Proposition 71
Learning in Strategic Alliances

In a Word Strategic alliances that bring organizations together promise unique opportunities for partners. The reality is often otherwise. Successful strategic alliances manage the partnership, not just the agreement, for collaborative advantage. Above all, they also pay attention to learning priorities in alliance evolution.

Preamble

The resource-based view of the firm that gained currency in the mid-1980s considered that the competitive advantage of an organization rests on the application of the strategic resources[1] at its disposal. These days, orthodoxy recognizes the merits of the dynamic, knowledge-based capabilities[2] underpinning the positions organizations occupy in a sector or market.

[1]The resources that the theory deemed of strategic importance were valuable, rare, inimitable, and non-substitutable (leading to charges of tautology). Importantly, the list of what constitutes a resource was expanded in the 1990s with the refinement that the encompassing construct previously called resources should be segregated into resources and capabilities.
[2]Dynamic capability is an organization's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments.

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Strategic alliances—meaning cooperative agreements between two or more organizations—are a means to enhance strategic resources: self-sufficiency is becoming increasingly difficult in a complex, uncertain, and discontinuous external environment that calls for focus and flexibility in equal measure. Everywhere, organizations are discovering that they cannot "go" it alone and must now often turn to others to survive.[3]

Definition

> *The greatest change in corporate culture—and in the way business is being conducted—may be the accelerating growth of relationships based not on ownership but on partnership; joint ventures; minority investments cementing a joint marketing agreement or an agreement to do joint research ... alliances of all sorts.*
>
> —Peter Drucker

A strategic alliance is a voluntary, formal arrangement between two or more parties to pool resources to achieve a common set of objectives that meet critical needs while remaining independent entities. Strategic alliances involve exchange, sharing, or codevelopment of products, services, procedures, and processes. To these ends, strategic alliances can—in fact, frequently do—call on contributions of organization-specific resources and capabilities (that may involve trade-offs in capital, control, and time). The generic motive, to a greater extent than in the 1990s, is to sustain long-term competitive advantage in a fast-changing world, for example, by reducing costs through economies of scale or more knowledge, boosting research and development efforts, increasing access to new technology, entering new markets, breathing life into slowing or stagnant markets, reducing cycle times,

[3]In the twenty-first century, the challenges go beyond facing global competition, meeting client expectations or demands for integrated solutions to their needs, adjusting to shortened product life cycles, coping with increased specialization of skills and capabilities, or adapting to the internet and anytime/anywhere communication technologies, to name five worldwide phenomena. They have to do with the business models that underpin operations in both the private and public sectors, and which now encounter severe social and environmental limits. Henceforth, organizations must proactively work with others to achieve system changes. (In the 1970s, the driver of strategic alliances was the product and its performance: alliances aimed to procure the best raw materials at the lowest prices, deploy the latest technology, and stretch market penetration across borders. In the 1980s, the motive was to strengthen positions in the sector or market of activity, using alliances to develop economies of scale and of scope. In the 1990s, the lifting of barriers to market entry and the opening of borders between sectors brought a focus on capabilities: it was no longer enough to defend one's position—to stay ahead of the competition, innovations that give recurrent competitive advantage had become de rigueur.)

improving quality, or inhibiting competitors.[4] (Doz and Hamel (1998) grouped the primary purposes of an alliance into three: co-option, co-specialization, and learning and internalization.)

Types of Alliances

Strategic alliances between organizations are now ubiquitous.[5] Depending on the objectives or structure of the alliance, they take various configurations along a continuum of cooperative arrangements, e.g., cartels, cooperatives, joint ventures, equity investments, licensing, subcontracting (outsourcing), franchising, distribution relationships, research and development consortiums, industrial standards groups, action sets, innovation networks, clusters, letters of intent, memorandums of understanding, partnership frameworks, etc.[6] Some are short-lived; others are the prelude to a merger. In the public sector, from the 1990s, the formation of partnerships began to sweep through policies, strategies, programs, and projects, including their design, implementation, results, and associated business processes.

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[4]Several interlinked trends, many of them already dominant, will accelerate the formation of strategic alliances in the near future. They include developments in telecommunications; the convergence of technologies; product, service, and organizational (procedural or process) innovations; decreasing costs in research and development; further shortening of product life cycles; the efforts of governments to attract foreign capital and technologies (sometimes, as in the case of the People's Republic of China, by giving select key investors privileged access); and the growing permeability of borders between sectors and markets, often on account of deregulation and privatization.

[5]Strategic alliances can be struck with a wide variety of players: customers, suppliers, competitors, universities, research institutes, government agencies, nongovernment organizations, etc. Partners may continue to compete elsewhere; some even argue that collaboration in strategic alliances is tantamount to competition in a different form.

