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The Knowledge Link: How Firms Compete Through Strategic Alliances

By Joseph L. Badaracco, Jr. (Boston: Harvard Business School Press, 1991, 1989 pp., \$24.95)

The Knowledge Link tells half of a very important story. A fundamental assumption of business strategy analysis and practice is that firms and their markets can both be precisely defined. Joseph Badaracco's book stands the first half of that assumption on its head. That is, the essence of his argument is that firms can no longer be thought of as neatly packaged entities with definite legal boundaries. Instead, because of the plethora of strategic alliances engaged in by large corporations today, boundaries of those firms are irrevocably blurred. When you consider the untold other half of the story—that markets are becoming decreasingly definable—then traditional strategic analyses become nonsense. Common-knowledge strategic notions such as market share lose all meaning when neither the numerator (firm's sales) nor the denominator (industry sales) can be clearly defined and accurately measured.

The half of the story that Badaracco does tell comprises an excellent book. I must say that his firms of focus, IBM and General Motors, are unfortunate choices given their current world-record-setting losses. However, his explanations of how strategic alliances should work and why they are crucial in the competitive environment of the 1990s is insightful and comprehensive. I particularly appreciated the historical perspectives of the author's presentation. My only major criticism of the book is its lack of discussion of human resource issues related to strategic alliances. The author continuously emphasizes the importance of communication between corporate partners, but gives almost no attention to who manages the corporate interfaces described. The book seems to imply that corporations talk to one another, when in reality it is people in the corporations who do the talking.

In the Introduction the author concisely lays the foundation for the book using historical metaphors. He likens the autocratic management style of post-war American firms to the overseeing of medieval fortresses ("The Citadel Paradigm") and the management approaches required in the 1990s to the diplomacy that made Renaissance Italian city-states prosperous ("The City-State Paradigm"). Though I found the historical perspectives fascinating reading, the author might have just as easily compared what is to come in the United States to what has been in Japan. That is, the Japanese approach to management in the 1970s and 1980s incorporates almost all the recommendations the author has for American firms of the 1990s (see Pascale and Athos 1981). However, I do appreciate Badaracco's dilemma here—these days most American managers would rather learn from Renaissance Italians than modern-day Japanese. Moreover, the Japanese economy currently seems to be going the same way as IBM and General Motors, so perhaps it is fortunate that the author didn't choose the more modern metaphor.

Also in the Introduction, the author delineates key definitions and useful statistics to provide a context for his later arguments. He advocates that knowledge must be added to the classical economic calculus of the sources of wealth—land, labor, and capital. He defines strategic alliances (p. 6) and describes in detail their extent for IBM and General Motors: "Through scores of new arrangements, they have joined forces with competitors, customers, suppliers, government agencies, universities, and labor unions." In his explanation of the traditional reasons for corporate alliances he ignores the "natural selection/consolidation" explanation. That is, alliances can be thought of as a way in which the numbers of competitors are reduced. However, he does provide a more positive explanation of his own: Ultimately it is the "globalization of knowledge" that drives companies toward strategic alliances. And he develops this last theme, knowledge-driven corporate evolution, in the remainder of the book.

Throughout the book, Badaracco raises questions that deserve empirical investigation by his academic audience. However, he describes the gauntlet of complexity facing research of this phenomenon (p. 9): "The traditional motives for discrete acts of cooperation do not answer any of these questions adequately. Nor can a simple, single-factor line of reasoning. The answers involve forces that are at once economic, social, administrative, and political. These factors influence each other, often with changing weights in different circumstances. Nevertheless, a basic pattern emerges from the mosaic of influences. In powerful ways, knowledge-driven forces are reshaping competition, creating new problems and opportunities for firms, and leading managers to build more alliances."

Chapter 1, "The Globalization of Knowledge," provides necessary context I suppose, but I found it unremarkable and certainly tangential for marketing readers. On page 29, the author casually mentions that some 13,000 Japanese are studying science and technology in the United States as evidence that knowledge is spreading rapidly around the globe. However, here he misses the key point: Americans are not studying in Japan, or anywhere else for that matter, in the same kinds of numbers. Yes, knowledge is being spread around the world from the United States, but because of our language deficiencies and ethnocentrism, we learn little about innovations in other countries.

In Chapter 2, the author defines "migratory knowledge" as that which is "packaged, articulated, and mobile." The speed of migration is determined by the recipients' capabilities to "open the package" and his/her incentives to do so. Migratory knowledge can be packaged in designs, machines, or in *individuals'* minds. This chapter is loaded with ideas relevant to new product development and planning. For example, in the first paragraph Badaracco succinctly debunks the "country-of-origin" issue. He also illustrates how knowledge creation can outpace relevant patent laws in his discussion of biotechnology. He provides an impor-

tant explanation why imitators often make good innovators: "imitators may not be shackled by the traditions, customer requirements, or standard operating procedures of the inventors and so are freer to create new combinations" (p. 40).

Sadly, a crucial problem for Americans and American firms is given only the most meager mention here—six lines on page 45 of an 189-page book. I quote for emphasis: "The last condition for the migration of knowledge is that no barriers should prevent it. Language is often an obstacle. Even though English is the international scientific language, many documents and journals are published in other languages and therefore remain inaccessible. This is true, for example, of more than 10,000 Japanese technical publications."

