

ABSTRACT

In original equipment manufacturer (OEM)-supplier relationships, OEM suppliers commonly make investments that are specialized to the requirements of a particular buyer. Taiwanese OEM suppliers are small-medium firms with limited resources and low in market visibility. They are initially in a weak bargaining position, so they have no ability to vertical integrate or demand any kind of *ex ante* safeguards at all. Knowing that clients may have opportunistic behaviors, suppliers in Taiwan still make relation-specific investments for them without their commitments. How do these suppliers governance the asymmetric interorganizational relationships to avoid falling into the trap predicted by the transaction cost theory?

This study takes the view of a supplier, the small party in asymmetric OEM-supplier relationship, who adopts *ex post* strategies to create inter-organizational dependency with OEMs. According to transaction cost theory and power dependency theory, we argue that OEM suppliers are more likely to make relation-specific investments first and follow by *ex post* strategies. We model the *ex post* strategies adopted by OEM suppliers to protect specific investments in asymmetric OEM-supplier relationships by using leveraging strategy (resource acquisition, customer scope) and bonding strategy (vertical scope, joint action). Leveraging strategies will lower the level of suppliers' dependence on OEMs while bonding strategy will increase the level of OEMs' dependence on suppliers.

We conducted three studies to explore the issues: (1) exploratory case research; (2) scale development of the construct of relation-specific investment; (3) survey research. First, we found that investment decision of small party is beyond the scope of a single transaction. After making

relation-specific investments, OEM suppliers redeploy their resources and work closely with their buyers to maintain existing and future transactions. They also acquire strategic resources from OEMs and apply them to a broader customer base.

Second, the concept of relation-specific investment is a multidimensional construct with three sub-dimensions as tangible investment, intangible investment, and asset specificity. Relation-specific investments create an inherent dilemma because they have the potential both to promote and reduce transaction cost for investing parties.

Third, we integrated two theories to explore the relationships between relation-specific investment, *ex post* strategies, and dependency. According to survey results of 146 OEM suppliers in Taiwan, we confirmed the positive relationship between suppliers' intangible asset investment and their dependency on OEMs. However, if suppliers leverage their clients' reputations and reposition themselves as first-tier suppliers, they can lower the level of suppliers' dependency due to their relation-specific investments. On the other hand, the more relation-specific investments suppliers make, the more likely suppliers would adopt bonding strategy by expanding vertical scope in supply chain and by actively involving in joint decision making. We found that relation-specific investment itself and suppliers' bonding strategy will increase the OEMs' dependency on suppliers.

Keywords: relation-specific investment, OEM, *ex post* strategy, dependency, asymmetric inter-organizational relationship (IOR)