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# Learning in Strategic Alliances

## **Abstract**

{Excerpt} 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.

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 at its disposal. These days, orthodoxy recognizes the merits of the dynamic, knowledge-based capabilities underpinning the positions organizations occupy in a sector or market.

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.

## **Keywords**

Asian Development Bank, ADB, poverty, economic growth, sustainability, development

## **Comments**

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# Learning in Strategic Alliances

By Olivier Serrat

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<sup>1</sup> at its disposal. These days, orthodoxy recognizes the merits of the dynamic, knowledge-based capabilities<sup>2</sup> underpinning the positions organizations occupy in a sector or market.

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.<sup>3</sup>



<sup>1</sup> 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.

<sup>2</sup> Dynamic capability is an organization's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments.

<sup>3</sup> In the 21st 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.)

## Definition

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

*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

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, improving quality, or inhibiting competitors.<sup>4</sup> (Yves Doz

and Gary Hamel<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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.

## Conventional Approaches to Strategic Alliances ...

The usual steps to forming a strategic alliance, each the subject of learned texts, are:<sup>8</sup>

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

<sup>4</sup> 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.

<sup>5</sup> Yves Doz and Garry Hamel. 1998. *Alliance Advantage: The Art of Creating Value Through Partnering*. Harvard Business School Press.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> Succinctly, Steve Steinhilber identifies three essential building blocks that strategic alliances should set: (i) the right framework, (ii) the right organization, and (iii) the right relationships. See Steve Steinhilber. 2008. *Strategic Alliances: Three Ways to Make Them Work*. Harvard Business School Press.

- capabilities that are desired, and underscore the importance of these.<sup>9</sup>
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.<sup>10</sup>
  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.<sup>11</sup>
  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.<sup>12</sup>

### ... 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.<sup>13</sup>

### 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, Jonathan Hughes and Jeff Weiss<sup>14</sup> 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.



<sup>9</sup> 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?

<sup>10</sup> The key elements relate to sector and market; products, services, procedures, and processes; culture; compatibility; commitment; and financial positions.

<sup>11</sup> 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?

<sup>12</sup> 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.

<sup>13</sup> 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 ...

<sup>14</sup> See Jonathan Hughes and Jeff Weiss. 2007. Simple Rules for Making Alliances Work. *Harvard Business Review*. November: 122–131.

**Table 1: Simple Rules to Make Strategic Alliances Work Better**

From	To
Defining the right business arrangement	Developing the right working relationships
Creating ends metrics	Creating means metrics
Eliminating differences	Embracing differences
Establishing formal alliance management systems structures	Enabling collaborative behavior
Managing the external relationship with partners	Managing your own internal stakeholders

Source: Jonathan Hughes and Jeff Weiss. 2007. Simple Rules for Making Alliances Work. *Harvard Business Review*. November: 122–131.

### 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 knowledge that is tacit,<sup>15</sup> collective, and imbedded: and it is probably failure in this arena that explains shortcomings.<sup>16</sup>

In brief, strategic alliances open up opportunities for organizations to gain knowledge and leverage strengths with partners.<sup>17</sup> (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.<sup>18</sup> Yves Doz<sup>19</sup> has explored five areas for learning as strategic alliances evolve in phases: (i) environment, (ii) task, (iii) process, (iv) skills, and (v) goals.<sup>20</sup> Central to each phase are systems, mechanisms, processes, and behaviors that build and improve practice in ongoing fashion by consciously and continually devising 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.<sup>21</sup>

<sup>15</sup> 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.

<sup>16</sup> 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.

<sup>17</sup> Organizations do not have brains but they have cognitive systems and memories.

<sup>18</sup> 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.

<sup>19</sup> Yves Doz. 1996. The Evolution of Cooperation in Strategic Alliances: Initial Conditions or Learning Processes. *Strategic Management Journal*. Vol. 17: 55–83.

<sup>20</sup> 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.

