WHAT DRIVES ALLIANCE AGILITY?
GOVERNANCE, LEADERSHIP AND CAPABILITY DEVELOPMENT IN ALLIANCES

Jochen Schweitzer
Faculty of Business University of Technology Sydney
City Campus Haymarket
PO Box 123 Broadway
NSW 2007 Australia
Tel.: +61 295143882
Fax: +61 295143535
Jochen.Schweitzer@uts.edu.au

Siegfried P. Gudergan
Faculty of Business University of Technology Sydney
City Campus Haymarket
PO Box 123 Broadway
NSW 2007 Australia
Tel.: +61 295143530
Fax: +61 295143535
SiggLGudergan@uts.edu.au

This paper provides a conceptual framework explaining the impact of governance and leadership on the development of alliance capabilities. From a dynamic capability perspective we illustrate these effects employing stewardship, full-range leadership and servant leadership theory. Accordingly, the occurrence of specific governance mechanisms influences the alliance managers' leadership behavior. Stewardship governance relates to transformational and servant leadership, while principal-agent governance coincides with transactional leadership. The framework further clarifies how leadership behaviors relate to alliance capability development. Transformational and servant leadership support dynamic and operational capabilities during foundation and development stages, whereas transactional leadership corresponds with the management of mature operational capabilities only.

Keywords: Leadership, Alliance, Stewardship, Dynamic Capabilities

INTRODUCTION

Alliances have grown notably (e.g. Gulati, 1998; Park & Zhou, 2005). While they involve considerable investments of resources, and collaborative interaction among partners, it is the capabilities within an alliance that provide the basis for achieving strategic performance objectives through both, the pooling of resources and through enhancing alliance agility by generating new resource combinations. Hence, the operational management of alliance resources (operational capabilities) and their innovative re-combination (dynamic capabilities) contribute collectively to the partnering firms' rent creation. Rents stemming from dynamic capabilities require, among other factors, entrepreneurship, intrapreneurship (Teece, 2003) and what we term interpreneurship. Interpreneurship refers to the partnering firms' exploration of opportunities within the alliance and is interrelated with their relational capabilities (Lorenzoni & Lipparini, 1999) and alliance management capabilities (Eisenhardt & Martin, 2000; Kale, Dyer, & Singh, 2002).

Alliances can involve a new organizational entity where partners hold equity shares or do not hold equity. The latter type often causes greater challenges in accomplishing the underlying strategic objectives of the partnership. Difficulties can relate to the partners' inability to match resources and align cultures, decision-making processes, and systems in alliance teams (Kale, Singh, & Perlmutter, 2000), to develop trustful relationships (Arino, de la Torre, & Ring, 2001; Zeng & Chen, 2003), to manage conflict (Doz & Hamel, 1998), to cultivate inter-personal ties (Hutt, Stafford, Walker, & Reingen, 2000), to handle rivalry and managerial complexity (Park & Ungson, 2001; Sampson, 2005), or to deal with environmental change (Mitchell & Singh, 1996). It is an organization's mastery of these issues that is encapsulated in the alliance management capabilities. Thus, while organizations try to improve their strategic performance through alliances, they often experience difficulties in handling the various issues they face within alliances. Structures and processes that have repeatedly been considered critical to facilitate the successful implementation of

alliance strategies and to manage alliance teams are related to governance and leadership (e.g. Gulati & Singh, 1998; Ring & Van de Ven, 1992).

Alliance governance has been studied regarding its impact on the management of coordination costs and appropriation concerns (e.g. Gulati & Singh, 1998; Oxley, 1997), its ability to reduce alliance risk (e.g. Oxley & Sampson, 2004), its relation to alliance task-scope, division of labor (Reuer, Zollo, & Singh, 2002), task complexity and inter-partner diversity (White & Lui, 2005), its effects on alliance innovation (Linnarsson & Werr, 2004), and organizational structures (e.g. Ring & Van de Ven, 1994; 1992). These research studies advance our understanding in categorizing alliance governance structures, and in identifying some of their determinants and consequences. However, this work has important shortcomings. It varies in its focus on the economic and social dimensions of the relationship. While some studies (e.g. Oxley, 1997) take a purely economic perspective, other authors (e.g. Ring & Van de Ven, 1994; 1992) point out the social interaction processes within alliance teams. It is however not clear how both, economic and social aspects of governance interrelate and jointly influence the development of alliance capabilities. Existing studies are also limited in explaining concisely the structuring of governance arrangements and primarily focus on efficiency rather than the accomplishment of a wider set of strategic objectives.

