A study into the alliance capability development process

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A STUDY INTO THE ALLIANCE CAPABILITY DEVELOPMENT PROCESS

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ABSTRACT

In order to understand differences in alliance performance and rent generation between firms, we conceptually investigate the capability development process. Given the increasing importance of alliances as a revenue generator and the concomitant need for firms to optimize their alliance performance, this study uses experience, micro-level mechanisms, routines and capabilities as key ingredients of the capability development process. Building on an extensive literature review, a model is introduced which represents the alliance capability development process. From this model, three propositions are derived which relate to the role of experience and capabilities (consisting of micro-level mechanisms and routines) in alliance performance. In doing so, we hope to contribute to the understanding of the process underlying the development of an alliance capability.

INTRODUCTION

Increasingly, scholars are intrigued by the role that capabilities play in the process of creating and sustaining competitive performance (Helfat, 2003). This study builds on theories such as evolutionary economics, the resource-based view and more recently the dynamic capability view and knowledge-based view in order to come up with a better understanding of this important topic1. These theories suggest that sustained competitive advantage for the firm is dependent on its ability to create and leverage new knowledge and capabilities rather than on a mere reliance on existing resources (Grant and Baden-Fuller, 2002). The overarching aim of related studies is to uncover critical antecedents of consistent heterogeneity in firm performance and rent generation. With respect to the role of knowledge, various scholars suggest that the firm’s ability to gather, integrate and leverage organizational knowledge is a primary determinant of long-term survival (Tushman and Nadler, 1978; Grant, 1996).

Recently, the growth in alliances has triggered scholars to investigate the antecedents of alliance performance (Contractor and Lorange, 2002). As firms continue to ally at an increasing rate (Khanna et al., 1998), the relevance of successfully managing these initiatives becomes ever more important. Whereas organizational economics would focus on minimization of transaction costs in alliances, theories such as the resource-based view have allowed scholars to investigate the role of capabilities in explaining performance differences and the extent to which different firms are able to capitalize on their capabilities (Combs and Ketchen, 1999; Makhok and Tallman, 1998).

1 For a comparison of some of theories, we refer to Rugman and Verbeke (2002).
So far, two streams of research have been proposed that aim to increase our current understanding of how firms can develop their capabilities (Ranft and Lord, 2002). The first stream analyzes capability development by examining knowledge transfer *between* firms (see e.g. Lane et al., 2001; Appleyard, 2002; Zollo et al., 2002). This stream of literature implicitly refers in particular to the transaction cost and game theory logic, thereby proposing exchange and relational factors as key determinants of success (Dussauge and Garrette, 1995; Williamson, 1999). As all firms must rely on capabilities owned by others (Langlois, 1997: 288), these studies have analyzed the acquisition of capabilities through alliances (Dussauge et al., 2000; Inkpen, 1998; Powell et al., 1996). Since alliances are one of the primary sources for external capabilities, extensive attention has been paid to critical factors for successful transfer of capabilities (Tsang, 2002a). Concomitant studies center around the dyadic relationship and the creation of collaboration-specific rents (Madhok and Tallman, 1998) or common benefits (Khanna et al., 1998). These studies tend to investigate the external sources of capabilities (Grant, 1998) or focus on learning outside the firm (Leonard-Barton, 1995).

The second stream of research investigates knowledge transfer *within* the individual firm. Whereas the first stream specifically looks at external sources of learning, the second stream centers on internal sources of capabilities. In particular, it focuses on the way in which experiences can be internalized. Consequently, it analyzes the internal processes that foster knowledge absorption, dissemination and integration. This rather neglected research area aims to improve our current understanding of how firms can leverage their experience and develop an alliance capability. This capability allows a firm to apply its alliance knowledge to its entire alliance portfolio, as opposed to learning in individual alliances which is central to the first stream. In the end, this stream of research suggests that capability differences are an essential antecedent of sustained differences in alliance performance.

