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The role of organizational learning and knowledge transfer in building strategic alliances: A case study

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Abstract

Organizational learning and knowledge transfer are the most valuable assets of today’s companies. As Levitt and March state, organizations learn by encoding inferences into routines that guide behavior which include forms, rules, procedures, conventions, strategies, technologies around which organizations are constructed and through which they operate, structure of beliefs, frameworks, paradigms, codes, cultures and knowledge that support and contradict the formal routines. Routines are transmitted through socialization, education, personnel movement, strategic alliances like mergers and acquisitions. [1]

Organizational learning is an activity, processes of learning in organizations that exists without any efforts, whereas a learning organization is a form of organization which requires effort. [2]

The aim of this study is to investigate the role of organizational learning and knowledge transfer in building strategic alliances within companies.

Keywords: Strategic alliances, organizational learning, knowledge transfer, learning organization

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1. Introduction

Since the 1980’s globalization has triggered significant political, social, cultural, technological and economical changes in the market conditions. With these changes local markets have been replaced by global markets and there has been a big increase of collaboration between companies. As large companies have started using modern management techniques such as outsourcing and divestment of “non-core” activities, they have increasingly cooperated with other companies in order to engage in activities and access resources outside their own boundaries. [3]

As Gibbert cited from Porter, a company’s most important variable in strategy making is the industry that the company competes in. [4] Companies tend to go for strategic alliances to enter global markets, obtain sustainable competitive advantages, enhance the effectiveness of the competitive strategies, access or internalize new technologies and know-how beyond company boundaries and exploit economies of scale and scope or to share risk or uncertainty with their partners. [5], [6]

The article proceeds in the following manner. First, we briefly review the literature regarding strategic alliances, organizational learning and knowledge transfer. Next we conduct our research using qualitative data from a specific company in the PVC profile industry in Turkey. We explain in detail the data collection method, the research model and procedures. Finally, we provide the research findings and discuss their managerial and theoretical implications.

2. Literature Review And Hypotheses

Companies are different from each other in terms of core competencies, strengths and weaknesses and they are not distributed equally. [7] Dyer et al. defined strategic alliances, a fast and a flexible way to access complementary resources and skills that belong to other companies, informal/formal arrangements between companies with a common business objective and a situation with bilateral interdependency. [8], [9], [10] According to Gulati, a strategic alliance is a group of companies making voluntary arrangements about exchanging, sharing, co-development of products, technologies and services. [11] Mohr and Spekman identified strategic alliances as “purposive strategic relationships between independent companies that share compatible goals, strive for mutual benefits and acknowledge a high level of mutual dependence.” [12]

Strategic alliances have become an important tool for achieving sustainable competitive advantage by reason of the ability to increase a company’s knowledge base more quickly and cheaply than outsourcing and to contribute to the efficiency in the application of knowledge. [13] These advantages of strategic alliances are enhanced where there is uncertainty over future knowledge requirements and where new products offer early-mover advantages.

Strategic alliances encompass a wide range of collaborative forms. These forms include long-term supplier-buyer partnerships, outsourcing agreements, technical collaboration, joint research projects and consortiums, licensing arrangements, shared new product development, shared manufacturing arrangements, common distribution agreements, cross-selling arrangements, franchising and ownership links like crossequity holdings and joint ventures. [14]

The past decade has witnessed an extraordinary increase in alliances. [15] The increasing importance of strategic alliances has resulted in growing interest in theorizing about their causes and consequences. However, the diversity of the phenomenon challenges our ability to develop all-encompassing theories. Theories of alliance formation include the creation of market power to generate monopoly rents, resource-
dependency theory strategic options, product complementarities and network externalities and transaction cost theory. [16], [17], [18], [19], [20]

