




Role of organizational learning in strategic alliance


Ligang Yan

Department of Technology Economics and Management
School of Economics and Management
Tsinghua University, Beijing, China

 yanlg@em.tsinghua.edu.cn

 + 8610 6277 8038

 + 8610 1362 106 4555

 + 8610 6278 4544

Prepared for 2004 Globelics Academy PhD School

Role of organizational learning in strategic alliance

ABSTRACT

There are two main streams of research related to alliance performance. From economic sociology perspective, relational capital is the dyadic factor determines alliance performance. Strong relational capital leads to good alliance performance. From organizational learning theory or competence-based theory perspective, alliance capability is the firm's ability to achieve good alliance performance. This paper introduces organizational learning as the intermediary of relational capital and alliance capability. In addition, this paper identifies four dimensions of alliance capability confined to organizational learning.

KEY WORDS: Relational capital, organizational learning, alliance capability

INTRODUCTION

Why some alliances are more successful than other alliances. This is a question confusing not only managers but also researchers in fields related to organizational science. Traditionally, researchers focus on the dyadic relationship between alliance partners when they solve the problem. Transaction cost economists think that the problem can be solved through ex ante commitment to alliance partners. The investment reduces the possibilities of opportunism. But they only highlight the opportunism of alliance partners and simply take contractual agreements or governance structures as a method to solve it (Gulati, 1995). They ignore the role of trust between alliance partners. Economic sociology takes the relationship characteristics as key elements to interpret the differences between alliances. They pay attention to behavioral factors (Duysters et al., 2002), such as trust and commitment. Some researchers refer to them as relational capital (Kale et al., 2000). Some researchers from evolutionary economics and organization learning theory and competence-based theory care about the internal characteristics of alliance partners more than the dyadic relationship between them. They focus on the resources which are hard to buy and imitate such as managerial process, tools, and routines (Dierickx, 1989; Khanna et al., 1998). These are special resources embedded in organization, they are hard to transfer and can enhance the productivity of other resources owned by organization, just as the capability defined by Makadok (2001). They are referred to as alliance capabilities by some researchers. Alliance capabilities are rare, valuable resources which are hard to imitate at firm level (Gulati, 1998; Kale et al., 1999; Dyer et al., 2001). They can be used to interpret different alliance performance.

Duysters et al. (2002) defines alliance capabilities as a firm's set of micro-level mechanisms that seek to optimize the ex ante resource deployment and asset commitments in its alliances. They can enhance firm's capability to identify partners, initiate relationships or rebuild an alliance (Spekman, et al., 2000). Draulans et al. (1999) defines alliance capabilities as the ability of an organization to manage alliance

successfully. It only becomes valuable if it is widely embedded in the organization and is continually upgraded. This paper defines alliance capability as dynamic capability embedded in organizations and hard to buy and imitate. It has four dimensions: receptivity, absorptive capability, integrative capability and innovation capability.

Both economic sociology and organizational learning theory, competence-based theory can interpret the different alliance performance. The former puts forward relational capital, the latter uses alliance capability. But what is the relationship between relational capital and alliance capability? This paper introduces organizational learning to illustrate the relationship between them.

The paper will give the big picture of the relationship in the following contents. Then I will present the relationship between relational capital and organizational learning, the organizational learning and alliance capability respectively.

ORGANIZATIONAL LEARNING AS INTERMEDIARY OF RELATIONAL CAPITAL AND ALLIANCE CAPABILITY

Strong relational capital facilitates organizational learning. Effective organizational learning will enhance firm's alliance capability. A firm with strong alliance capability can conduct organizational learning more effectively and at the same time deal with relationship with alliance partner better. Thus, the firm with strong alliance capability can build more relational capital.

Figure 1

RELATIONSHIP BETWEEN RELATIONAL CAPITAL AND ORGANIZATIONAL LEARNING

Relational capital refers to mutual trust, respect and friendship that reside at the individual level between alliance partners (Kale et al., 2000). Strong relational capital usually engenders close interaction between alliance partners, based on which alliance partners are able to conduct organizational learning, strong relational capital also provides effective channel for organizational learning.