Apart from a few exceptions (see e.g. Sivadas and Dwyer, 2000), studies tend to concentrate on either one of the two streams. While these streams rely upon a wide array of theoretical underpinnings, the vast majority builds on the resource-based theory, dynamic capabilities perspective, knowledge-based view and on organizational learning theory. This study builds on the second stream of research and its theoretical underpinnings. Despite significant contributions of both streams of research, neither one of the two streams has been able to describe the way in which experience translates into a capability (Kale et al., 2002). As Tsang (1999: 835) argues ‘internationalization itself is a learning process’. Albeit the fact that the internalization process can be critical for the success of a firm’s future alliances (Simonin, 1997), little attention has been devoted to understanding the underlying development process.
A growing body of literature focuses on the identification of micro-level factors that help explain persistent performance differences among firms (Diericks and Cool, 1989; Sanchez et al., 1996). Fujimoto (2000a), for example, shows that the use of micro-level or intra-organizational mechanisms can aid in the selection and diffusion of experiences within the firm. This can be seen as a critical element of the evolutionary process of the firm. Although these studies provide interesting results with respect to the role of micro-level mechanisms on firm performance, the specific processes and underlying concepts remain rather unclear. Therefore we argue that there is a clear need to study the process underlying the development of an alliance capability. This, however, requires insight into the individual concepts and building blocks of such a capability (Gulati, 1998).

This paper aims to enhance our understanding of the alliance capability development process. In order to accomplish this goal, the paper first introduces a model for alliance capability development. Moreover, having analyzed the process and the individual concepts, this study introduces three main propositions. In doing this, we hope to engender an increased understanding of the critical issues with respect to the alliance capability development process. Eventually we aim to provide firms with critical insights into how they can leverage their experience and how they can develop an alliance capability.

DEFINITIONS

The concepts involved in describing the process of developing capabilities have been subject to obscurity (Priem and Butler, 2000). Many scholars have used different definitions of concepts such as knowledge, micro-level mechanisms, resources, assets, capabilities and competences in relation to the same theory (for an overview see Bogaert et al., 1994). In order to gain more insight into this process, clear definitions of the different concepts are required. Various scholars have committed to the daunting task of identifying sound distinctions, thereby proposing different approaches (e.g. Dosi et al., 2000; Sanchez, 2001).

Given the need for clarity in this field of study, we would like to define the most important concepts, thereby underlining that these are not universal but suitable and appropriate to this study. Following Bohn (1994) and Glazer (1991), Kogut and Zander (1992), and Zander and Kogut (1995), we define ‘knowledge’ as information that allows one to either be able to use (know-how) or to understand and create (know-why). ‘Resources’ are defined as the stock of
available factors (tangible or intangible assets) owned or controlled by the firm (Amit and
Schoemaker, 1993; Wernerfelt, 1997). A ‘capability’, however, refers to the capacity to
deploy resources (Mahoney and Pandian, 1992; Makadok, 2001). Therefore, building on Kale
et al. (2002), we define an alliance capability as the firm’s ability to capture, share,
disseminate and apply alliance management know-how and know-why. This ability of the
firm refers to the extent to which the firm can ensure that this know-how and know-why
becomes embedded in its repeatable patterns of action (Sanchez et al., 1996). Therefore,
capabilities are firm-specific, require interactions among resources and are subject to learning
(Teece et al., 1997). A ‘competence’ is different from a capability in that it enables the firm to
sustain the way in which it deploys its resources in order to achieve its objectives (Sanchez et
al., 1996). This refers to a meta-capability or a firm’s ability to develop its capability.

As alliances continue to grow not only in absolute numbers (Duysters et al., 1999), but also in
relative numbers (i.e. percentage of revenues coming from alliances) (Harbison and Pekar,
1998), a firm’s ability to enhance alliance success becomes ever more important. In order to
increase our understanding of how firms create enhanced alliance performance, most studies
have been preoccupied with investigating the role of experience (see e.g. Powell et al., 1996).
In addition to experience, some other studies have analyzed the influence of certain
mechanisms on performance (Kale and Singh, 1999). For instance, Kale et al. (2002) suggest
that an alliance function can significantly improve a firm’s long term alliance performance.
An alliance function helps to disperse and leverage alliance knowledge generated within the
firm. However intriguing the findings may be, what remains unclear is the interaction
between experience, micro-level mechanisms, an alliance capability and performance (King
and Zeithaml, 2001; Simonin, 1997).

