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Understanding the impact of relational capital and organizational learning on alliance outcomes

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ABSTRACT

This paper examines how relational capital influences the acquisition of knowledge among alliance partners. We propose that firms with higher levels of inter- and intrafirm learning are better able to achieve superior alliance outcomes. A conceptual framework is developed by integrating the relational view, organizational learning theory, and the resource-based view. We provide empirical evidence using large-sample data to test the model and find that trust and interaction creates a basis for knowledge acquisition across alliance partners. The results also indicate that when the firms are active in knowledge acquisition from alliance partners and dissemination of such knowledge within the organization, they are capable of enhancing satisfaction with the alliance relationship.

1. Introduction

The increasing interests in interfirm collaborations have inspired a rich literature during the past two decades. The literature on strategic management and alliances assert that learning and acquiring know-how are important rationales for the formation of international strategic alliances (ISAs), contributing significantly to alliance outcomes (Dong & Glaister, 2006; Hamel, 1991; Inkpen & Beamish, 1997; Lyles & Salk, 1996). Knowledge has emerged as a central theme in the resource-based and alliance literature and is seen as the strategically most important source of competitive advantage (Conner & Prahalad, 1996; Grant & Baden-Fuller, 2004). The accumulation of knowledge acquired from alliance partners opens new opportunities and constitutes a driving force in the development and growth of the firms (Inkpen & Pien, 2006; Yli-Renko, Autio, & Sapienza, 2001). In our research, knowledge acquisition refers to 'the extent to which the firm has learned from the alliance partner'. The type of knowledge involved affects knowledge acquisition in interorganizational learning (Lane & Lubatkin, 1998). We focus on external knowledge of local firms acquired from foreign partners. The purpose of our research is to add to the existing knowledge base on alliance learning (Hamel, 1991; Mesquita, Anand, & Brush, 2008; Mowery, Oxley, & Silverman, 1996; Wu & Cavusgil, 2006) by examining the following issues that have not received sufficient attention in the existing literature.

Numerous past studies demonstrate that multinational corporations (MNCs) benefit from alliance learning, yet the conditions under which this improves the competitive advantages of local firms are not well known (Ernst, 2000; Kotabe, Martin, & Domoto, 2003; Tsang, Nguyen, & Erramilli, 2004). Building alliances with local firms in resource-limited countries gains them access to critical skills and competences from their foreign partners. In an attempt to fill this research gap in the alliance literature, our study focuses specifically on the local firm. Though knowledge can be transferred across various entities in alliances, we address knowledge acquisition from the foreign partners because such knowledge is typically valuable for the success of local firms (Tsang, 2002).

Though prior research has contributed to our understanding of certain important outcomes of knowledge acquisition from alliance partners (Inkpen & Tsang, 2005; Kotabe, Dunlap-Hinkler, Parente, & Mishra, 2007; Lyles & Salk, 1996), there has been scant attention to the study of the diffusion of such knowledge within the organization. Interorganizational learning, i.e. knowledge acquisition from partner firms has been the key concept examined in previous literature (Inkpen, 1998; Norman, 2004). Yet, integrated perspectives, which consider both inter- and intrafirm learning at the same time, are rare. We argue that knowledge acquisition from the partnership, in isolation, is unlikely to enhance alliance outcomes; it needs to be disseminated across departments to lift its competitive value. This paper contributes to the discussion by bringing the organizational learning perspective on both an interorganizational level and intraorganizational level.

Prior studies on alliance learning have commonly focused on cognitive aspects. For example, the level of absorptive capacity and

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the complexity of knowledge affect knowledge transfer between partners (Lane, Salk, & Lyles, 2001; Simonin, 2004). Relation-capital investments are critical in knowledge acquisition, especially in turbulent environments (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004). Relational capital in alliances refers to a relational rent generated in an exchange relationship that cannot be generated by either firm in isolation (Dyer & Singh, 1998). Relational capital has been identified as a resource that is created through social network processes (Dyer & Singh, 1998; Wathne & Heide, 2004). We identify three key dimensions of relational capital essential to alliance learning: trust, transparency, and interaction. We examine the link between these three factors and the role of relational capital in acquiring knowledge from foreign partners.

We also believe that the literature dealing with relational capital, learning and alliance outcomes has not been integrated in a systematic fashion, leaving gaps in the understanding of the links among the concepts. Some stress the linkage between relationship development and knowledge transfer in alliances (Dyer & Hatch, 2006; Sarkar, Echambadi, Cavusgil, & Aulakh, 2001; Uzzi & Lancaster, 2003), and others highlight the connection between knowledge process systems (i.e., knowledge acquisition and sharing) and alliance satisfaction (Inkpen & Pien, 2006; Lyles & Salk, 1996; Norman, 2004). The former links the relational view and organizational learning theory; the latter links organization learning theory and the resource-based view. Very few attempts, however, have yet been made to relate key concepts from the relational view, organizational learning theory and the resource-based view. By emphasizing the important link between relational capital, inter- and intrafirm learning and alliance outcomes, we seek to contribute to a further convergence between different domains of research.