Strategic alliances are considered as one of the shortcuts to gain knowledge through organizational learning. [21] Cyert and March mentioned about organizational learning for the first time in 1963. Organizational learning can be defined as the change in the organizational knowledge. This change can be adding new information, reducing information or transforming information to the present organizational knowledge such as organizational rules, strategies, cultures and talents. [22] Organizational learning can be grouped as routine-based, history-dependent and target-oriented and it includes how organizations learn from direct experience, from experience of others and how organizations develop paradigms for interpreting that experience. Huber states that an organization learns if the gained knowledge is accepted as potentially useful to the organization and its potential behaviors are changed. [23] A learning organization combines the collective intelligence and commitment at all levels of the organization. Senge identifies a learning organization "in terms of continuous development of knowledge and capacity." [24] Huber mentions about four learning-related constructs: 1- knowledge acquisition (knowledge is obtained), 2- information distribution (information is shared and leads to new information), 3- information interpretation (distributed information is interpreted), 4- organizational memory (knowledge is stored for future use).

Table 1. Differences between organizational learning and learning organization

<table>
<thead>
<tr>
<th>Focus</th>
<th>Organizational Learning</th>
<th>Learning Organization</th>
</tr>
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<tbody>
<tr>
<td>Approach</td>
<td>Processes</td>
<td>Organization form</td>
</tr>
<tr>
<td>Aim</td>
<td>Theory building</td>
<td>Increasing the organizational performance</td>
</tr>
<tr>
<td>Existence</td>
<td>Exists naturally, neutral</td>
<td>Needs activity, preferable</td>
</tr>
<tr>
<td>Key question</td>
<td>How does an organization learn?</td>
<td>How should an organization learn?</td>
</tr>
<tr>
<td>Target group</td>
<td>Academics</td>
<td>Practitioners / Consultants</td>
</tr>
<tr>
<td>The result of learning</td>
<td>potential behavior change</td>
<td>existing behavior change</td>
</tr>
<tr>
<td>Learning-performance relation</td>
<td>positive or negative</td>
<td>Expected to be positive</td>
</tr>
</tbody>
</table>


Most of the researches have shown that cooperative agreements between companies provide opportunities for knowledge transfer in terms of identifying, transferring and internalizing external knowledge. [25] A company’s main motivation for entering into collaborative agreements is to transfer organizational knowledge. [26] As Inkpen and Tsang cited from Argote and Ingram, knowledge transfer is the process through which one company is affected by the experience of another and it guides to change in knowledge or performance. [27] Nonaka and Takeuchi differentiate tacit knowledge from explicit knowledge in terms of being personal and context-specific, in other words tacit knowledge is hard to be formalized and communicated. [28] On the contrary, explicit knowledge is easily transmitted in formal language. Knowledge is created as tacit knowledge by individuals then made explicit and shared by social interaction. The Nonaka and Takeuchi Knowledge Spiral model focuses on transforming tacit knowledge into more explicit forms.
Table 2. The Nonaka and Takeuchi Knowledge Spiral

Source: Nonaka and Takeuchi, 1995
The model consists of four steps: 1- socialization (tacit-to-tacit), 2- externalization (tacit-to-explicit), 3- combination (explicit-to-explicit) and 4- internalization (explicit-to-tacit). At the socialization step, face-to-face communication and sharing experiences can be used in order to gather knowledge. This step has a very important role in knowledge creation. At the externalization step, the tacit knowledge becomes explicit and individuals can explain knowledge and know-how. Explicit knowledge can be stored, shared and transferred. Combination step is the improving step that helps recombining various pieces of explicit knowledge into a new form. At the internalization step, shared knowledge and experiences are consolidated and converted into individual mental models. [29]

As Narteh cited from Keller, Toyota and General Motors were said to have formed the NUMMI (New United Motors Manufacturing Inc.) alliance so that they could empower on the knowledge bases to enhance their competitiveness. [30] This example shows us that alliance partner companies like Toyota and General Motors, are able to learn when they jointly enter a new business area and develop new capabilities. At this point we can easily say that knowledge transfer provides opportunities for mutual learning, gaining access to the partner’s skills, cooperation that stimulate the creation of new knowledge and contribute to organizational units’ ability to innovate. [31] Communication, cooperation and sharing are vital elements of a learning organization, therefore knowledge transfer and organizational learning are very important in building strategic alliances between companies.