THEORY ON ALLIANCE CAPABILITY DEVELOPMENT

Experience
Various scholars have investigated the role of ‘experience’ as an antecedent of firm
performance from many different theoretical perspectives and empirical settings (e.g. Ingram
and Baum, 1997; King and Tucci, 2002). As discussed above, theories such as evolutionary
economics and organizational learning provide fundamental guidelines to analyze this link.
Some studies have analyzed the role of experience and learning curves in realizing
productivity gains and rent generative capacity of firms (Dutton and Thomas, 1984). The
majority of these studies suggest a positive relationship between experience and performance,

2. For an overview of definitions and discussions on this topic, we refer to Von Krogh et al. (1998) and
thereby implicitly indicating that experience is an influential variable in the alliance capability development process (Teece et al., 1997; King and Tucci, 2002). For instance, Lei and Slocum (1992) reckon that lack of experience and ignorance are of fundamental concern when it comes to alliance failure. Gaining experience can allow a firm to enhance their problem-solving capacity, as they have to devote less time to solving a particular problem (Bereiter and Scardamalia, 1993, in: Koka and Prescott, 2002, pp. 800). Moreover, it may enable a firm to become more effective at foreseeing and proactive managing the alliance process (Das and Teng, 2002).

In addition to these studies, other scholars investigated firm differences in learning curves thereby mainly referring to organizational learning theories (e.g. Lapré and Van Wassenhove, 2001). In these studies, experience is seen as the primary driver of a firm’s learning curve (Stata, 1989). For instance, King and Tucci (2002: 172) differentiate between static and transformational experience. Mukherjee et al. (1998) identify operational and conceptual learning, thereby referring to an understanding related to respectively know-how or input-output stream and know-why or cause and effect relationships. These typologies are essential as they reflect the paradoxical causal effect of experience. On the one hand, experience fosters inertia and routinization (Lorenzoni and Lipparini, 1999) and on the other hand it allows firm to readjust organizational memory and routines in general (Flaherty, 2000). The dual effect of experience is thus likely to lead to routines and foster organizational change (Amburgey et al., 1993).

In line with earlier research, we define alliance experience as the collective body of knowledge generated through a firm’s former alliances. This knowledge consists of lessons learned and will have to be absorbed in the minds of employees in order to become an organizational routine that allows a certain task or activity to be performed in a repetitive manner (Nelson and Winter, 1982). The fact that experience is tacit by nature poses a challenge to firms as it requires an awareness of its importance and a conscious commitment to internalize accumulated experiences. For instance, only as experiences are codified in e.g. a best practices handbook can they be spread throughout the firm and used by a larger number of employees in future alliances.

With respect to alliance research, various scholars have studied experience as an explanatory variable of alliance performance (Kale and Singh, 1999; Makino and Chan, 2002). Although mostly positive and constant in nature (Anand and Khanna, 2000), some studies find curve
linear (Draulans et al., 2002) or inverted U-shaped relationships between experience and alliance performance (Deeds and Hill, 1996; Hoang et al., 2002). Overall, these studies point at a positive relationship between experience and alliance performance. A number of reasons can be found to explain this positive influence. First, experience is said to provide firms with an increased ability to handle and foresee critical issues in alliance management. Simonin (1997) for instance points to the firm’s ability to select partners and manage the complex alliance process. Mohr and Spekman (1994) underline the need for firms to foresee and act in case conflict arises. This can be handled better if a firm has prior alliance experience. Therefore, experience can be seen as a facilitator of a firm’s ability to both foresee and act throughout the alliance process. This often proves to be an important factor for alliance performance in the end.

