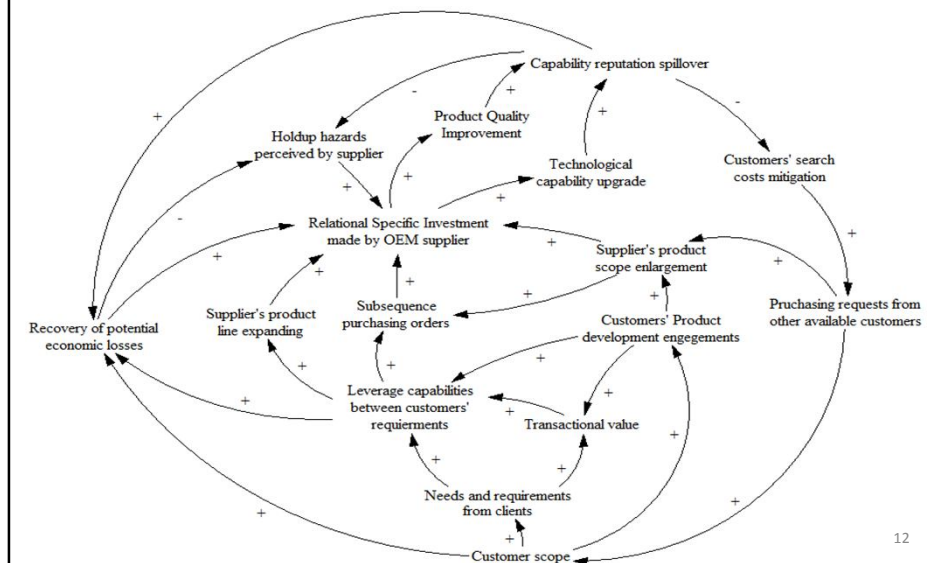
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Exploitation Effect of RSA for OEM supplier

- enable the supplier to develop dynamic capabilities to combine the requirements of product quality and needs of services from other buyers over time
 - The strategic resources of timely information and superior technological knowledge acquired from the customers can be leveraged in dealing with their parties.
 - It can be recovered the economic losses by complementing from transacting with other customers.
 - In anticipation of customers' product development strategy, OEM supplier can expand its produce and services following prospected customers' needs for securing subsequent orders.
 - The technological knowledge flows through the ambidextrous organization design enable OEM supplier accelerate operation efficiency and effects of economics of scope
 - explore a broader customer scope
 - reduce the search costs for international brand buyers to look for potential contract manufacturers.
 - easier to approach other international brand buyers.

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Exploration effect of relational-specific investments



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Exploration Effect of RSA for OEM supplier

- upgrading manufacture technology and knowledge by making RSA for clients
- *showing signal of commitment* to protect technological know-how and reducing anxiety that current supplier may become tomorrow competitor
 - Whenever an OEM supplier makes such unilateral investments increases its reliance on its client, and thus will enter into a subordinate bargaining position that might be exploited by the client. (*The Dependence-Asymmetric Situation*)
- The mutual commitment offered by clients provides OEM supplier another safeguard to secure their specific-asset investments.
 - the RSA made by OEM supplier can initiate an economic hostage effect to trigger a reciprocal investment and mutual commitment made by international brand buyers, such as subsequent purchasing orders or next-generation product roadmap releasing.
- With making more RSA investments, an OEM supplier has opportunities to deepen bilateral timely information sharing and to bond each other in multiple product development projects.
 - bilateral intensively joint actions reshape transactional structure into mutual hostage situation, which will provide the international brand companies willing to release subsequence product development roadmap and follow-up orders.¹³

Modeling by combining Case Studies & Inductive Casual-Loop Diagram

- Building theory from case studies
 - create theoretical constructs, propositions and/or midrange theory from case-based, empirical evidence (Eisenhardt, 1989)
 - replication logic (Yin, 1994) using multiple-case studies
 - by interviewing five Taiwanese OEM suppliers
 - Following firm case studies used to develop variables which have significant explanatory power and are intimately tied to the field data.

Taiwanese OEM supplier case studies

Company	MM*	WTS*	KS*	HG*	LF*
Major Product	Infant playing pans, car seats and strollers	Notebook computer	Power supply for personal computer & telecom products	Animation films and series	Men's footwear
Major buyers	Global channel brand, & distribution brand	Global channel brand, distributor brand, & local channel brand,	Dell, IBM, HP, Cisco	Warner Brothers, Walter Disney, Nickelodeon	Hush Puppies, Clarks
Average share of total sales (%)	99	60, 15, 10, 10	30, 20, 10, 10	25~30, 25~30, 10	60, 40
Years of business relationship	20	7, 3, 3, 2	8, 6, 3, 2	20, 10, 10	20, 5
Production Location	Taiwan & China	China	China	Taiwan & China	China
Type of relational-specific investment	Tooling machine, Information System, Individual team	Tooling machine, BIOS design	Safety spec, JIT system, warehouses	Animation producing software and toolkits	Tooling machine, dedicated design room
Position of informant	President and CEO	CEO	Marketing vice president	CEO	Consultant
Length of interviews (hours)	2	2	4	3	3

Modeling by combining Case Studies & Inductive Casual-Loop Diagram

- Developed for building theoretical reasoning
- Starts with developing, through verifiable process, the central variables using grounded theory methods (Strauss, 1987), and then mapping the explicit inference drawn from the data analysis through causal loop diagrams (Burchill and Fine, 1994, 1997)
- Articulate the underlying structure and theory by ICLD into an inductive system diagram for validating the data and investigations are consistent with logic flow and abstraction levels (Burchill and Fine, 1994: 25)