As Mowery et al.’s study with interesting results showed, this study examines organizational learning and knowledge transfer between companies in strategic alliances. [32]

3. Methodology

This study uses a specific research design. Data were collected from different sources like in-depth interviews with top executives of a specific company in the PVC profile industry to learn more about companies’ strategic alliance building behavior, observation and documents/archival records.

We conducted a series of detailed interviews with the General Manager (GM) and Board Member, Corporate Communication Manager and CFO of Egepen Deceuninck. We asked open ended interview questions and received detailed answers during the interviews. The aim of asking open ended questions is to reach subconscious information by making the top executives speak more about their company. Several important ideas arose during these discussions. Two ideas emerged as especially important factors determining the form and success of strategic alliances in terms of organizational learning: knowledge transfer while building the strategic alliance and knowledge transfer after becoming alliance partners.

Ege Profil A.Ş (Egepen) is a Turkish PVC profile company that had the thought of building a strategic alliance since 1990s. After the first attempt with a German company that was not realized in 1991, Egepen had the full motivation, intention and potential for making a strategic alliance in order to be disciplined while working with a foreigner company. Decenanck Group NV is a Belgian company that grounded its growth strategy on company acquisitions in different countries. Egepen and Decenanck Group NV spent two years in building the strategic alliance with three disengagements. While building a strategic alliance with a foreign company, Egepen expected to improve its corporate discipline and institutionalization. The integration between two companies was provided by IT integration. Decenanck NV did not interfere in the organizational structure of Egepen while building the strategic alliance. The key of the success achieved in Egepen can be specified as “local for local”. Decenanck NV let Egepen work with the same organizational structure and employees as it accepted the company as it is. Egepen was successful and there was no need to interfere in the organizational structure. Egepen moved its
product groups into the same platform with its alliance partner and this change provided them export opportunities. Egepen learned stock/inventory management, order and sales entry and the importance of “budget” by the helps of IT integration in terms of knowledge transfer. Before the strategic alliance, Egepen used to prepare an annual budget in April of the same year but now it prepares the annual budget in October before the upcoming year. The change in the budget perception is very important because consistent, operative, effective and on-time budget is an important financial control tool for a company. It shows that a radical change in the management insight of Egepen resulted because of the strategic alliance and we can state that Egepen was successful to settle the idea of making a budget and follow it strictly. In terms of knowledge transfer, Egepen transferred SAP (a finance and accounting software) and Deplis (a specific PVC profile industry software program, developed by Deceuninck NV) software programs from its alliance partner. SAP and Deplis provided Egepen to be in the same platform with the group companies, make benchmarking and follow the trends in America and Europe easily. Before the strategic alliance, Egepen used to have a market share of 7-8% ranking among the first ten companies in the Turkish PVC profile industry; but after the strategic alliance Egepen took the first place and became the market leader. The revolutionary change in the strategic management insight of the company occurred in the market position of the company. Egepen used to follow the trends before the strategic alliance, but now it is transferred into a company that creates the trends and is followed by others. As an emphasis, this change is a revolutionary change in strategic management of a company. Egepen increased its endorsement rate in the Deceuninck NV group companies from 4% to 18%. We can suggest this strategic alliance between Egepen and Deceuninck NV as a “best practice” because Egepen can be counted as one of the model companies operating in Turkey with its own organizational culture though having an alliance partner from a different country. The organizational coordination of Egepen was influenced by the strategic alliance in a very positive way. Both of the companies have the same idea about the strategic alliance, “getting together to win more”, that is why Egepen was not demoralized by being sold to another company and Deceuninck NV did not have an autocratic manner for buying the company. Egepen gained a lot of abilities and improved its existing capabilities after the strategic alliance in areas such as investment, organizational transfer and management. Egepen is now in charge of management of group companies in Australia, Middle East and Northern Africa and establishment of a group company in India. Egepen is said to be “the gateway to export” in the group companies, for this reason Egepen exports to Chili, Morocco, Qatar, India, Romania and Ukraine. Deceuninck NV placed Egepen, its Turkish alliance partner, to the forefront in export and leading for the management of some organizations which shows that knowledge transfer succeeded not only in one alliance partner but also for the both of the alliance partners. In the PVC profile industry there is no better example with these results because of a strategic alliance.