A second reason why experience is an important explanatory variable of alliance performance lies in the fact that experience fosters the development of ‘common perspectives’ (Nonaka, 1994: 24). These common perspectives are important as they influence a firm’s ability to absorb new knowledge (Lane and Lubatkin, 1998; Grant, 1996). A firm’s absorptive capacity is important since it determines the extent to which a firm can assimilate and exploit new knowledge (Cohen and Levinthal, 1990: 135). As Penrose (1959) stresses that knowledge is a highly important asset of the firm, storing and disposing of knowledge for timely availability and future use is essential (Miller, 2002). Various researchers have looked at the influence of absorptive capacity on the rate of learning in alliances (Hamel et al., 1989; Shenkar and Li, 1999; Lane et al., 2001). In line with these studies, Merali (1997) reckons that for knowledge to be optimally leveraged, it needs to be thoroughly embedded in a firm’s routines and practices. As a result, different empirical studies from varying backgrounds have indicated that prior experience is salient in shaping a firm’s future capabilities (Helfat, 2000). Consequently, in line with previous work in this area, we suggest that alliance experience is an important predictor of alliance performance.

Proposition 1: Prior alliance experience positively influences alliance performance.

Capabilities

Over the last decades, resources, capabilities and competences have become central issues in strategic management literature (Mahoney and Pandian, 1992; Henderson and Cockburn, 1994). Related theoretical perspectives are the resource-based view (Pfeffer and Salancik, 1978), the dynamic capability view (Eisenhardt and Martin, 2000) and the competence-based
view (Prahalad and Hamel, 1990; Sanchez et al., 1996). Studies referring to these perspectives have pointed to experience as an explanatory variable for a firm’s capability. Although these studies yielded considerable insights, it generally remains unclear how a firm can develop an alliance capability (Kale and Singh, 1999).

With respect to the differences between resources and capabilities, various scholars have separated these two strategic concepts. Following Penrose (1959) who separated management of resources and management as a resource, Hunt and Morgan (1986) differentiated between respectively lower and higher-order resources and Henderson and Cockburn (1994) compared component and architectural competence. Likewise, Fujimoto (2000b) identifies three levels of capabilities: static, improvement and evolutionary capability. The firm’s ability to gather capabilities is captured in the terms of evolutionary capability. Overall, as Makadok (2001) reckons, these differences help us understand the difference between the firm’s ability to pick resources and its ability to develop capabilities. Picking resources refers to a firm’s economic rents generated as a consequence of its resource selection, whereas developing capabilities relates to the deployment of a firm’s resources. This is typified by Dosi et al (2000: 2), who underline that capabilities should allow a firm to realize its goals, thereby filling the gap between intention and outcome.

In line with the distinction between resources and capabilities, it is the firm’s ability to use or deploy its experience that yields an increment in performance. Thus, experience per se is not sufficient (Kale et al., 2002) and the quality of experience is highly dependent on the underlying learning processes (Tsang, 2002a). Therefore, as Simonin (1997) suggest, firms should actively manage the way in which experiences are used and dispersed. Only if lessons are internalized and transferred can lessons have a significant impact on alliance performance.

Following Kale et al. (2002: 750) and Sanchez et al. (1996), we define an alliance capability as the firm’s ability to capture, share, disseminate and apply alliance management know-how and know-why (i.e. knowledge) and its ability to embed this in a stable and repetitive pattern of action. Our definition of alliance capability adds two distinct components to Kale et al.’s definition. First, in line with the distinction proposed by Makadok, (2001), we add the element of ‘application’ to the definition. We feel that it does not suffice to merely gather the knowledge. A capability also refers to a firm’s ability to use its accumulated experiences. And second, as a consequence of the first aspect and stressed by Sanchez et al. (1996), the accumulated experiences need to be embedded in the organization’s practices and routines.