[6]The last form of strategic alliance is notably popular in academia, government, and development agencies. A memorandum of understanding describes a bilateral or multilateral agreement. It expresses a convergence of will between parties and records an intended common line of action. It is a more formal alternative to a gentlemen's agreement (but this, by no means, curtails opportunistic behavior). It is used most often where parties do not imply a legal commitment or in situations where the parties cannot draft a legally binding agreement. (In some cases, depending on the wording, memorandums of understanding can have the enforceable power of a contract.) In development agencies, for instance, shared objectives might, for example, include working together to assist developing countries reduce poverty, achieve sustainable development, and realize the United Nations Millennium Development Goals; ensuring the delivery of development assistance in line with the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action; and building public awareness of the outcomes of the partnership. Sharing of information is usually central to such joint undertakings.

Conventional Approaches to Strategic Alliances …

The usual steps to forming a strategic alliance, each the subject of learned texts, are[7]:

1. Locate and validate the alliance within the long-term vision, mission, and strategy of the organization.
2. Specify the objectives and scope of the alliance regarding the organization-specific resources and capabilities that are desired, and underscore the importance of these.[8]
3. Question what to offer and what to receive in exchange to highlight interdependence. (Alternatively, what must be retained internally for strategic purposes, what cannot be done internally, and what could be done externally.)
4. Evaluate and select potential partners based on the level of synergy and the ability of the organizations to work together.[9]
5. Identify and mutually recognize the opportunities, including the transparency and receptivity of information they call for.
6. Evaluate negotiation capabilities.
7. Understand joint task requirements and develop and propose a working interface with the prospective partner. (This might necessitate an evaluation of the impact on shareholders and stakeholders.)
8. Negotiate and implement an agreement, anticipating longevity, that defines progress and includes systems to monitor and evaluate performance (while eschewing performance myopia).
9. Define the governance system that will oversee the alliance, enforce its administration, build trust and reciprocity, and curtail opportunistic behavior.
10. Plan the integration and its points of contacts.[10]
11. Create the alliance and catalyze it with leadership commitment.
12. Manage for value identification, creation, storage, sharing, and usage over time, while assessing the alliance's interdependence with other relationships.[11]

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[7]Succinctly, Steinhilber (2008) identifies three essential building blocks that strategic alliances should set: (i) the right framework, (ii) the right organization, and (iii) the right relationships.

[8]The key questions are: What are the intended uses of the desired resources and capabilities? When would these be used? How would they be used?

[9]The key elements relate to sector and market; products, services, procedures, and processes; culture; compatibility; commitment; and financial positions.

[10]The key questions are: What would be, for instance, the training, equipment, maintenance, and awareness-raising implications of participating in the alliance? Would there be additional requirements? Would financial obligations need to be contemplated?

[11]Alliances should not be viewed in a vacuum: they are elements of strategic portfolios of evolving inter-organizational relationships. Each alliance is embedded in an organizational context that constrains certain developments but enables others in a coevolutionary way.

… And Their Shortcomings

However, strategic alliances and the proverbial win–win situations they promise frequently meet with difficulties (that can result in the termination of the alliance). Typical factors include poor communications, incompatible objectives, inability to share risks, opportunism, (perceived) low performance and flexibility, control and ownership arrangements, lack of trust, and conflict. These rifle across the decision to form an alliance, the selection of the partner, the choice of the governance structure for the alliance, the dynamic evolution of the alliance as the partnership spans time, the performance of the alliance, and the consequences for the partners.[12]

A Starter Kit for Strategic Alliances

Because conventional advice such as that given above has (when followed) still not sufficiently made up for the shortcomings of strategic alliances, Hughes and Weiss (2007) have proposed simple tenets to help the latter work better. The rules are to (i) focus less on defining the business plan and more on how the partners will work together; (ii) develop metrics pegged not only to alliance goals but also to alliance progress; (iii) leverage differences to create value, rather than attempt to eliminate them; (iv) go beyond formal governance structures to encourage collaborative behavior; and (v) spend as much time on managing internal stakeholders as on managing the relationship with the partner.

Promise, Reality, and Promise: Learning in Strategic Alliances

Notwithstanding, time and again, a subtler but far more important rationale behind strategic alliances (even those aimed at co-option or co-specialization) is obscured by their explicit strategic motives. That rationale is the intent to learn—especially

[12] Partners may not have the same ability to learn from an alliance and knowledge-related asymmetries will influence respective performances. And yet, learning from partners is of the essence of strategic alliances…

knowledge that is tacit,[13] collective, and imbedded: and it is probably failure in this arena that explains shortcomings.[14]

In brief, strategic alliances open up opportunities for organizations to gain knowledge and leverage strengths with partners.[15] (Indeed, the ability to learn through alliances is often vital to their continued existence.) Building knowledge- and identification-based trust, not just calculus-based trust, is fundamental to this. But strategic alliances also evolve as partners learn (or fail to learn). As competencies change, their goals are redefined. And the potential for learning also changes. However, even though alliance knowledge is tacitly or explicitly deemed useful, organizations will not necessarily actively seek to acquire it. Learning is a difficult, frustrating, and often misunderstood process.