Specifically, our study pursues the following research questions: (a) how relational capital impacts on the acquisition of knowledge from foreign partners to the local firms, (b) how dimensions of relational capital, specifically trust, transparency, and interaction, between alliance partners interrelate, and (c) how inter- and intrafirm learning influence alliance outcomes.

2. Theoretical background and hypotheses

This paper builds on the relational view, which depicts that competitive advantages derive not only from firm-level resources but also from difficult-to-imitate capabilities embedded in dyadic relationships (Dyer & Singh, 1998; Mesquita et al., 2008). According to the resource-based view, the competitive advantage of firms arises from their superior capability in transferring and creating knowledge (Foss & Foss, 2005; Spender, 1996). Given resource limitations of local firms, they can leverage their relational resources for knowledge acquisition by building relation-specific assets and knowledge-sharing routines (Yli-Renko et al., 2001). As knowledge acquisition is mainly a social process (Kogut & Zander, 1992), relational capital will be important for the success of local firms. The degree of the knowledge transfer a firm achieves from its collaborative relationship is determined not only by knowledge acquired externally, i.e. outside the alliances framework, but also by knowledge disseminated internally among its business units (Walter, Lechner, & Kellermanns, 2007). We draw on organizational learning theory to combine these two perspectives. In a first step the theoretical development of the paper follows the literature of relational capital and knowledge acquisition in alliances. A number of key dimensions have been identified, out of which we discuss those pertinent to our study context, trust, transparency and interaction. Consecutively, we link inter- and intrafirm learning to alliance outcomes.

2.1. Relational capital and knowledge acquisition in alliances

Relationships between alliance partners can be characterized in terms of their mutual trust, their social ties, and the extent to which they share their values (Kale, Singh, & Perlmutter, 2000; Uzzi & Lancaster, 2003). A relationship built solely on legal contracts may make it difficult to facilitate effective knowledge transfer. Recent studies have indicated that interorganizational relationships create opportunities for the firms to gain access to external knowledge and combine it with existing intellectual resources (Dyer & Hatch, 2006; Nahapiet & Ghoshal, 1998). Relational capital involves the pattern of interaction between partners that facilitates the positive feelings and functioning of an alliance (Cullen, Johnson, & Sakano, 2000). We assume that the more relational capital a local firm develops from alliances, the more likely it is to acquire external knowledge from its foreign partners. Without the social fabric of any relationship, alliances will not deliver their potential strategic or economic payoff (Madhok, 1995) and processes of learning will be stifled.

The extent to which a firm acquires knowledge from its alliance relationship depends on the ability of the firm to understand where the relevant knowledge or expertise resides in its partner, and on the willingness of the firms to share knowledge (Dyer & Singh, 1998; Yli-Renko et al., 2001). We follow Kale et al. (2000) and argue that strong relational capital between alliance partners facilitates greater learning across the alliance interface. Central to the argument is that relational capital influences knowledge acquisition through the confidence that alliance partners have in the reliability and integrity of each other to exchange knowledge more freely (Madhok, 1995) (operationalized in the paper as trust); the openness between alliance partners (operationalized in the paper as transparency) (Hamel, 1991); and the interactive process of exchange between member firms (operationalized in the paper as partner interaction) (Yli-Renko et al., 2001).

We assert that the amount of knowledge acquired by a firm depends on three key dimensions of relational capital: the quality of relationship in terms of trust, the level of transparency between firm, and the level of partner interaction. *Trust* has often been identified as an alternative or complement to formal, arm's-length or third-party governance mechanisms (Doney & Cannon, 1997; Dyer & Singh, 1998). Establishing high levels of mutual trust should promote knowledge exchange and discourage free-riding because the possibility of violation is reduced when high-quality, hard-to-replace relationships exist (Yli-Renko et al., 2001). Hamel (1991) identifies that *transparency* in the partner relationship determines the potential for learning. Some partners are more open and accessible to sharing knowledge and communicating ideas with others, while others are not. In many cases, a firm's alliance partners are important sources of new ideas and knowledge that enhance the value of the firm (Dyer & Singh, 1998). High levels of *interaction*, whether face-to-face or mediated through information systems, strengthen social ties between partners. Strong relationships usually trigger a close interaction between alliance partners and hence facilitate the exchange and transfer of knowledge across the alliance interfaces (Dhanaraj et al., 2004; Kale et al., 2000). Hyder and Ghauri (2000), in two longitudinal case studies on joint ventures between Swedish and Indian partners, indicate that many uncertainties prevail on both sides when partners start to learn about each other and about each other's capabilities and know-how. The more they learn about each other, the more the uncertainties decrease and the more a positive relationship develops.

Trust has been described as a central issue in the literature on strategic alliances and interfirm relationships (Boersma, Buckley, & Ghauri, 2003; Mayer, Davis, & Schoorman, 1995; Schoorman, Mayer, & Davis, 2007). Recent studies indicate that trust in