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3. For a comparison of these theories, we refer to Teece et al. (1994) and Sanchez (2001).
Different micro-level mechanisms can be used to foster the process of capturing, gathering and disseminating experiences and embedding these in the organization’s patterns of behavior (Dyer and Nobeoka, 2000; Zollo and Winter, 2002). In the end, a firm’s capability is largely determined by its micro-level mechanisms that help translate its experience into standardized practices and routines. Therefore, in order to understand how firms can develop their alliance capability, it becomes essential to investigate the micro-level mechanisms firms use to disperse their accumulated experiences and to study how they develop routines.

An alliance mechanism is an intra-organizational feature or device which a firm can use to manage its alliance portfolio. It aids in capturing, sharing, disseminating or applying alliance management know-how. Alliance mechanisms can be categorized as functions, tools, control and management processes and external parties. Figure 1 depicts what mechanisms belong to what category.

Figure 1 Alliance mechanisms

<table>
<thead>
<tr>
<th>Functions</th>
<th>Tools</th>
<th>Control and management processes</th>
<th>External parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice-president of alliances (1)</td>
<td>Internal alliance training (7)</td>
<td>Responsibility level for alliances (20)</td>
<td>Consultants (27)</td>
</tr>
<tr>
<td>Alliance department (2)</td>
<td>External alliance training (8)</td>
<td>Rewards and bonuses for alliance manager (21)</td>
<td>Lawyers (28)</td>
</tr>
<tr>
<td>Alliance specialist (3)</td>
<td>Training in intercultural management (9)</td>
<td>Rewards and bonuses for business managers (22)</td>
<td>Mediators (29)</td>
</tr>
<tr>
<td>Alliance manager (4)</td>
<td>Partner selection program (10)</td>
<td>Formally structured knowledge exchange between alliance managers (23)</td>
<td>Financial experts (30)</td>
</tr>
<tr>
<td>Gatekeeper or boundary spanner (5)</td>
<td>Joint business planning (11)</td>
<td>Use of own knowledge about national differences in international alliances (24)</td>
<td></td>
</tr>
<tr>
<td>Local alliance manager (6)</td>
<td>Alliance database (12)</td>
<td>Alliance metrics (25)</td>
<td>Country-specific alliance policies (26)</td>
</tr>
<tr>
<td></td>
<td>Use of intranet to disperse alliance knowledge (13)</td>
<td></td>
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<tr>
<td></td>
<td>Alliance best practices (14)</td>
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<tr>
<td></td>
<td>Culture program (15)</td>
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<tr>
<td></td>
<td>Partner program (16)</td>
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<td></td>
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<tr>
<td></td>
<td>Individual evaluation</td>
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4. See Duysters and Heimeriks (2002) for an empirical analysis of the relative impact of different mechanisms.
Micro-level mechanisms play a critical role in the alliance capability process for various reasons. First, these mechanisms enable firms to internalize its accumulated experiences in a structured way. Not only do these mechanisms act as an information-processor, they also help embed experiences into the organization’s routines. Providing feedback about lessons can enable a firm to leverage the lessons learned (Kale and Singh, 1999) as well as allow a firm to learn in a continuous fashion (Pisano, 2000: 131). Moreover, certain mechanisms serve as a platform for the transfer of experiences (Brown and Duguid, 1991). For instance, using a formalized structured way of knowledge exchange among alliance managers can help to ensure exchange and dispersion of experiences.

Since various studies confirmed that routines and practices aid in realizing productivity and performance gains (Joskow and Rozanski, 1979; Argote, 1993), these mechanisms seem to play an important role in shaping routines or stable patterns of behavior. For instance, Tsang (2002b) argues that sharing experience among alliance managers is an important way to disperse knowledge. Moreover, Fujimoto (2000a: 276) finds that an ‘internal evolutionary mechanism’ helps to ensure the evolutionary process of organizational routines. As employees create short-term solutions to certain problems, they aid in establishing routines and practices and capabilities. In this way, mechanism help to standardize and repeat routines (by creating operational effectiveness and efficiency) and diffuse new routines (creating optimal learning potential). Furthermore, given the rate of depreciation of knowledge in various industries (e.g. due to employee rotation or the turnover rate of employees), routines become critically important to retain and transfer knowledge (Argote and Darr, 2000). Micro-level mechanisms can play a very important role in ensuring adequate dispersion of knowledge to become embedded in a firm’s routines in a timely fashion. This dual function of mechanisms can –when simultaneously applied- help develop a firm’s ability to solve problems (Fujimoto, 2000a: 277) as well as act as a meta-capability to change routines (Amburgey et al., 1993; King and Tucci, 2002), which aids to optimize the learning potential of the firm.