With exceptions, studies of strategic alliances have focused on initial conditions and ignored the dynamic and interactive learning dimensions of strategic alliances.[16] Doz (1996) has explored five areas for learning as strategic alliances evolve in phases: (i) environment, (ii) task, (iii) process, (iv) skills, and (v) goals.[17] Central to each phase are systems, mechanisms, processes, and behaviors that build and improve practice in ongoing fashion by consciously and continually devising

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[13]Tacit knowledge is the personalized knowledge that people carry in their heads. It is more difficult to formalize and communicate than explicit knowledge, but can be shared through discussion, storytelling, and personal interactions. There are two dimensions to tacit knowledge: (i) a technical dimension, which encompasses the kind of informal personal skills or crafts often referred to as know-how; and (ii) a cognitive dimension, which consists of beliefs, ideals, values, schemata, and mental models that are ingrained in individuals and often taken for granted.

[14]The formation of a strategic alliance is the acknowledgment that a partner has useful knowledge. If it had none there would be no reason to form the alliance.

[15]Organizations do not have brains but they have cognitive systems and memories.

[16]Over the years, strategic alliances have been analyzed from the perspectives of transaction cost economics, game theory, bargaining theory, and resource dependence theory. The social exchange perspective is a recent addition: it explores the circumstances and requirements leading to identification-based trust and the associated belief that an organization will behave with good intentions toward the alliance and its partner.

[17]The environment is both external (e.g., sectors, markets, competition, government, society, culture, etc.) and internal (e.g., the strategic context within each partner operates). The tasks are the (inter)actions, at multiple levels, that the partners must share and perform successfully. The processes encompass the decisions, operations, and associated business processes needed to successfully meet the tasks of the alliance. The skills are the more tacit, collective, and imbedded abilities and related knowledge, germane to the alliance, that must be transferred for the purposes of the alliance. The goals are the motives and agendas that partners bring to the alliance.

and developing the means to draw learning and translate that into evolving action for mutual benefit. Successful strategic alliances are highly evolutionary and grow in interactive cycles of learning, reevaluation, and readjustment. They do so at different levels, e.g., individual, group, and organization. Such are the attributes of learning organizations.[18]

Enhancing Learning Effectiveness in Strategic Alliances

> *We cannot always assure the future of our friends; we have a better chance of assuring our future if we remember who our friends are.*
>
> —Henry Kissinger

Knowledge can only be acquired if it is accessible. But accessibility, though necessary, does not guarantee learning: learning effectiveness is primordial. Much as in the case of individuals, the capacity of organizations to learn may be constrained for miscellaneous reasons. (Absorptive capacity is the ability to recognize the value of new knowledge and to assimilate it.)

Inkpen (1998) identified three integrative dimensions of maximum joint learning that influence learning effectiveness in strategic alliances: (i) the intensity of knowledge connections between partners, which occur through both formal and informal relationships between individuals and groups; (ii) the relatedness of alliance knowledge, nourished by knowledge of the partner and knowledge about alliance management; and (iii) the cultural alignment between alliance managers and their respective organizations. He flagged six objectives that, if met, should enhance learning effectiveness. And, he matched each with a series of questions to stimulate managerial thought and action.

[18]Organizational learning occurs when an organization acquires, assimilates, and applies new information, knowledge, and skills that improve its long-run performance and augment its competitive advantage. In a strategic alliance, the behavioral and organizational characteristics of each partner will condition success. Important behavioral characteristics include commitment, coordination, interdependence, and trust; communications; and conflict-resolution techniques. Crucial organizational attributes relate to structure (e.g., formalization, centralization, and complexity) and control (e.g., focus, mechanisms, and extent).

Moreover

Summing up, the success of strategic alliances can be variously attributed to the fit between partners, openness to change, the embedment of alliance management capabilities into the fabric of partner cultures, the strong involvement of leadership, and, above all, alliance learning. The failure of strategic alliances has, somewhat simplistically, been ascribed to a failure to collaborate—a convenient turn of phrase that explains much away.

If, however, learning in alliances can do much to promote success, then it should be predominantly mutual. In this respect, one last barrier must be overcome: asymmetries between firms do exist, which of course explains why they partner in the first place.[19] But if resolving variegated differences will serve alliances well, it follows that knowledge-related asymmetries should be tackled too.

Knowledge-related asymmetries fall naturally in three categories: (i) information, (ii) knowledge, and (iii) learning. Each will have a different effect on the individual performance of partners, the realization of objectives, and the stability of the alliance. The least that partners can do is to be conscious of that.

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[19]Asymmetries can be eclectic, strategic, competitive, power-related, or network-based.