

## **Strategic Alliances – A Marriage of Convenience or a Matter of Trust?**

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## **Strategic Alliances – A Marriage of Convenience or a Matter of Trust?**

This paper examines how members of a strategic alliance (referred to as the *Alliance*) develop knowledge through networking relationships that may or may not contribute to competitive advantage. A 1994 survey of *Alliance* general managers revealed that the reasons they gave for joining were related to maintaining and improving competitiveness through sharing management know-how, training costs and programs, engaging in joint tendering and increasing market share (Fulop and Kelly, 1995). Ten years later, in 2004 and again in 2008, the authors revisited the *Alliance* in order to discover whether some of these objectives had been achieved, the forms of learning that may have occurred among partners, and the role that trust has played in the knowledge sharing processes.

**Keywords: Strategic alliances, RBV, competitive advantage.**

Networks and alliances have frequently been referred to as co-operative partnerships between two or more organizations formed to create competitive opportunities for their mutual advantage (Walton, 1999). Consequently, the study reported in this paper aims to discover whether trust between co-operative partners can move alliance relationships beyond just a ‘marriage of convenience’ where participants in collaboration experience long-term and continuing relationships – as one might expect in a ‘successful’ marriage. Conversely, they may experience disappointment in their relationships and wish to obtain a divorce.

The paper begins by reviewing relevant literature concerning trust and strategic alliances, then various forms of capital and organizational performance before moving on to discussing the Alliance background. The methodology outlines the model used for the surveys which utilized a relationship market orientation (RMO) (comprising trust, bonding, communication, shared values, empathy and reciprocity) concerning the influence of knowledge sharing within strategic alliances. Finally, the findings and implications of the study are discussed.

## **THE ROLE OF TRUST IN STRATEGIC ALLIANCES AND NETWORKS**

Trust has become a central concept in the study of inter-organizational collaboration (Lane and Bachman, 1998). Increasing numbers of writers point out that trust is the foundation of any alliance effort (Arino et al, 2001; Howarth et al, 1995, Lynch, 1993) and for the development and sustainability of inter-organizational collaboration (e.g. Ring and Van de Ven, 1992, 1994). Rather than being a resource for establishing collaborative relationships between organizations, trust is said to be an essential component of their constitution (Clegg, 2000). It has been argued that the primary motive for an alliance is a response to a market opportunity between partners who would normally be in a competitive situation. This can result in a volatile state of 'competitive collaboration' (Doz, 1996) where trust between competitors is even more important because the risk of opportunistic behaviour is higher. Where organizations share resources and information openly with other participants they will generally seek to reduce opportunistic behavior through the mutual understanding and goodwill of parties. Then again, trust is not static; it is a dynamic process that evolves according to the development of the relationship (Clegg, 2000). Hence, an unsuccessful alliance could end in separation or even divorce.

## **SOCIAL, HUMAN, PHYSICAL CAPITAL AND FIRM PERFORMANCE**

As stated previously, this paper investigates knowledge sharing within a strategic alliance (referred to as the *Alliance*). Alliances may be bilateral or multilateral. The Alliance reported in this paper is multilateral in that it comprises over 100 manufacturing and engineering companies based in the Hunter Region of New South Wales, Australia. Accordingly, the relationships reported in the paper are not monogamous but polygamous and hence, some may be more effective than others.

Arino et al (2001) maintain that regardless of the size, form, or objectives underlying a strategic alliance, one factor that serves to distinguish them from other forms of inter-firm behaviour is the need to establish relationships between the parties that make up the strategic alliance. Further, they put forward that the quality of relationship enjoyed by parties within the strategic alliance

will depend upon the degree to which those parties have come to rely on trust in their dealings. This is apparent from this study of the strategic alliance. For example, members of this alliance banded together to come up with their own solution for the shortage of trades people which was to employ apprentices amongst themselves by forming their own group training company. “As the trust developed between the group of companies their association and joint vision made it easier for them to consider 'sharing' apprentices. As was common across industry most small businesses were not engaging their own apprentices due to a combination of factors including their ability to provide adequate exposure to a sufficient range of skills” (*Alliance website, 2005*). Of course apprentices are a tangible resource but these co-operating firms were also in the process of building their company capital. Company capital can be manifest in three forms according to Coleman (1988, p. 101), these are - physical, human and social capital:

- Physical capital is the tangible and financial assets of a company – it is easy to measure in monetary terms through economic and accounting systems
- Human capital concerns the characteristics (knowledge and education) of people employed in a company.
- Social capital relates to the social relations with people both within and outside of the company. Social capital belongs to at least two parties and it takes more than one person to build it up.