The ethnocentricity and arrogance of IBM and General Motors comes through loud and clear in Badaracco's discussion of Product Links in Chapter 3. In explaining the strategic intent behind a number of foreign alliances of both giants, he lists several factors: filling out product lines, cutting costs, reducing risks, accelerating products' speed to market, building flexibility, guiding the migration of knowledge, and monitoring and/or neutralizing competitors. Certainly IBM and GM's foreign allies were in the game to get knowledge and technology. How can it be that IBM and GM didn't see or seek some of the same kinds of benefits? This arrogance is again well demonstrated in another of the author's comments (p. 56): "In many markets, there are some customers who are so price-sensitive or so ill-informed that they will buy products of low or dubious value." I surmise that the author here reflects the views of the executives at the two corporations at which he spent so much time interviewing.

In Chapter 3, the author again briefly raises human resource issues, but more as an aside and certainly not as foci of concern. For example, he does mention the problems of persuading talented people to work on non-mainstream products and programs such as alliances. However, his discussion of "coordination costs" clearly evinces the narrowness of GM's thinking about alliances. The GM employees working with Suzuki were considered income-statement costs rather than conduits of knowledge that would generate long-term benefits. As part of these costs Badaracco also mentions programs for "retraining employees to enable them to deal effectively with an ally." Isn't employee training best thought of as an investment? Furthermore, the author mentions nothing about the content of such training programs.

Chapters 4 and 5 are the heart of the book. The "new" kind of alliances, the "knowledge links" detailed in the latter, make possible the transfer of the "embedded knowledge" described in the former. Embedded knowledge cannot be easily packaged, articulated, or transferred. Badaracco says it best (p. 87): "Toyota's knowledge of how to make cars lies embedded in highly specialized social and organizational relationships that have evolved through decades of common effort. It rests in routines, information flows, ways of making decisions, shared attitudes and expectations, and specialized knowledge that Toyota managers, workers, suppliers and purchasing agents, and others have about different aspects of their business, about each other, and about how they all can work together. None of these parties knows what Toyota as a whole 'knows' about making cars." The author goes on to emphasize that the transfer of such embedded knowledge is enhanced by "networks of personal relationships" and not by legal contracts between allies.

There is also in Chapter 4 a glimmer of the other half of the story to which I referred in the beginning of this review. Badaracco predicts (p. 102) that "the traditional boundaries separating a number of industries will collapse. The automobile industry once considered mature, will rapidly demature and will enter a long period of turbulence and ferment." Or, how do we define or delimit the market for computers? Should information systems be included? Where does AT&T fit vis-a-vis IBM? Indeed, another book might be written focusing on the changing boundaries of in-

dustries and/or markets. Others have raised these issues before; perhaps Levitt (1975) is the most obvious example. But the accelerating pace of change in this "information age" warrants fresh attention.

The author provides descriptions of three sorts of knowledge links in Chapter 5: the ideal, those of IBM, and those of General Motors. He ascribes the purposes of such knowledge links as nothing less than the learning and creation of knowledge that ultimately transforms the strategic allies in fundamental ways. Though product links have traditionally involved alliances with competitors, knowledge links can be with any kind of organization, governments, or even universities, that is, any organization that has a special capability to contribute. He also reasons that knowledge links are necessarily "more intimate" than product links. Personnel from each organization must work closely together.

The management prescriptions in Chapter 6 are generally useful but lacking in two meaningful respects: First, Badaracco tells us that the choice of the partner is pivotal. But he gives little guidance on how to choose a good partner. He does say that when companies' values match, the chances of success are greater. He also recommends small preliminary projects as tests of fit. We cannot blame the author for this gap in his advice, because actually there has been little study of this "pivotal" topic. Indeed, included in the Marketing Science Institute's most recent call for research proposals is a section soliciting work in this area.

The second limitation of his prescriptions is the inattention he gives to human resource considerations. This is not surprising given that it is much easier to change corporate strategy than it is to change hiring practices and career paths. But the intimate communication and strong personal relationships the author advocates require personnel with foreign language skills and career paths that allow for long-term relationships with counterparts in allied companies. Training programs can help some—for example, Ford Motor Company has found it worthwhile to put more than 1000 of its executives through in-house training programs aimed specifically at enhancing alliances with its numerous Japanese partners. But at our largest companies in particular, adjustments in human resources practices seem to trail corporate strategies by at least five years.

The most enjoyable and perceptive aspect of Badaracco's writing is the historical perspectives he provides. Indeed, he concludes the book with great profundity (p. 154): "Against the broad sweep of the history of commerce and business organization, companies as citadels—clearly defined zones of ownership and control surrounded by market relations—are the anomaly." This insight goes far beyond the cycles of joint venture incidence hypothesized by Benjamin Gomes-Casseres (1985).

I was quite annoyed to find the wealth of information included in the 25 pages of notes at the back of the book. I would have much preferred to see this useful material in the text, or at least at the bottom of each of the associated pages of the text. Otherwise the book is well written, concise, clear, and engaging.

It has been my job to criticize. In the material presented I find few weaknesses. My only complaint is the lack of attention to some key issues related to corporate alliances. I am sure that the author would agree that much more work needs to be done in this area. Indeed, perhaps the most interesting question is, Can we really expect our knowledge about knowledge links to keep up with the accelerating change that begets the organizational form? Perhaps not, but *The Knowledge Link* is a most worthwhile book on the subject. It certainly deserves the attention of those engaged in the corporate alliances of today and the future.

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