Extant governance perspectives (e.g. Jensen & Meckling, 1976; Williamson, 1985) emphasize the importance of mechanism like monitoring and reporting processes, and incentive and remuneration structures. Although these factors have been asserted important influence on general organizational performance, we know little about their differential effects in alliances. Furthermore there are only few studies (e.g. Gudergan, Devinney, & Ellis, 2002) that focus specifically on governance of non-equity business relationships and its influence on alliance performance. Those studies, however, neglect to examine concurrently leadership behavior in alliances. Thus, there appear to be neither conceptual nor empirical frameworks that explain the link between governance, leadership and capabilities in alliances.

Leadership affects the success of strategic alliances (Ellis, 1996) since they require behaviors that create trust and maintain a broad strategic vision and genuine empathy for alliance team members (Hefner, 1994). The inherently incomplete nature of alliance agreements results often in a leadership function that is shared among the partnering firms. Shared leadership has been defined as a dynamic, interactive influence process among individuals with the objective to lead one another to the achievement of group and/or organizational goals (Pearce & Conger, 2003). The concept has not been rigorously examined for alliances and only few authors deal with it in general (e.g. Judge & Ryman, 2001; O'Toole, Galbraith, & III, 2002; Pearce & Barkus, 2004). Their studies take either a top-executive perspective proposing factors like joint selection, complimentary skills and emotional orientation, and mechanisms to support the success of a particular combination of leaders; or a self-leading team-perspective, where shared leadership supports, for example, organizational knowledge development. With an increasing reliance on teams as an organizational unit, shared leadership is an important form of leadership to be considered when examining the role of leadership in alliances. It also alludes to the different leadership practices within alliances and accentuates the one of informal leadership behaviors. An informal leader is one who - without authority - exerts influence over team members by interpreting events, setting goals, and giving feedback (Pescosolido, 2001). Informal leadership behaviors specifically apply to the alliance team context because they are likely to occur in situations of ambiguity and incomplete arrangements between the partnering firms. Thus, the concept of informal leadership sheds additional insight into how capabilities within alliance teams can develop.

Extant leadership theories emphasize different aspects of the leadership process, that is the personal qualities and characteristics of the leader (e.g. Howard & Bray, 1988), the individual behavior of the leader (e.g. Fleischmann, 1953), the use of different forms of power (e.g. Yukl & Falbe, 1991), and the situational context of the leader-subordinate relationship (e.g. Fiedler, 1986; House, 1971). As an integrative approach full-range leadership theory (Bass, 1985), comprising transformational and

transactional behaviors, explains the effects of leadership on organizational innovation and performance (e.g. Jung & Avolio, 1999). Similarly servant leadership theory (Greenleaf, 1977) provides additional explanation for leadership effects on innovation and performance. Both theories assert a systematic impact on various strategic, organizational and individual processes and outcomes. Transformational leadership, for example, supports organizational learning processes (e.g. Vera & Crossan, 2004), team effectiveness (e.g. Jung & Sosik, 2002), trust and commitment among team members and individual performance (Jung & Avolio, 2000), suggesting positive effects of the alliance manager's transformational behavior on the development of team capabilities. Both, transformational and servant behavior include aspects of shared and informal leadership, which further supports their likely effectiveness in the alliance context. Yet, we know little about the different effects of leadership behaviors in alliances as this has neither been conceptually examined nor empirically studied.

Given the role of governance and leadership in alliances and the lack of understanding in regards to their relationships with the development of alliance capabilities, this paper aims to address this gap. We argue that alliance governance affects alliance leadership and that the effectiveness of leadership behavior differs depending on the kind and development stage of the capability in question. Partnering firms therefore put in place appropriate leadership behavior that best supports the stage of capability development within the alliance. Our conceptual framework is embedded in dynamic capability theory (Teece, 2003) which provides support for explaining alliance performance as a consequence of dynamic capabilities within the alliance (Gudergan et al., 2002; Madhok & Tallman, 1998). Given the paucity of conceptual and empirical work, we expand on previous research on alliance capability and performance and explain how stewardship theory (Davis, Schoorman, & Donaldson, 1997) as well as full-range leadership theory (Bass, 1985) and servant leadership theory (Greenleaf, 1977) provide insights into the differential effects of governance mechanisms and leadership behavior on different stages of dynamic and operational