It has been suggested that interplay between the three forms of capital can help to create new capital – for example the building of social capital can lead to increases in human and physical capital (as explored later in this paper). Levin et al (2003) sought to determine the factors that a knowledge seeker uses to evaluate the trustworthiness of a knowledge source and came up with four. Jakobsen (2003) suggests that it is the ability of the company to interact with relevant partners that will influence the profitability of the entire capital and, consequently, the economic performance of the company.

Knowledge sharing does not, of course, occur in isolation. Mechanisms need to be in place to assist the sharing of information and ideas between individuals and they need to possess the skills whereby they learn about and from each other. As such, a range of HRD strategies can support synergies in knowledge management to enhance learning within strategic alliances such as inter-

firm HRD learning support networks, communication strategies, benchmarking and inter-firm working groups. This study will explore relationships between the capability of relationship market orientation (comprising trust, bonding, communication, shared values, empathy and reciprocity as per Sin et al's 2005 measure), knowledge integration and competitive advantage within the Alliance reported here. Relationship marketing has been defined as "establishing relationships with customers or other parties at a profit by mutual exchange and fulfillment of promises" Gronroos, 1991, 8). In this case relationship marketing refers to the partner relationships within the strategic alliance.

### **RELATIONSHIP MARKETING ORIENTATION AND THE RESOURCE BASED VIEW**

The main goal of strategy theories is to explain a firm's sustainable competitive advantage (Cavusgil et al., 2007). One group of theories takes an outside-in approach to strategy and emphasizes external issues (i.e., Industrial-Organisational Economics, Bain, 1959). The other groups of theories take an inside-out approach and argue that firm capabilities explain more variance in sustainable competitive advantage (Barney, 1991) The Resource Based View of the Firm is the first of the theories to clearly articulate an inside-out approach to strategy. The RBV proposes that sustainable competitive advantage exists in possessing key capabilities (Fahy and Smithee, 1999). It also argues that these capabilities should; *valuable, rare, inimitable, and non-substitutable* (VRIN) (Barney, 1991; Barney, 2001), in order for them to be a source of competitive advantage. Essentially the RBV proposes that these attributes serve as barriers to competitive imitation, enabling the firm to sustain competitive advantage via the uniqueness of its asset base.

Although, the RBV has been a useful strategic framework, it has been questioned in the context of dynamic capabilities (Teece, et al., 1997; Teece, 2007). In dynamic markets characterized by market changes, this theory argues that dynamic capabilities become the source of sustained competitive advantage (Eisenhardt and Martin, 2000). Therefore, the goal of the DCP is to explain firm performance in markets that are uncertain and volatile (Teece et al., 1997). In

integrating the RBV and the DCP, Cavusgil et al., (2007) argue that the DCP is a new version of the RBV. However, there are some differences that are highlighted in Table 1 (Cavusgil et al., 2007). For example, as illustrated the RBV does not take into account environmental turbulence.

**Table 1 here**

This paper adopts Teece et al.'s (1997: 516) definition of dynamic capabilities and defines it as the firm's "ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments". We adopt the Dynamic Capability Perspective (DCP) and argue that the Relationship Market Orientation construct is a dynamic capability, as it not only possesses the VRIN attributes, but allows the strategic group to reconfigure resources and take into account the dynamic nature of the environment that the groups of firms are engaged in. Furthermore, Sin et al. (2005) empirically validate their hypothesis that RMO is related to business performance (i.e., market share and ROI). Based on the literature reviewed the following hypotheses are proposed and Figure 1 graphically illustrates the hypothesized relationships.

**Figure 1 here**

**H1: Relationship Market Orientation positively effects competitive advantage**

Knowledge transfer involves the spreading of knowledge from an individual level primarily through fluid communication (Jerez-gomez et al. 2005). Knowledge integration involves the transfer of information at the group level (that is integration of the knowledge that has been acquired at the individual level (Senge, 1990) It is argued that firms involved in strategic *Alliances* are more likely to be involved in knowledge transfer and integration when the behavioral characteristics found in RMO are present (trust, empathy, and communication). In other words, characteristics such as trust, bonding and communication allow individual *Alliance* partners to be more open, informal in their dealings with each other which facilitate the transfer and subsequently the integration of knowledge at the macro or group level. Therefore the following hypothesis is proposed. **H2: A Relationship Market Orientation positively affects knowledge transfer and integration.**