4. Analyses and Results

It is very important for a company to obtain positive results in terms of knowledge transfer, organizational learning and becoming a learning organization. As we examined in our case study, the strategic alliance between Egepen and Deceuninck NV is a very good example of a strategic alliance. When the Deceuninck NV group successfully acquired Egepen, they decided to make one more acquisition in Turkey. In the PVC profile industry, there was a competitor company of Egepen namely Winsa, and Egepen Deceuninck also acquired this company. Winsa used to sell 4.000 tons to the domestic market and after the acquisitions its financial performance increased steadily. For 2011 Winsa has a goal for 14.000 tons of product to the domestic market. The factory of Winsa was moved from Adapazarı to Izmit after the acquisition in order to increase the production. In other words, Egepen was first acquired by the Deceuninck NV group and Winsa was acquired by Egepen Deceuninck. This is one of the distinctive features of the case study because the company chosen for the study has experience in acquisitions from direct experience two times.
For the first interview question, we can specify that Egepen has some strategic goals for building a strategic alliance such as experience sharing, exchanging ideas, co-development of products, technologies and services like Gulati identified. After the strategic alliance, Egepen became more disciplined, integrated and learning. Egepen succeeded in reaching the targeted company goals after building the strategic alliance. Before the strategic alliance there was no IT integration, export experience and budget perception; but after the alliance Egepen started using SAP and Deplis software programs and completed its IT integration, gained export experience and learned the importance of “budget”. This shows that Egepen was successful in organizational learning in terms of gaining new information, transforming information to the present organizational knowledge, learning from direct experience and from experience of its alliance partner. Egepen and Deceuninck NV is a very good example of a strategic alliance. We hereby want to emphasize the importance of “local for local” for the success of strategic alliances. As stated in the third interview question, Deceuninck NV did not interfere in the organizational structure of Egepen and Egepen did not make any organizational structure change. We can easily say that organizational learning transformed into a process by integration. Egepen moved its product groups into the same platform and started exporting, had the chance for benchmarking and renewed its IT software. As Mohr and Speakman identified, Egepen and Deceuninck NV have a purposive strategic relationship that share goals and mutual benefits. For the fifth question, the strategic alliance between Egepen and Deceuninck NV can be described as a tool for achieving competitive advantage quickly and cheaply than outsourcing. Egepen started to use new software programs and completed its product and IT integration and Deceuninck NV found a quick export gate from a foreign country, shared its responsibilities in areas like establishing new companies in other companies and organizational transfer. Egepen was successfully able to realize drastic changes in its strategic management and understood the importance of “budget”, transferred into a company that creates trends and is followed by others and transformed tacit knowledge into more explicit forms. As Nonaka and Takeuchi explains in their Knowledge Spiral model, Egepen had four stages of socialization, externalization, combination and internalization steps in the strategic alliance. Egepen moved its product groups into the same platform with its alliance partner and completed IT integration. These changes can be specified as changes in the organizational coordination that provide the company to make benchmarking and more production as explained in the seventh interview question. After building the strategic alliance, Egepen gained abilities in a variety of areas like management, organizational transfer, export, integration, working concertedly with a foreigner alliance partner, benchmarking, knowledge transfer and organizational learning. Egepen could not make any change in the Human Resoruces Management (HRM) policies for being in a totally different economical environment, financial conditions, geographical situation and having employees from different backgrounds and culture. For 2011, Egepen has a goal for taking Human Resources as a “priority” and keeping pace with the Deceuninck NV group companies. This area is the only static area in the strategic alliance and as stated in the last interview question Egepen should make progress in the near future.