Second, various mechanisms can help to coordinate tasks and responsibilities (Spekman et al., 1999). Installing certain mechanisms can aid firms in assigning clear task and role
responsibility so as to assure a sufficient degree of control (Mintzberg 1983: 4-9). Grant (1996) argues that rules and procedures which support coordination are an important way to integrate knowledge. For instance, the use of alliance metrics allows a firm to measure the extent to which goals are realized.

Third, certain mechanisms can support day-to-day alliance management activities. Increasing the knowledge of employees on particular stages of the alliance life-cycle can enhance performance. Using for instance alliance trainings or an alliance database facilitates access to recurring pitfalls in day-to-day alliance management. Conflict situations may be avoided when firms use joint business planning to align the partners’ goals and expectations (Mohr and Spekman, 1994).

Fourth, the use of micro-mechanisms can spread a signal throughout a firm that alliances are deemed important. They reflect a dedication on the part of the firm. As commitment is highly important to optimize performance (Spekman et al., 1999), employees are more likely to recognize the importance of sound alliance management and adopt related routines.

The other aspect of an alliance capability is inherent in a firm’s routines. Micro-level mechanisms form an essential antecedent of routines (Florida and Kenney, 2000). The combination of mechanisms and routines fosters the development of an alliance capability. Routines can vary from firm to firm and therefore contribute to our understanding of why differences in firm performance tend to persist (Coriat, 2000: 216). Mechanisms allow a firm to both develop and change routines as new experiences can be transferred through its mechanisms to adapt its routines. Moreover, the fact that routines can be seen as the equivalent of individual skills (Nelson and Winter, 1982: 73) suggests that knowledge can be applied in an efficient manner when dispersed via micro-level mechanisms.

Within the context of this study, routines are defined as the higher-organizing principles through which knowledge is captured, shared, disseminated and applied. They provide the basis for repetitive patterns of actions in alliances. For various reasons, routines play an important role in the alliance capability development process. First, a routine contains a problem-solving or learning aspect and a control-oriented aspect (Coriat, 2000). As firms capture, share, disseminate and apply alliance-related knowledge, they are basically involved in a learning process. When doing this, lessons are derived from experience and spread to others in the firm. The control-oriented aspect of routines is related to the fact that firms
should control for the effectiveness of the adoption of knowledge in the learning process. The
combination of learning and control creates a dynamism in a firm’s routines, which can help
overcome organizational inertia (Hannan and Freeman, 1984). Although repeated practices
can enhance a firm’s alliance capability as it translates experiences into routines, the firm can
remain strategically flexible when it learns from new experiences and adopts new routines
(Eisenhardt and Martin, 2000). In this way, it can both exploit existing practices while at the
same time explore newly generated insights which are transferred via its mechanisms. This
cyclical process is reflected in figure 2, the alliance capability development process, by the
loops that are depicted between experience, mechanisms and routines.

Second, as a result of the first reason, routines are essential building blocks of capabilities
(Dosi et al., 2000: 4). The firm’s set of repeatable patterns of actions consist of technical and
social skills (March, 1994), which ensures a smooth functioning of the organization (Coriat,
2000: 214). These are embedded in the firm’s organizational memory and are critical to the
creation of efficiency one the one hand and leaning on the other hand. Thus, we posit that a
firm’s alliance performance depends on the mechanisms it has in place that help capture,
share, disseminate and apply its alliance knowledge in repeatable patterns of actions.

