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RESEARCH NOTES AND COMMUNICATIONS

A NOTE ON THE DYNAMICS OF LEARNING ALLIANCES: COMPETITION, COOPERATION, AND RELATIVE SCOPE

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Khanna, Gulati, and Nohria (1998) examine the dynamics of alliance learning and develop a conceptual framework designed to capture the tension between cooperation and competition. Based on the concepts of private and common benefits and relative scope, the authors explore firms' learning behavior patterns. This note comments on the framework and suggests that although the framework introduces some interesting concepts, the reliance on simple models from economic theory leaves the framework somewhat disconnected from the process of alliance management. Copyright © 2000 John Wiley & Sons, Ltd.

In their recent article, Khanna, Gulati, and Nohria (1998) examine how the tension between cooperation and competition affects the dynamics of learning alliances. The authors develop the concept of private and common benefits to the alliance partners and suggest that firms often fail to understand the magnitude of partner asymmetric differences. Khanna *et al.* (1998) have developed an interesting framework that extends understanding of alliance learning and explores some very important questions. The concept of a firm's relative scope in an alliance provides the basis for understanding partner resource allocation patterns. In meshing economic and behavioral theories, with additional reference to areas such as agency theory, the authors explore new territory. In particular, the discussion of why firms engage in suboptimal behavior in learning alliances is very insightful. Nevertheless, the framework conveys only a partial view of alliance learning and, in doing so, makes a number of simplistic assumptions that are inconsistent with the practice and reality of alliance management. As a result, the framework conveys little about the dynamic *processes* involved in alliance learning situations.

COMMON AND PRIVATE BENEFITS

The notion of private benefits is well accepted in the alliance learning literature. However, Khanna *et al.*'s (1998) concept of common benefits resulting from joint knowledge creation confuses the task coordination required to jointly accomplish an alliance objective with the concept of learning. In all alliances, the partners

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must learn to work together (and work to learn together). The result will be common benefits unavailable to the partners without the alliance. The authors suggest that firms in an alliance will work together, learn together, and then be able to appropriate value from collective learning. The concern I have is with the idea that firms 'collectively learn.' Collective learning primarily involves learning about the partner in a manner that enables more efficient cooperation. This type of learning, described in detail by Doz (1996), has limited utility beyond the alliance. Joint learning that can be 'obtained' (Khanna *et al.*, 1998: 195) is rare and usually too specific to the alliance to be of much use to the parent. Thus, learning and the application of knowledge that leads to a 'common purpose' (Khanna *et al.*, 1998: 198) outside the alliance will be unusual.

To explain the ratio between private and common benefits, the concepts of alliance and partner scope are introduced. Partner scope is defined as 'a set of markets, each element of which can, for our purposes, be described by its product and geographic characteristics' (Khanna *et al.*, 1998: 195). Alliance scope is the need that the partners have agreed to target, typically corresponding to a subset of the markets in which the partners are involved. Based on these definitions, the authors propose that the greater the overlap between alliance scope and firm scope, the higher the common benefits and the lower the private benefits. The assumption is that when firms form alliances in markets in which they already compete, working together will produce joint knowledge through collective learning. Conversely, if the alliance is in new areas for the partners, there will be little collective learning.

The concern I have with this proposition is that the authors rely on a narrow concept of scope. Admittedly, a narrow view was necessary to keep the complexity of the model manageable. However, by defining scope in terms of product or geography, the authors have limited the potential richness and insights of the model. The authors imply that in a learning alliance geographic or product market entry is the only alliance strategic rationale. In reality, scope encompasses many dimensions, including product and geographic markets, technologies, manufacturing processes, information management processes, human resource practices, etc. Research has shown that very often the greatest alliance learning opportunities, i.e., private benefits, are created when there is virtual overlap in alliance and partner product and geographic markets (Inkpen, 1995, 1996). For example, using the authors' definition of scope, General Motors' private benefits should be low in its New United Motor Manufacturing Inc. (NUMMI) alliance with Toyota formed in 1984. The contrary is true. The common benefits and alliance outcomes are limited because of the relative size of the alliance to the partners and the minimal sharing of alliance task management. However, both GM's and Toyota's private benefits have been substantial. NUMMI has evolved to play a key role in managerial development and training for GM, both in the United States and internationally (Inkpen, 1998). More importantly, the learning has gone far beyond manufacturing processes. For example, at GM Argentina's truck plant, more than 60 managers, supervisors, and team leaders have visited or will visit NUMMI. GM Argentina managers openly acknowledge NUMMI as the benchmark for lean production and continuous improvement, quality, and human resource systems.