Strong relational capital is basis of organizational learning.

Strong relational capital makes aged alliance possible. That is, mutual trust, respect and friendship will lead to long time cooperation. The longer the alliance lasts, the more organizational learning will be conducted. At the same time, although the possibilities of core proprietary lost to partner increases, the opportunism of alliance partner will be lowered down.

Strong relational capital enhances attitudinal commitment. Attitudinal commitment is a kind of emotional or affective component. It means alliance partners have high psychological identification to the cooperation relationship; they want to contribute a high level of importance and foster the relationship (Cullen et al., 2000). This attitudinal commitment will also provide basis for effective organizational learning.

Because of the inherent dependencies of alliance partners, the conflict is hard to avoid (Borys et al., 1989). The conflict management is important. It will have a productive or destructive influence to alliance relationship (Deutsch, 1969). Under strong relational capital alliance partners make decision from a win-win perspective. This

reduces conflict between them. Although the conflicts happen, alliance partners will respond to them quickly. This effective conflict management creates a stable environment which facilitates organizational learning. Alliance partners need not to worry about organizational learning from partners will be interrupted by conflict between them.

Strong relational capital provides effective channel for organizational learning.

Strong relational capital usually engenders close interaction between alliance partners. They can communicate with each other effectively under strong relational capital. Thus, it can facilitate exchange and transfer of information and know-how. That is, alliance partners can learn effectively from each other. In addition, firm needs to know where the knowledge they want to learn is in partner firm (Dyer and Singh, 1998). That is, which department or which manager, technician owns the knowledge they want to learn. Close individual interaction engendered by strong relational capital is helpful. Von Hippel (1988) shows that individual close interaction between firms is effective mechanism to transfer or learn know-how.

Alliance partners can find organizational fit more sufficiently under strong relational capital. Organizational fit includes compatibility and complementarity. Complementarity between alliance partners refers to the lack of similarity or overlap between their core businesses or capabilities. Strong relational capital helps alliance partners know to what extent they are complementary to each other. The complementarity is positively related to organizational learning across alliance interface (Mowery et al., 1996).

RELATIONSHIP BETWEEN ORGANIZATIONAL LEARNING AND ALLIANCE CAPABILITY

Alliance capability can be considered as rare, valuable resources at firm level which are hard to imitate (Gulati, 1998; Kale and Singh, 1999). Duysters (2002) defines alliance capability as a firm's set of micro-level mechanisms that seek to optimize the ex ante resource deployment and asset commitments in its alliances. When we confine alliance capabilities to organizational learning field, this paper identifies four dimensions of alliance capability. They are receptivity, absorptive capability, integrative capability and innovation capability.

Figure 2

There is positive feedback loop between organizational learning and alliance capability. Organizational learning based on strong relational capital makes alliance partners know about each other and respect each other. Firm is possible to find the advantages of partner and know what is worth learning from partner.

From organizational learning perspective, there is a sequential order among the four dimensions. To what extent knowledge from outside is utilized by organization? The answer is determined by them.

The four dimensions or the four capabilities are not isolated, but interdependent and overlapped between the former and the latter. For example, receptivity is firm's ability to absorb skills, and absorptive capability also includes firm's ability to assimilate information. But they highlight different aspects. Receptivity focuses more on attitude, that is, the factor stimulates organizational learning such as humility, enthusiasm. Absorptive capability pays more attention to absorbing knowledge or information from partner effectively.

Receptivity is firm's ability to actually absorb skills from its partner (Hamel, 1991). This is the beginning of organizational learning from partner. Humility enhances organizational receptivity, facilitates organizational learning from others. Firm needs to stimulate organizational and individual enthusiasm to learn from partner. Receptivity is organizational capability, or rather organizational attitude. The organizational attitude will enhance receptivity of an organization; on the other hand, receptivity will facilitate organizational learning.

