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Learning process and capability formation in cross-border buyer–supplier relationships: A qualitative case study of Taiwanese technological firms

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ABSTRACT

This paper examines the alliance learning process from the perspective of local suppliers in a Global Production Network (GPN). After reviewing critical literature in the field, we employed a qualitative case research method to explore alliance learning antecedents, process and outcomes. Six Taiwanese technological firms with different positions in a GPN were examined and we found that these well-performing firms integrate both inter- and intra-organizational learning, as well as a bi-directional learning process. A framework of cross-level knowledge flow is proposed with refined alliance learning antecedents and outcomes. We also extend the typology of GPN positioning level. Propositions are suggested with results discussed for future research.

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1. Introduction

Recent global shifts have directed much attention to research interests on studying the rising power of enterprises from emerging markets (Mathews, 2006; Yamin, 2011). Global Production Network (GPN) captures the concept of the interconnected functions and operations in value chains across firm boundaries and national borders (Ernst & Kim, 2002; Henderson & Nadvi, 2011). Within the literature of GPN, for decades many multinational corporations (MNCs) have gradually given up their in-house operations and increasingly used contractual modes (e.g. contract manufacturing alliances or licensing) to shift their production to local suppliers, especially from emerging markets. Besides being popularly known for their manufacturing capacity, enterprises from emerging markets are also moving upside in the value chain, switching from Original Equipment Manufacturing (OEM) to Original Design Manufacturing (ODM), and some even to Original Brand Manufacturing (OBM) (Alcacer & Oxley, 2013).

In this more and more complex GPN, international players, often MNCs, first started by outsourcing low-value-adding activities such as manufacturing to emerging economies in order

to focus on their core business and competence. Gradually this simple manufacture outsourcing was upgraded to more value-adding activity, design, which contained technology innovation elements. Before then, MNCs from developed countries controlled marketing, customer and distribution channels, and key innovative technology as their competitive advantages. However, the emerging powers of MNCs from developing countries have become the new phenomenon in this global scenario. Despite the great interest in better understanding this recent phenomenon, few empirical studies have been performed to achieve this (Fang & Zou, 2010; Li & Kozhikode, 2008). Specifically, in the literature of GPN, how the international alliance learning process and local capability formation are carried out is under-researched (Ernst & Kim, 2002), not to mention from the perspective of emerging economies' MNCs and how they went through the process to achieve value upgrading in the GPN positioning.

The changing phenomenon in the global production network is forging international strategic alliances (ISAs) of different scopes for the interests of both MNC buyers and local suppliers. Within this context, the learning and knowledge acquisition have been asserted as important rationales for the formation of ISAs, and as critical in the outsourcing process and hence to the ISA performance (Hamel, 1991; Lyles & Salk, 1996; Norman, 2004; Sluyts, Matthyssens, Martens, & Streukens, 2011). Nonetheless, the drivers and consequences of such an important phenomenon have been less systematically studied from the perspective of suppliers in resource-limited countries (Alcacer & Oxley, 2013; Ernst & Kim, 2002).

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Taking this perspective, we attempt to uncover the alliance learning process which assisted technology firms from emerging economies to upgrade their value-adding in climbing the value-chain ladder. Considering that Asia has been a region of economic interest for Western society (Kharas, 2010), Taiwan, as part of Greater China of today's emerging economic zone, and part of the EAGLEs key emerging countries (BBVA, 2013), has been chosen as the focus of our study to examine their indigenous technological firms. The special interest in studying Taiwanese technological firms is due to their major control of global market share in the information technology (IT) industry (Liu, Ghauri, & Sinkovics, 2010; Mathews, 2006). As one of the most relevant industries in the GPN, the IT industry and its peripheral industries has been the driver for Taiwan's economy, where there is a lack of natural resources and a small domestic market. Given its particular situation in the IT global production network, we expect that the study of Taiwanese technological firms could enhance our understanding of the alliance learning process in this globalizing world.

Interest in the evolution of global supply chains is fuelled by the concern that some local suppliers may start to apply their "learning by supplying" experiences to become viable players to produce their own-brand products (Alcacer & Oxley, 2013). For example, Taiwan-based Inventec (among the world's largest manufacturers of notebook computers, PCs, and servers for market leaders such as Hewlett-Packard and Toshiba) recently started to sell computers in Taiwan and China under its own brand name (Khanna & Palepu, 2006). This phenomenon raises an intriguing question: To what extent are these local firms able to leverage their supplying experiences to build capabilities and eventually achieve own-brand's success? Relevant empirical research on this is still limited. In this paper, we aim to remedy this situation by providing new evidence into the debates about the impact of alliance learning on evolving supply relationships.