Finally, Khanna *et al.* (1998) suggest that the ratio of private benefits to common benefits is a factor that determines the stability of the venture. I agree and have argued the same point (Inkpen and Beamish, 1997), albeit with different terminology and a greater emphasis on firm interactions. In the absence of considering other events and alliance motives, Khanna *et al.* (1998) would predict a race to learn in the NUMMI scenario. The reality is very different and even though the ratio of private benefits to common benefits is high for both NUMMI partners, this alliance is very much an example of excellent cooperation. Although the authors discuss the applicability of their model and suggest several ways that the model could be modified, my concern is that the notions of laggards and alliance learning races do not hold up well as valid constructs. I would have preferred to have seen a discussion of the model with an attempt to incorporate additional variables such as alliance motives and exogenous competitive events. The model would have been more complex but also more useful.

KNOWLEDGE RELATEDNESS

The narrow concept of scope also limits the authors' ability to develop the concept of relatedness, which is critical to their arguments. By not developing the relatedness concept beyond the idea of scope, the authors cannot penetrate the rich dynamics of alliance learning. Knowledge relatedness is a key concept in organizational learning theory. As Powell, Koput, and Smith-Doerr (1996: 120) argued, 'knowledge facilitates the use of other knowledge. What can be learned is crucially affected by what is already known.' It has been argued that learning performance is enhanced when the object of learning is related to what is already known and when there is a common language as the basis for interpreting experience (Grant, 1996). In a study of internal knowledge transfers, Szulanski (1996) found that the ability of the recipient unit to value and apply new knowledge was critical for successful transfers. Collectively, these various studies are underpinned by a complex knowledge relatedness concept involving multiple dimensions, such as types of knowledge, knowledge tacitness, knowledge stickiness, and knowledge importance.

THE ORDER OF LEARNING

Khanna *et al.* (1998) argue that private benefits are realized prior to common benefits being realized by both firms. The rationale is that common benefits are available only after both partners have learned enough to creatively synthesize their knowledge bases. This synthesis will only occur after private learning occurs. Again, the concern I have is with the idea that partners synthesize their knowledge for the purpose of learning 'common benefits'. The synthesis of knowledge that takes place is a resource allocation process designed to accomplish the alliance task. In the successful alliances I have studied, joint knowledge creation of the type described by the authors does not occur.

When the authors state that 'such a synthesis [to yield common benefits] is only likely to occur after each firm completes its learning' (Khanna *et al.*, 1998: 197), the authors underestimate the difficulties and challenges inherent in gaining private benefits. While many organizations often talk in glowing terms about their alliances' learning potential, learning is a difficult, frustrating, and often misunderstood process (Inkpen and Crossan, 1995). Firms that are successful at learning recognize the value of their alliance learning opportunities and allocate sufficient resources to capitalize on the opportunities. However, very rarely will the process be as neat and tidy as Khanna *et al.* (1998) assume.

THE DYNAMICS OF LEARNING

In footnote 2, the authors say that Hamel's (1991) concepts of transparency, receptivity, and intent do not shed any light on the understanding of alliance learning dynamics. In describing what is meant by the term alliance dynamics, Khanna *et al.* (1998: 193) refer to firms' 'allocation of resources to learning' and 'the factors that may condition these choices'. The authors make it clear that alliance dynamics should be distinguished from the alliance formation decision. This would suggest that the authors are interested in the evolution of the cooperative relationship after the alliance has been formed. Based on this conceptual definition of dynamics, Hamel's (1991) concepts *do* provide important insights into alliance dynamics. For example, intent to learn was described by Hamel (1991) as the propensity to view collaboration as a learning opportunity and, thus, critical in calculating the pay-off to learning. Clearly, intent will influence the commitment and allocation of resources to the learning process and, specifically, will impact the decision to initiate learning mechanisms. Inkpen and Dinur (1998) found that the combination of type of alliance knowledge and the learning mechanisms used by alliance partners are key factors in understanding how alliance learning does or does not occur.