capability development in alliances. Alliances that solely focus on cost reduction and improving efficiency would benefit from agency governance and resulting transactional leadership; and alliances that aim to innovate and diversify would suffer from principal-agent governance and transactional leadership but profit from stewardship governance and associated transformational or servant leadership behavior. Moreover, principal-agent governance and transactional leadership might only be appropriate as a short-term response to implementing an organization's alliance strategy. Stewardship governance and transformational or servant leadership are likely to have positive effects on the long-term strategic performance of alliances and their parent organizations. The application and integration of these theories provides a basis for expanding our theoretical understanding of how capabilities evolve in alliances exhibiting different governance mechanisms and associated leadership behaviors within alliance teams and how the latter contribute, ultimately, to the generation of Schumpeterian and Ricardian rents. A graphical representation of the conceptual framework is presented in Figure 1.

Insert Figure 1 about here

THEORETIC BACKGROUND

Our framework is based on research surrounding operational and dynamic capabilities (Teece, 2003), entrepreneurship (Schumpeter, 1934), governance (Davis et al., 1997) and leadership (Bass, 1985; Laub, 1999). These theoretic foundations provide a basis for a comprehensive framework of alliance governance, leadership within the alliance team and capability development.

Alliance capabilities and rent creation

Resource-picking and capability-building are the firms' complementary mechanisms for rent creation (Makadok, 2001). While resource picking is associated with the firms' ability to acquire winning and avoid loosing resources among available resources in the market, capability building

represents the firms' capacity to deploy and optimize given resources. The formation of a strategic alliance represents the partnering firms' selection of resources (resource picking), that enables them to develop capabilities that alter their resource base by creating, integrating, recombining and releasing resources (Eisenhardt & Martin, 2000). Resource picking mechanisms are explained by the resource based view of the firm (Makadok, 2001); accordingly, Ricardian (quasi) rents (Ricardo, 1817) are generated through the development of operational capabilities. Capability building, on the other hand, is concerned with the implementation of the alliance and the successful integration and deployment of the newly pooled resources. The optimization of capability building mechanisms is based on the dynamic capability view of the firm (Teece, Pisano, & Shuen, 1997); hence, Schumpeterian rents (Schumpeter, 1934) are produced through dynamic capabilities that stem from the innovative deployment of the alliance's resources. This is why research on collaborative rent creation (Madhok & Tallman, 1998), alliance performance and innovation (Bucic & Gudergan, 2003; Gudergan, Devinney, & Ellis, 2003), and inter-firm knowledge transfer and learning (Cegarra-Navarro, 2005; Mowery, Oxley, & Silverman, 1996) has taken a dynamic capability perspective.

While a primary focus of resource picking is on processes that influence the selection of alliance partners, capability building refers to the alliance managers' role as architects who combine resources and build dynamic capabilities; that is organizational processes and structures that enhance the productivity and innovativeness of given resources (Eisenhardt & Martin, 2000). Accordingly, capability building within the alliance is determined by its dynamic capabilities, that is routines regarding, for example, learning, product development, or knowledge transfer. These routines are influenced and supported by intrapreneurship and entrepreneurship (Teece, 2003), among other factors, which, are related to alliance governance and the alliance managers' roles and behaviors. Intrapreneurship is associated with particular governance mechanisms and managerial activity within the alliance and entrepreneurship relates to managerial activity directed towards the

alliance environment. Madhok and Tallman also suggest that alliance value can be enhanced "through entrepreneurial … action" (Madhok & Tallman, 1998: 336) and Gudergan, Devinney and Ellis (2003) show that the development of dynamic alliance is influenced by creativity and learning routines. However, their framework falls short in fully explaining the influence of entrepreneurship and intrapreneurship.