5. Conclusion

Egepen has been very successful with the knowledge transfer in the strategic alliance. We can state that we were expecting the same success level for organizational learning with knowledge transfer but there are still some points that should be improved by the company in areas like HR and HRM. In terms of strategic management, there have been many drastic changes like gaining budget perception, management experience, organizational transfer and re-positioning from a trend-follower to a trend-setter company. With our findings, we want to define the strategic alliance between Egepen and Deceuninck NV as a “best practice” for the important role of knowledge transfer in strategic alliances.
This study was conducted by only one company in Turkey. Future researchers may wish to consider other companies and may have different findings. We recommend for future researchers to extend this study with other case studies from different countries and make some inter-cultural comparisons within the companies.

References

Appendix A.

Open Ended Interview Questions:

1- Is there any specific reason to build a strategic alliance for Egepen?
2- What is the level of reaching the targeted company goals after building the strategic alliance?
3- Is there any change in the organizational structure because of the strategic alliance? How?
4- Did the organizational learning transformed into a process?
5- Is there any change in the organizational knowledge system after the strategic alliance? Is there any change in hardware, software or technological system? Is there any change in the management information system?
6- Is there any change in the strategic management because of the strategic alliance?
7- How was the organizational coordination influenced by the strategic alliance?
8- What kind of abilities and in which areas did Egepen gain after the strategic alliance?
9- Is there any change in the Human Resources Management policies because of the strategic alliance?

About Egepen Deceuninck: Started in 1981 and now ranking as the leader of the PVC profile industry in Turkey, Ege Profil A.Ş. and Deceuninck Group NV which is the largest PVC profile manufacturer in the world became major shareholders in 2000. Egepen brand has been integrated with the customer-oriented approach, high technology and quality principle of Deceuninck Group NV which is specialized in compounding, design, development, extrusion, finishing and recycling fields. Ege Profil A.Ş adopted the horizontal organization structure in 2001 and training courses were organized for the staff. Employees in each position were encouraged by the management to use initiative and to share powers and responsibilities. Ege Profil A.Ş operates a factory covering a surface area of 57,000 m², an equipment pool of 50,000 tons and employs 364 people. Ege Profil A.Ş developed a manual named Corporate Behavior Rules based on its motto “We are a family” in order to make this company a special workplace having a unique mutual respect and ambition atmosphere, and function in accordance with the same common values as its parent company. Ege Profil A.Ş’s mission is to function as a global and integrated company, to supply high value-added PVC-U window and door systems over a wide range, and fulfill customers’ expectations. [33]

About Deceuninck NV: Deceuninck NV is a Belgian group specialized in compounding, design, development, extrusion, finishing and recycling for the building industry, having achieved a turnover of 662.5 Mio Euros and integrated worldwide. The Group is active in 75 countries, has 31 subsidiaries in production and/or sales, and employs 2,900 people, 710 of whom are based in Belgium. This group operates factories and offices in Germany, USA, Australia, Bulgaria, Czech Republic, France, Croatia, Netherlands, United Kingdom, Ireland, Spain, Italy, Lithuania, Poland, Portugal, Romania, Russia and Thailand. Deceuninck NV’s mission is to operate as one global integrated company, to deliver a large range of products, to provide quality products and services, to provide customer satisfaction at highest level. The Group made a good investment by becoming a partner of Ege Profil A.Ş. in Turkey and
increased its shareholding there in 2001. Two years later, Deceuninck Group acquired Thyssen Polymer GmbH and achieved to be the global leader of this industry. After acquiring a shareholding of Detajoint, a TPE seal manufacturer based in Belgium, Deceuninck began to manufacture and market the Zendow series of products. [34]