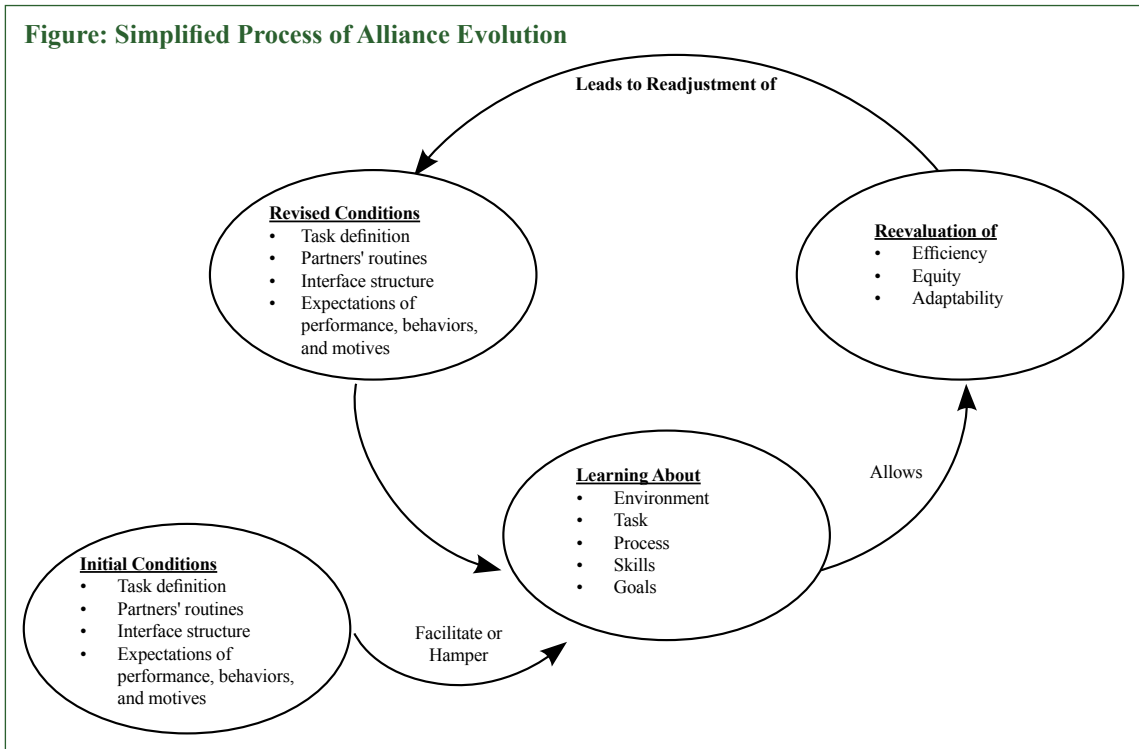
<sup>21</sup> Organizational learning occurs when an organization acquires, assimilates, and applies new information, knowledge, and skills that improve its long-run performance and augment its competitive advantage. In a strategic alliance, the behavioral and organizational characteristics of each partner 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).

**Table 2: Learning Priorities in Alliance Evolution**

Learning Dimension	Awareness and Partner Selection	Exploration	Expansion	Commitment to Relationship
<b>Environment</b>	External context, including national and cultural contexts	External and internal contexts, including the partner's corporate culture and management practices	External context, for new opportunities	External context, mutually, for new opportunities
<b>Tasks</b>	Very little, if any	Initiation of understanding and establishment of common tasks	Ability to establish common tasks	Ability to revise and reset effective common tasks
<b>Processes</b>	Very little, if any	Initiation of streamlined processes for performance of common tasks	Ability to establish joint processes and perform common tasks	Learning to revise and reset joint processes to perform effective common tasks
<b>Skills</b>	Explicit knowledge about potential partner skills	Initiation of transfer of implicit skill knowledge in later phases of the alliance	Transfer of implicit skill knowledge	New skill knowledge development and acquisition for mutual benefit
<b>Goals</b>	Strategic intentions and initial goals of potential partners	Partner goals, seeking to establish compatible and common goals	Learning to set alliance goals	Ability to continuously evaluate, revise, and reset alliance goals for durable competitive advantage
	<b>Unilateral Learning</b>	<b>Mostly Unilateral, with Elements of Mutual Learning</b>	<b>Both Unilateral and Mutual Learning</b>	<b>Predominantly Mutual Learning</b>

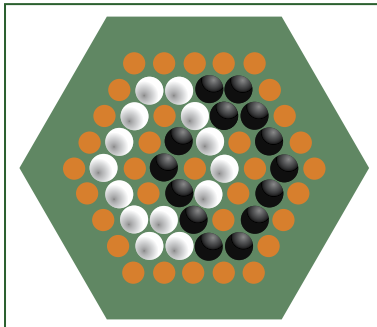
Note: Phase 1 involves recognition by an organization of another as a feasible alliance partner. Phase 2 covers a search and trial period during which the purpose of the partnership is established. Phase 3 is the stage at which partners increase mutual interdependence and grow the benefits that accrue to both. Phase 4 sees mutual pledges to the maintenance of the alliance and continued interdependence. The primary factors that will condition progress in each phase are (i) the degree of protection that partners give to their knowledge, (ii) the climate of trust between partners, (iii) the tacitness of knowledge, and (iv) the existence of previous ties between partners.