Additional insight into the development of capabilities relates to the concept of capability lifecycles. They encompass founding, development, and maturity phases as well as several subsequent development paths into altered capability forms (retirement, renewal, redeployment, recombination, replication and retrenchment) (Helfat & Peteraf, 2003). The different phases and development paths explain heterogeneity within capabilities and its evolution. Similarly the progression of alliances is captured in the notion of alliance lifecycles encompassing the stages through which alliance relationships emerge, grow, and dissolve (Spekman, Forbes III, Isabella, & MagAvoy, 1998). From a strategic perspective, alliance formation stages represent resource picking of the partnering firms, whereas alliance management stages represent capability building within the alliance. The formation stages include anticipation, engagement, and valuation, whereas alliance management stages include coordination, investment; and stabilizing. Alliance lifecycle stages in the alliance management phase and capability lifecycle stages have common characteristics and overlap. While partnering firms start working together (alliance coordination stage) alliance capabilities begin to develop (capability foundation stage), when all partners fully commit resources (alliance investment stage) alliance capabilities can fully evolve (capability development stage), and when the alliance is performing (alliance stabilizing stage) alliance capabilities reach a mature level, from where they might further develop along one of the development paths. Alliance and capability lifecycles have not been linked to governance and leadership behaviors. Yet, both concepts reflect managerial processes that account for differences in managerial behavior and the changing role and influence of the alliance manager over time. They, hence, can provide insights into the different effects of

governance, leadership and entrepreneurial behavior on the development of capabilities within the alliance.

Entrepreneurship and intrapreneurship in alliances

Schumpeter (1934) describes entrepreneurship as the creation of new resource combinations through the act of innovation. It represents the integration of opportunity-seeking actions and strategic advantage-seeking actions towards business concepts that provide greater value creation and at the same time reduction of competitive threats (Hitt, Ireland, Camp, & Sexton, 2001). While focusing on the acquisition and bundling of resources into unique, cost-efficient and valuable patterns, strategic entrepreneurship supports the resource picking mechanisms of rent creation. Within the alliance context, entrepreneurship and related alliance proactiveness, defined as the extent to which an organization engages in identifying and responding to partnering opportunities, supports higher market-based performance (Sarkar, Echambadi, & Harrison, 2001).

Entrepreneurship within an existing organization has been termed intrapreneurship. It is the process by which individuals pursue opportunities without regard to the resources they control (Stevenson & Jarillo, 1990); that is doing new things and departing from the customary to pursue opportunities (Hisrich & Peters, 1998). While focusing on given resources the conception of intrapreneurship supports the capability building mechanism of rent creation. As such, it applies to the alliance context in that it focuses on the renewal and transformation of available resources in the alliance.

While based on the same underlying managerial behaviors, alliance entrepreneurship and intrapreneurship support strategic renewal through transforming present resources into new resource combinations (Burgelman, 1984). This is supported by Churchill (1992: 586), who argues that it is "the process of uncovering and developing an opportunity to create value through innovation and seizing that opportunity without regard to either resources or the location of the entrepreneur - in a new or existing company" which defines entre-/intrapreneurship.

In sum the study of entrepreneurship and intrapreneurship has taken various perspectives that focus on different aspects of the managerial activity outside the organization (entrepreneurship and resource picking) and within the organization (intrapreneurship and capability building). While this study focuses on the effects of governance mechanisms and alliance leadership behavior on alliance capability development, the entrepreneurship and intrapreneurship concepts offer possible explanations for different effects of governance mechanisms and managerial behaviors. However, no research has yet clearly established the relationships with governance mechanisms and leadership behavior nor examined this within the alliance context.

Alliance governance

Governance theories deal with the potential problems that are associated with the separation of ownership and control in organizations. Mechanisms of governance intent to influence and control managers and staff in a way, that their decisions and actions serve the owners' interests. Within the context of alliances, governance concerns the patterns of authority and influence that determine the deployment of alliance resources and the integration of alliance partner interests. Various organizational theories that are based primarily on economic or behavioral assumptions have contributed to explaining the role of different mechanisms in organizing governance relationships.

For instance, agency theory (Jensen & Meckling, 1976) and transaction cost theory (Williamson, 1985) take a perspective that is based on a model of economic rationality and opportunism. Agency theory assumes an economic self-interest of the manager (agent) that might result in goal conflict with the owner (principal). Therefore, control, monitoring and sanctioning mechanisms are put in place so that an agent (alliance manager) acts in a way that serves the parent organizations' best interests. Control and monitoring mechanisms relate to observing, recording and measuring the output of the efforts and strivings of the agent whereas sanctioning mechanisms relate to providing selective rewards and punishments to motivate an agent. Installing governance mechanisms, hence, require putting in place a contract that aligns the agent's preferences with those of the principals.