Proposition 2: A firm’s alliance capability is positively related to a firm’s alliance
performance.

Interaction between experience and capabilities
The third relationship this study wishes to address concerns the interaction effects between
experience and capabilities. As both a firm’s experience and its capabilities are posted to have
a significant influence alliance performance, firms that simultaneously gain experience and
successfully process this via its micro-level mechanisms are expected to have a performance
advantage over those firm’s that do not. Although experience may positively influence
alliance performance, it depends on a firm’s ability to integrate these experiences whether or
not it can develop an alliance capability (Simonin, 1997). Therefore, we expect that the
interaction effects between experience and capabilities significantly influence a firm’s
alliance performance.

Proposition 3: Alliance experience and alliance capability reinforce each other’s effect on
alliance performance. Therefore, the interaction effect among alliance experience and
alliance capability is likely to be positive.

5. For an extensive overview of the concept ‘routines’, I refer to Nelson and Winter (1982), Prahalad
ALLIANCE CAPABILITY DEVELOPMENT PROCESS

Following the logic above and inspired by Zollo and Winter (2002: 340), we propose the following model to link the different concepts. In the model, experience is the primary antecedent of a firm’s alliance capability. A firm’s alliance capability then is a critical moderating variable of its alliance performance.

Figure 2 A model of the alliance capability development process

As in previous studies, this model proposes experience to be a primary driver of an alliance performance. However, we do not merely expect a direct relationship between experience and performance, but suggest experience to be a key driver of the alliance capability process. As a result, a firm’s alliance capability is proposed to be a moderating variable. As we expect that reality is more complex than merely gaining a lot of experience in order to be able to improve alliance performance, this model represents a more subtle process. Using experience as a sole explanatory variable of alliance performance would underestimate the complexity involved in alliance management. Given the complex nature of alliance management (Park and Ungson, 2001) and learning in alliances (Inkpen, 2002), this model does not pretend to be full-grown. However, it does aim to provide a better understanding of the factors involved in creating insight in the alliance capability development process.

We expect the alliance capability development process to be subject to iterations. The model suggests a link between experience via capability to performance. However, as learning is an interactive and highly volatile process, we expect various loops to be relevant as well (Argyris, 1977). Trial and error and learning-by-doing are highly relevant concepts when it comes to developing capabilities. Consequently, the capability development process tends to be consist of incremental improvements (Fujimoto, 2000a). Not only is experience likely to

and Hamel (1990) and Coriat (2000).
be an important input for the micro-level mechanisms, but these will also provide new insights that in-turn will influence experience. For instance, an alliance manager’s experience can be highly relevant input for an alliance database. We also expect that the use of the database provokes exchanges of other employees involved that may lead to new insights for the alliance manager at hand. Overall, the complexity of the alliance capability development process is evident and this study intends to create increased understanding of this process.

In principle, the model suggests three relationships. First, alliance experience is expected to influence a firm’s alliance capability. Second, alliance capability is said to influence a firm’s alliance performance. Third, alliance experience and alliance capability are expected to be related, which implies that interaction effects could significantly influence alliance performance. Besides these primary relationships, we also expect a direct relationship between experience and performance to be of importance. Especially in the case when firms have low experience levels, we reckon that accumulated experience may have a positive effect on performance. However, in general, we expect knowledge generated through experience to positively influence alliance performance as a result of the dispersion and leveraging of that knowledge. Moreover, alliance performance can eventually also provide highly relevant information, which can be seen as an important input for experience. After all, gaining insight from earlier alliances and their performance lies at the very heart of the development of an alliance capability.