This paper further argues that the correlation between a relationship market orientation and competitive advantage is mediated by knowledge integration. In other words, the qualities embedded in relationship market orientation (that is trust and reciprocity); provide a basis for knowledge integration, which then provides the foundation for competitive advantage. This is because RMO creates and shapes knowledge transfer and integration, which, in turn, determines competitive advantage. **H3: The contribution of relationship market orientation to competitive advantage is partially mediated by knowledge integration.**

### THE ALLIANCE

The Regional Business Network where this study took place is referred to as ‘the *Alliance*’ throughout this paper. As stated previously the strategic *Alliance* reported in this paper is multilateral in that it comprises over 100 manufacturing and engineering companies based in the Hunter Region of New South Wales, Australia. The *Alliance* has four membership classes. Member companies range in size from 10 to 150 staff with a collective workforce of 1700 people and a combined annual turnover of \$200 million. Of the 106 members these comprise large ‘patron’ organisations that support the network, sponsors that offer service provision and support (both classes in the form of financial support), facilities, advice and similar. General members are small-to-medium (SMEs) that are involved in the Hunter region engineering, manufacturing and services sector. Associates are micro-businesses that are involved in service provision or engineering. All classes of membership have an opportunity to contribute to the network but the focus of this study was the 67 general members. Alliance members shared training together, workshops, tendered for projects together and used member knowledge as a valuable resource (as discussed in the findings section). Before relationships matured however, they had need of a third party the Alliance Officer Executive who could be said when pairing member firms together to be playing the role of a marriage broker.

## METHODOLOGY

A survey was developed in order to tap the key constructs of relationship market orientation, knowledge integration and competitive advantage and a small number of interviews were carried out with key *Alliance* members in order to determine some of the factors that would assist in explaining the survey findings. Surveys and interviews were undertaken both in 2004 and in 2008. First, the survey development and findings will be outlined; next the interview data will be discussed before any conclusions are made.

### *Survey development and findings*

Relationship Market Orientation was adapted from Sin et al. (2005) and is a second order factor. The twenty two item scale included items such as “We share the same worldview and we work in close cooperation. Knowledge integration was adapted from Jerez-gomez et al. (2005). The factor included four items such as “Being an *Alliance* member has not resulted in any strategic advantages for us”. Competitive advantage was adapted from Jap (1999). The four item scale included items such as “We have gained strategic advantages over our competitors”.

In all instances a seven point Likert scale was utilized to measure these constructs. The anchors for relationship marketing orientation, knowledge integration and competitive advantage “strongly disagree” to “strongly agree”. The *Alliance* general members comprise of 67 members. We received 33 surveys which was a 50% response rate. Partial least square (PLS) was used for the main analysis primarily because it is an appropriate structural equation modeling approach for small samples (Chin and Newstead, 1999). PLS is considered a valid approach for testing multiple relationships and is founded on a soft modeling technique (Falk & Miller 1992) that applies multiple indices to evaluate a theoretical model, including  $R^2$ , average variance explained (AVE), averaged variance accounted for (AVA), regressions weights and loadings (O’Cass, 2001).



As the conceptual model is one-tailed, critical ratios determined by the bootstrap method are; 1.645 is significant at the .05 level, 2.326 at 0.01 and 3.090 at 0.001 level. The critical ratios obtained from bootstrapping suggested that the outer model for the second order construct: the relationship market orientation (trust, bonding, communication, shared value, empathy and reciprocity) was significant. However, two items were deleted, one relating to communication and one relating to reciprocity, as their critical ratios were below 1.96. Furthermore, for the first order constructs, only one item related to knowledge integration was deleted due to the low critical ratios. The composite reliabilities were as follows; RMO (.930), Knowledge integration (.786) and competitive advantage (.919).

In the context of the inner model and the hypotheses, the results show that two of the hypothesized paths are significant as evidenced by critical ratios greater than 1.645. For example, the critical ratio for the relationship between RMO and knowledge integration was 8.08, the critical ratio for the relationship between RMO and competitive advantage was 2.93 and the critical ratio for the relationship between knowledge integration and competitive advantage was less than 1.645. Therefore the results suggest that knowledge integration does not lead to competitive advantage. The R<sup>2</sup> for knowledge integration is .483 and R<sup>2</sup> for competitive advantage was .534, which show substantial variations in the dependent variables.