Contracts may be implicit or explicit while establishing, for example, decision rights, performance monitoring, remuneration, and ownership structure. In a similar vein, the transaction cost economic perspective (Williamson, 1985) is based on assumptions of bounded rationality and opportunism. An appropriate governance structure to support a transaction between two parties to an exchange is characterized as one that causes lowest transaction costs. With increasing asset specificity, more complex governance structures are required that deal with the alternatives of markets and hierarchies on a transactional continuum, protect specific assets and reduce costly bargaining over profits from specialized assets (Reuer & Arino, 2002). Related research in the alliance context suggests additional factors that affect governance in alliances; including: the type of transaction activity (Oxley, 1997), the alliance scope, division of labor, and the relevance of the alliance for the partnering firms (Reuer et al., 2002), and the existence of potential alternative partners (Reuer & Arino, 2002). Overall agency and transaction cost theory offer important insights in the design of governance structures for alliances. However both theories do not fully explain these governance aspects. Both theories merely emphasize unilateral governance mechanisms and fail to address the bilateral nature of alliances; and neither theory accounts for the social context in which their relationships are embedded. Finally, both theories are limited in explaining the structuring of governance arrangements as they focus on the efficiency of the collaboration rather than the accomplishment of strategic objectives.

Within an institutional economics perspective (e.g. North, 1990) an important distinction is made between the 'institutional environment' and 'institutional arrangements'. The earlier refers to the underlying formal, explicit rules and informal, often implicit rules that guide individual behavior. Institutional arrangements, by contrast, relate to specific guidelines designed to mediate relationships where property rights and transaction costs as fundamental determinants of governance. Based on this view Carson, Devinney and co-authors (1999) suggest how institutional arrangements determine organizational governance. They emphasize the role of trust-based norms

that bind parties to certain conduct. Such norms are the most adaptive institutional arrangements as they can impose governance in areas that are not covered by more formal contractual or ownership arrangements. However, their path-dependence and causal ambiguous nature make them difficult to change. Although this institutional economic perspective offers explanation concerning the role and importance of social elements in interorganisational governance, it remains silent in advancing our understanding of how managers can intentionally develop these elements as governance mechanism.

Within organizational control theory, Ouchi (1980) suggests that the governance of organizational relationships depends on the degree of ambiguity of individual performance and the congruence of goals. Different combinations of these lead to three basic mechanisms of governance: markets, bureaucracies, and clans. The clan mechanism, which is efficient when goal incongruence is low and performance ambiguity is high, focuses on a cultural dimension in governance in that it assumes that in situations of great uncertainty and complexity managerial control is established over the organizational actors' system of beliefs. Accordingly clan governance assumes that individuals are acculturated into a system of controls and meanings. It applies at levels beyond the market or bureaucratic mechanisms and is inherently more flexible and, under circumstances that call for flexibility, more efficient. The organizational control perspective overcomes some limitations of purely transaction cost and agency theoretic models in that it addresses cultural aspects of the governance relationship. However it is limited in providing further insight in how managers can influence the design and efficiency of the clan mechanism. Besides, given that long organizational history and stable membership are a basis for clan governance we do not yet know to what extent a clan mechanism functions as collaborative governance where organizational history is short.

Resource dependence theory (e.g. Pfeffer & Nowak, 1976), in contrast, focuses on the ability of the organization to effectively identify and collaborate with other organizations. The fundamental assumption is that firms are rarely self-sufficient and dependent on resources that are owned by

other organizations. Without direct control over desired resources the organization has to deliberately undertake actions to manage interorganisational relationships. Some of the strategies to manage this dependence include contracts, alliances, joint ventures or mergers and acquisitions. In all cases, interorganisational ties are established to facilitate the exchange and to reduce uncertainty and dependence. Hence resource dependence theory provides explanation to why organizations enter alliances; it is however silent on the mechanisms by which cooperation is achieved. Moreover, the theory does not explicitly consider the relative effectiveness of varying collaborative arrangements.