Source: Adapted from Karthik Iyer. 2002. Learning in Strategic Alliances: An Evolutionary Perspective. *Academy of Marketing Science Review*. Vol. 6, No. 5.



Source: Yves Doz. 1996. The Evolution of Cooperation in Strategic Alliances: Initial Conditions or Learning Processes. *Strategic Management Journal*. Vol. 17: 55–83.

### Enhancing Learning Effectiveness in Strategic Alliances



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.)

Andrew Inkpen<sup>22</sup> 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.

*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

<sup>22</sup> Andrew Inkpen. 1998. Learning and Knowledge Acquisition Through International Strategic Alliances. *The Academy of Management Executive*. Vol. 12, No. 4: 69–80.



**Table 3: Key Issues in Alliance Learning**

Objective	Question
Assess and value partner knowledge.	<ul style="list-style-type: none"> <li>• What were the strategic objectives in forming the alliance?</li> <li>• What are the core competencies of our alliance partner?</li> <li>• Which partner contributes key alliance inputs?</li> <li>• What specific knowledge does the partner have that could enhance our competitive strategy? Is that knowledge or some of the knowledge embodied in the alliance?</li> <li>• What are the core partner skills relevant for our products and markets?</li> <li>• Are we realistic about partner skills and capabilities relevant to our strategy and capabilities?</li> </ul>
Determine knowledge accessibility.	<ul style="list-style-type: none"> <li>• Have learning issues been discussed in the alliance negotiations?</li> <li>• How have key alliance responsibilities been allocated to the partners? Which partner controls key managerial responsibilities?</li> <li>• Do we have easy geographic access to the alliance operations?</li> <li>• Does the alliance agreement specify restrictions on our access to the alliance operations?</li> <li>• Has our partner taken explicit steps to restrict our access? If yes, can we eliminate these restrictions through negotiation or assignment of managers to the alliance?</li> </ul>
Evaluate knowledge tacitness and ease of transfer.	<ul style="list-style-type: none"> <li>• Is our learning objective focused on explicit operational knowledge?</li> <li>• Where in the alliance does the knowledge reside?</li> <li>• Is the knowledge strategic or operational?</li> <li>• Reality check: do we understand what we are trying to learn and how we can use the knowledge?</li> </ul>
Establish knowledge connections between the alliance and the partners.	<ul style="list-style-type: none"> <li>• Do parent managers visit the alliance regularly?</li> <li>• Has a systematic plan been established for managers to rotate between the alliance and the parent?</li> <li>• Are parent managers in regular contact with senior alliance managers?</li> <li>• Has the alliance been incorporated into parent strategic plans and do alliance managers participate in parent strategic planning discussions?</li> <li>• What is the level of trust between parent and alliance managers?</li> <li>• Do alliance financial issues dominate meetings between alliance and parent managers?</li> </ul>
Draw on existing knowledge to facilitate learning.	<ul style="list-style-type: none"> <li>• Have the partner organizations worked together in the past?</li> <li>• In the learning process, have efforts been made to involve managers with prior experience in alliance management and partner ties?</li> <li>• Are experiences with other alliances being used as the basis for managing the current alliance?</li> <li>• Are we realistic about our partner's learning objectives?</li> <li>• Are we open-minded about knowledge without immediate short-term applicability?</li> </ul>
Ensure that partner and alliance managerial cultures are aligned.	<ul style="list-style-type: none"> <li>• Is the alliance viewed as a threat or an asset by parent managers?</li> <li>• In the parent, is there agreement on the strategic rationale for the alliance?</li> <li>• In the alliance, do managers understand the importance of the parent's learning objective?</li> </ul>

Source: Andrew Inkpen. 1998. Learning and Knowledge Acquisition Through International Strategic Alliances. *The Academy of Management Executive*. Vol. 12, No. 4: 69–80.

### 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.<sup>23</sup> 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.

### Further Reading

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<sup>23</sup> Asymmetries can be eclectic, strategic, competitive, power-related, or network-based.

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## Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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Knowledge Solutions are handy, quick reference guides to tools, methods, and approaches that propel development forward and enhance its effects. They are offered as resources to ADB staff. They may also appeal to the development community and people having interest in knowledge and learning.

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