#### ***Differences and similarities between the 2004 and 2008 Survey***

The 2008 survey was completed by 31 respondents as opposed to 18 in 2004. The PLS results for this data set suggest that the relationship between RMO and knowledge integration and RMO and competitive advantage is significant, however, the relationship between knowledge integration and competitive advantage is not significant. This suggests that there is no partial mediating affect for the 2008 data (as opposed to the 2004 data). Furthermore, an example of the mean

scores for some of the items suggest that Trust, Reciprocity, Bonding, and knowledge integration is similar (e.g., 2004 Trust: 4.2/5, 2008 Trust, 4.1/5. However, the mean scores for communication, shared values empathy and competitive advantage were different. For example for competitive advantage the mean score in 2004 was 3.7/5 but for 2008 was 3.4/5.

As stated previously in order to provide more insight into the key factors affecting knowledge sharing within the Alliance several members were interviewed. It was determined that the type of knowledge shared amongst members ranged from business to strategic knowledge. One interviewee felt that knowledge sharing within the network was an opportunity to build relationships more informally than when undertaking day to day business. Thus, it was considered a way in which to enhance relationships. Another teamed up with other Alliance members for tenders as his own company possesses skill sets that others do not have and vice versa so each could provide their own expertise as an additional resource.

Other factors the interviewees said they would like from *Alliance* membership was to gain and share information about: the impact of global factors, that is, what is happening in the work environment for manufacturing. For example, is one company having a bad time or are all in the sector, they also gain specialist knowledge through guest speakers, operate as a lobby group to government – particularly in the current climate where many are unable to function as they would like to due to severe trades skill shortage. Informal knowledge sharing also occurred through members communicating with each other to determine pay rate for certain positions and whether or not they should close their companies for a ‘show day’ as it was not clear cut in 2008 as it had been in previous years.

When asked which aspect of their company capital (physical, human or social) was influenced most by *Alliance* membership all interviewees stated that it was the social capital. All said that developing the social capital can impact on the other types of capital. As the firm one interviewee stated “it is definitely the social capital which dominates as it can impact on human capital and physical capital (particularly for the smaller firms)”. One interviewee (a member and previous

Board executive) indicated that the Alliance had exceeded expectations and could now be considered a victim of its own success. For example the board members used to decide how to pursue potential members in order to grow the network whereas now they are taking steps to limit membership as it was getting too big. He argued that the size of the Alliance was now a problem as meetings were getting too long – so that guest speaker time was shortened in order to get allow for networking before and after. The challenge was to keep the Alliance relevant as turnover of members was very low and attendance at meetings very high. It was also pointed out that there was no mentoring system for new members joining the Alliance so they had to find their own way and therefore it could be some time before they began to build relationships with other Alliance members or share knowledge with them in any meaningful way. In the early days of the Alliance members had more interaction with the executive officer (EO) - referred to earlier in the paper as a marriage broker – but now that level of intimacy was no longer possible as the Alliance was too big and the EO too busy.

Moreover findings from the 2004 interviews indicated that knowledge capture was not occurring in any formal way. This meant that knowledge sharing was generally tacit (except for what was shared in the tendering processes) and only firm successes were shared publicly rather than mistakes – and this was likely to remain that way given the increasing size of the Alliance. This comment was reinforced by the survey data indicating that knowledge sharing occurred mostly at the surface level. For example, when statements referring to knowledge integration and transfer were posed in the survey the statements ‘errors and failures are discussed and analysed amongst *Alliance* members’ and ‘the *Alliance* has instruments that allow what has been learnt in the past situations to remain valid, even when members leave’ received low responses while ‘*Alliance* members have a chance to talk among themselves about new ideas, programs and activities’ received a high ranking response.

In addition the Group Training Company continued to grow and several new sub-committees were formed between 2004 and 2008 concerning: training and the building of workforce

capability. The committees were formed in a bid to meet members needs educate members concerning how to gain government support, increase manpower and resources and plan for the future.

## **IMPLICATIONS AND CONCLUSIONS**

The major aim of this paper was to determine whether the *Alliance* member firms were engaged in marriages of convenience or whether in fact trust played a part in deepening and strengthening the relationships. As one interviewee pointed out 'relationships take time to build' and this is a recurring theme throughout the relationship marketing and *Alliance*/network literature. Iyer (2002) points out that *Alliance* partnerships grow over time and learning can occur throughout the evolutionary processes that are evident as *Alliances* develop and change in scope, functions and strategic rationale change over a life span (Day, 1995). Ellis et al (1993) characterize relationship marketing as 'interactions, reciprocities and long term commitments'. Relationships may be contractual between organizations but it is the interaction of people that play out the relationship. Hence, if the social interaction is positive it will assist in strengthening trust - one of the major factors that support a relationship marketing orientation.