Khanna *et al.* (1998) identify several types of biases in managerial decision-making to explain why suboptimal behavior may occur. However, the authors largely ignore the concept of learning ability, relegating it to a footnote. They refer to firms as 'faster or slower learners' but provide no insights as to why some firms are better at learning than others. I would argue that learning ability should be a central concept in a theory of alliance learning dynamics (using the authors' definition of learning dynamics as choices about the allocation of resources to learning in an

operating alliance). I have described the problems firms have in identifying learning opportunities and capitalizing on them (Inkpen and Crossan, 1995). I have also identified mechanisms that firms use in their alliance learning efforts (Inkpen, 1996) and note that some firms are better than others at putting these mechanisms in place. The biases identified by Khanna *et al.* (1998) hint at the concept of learning ability but stop just short. The authors assume that as long as the pay-off can be properly valued, the process of learning will occur. Research has shown that even in learning situations involving highly explicit and easily transferable knowledge, the learning process is often difficult and fragile.

ALLIANCE FORMS

A final issue is Khanna *et al.*'s (1998) reliance on a general concept of alliance form. Alliances can have a variety of organizational forms, such as joint ventures, licensing agreements, distribution and supply agreements, research and development partnerships, and technical exchanges. Broadly, the governance structures of the various forms can be differentiated as either equity alliances or nonequity alliances. In various parts of the paper it is implied, although not explicitly stated, that the alliance form of interest is a discrete organization separate from the parents. For example, the authors refer to 'managers assigned to an alliance' (Khanna *et al.*, 1998: 208), which will occur only if there is a separate organization or a clear set of alliance boundaries. In an equity joint venture, assigning managers from the partner firms to the alliance is the norm. In a minority equity alliance, assigning managers to the alliance is the exception, although it does occasionally occur. In many nonequity alliances, the notion of assigning managers does not occur since there is no separate alliance organization and the alliance boundaries are very loose. Managers may be assigned to manage the relationship but they are not assigned to an entity. In other nonequity relationships, a clear alliance organization with a discrete task structure is established. On page 196, Khanna *et al.* (1998) refer to a joint product development agreement, an alliance form that has a very different structure, set of controls, and collaborative process than an equity joint venture.

Because of the many alliance forms that exist (and new forms are emerging all the time), alliance researchers have two choices. One is to focus on a specific form, such as equity joint ventures. The other is to incorporate variables that capture aspects of alliance form. For example, Dyer and Singh (1998) develop a framework for understanding how relational rents are earned and preserved. One of the constructs in the framework is effective governance, which allows the authors to introduce issues associated with different alliance forms. Any general theory of alliances, including one that focuses on learning, is destined to be limited in explanatory power unless the theory deals with alliance form. The dynamics of learning through equity joint ventures are very different than those associated with, say, R&D collaborations or licensing agreements. For example, technology-based alliances are often formed with planned termination dates; equity joint ventures usually do not have a planned termination. Depending on the alliance form, the nature and type of resource allocations will be different, as will the process of learning, motives for learning, competitive dynamics, learning mechanisms, and knowledge types. Thus, when the authors discuss, for example, 'expending resources to stay in the alliance' or 'racing behavior' (Khanna *et al.*, 1998: 200), in the absence of a clear identification of alliance form, the discussion has limited utility from both theoretical and practical perspectives.

CONCLUSION

Khanna *et al.* (1998) raise a number of provocative ideas that are new to the alliance literature. These ideas establish a rich agenda for future research. In particular, further research in the area of suboptimal learning behavior patterns should be a primary issue for alliance researchers interested in learning and knowledge management. However, the paper's contribution to the alliance area would be enhanced with greater attention to process issues. I recognize, and the authors explicitly acknowledge, that the 'modus operandi is to rely on simple, stylized models from economic theory' (Khanna *et al.*, 1998: 197). But, because these simple models are divorced from the reality of alliance management, the models provide only a partial view of alliance man-

agement and the learning process. The race to learn in alliances is an intriguing concept, as is the notion of learning alliances in which the primary objective of the partners is to learn. But, particularly in equity joint ventures, the race to learn is largely a figment of academics' imagination. I have no doubt that the reluctant loser scenario Khanna *et al.* (1998) describe is a reasonably common occurrence, as long as it is acknowledged that the loser was probably never aware that a race was happening. But, a real race to learn requires multiple participants that acknowledge being in a race (you cannot have a race with only one contestant). While I have studied cases where one partner became a reluctant loser, my field research has yet to yield a joint venture that was a true race between multiple alliance partners. Also quite rare is the alliance that truly can be classified as a learning alliance. Learning is often an important alliance motive but will generally not be the primary one (Inkpen and Beamish, 1997). More typical are alliances in which the partners openly acknowledge both asymmetric alliance objectives and an expectation of learning via private benefits.

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