DISCUSSION & CONCLUSION

Alliances continue to play an increasingly important role for firms. Being aware of the asymmetries in firms’ capability acquisition in alliances (Mowery, 1988) and rates of organizational learning (Pisano et al., 2001), this study has tried to uncover the intra-organizational factors that underlie the capability development process. Given the complexity of the nature of capabilities and the obscurity surrounding related terminology (Dosi et al., 2000), recently extensive research has been conducted to uncover the role of capabilities in explaining differences in performance and rent generation among firms. Whereas former studies tended to focus on only one of these aspects, this study tries to pinpoint how a firm can develop an alliance capability. The proposed conceptual model (see figure 1) depicts the process that incorporates different constructs which are found to be relevant in a variety of studies. Our model suggests that experience and capabilities, which consist of mechanisms and routines, are key variables in this process. Three relationships are derived from the model, which provide the basis for three propositions representing the relationships between the main explanatory factors of alliance performance.
So far, various theoretical perspectives and empirical settings have served to investigate the role of experience in explaining persistent performance differences among firms. Studies building on organizational learning theory and evolutionary economics helped to gain insight into experience and divergent learning curves in organizations. Similarly, alliance research has enhanced our understanding of the critical role of experience in improving alliance performance. However, a direct relationship between experience and alliance performance seems highly unlikely and a more subtle process seems to underlie this relationship. Consequently, various scholars suggested experience to be a predominant variable for capability development (Hoang et al., 2002; Kale et al., 2002). Not only is experience an essential aspect in the alliance capability development process because it helps firms to become aware of recurring pitfalls in alliances, but also because experience or lessons can prove useful as a firm engages in new alliances. Moreover, shared experience ease the adoption of new knowledge through the creating of common perspectives (Nonaka, 1994), thereby increasing a firm’s rate of learning.

As experiences are a critical input to create routines (Nelson and Winter, 1982) and micro-level mechanisms serve to transfer experience, a capability is the set of repeatable patterns of actions that result from a firm’s mechanisms. Consequently, mechanisms and routines are the two components that underlie the process of developing a capability. Mechanisms are essential in the capability process as they help integrate experiences and knowledge. Moreover, they can help coordinate tasks and responsibilities as well as support day-to-day alliance management activities. In addition, these mechanisms represent a dedication and commitment on behalf of the firm to pay attention to alliance management.

In essence, micro-level mechanisms represent ‘physical artifacts’, implicitly referring to an essential element of organizational memory and routines as defined by Moorman and Miner (1997). They represent ‘an intent to learn’, thereby referring to a firm’s dedication to develop an alliance capability (Hamel, 1991). Investing in these mechanisms will stimulate knowledge articulation and codification, underlining a firm’s commitment to deliberate learning (Zollo and Winter, 2002). And, as Nonaka (1994: 17) argues, ‘commitment is one of the most important components for promoting the formation of new knowledge within an organization’. For instance, when a firm has an alliance department this indicates a deliberate and conscious commitment to integrate, internalize and disperse relevant knowledge.

Obviously, the mere existence of these mechanisms will not be sufficient to develop an alliance capability. This requires an additional condition, which is the effective use of these
mechanisms so as to embed prior experiences in organizational routines. Capturing, sharing, disseminating and applying this knowledge will result in repeatable patterns of action, which creates both efficiency gains and learning opportunities for a firm.

Mechanisms in turn are an essential antecedent of routines, because these repeatable patterns of behavior create the basis for efficiency gains. As experiences are translated into the organizational memory via micro-level mechanisms, a firm will be better able to handle recurring problems in alliances. Moreover, the average skill level of a firm’s employees will be raised as new experiences are consciously dispersed and shared among them. This will enable a firm to adopt new experiences in their routines and create a basis for organizational learning.

Overall, experience, micro-level mechanisms and routines are prominent concepts in the alliance capability development process. However, as presented in our model, this is not merely a linear process. As shown in the model, enhanced alliance performance revolves around a learning process which involves various loops. Furthermore, we are aware of the fact that environmental changes can render obsolete a firm’s set of routines which at the same time can limit its ability to adapt (Levinthal and March, 1993). Incremental improvement and continuous updating of mechanisms and routines are thus required if firms want to spread experiences on a continuing basis so as to gain sustained alliance performance in the end.
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