Absorptive capacity is firm's ability to identify, assimilate and exploit information (knowledge) from the environment (Cohen and Levinthal, 1990). At this stage, the capability focuses more on the effectiveness of knowledge assimilation. The contents of organizational learning are the tools for absorbing information. Tools can aid the process of day-to-day management of alliances by increasing know-how of particular stages of the alliance life-cycle or by raising alliance know-how throughout the firm (Duysters, 2002). Thus, organizational learning of tools increases absorptive capability. The enhancement of absorptive capability will also make organizational learning of more advanced tools easily and effectively. There will be a virtuous cycle between them.

Integrative capability is the capacity to merge new knowledge about the impact of possibilities with deep accumulated knowledge of the complex existing capability of the organization (Iansiti and Clark, 1994). It is the ability incorporates information outside into firm's own knowledge pool. Because two firms are independent entities, there will be conflicts between them. The combination is a process in which firm deals with conflicts. The greater the extent to which conflicts are managed in an integrative fashion, the greater will be the degree of learning achieved (Kale et al., 2000). On the other hand, organizational learning enhances the ability to control and management of a firm. Firm can accumulate its integrative capability from organizational learning process. That is, integrative capability and organizational learning improve each other.

Finally, the innovation capability is defined as the skills and knowledge needed to effectively absorb, master, and improve existing technologies, and to create new ones (Lall, 1992). It focuses on the improvement of existing technologies and cares about the creation of new ones. As for alliance, innovation capability is the ability to create its new knowledge in a firm based on the combination of external and internal knowledge. At this stage, experiential learning or learning from within is more important than vicarious learning.

CONCLUSION

This paper combines prior research on alliance performance and puts forward the intermediary to relate them. Economic sociology explains alliance performance by relational capital at dyadic level. Organizational learning theory and competence based theory use alliance capability at firm level to address the problem why some alliance performance is better than others. The relationship between relational capital and alliance capabilities is ambiguous. This paper identifies organizational learning as the factor connecting them.

Relational capital provides basis and effective channel for organizational learning. That is, strong relational capital enhances attitudinal commitment and reduces conflict. It makes aged alliance possible. Firms can communicate with each other effectively and find their organizational fit sufficiently. All these factors provide an external environment for organizational learning and facilitate learning from each other.

Alliance capability is categorized into four dimensions in this paper. They are receptivity, absorptive capability, integrative capability and innovation capability. There are positive feedbacks between the four capabilities and organizational learning

as described above.

FUTURE RESEARCH

This paper introduces organizational learning as the intermediary of relational capital and alliance capabilities, but only takes it as a whole in the analysis. Organizational learning should be divided into different levels or categories. Different levels of organizational learning contribute to different dimensions of alliance capability. What are the details of organizational learning for interpreting relationship between relational capital and alliance capability needs further research.

REFERENCE

- [1] Borys, B.; Jemison, D.B. (1989). Hybrid Arrangements as Strategic Alliances: Theoretical Issues in Organizational Combinations. *Academy of Management Review* 14, 234–249.
- [2] Cohen, W.M.; Levinthal, D. (1990). Absorptive capacity: A new prospective on learning and innovation. *Administrative Science Quarterly*. 35, 128-152.
- [3] Cullen, J.B.; Johnson, J.L.; Sakano, T. (2000). Success through commitment and trust: The soft side of strategic alliance formation. *Journal of World Business*, 35, 223-41.
- [4] Deutsch, M. (1969). Conflicts: productive and destructive, *Journal of Social Issues*, 25, 7-41.
- [5] Dierickx, I.; Cool, K. (1989). Asset stock accumulation and sustainability of competitive advantage. *Management Science* 35, 12, 1504-1511.
- [6] Draulans, J.; Man, de, A-P.; Volberda, H. (1999). Alliantievaardigheid: Een bron