As with a successful marriage, intangible assets such as relationships and knowledge should be managed by the *Alliance* with the same care as would be undertaken with tangible assets as recommended by Saint-Onge & Armstrong (2004). This necessitates frequent communication and interaction between members to strengthen relationships. The *Alliance* members meet on a monthly basis to share knowledge in a relatively formal way and at other times at their yearly conference, dinners, shared training sessions and when undertaking business with one another. Those members that have developed closer relationships also share resources such as materials and employees. All the interviewees recognized the value of social capital and how it can serve to enhance both physical and human capital. This is reinforced by Jakobsen (2003) who maintains that it is social capital of a company that activates the other two forms of capital. He states that it

is the ability of the company to interact with relevant partners that will influence the profitability of the entire capital and hence the economic performance of the company.

As stated previously the PLS results for this data set suggest that the relationship between RMO and knowledge integration and RMO and competitive advantage was significant, however, the relationship between knowledge integration and competitive advantage was not significant. Hence, in 2008 two of the three hypotheses were positive, whereas in 2004 the relationship between knowledge integration and competitive advantage was also significant. The indications are that the difference in results could be related to the increasing size of the network and also the increased sample size. It is also likely that the lack of ability to capture knowledge within the network and share it more broadly between partners along with the lack of any mentoring system for new members results in some superficial relationships where trust and hence deeper levels of knowledge sharing are not contributing to firm competitive advantage.

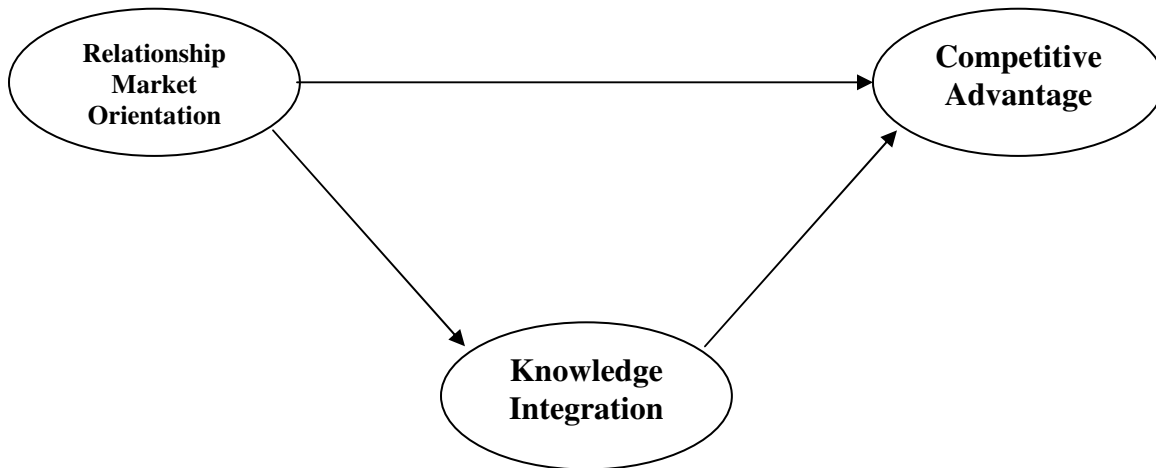
All the evidence suggests that there would be no point in joining a network or strategic *Alliance* if knowledge were not shared. The emphasis on building social capital and relationships is highly prominent from the literature. It is evident from this study, however, that information and knowledge are being shared but one area of improvement that could be beneficial was in relation to the depth of knowledge sharing amongst *Alliance* members that tended to occur on a superficial basis only. As pointed out earlier this was evident both from the survey and interview data where there was a reluctance to share learning from negative experiences or mistakes firms had made nor was there any attempt being made to 'capture' knowledge from current members to assist future members. This had not changed between 2004 and 2008 and was not likely to given the increasing size of the network. Finally, although a key limitation of this paper was the sample size, the response rate was relatively high and the findings may be of interest to other network groups.

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**Figure 1: Associating a relationship marketing orientation and knowledge sharing to competitive advantage.**



**Table 1 : Comparing and Contrasting the RBV and DCV**

	<i>Resource-Based View</i>	<i>Dynamic Capabilities View</i>
<b>Conceptualization</b>	Bundle of heterogeneous resources	Specific organisational processes by which managers alter their resource base
<b>Resources/Capabilities</b>	Idiosyncratic	Commonalities with some idiosyncratic details
<b>Environment</b>	Does not differentiate	Moderately dynamic versus high velocity market
<b>Source of Competitive Advantage</b>	VRIN attributes	Resource configurations built from valuable, somewhat rare, substitutable dynamic capabilities



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