We believe that the literature dealing with antecedents, learning process and alliance learning outcomes has not been integrated in a systematic fashion, leaving gaps in the understanding of the links among the concepts. The questions of how knowledge is created, connected, and applied and how the interplay of the different factors affects capabilities of local suppliers in ISAs remain widely unexplored (Meier, 2011). To bridge this gap, this paper attempts to explore the underlying issues on antecedent factors influencing alliance learning and learning process, which determine the alliance learning outcomes, to further contribute to a convergence between different domains of research.

To fill the above research gaps, our study specifically pursues the following research questions: (a) What factors influence a local supplier's ability to develop capabilities? (b) How does a local supplier learn from their MNC buyers? (c) Can a local supplier enhance their capabilities in a quasi-market, and asymmetric alliances? (d) Do the same types of alliance relationships that support product innovation also lead to a successful launch of own-brand products for a local supplier?

2. Theoretical background

The *resource-based approach* examines competition according to the resources the firm possesses, and the firm-specific resources lead to a firm's competitive advantages (Barney, Wright, & Ketchen, 2001). A motive for the firm to enter alliances is to access the specific resources unavailable to a company and so it is critical that it enhances its competitive advantages (Murphy, Perrot, & Rivera-Santos, 2012). In today's highly competitive environment, knowledge emerges as central resources and capability critical for the firm's achievement of competitive advantage (Meier, 2011). The suppliers from emerging economies

view the collaborations with the MNCs as excellent opportunities to capture economic development and to learn at low cost from their foreign partners (Mudambi & Tallman, 2010). The co-evolution of inter-organizational and international knowledge linkages enables local suppliers to update their capabilities from low-tech assemblers to sophisticated product designers, providing more high value-added services in the value chain (Ernst, 2000).

Most scholars view *organizational learning* as a process that evolves over time and they link it with knowledge acquisition and improved performance (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004; Walter, Lechner, & Kellermanns, 2007). Previous research tends to investigate organizational learning in isolation, either focusing on inter-firm linkage between alliance partners (Tsang, Nguyen, & Erramilli, 2004) or intra-firm linkage within a multidivisional firm's business units (Hansen, Mors, & Lovas, 2005; Tsai, 2001). This separation has limited our understanding about how knowledge is transferred and applied in ISAs. Drawing on organizational learning perspectives, we incorporate the process of knowledge acquisition from partners and its consequent intra-firm application to examine their influences on alliance learning outcomes.

There is widespread agreement that strategic alliances can be effective organizational instruments for offering learning opportunities. Logically, alliance learning outcomes should be a primary area of inquiry (Inkpen & Pien, 2006). However, many alliance learning studies focus on learning as an end in itself, rather than a consequence of value creation (Inkpen, 2002). If firms do learn from alliances, how do these learning benefits create value? The empirical studies that link alliance learning and learning outcomes have received less attention. Inter- and intra-organizational knowledge management and processing are increasingly viewed as important determinants to the success of alliances. In this section, we present a brief review of different streams of literature, examining antecedent factors influencing alliance learning, learning processes, and alliance learning outcomes.

2.1. Antecedent factors that influence alliance learning

The analysis of the antecedents of alliance learning has received much attention from scholars (Inkpen & Tsang, 2007). Different characteristics of partners and their relationship, as well as of knowledge to be transferred have been considered as relevant for successful alliance learning. Among others, Hamel (1991: 90) highlights the "firm's initial propensity to view collaboration as an opportunity to learn" since organizations with the intent to learn will promote learning culture and place high value on learning activities (Kandemir, Ghauri, & Cavusgil, 2002).

Besides the strategic intent to learning, the learning capability of local suppliers is also critical for successful learning. Cohen and Levinthal (1990: 128) remark on the firm's ability to "recognize the value of new, external knowledge, assimilate and apply it to commercial ends". This organization's capacity to absorb, circulate and utilize information determines whether new knowledge can be acquired from external parties and applied within the organization (Bierly, Damanpour, & Santoro, 2009; Kotabe, Jiang, & Murray, 2011). Despite the fact that local suppliers may possess learning intention and capability, alliance learning could not occur if MNCs were not willing to share knowledge. The openness of each firm in an alliance determines the potential for learning and is critical for knowledge acquisition (Inkpen & Pien, 2006). In their study of US/China joint ventures (JVs), Yan and Gray (1994) conclude that Chinese firms in IJVs did not achieve their goal of learning about more advanced Western technology because the US partners protected their technologies. The foreign partners may put up barriers to limit local partners from accessing their specific skill area (Inkpen & Beamish, 1997; Simonin, 2004).

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