- van concurrentievoordeel. *Holland/Belgium Management Review*, 63, 52-9.
- [7] Duysters, G.M.; Heimeriks, K.H. (2002). Alliance capabilities—how can firms improve their alliance performance? Paper for Sixth International Conference on Competence-Based Management.
- [8] Dyer, J.H.; Singh, H. (1998). The relational view: Cooperative strategy and sources of interorganizational competitive advantage. *The Academy of Management Review*. 23, 4, 660-79.
- [9] Dyer, J.H.; Kale, P.; Singh, H. (2001). How to make strategic alliances work: Developing a dedicated alliance function is key to building the expertise needed for competitive advantage. *Sloan Management Review*, 42, 4, 37-43.
- [10] Gulati, R. (1995). Does familiarity breed trust? The implications of repeated ties on contractual choices in alliances. *Academy of Management Journal*, 38, 85-111.
- [11] Gulati, R. (1998). Alliances and networks. *Strategic Management Journal*, 19, 293-317.
- [12] Iansiti, M.; Clark, K.B. (1994). Integration and Dynamic Capability: Evidence from Product Development in Automobiles and Mainframe Computers. *Industrial and Corporate Change*. 3, 3, 557–605.
- [13] Kale, P.; Singh, H. (1999). Alliance capability and success. Best Paper Proceedings, Academy of Management Meetings. Chicago, IL.
- [14] Kale, P.; Singh, H.; Perlmutter, H. (2000). Learning and protection of proprietary assets in strategic alliances: Building relational capital. *Strategic Management Journal*, 21, 217-37.
- [15] Khanna, T.; Gulati, R.; Nohria, N. (1998). The dynamics of learning alliances: competition, cooperation, and relative scope. *Strategic Management Journal* 19, 3, 193-210.
- [16] Lall, S. (1992). Technological capabilities and industrialisation. *World Development* 20, 2, 165–186.
- [17] Makadok, R. (2001). Toward a synthesis of the resource-based and dynamic-capability views of rent creation. *Strategic Management Journal*, 22, 387-401.

- [18] Mowery, D.C.; Oxley, J.E.; Silverman, B.S. (1996). Strategic alliances and interfirm knowledge transfer. *Strategic Management Journal*, Winter Special Issue, 17, 77-92.
- [19] Spekman, R.E.; Isabella, L.A.; MacAvoy, T.C. (2000). *Alliance competence, maximizing the value of your partnerships*. New York: John Wiley & Sons.
- [20] Von Hippel, E. (1988). *The sources of innovation*. Oxford University Press, New York.

Figure 1 Relationship between relational capital, organizational learning and alliance capability

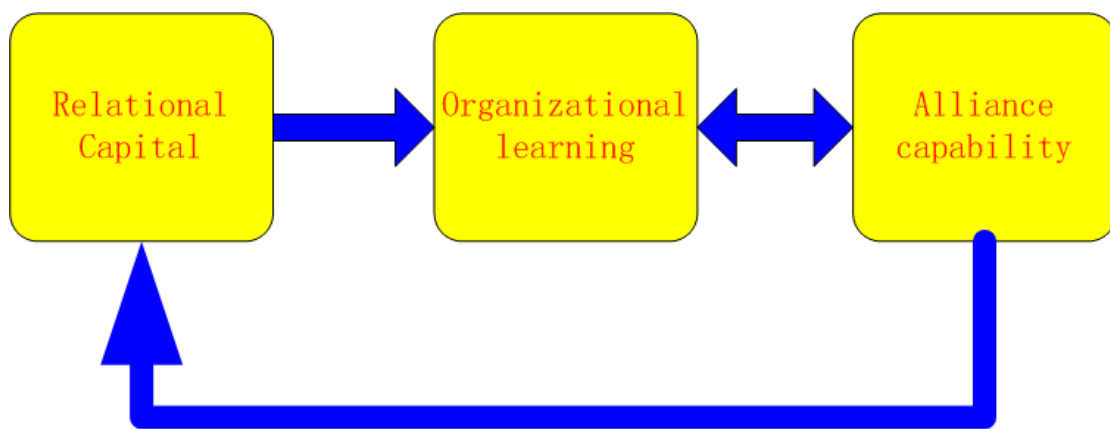


Figure 2 Four dimensions of alliance capability