Relational contracting theory (e.g. Heide, 1994) also overcomes some of the limitations specified in transaction cost and agency theory as it seeks to give explicit recognition to the relationship between collaborating parties and recognizes the context of laws and social values in which relationships are embedded. A basic assumption in this perspective is that parties to an exchange make continuous adaptations and adjustments based on shared norms and behavioral expectations. These adaptive mechanisms are informed by the economic perspective (contracting mechanisms) and the sociological perspective (norms, obligations, and reciprocity). The central non-economic mechanisms in relational contracting focuses on the nature and duration of the relationships (Eisenberg, 1995). While relational contracting theory accounts for the economic and relational aspects of contracts between partnering organizations, it falls short in explaining additional aspects of structuring governance arrangements for alliances in a comprehensive fashion.

Finally stewardship theory (Davis et al., 1997) combines economic and resource dependency perspectives with behavioral views. The underlying assumptions are that the interests of parent organizations (principals) and alliance managers (stewards) converge and that the steward derives higher utility from pro-organizational, cooperative and collectivistic behavior than from individualistic, opportunistic behavior (Sundaramurthy & Lewis, 2003). The focal point of the steward-relationship is goal alignment, trust and intrinsic motivation. Stewardship focuses on

learning and growth directed towards higher levels of performance and, as the dominant model, it is inclusive rather than exclusive, as it can encompass agency theoretic mechanisms. Governance features that are associated with stewardship include (1) a high level of autonomy and involvement that facilitates, empowers and motivates, rather than monitors and controls, (2) ownership and organizational structures which support that thinking and doing is combined rather than separated, (3) relationships that are long-term, based on trust and shared values to support continuing goal congruence, efficiency and quality rather than short term cost control and performance, (4) empowerment and education to reduce and avoid risk averse behavior and to promote entrepreneurial action, and (5) the principals' deployment of personal power, respect and expertise rather than institutional power and transactional behavior to build mutual trust and motivate. Albeit its apparent conceptual strength, stewardship theory has not received consideration in explaining governance issues in the alliance context. Yet, it provides a suitable basis for better understanding alliance governance and in particular governance effects on alliance leadership and capability development. Stewardship recognizes a plethora of mechanisms that might enhance the functioning of alliance governance and thereby accounts for a more accurate explanation of managerial behavior in alliances. In addition it focuses among other factors on learning, intrinsic motivation, and entrepreneurial behavior which have been linked to innovation and alliance performance (e.g. Bucic & Gudergan, 2003), the effectiveness of leadership behavior (e.g. Vera & Crossan, 2004), and the development of operational and dynamic capabilities (e.g. Teece et al., 1997). We therefore argue that stewardship theory provides a suitable theoretical foundation for our framework.

Alliance leadership

Leadership is commonly seen as an influence process that is concerned with facilitating the performance of a collective task; it has behavioral, relational and situational aspects and occurs on the individual-, group- and organizational level, both within the leader-subordinate interaction and in the situational environment. Leadership in the alliance context can be defined as the influence

process that facilitates the performance of the alliance team to achieve alliance objectives. Alliance supervision involves unique challenges and opportunities because purpose and organizational cohesion of the alliance team are more difficult to maintain. As a result partnering firms often agree to design alliance leadership as a shared function. It is also within the alliance team where informal leadership structures can evolve. Given that alliances increasingly rely on self-directed team structures the occurrence of both, shared and informal leadership possibly affect the evolution of the alliance.

A suitable explanation for the shared leadership function in the alliance context is provided by research, that takes a self-leading team-perspective as an approach to support for example knowledge development (Pearce & Barkus, 2004) and views shared leadership as a dynamic, interactive influence process for which the objective is to lead one another (Pearce & Conger, 2003). The implication for alliances is that the achievement of alliance objectives is influenced by the interplay of the appointed co-leaders. However, as not all alliances are necessarily managed by formally appointed co-leaders there are various situations of shared leadership possible. The alliance could be managed by an appointed leader who works together with other managers who are responsible for commercial aspects of the alliance. Alternatively, the alliance might be without formal leadership and alliance team members take responsibility for various functional and commercial aspects. While servant leadership (Greenleaf, 1977) or transformational leadership (Bass, 1985) emphasize aspects of shared leadership, other concepts, like transactional leadership (Bass, 1985), fail to address it. Thus, given the multi-lateral nature of alliances and commonly found shared leadership function we suggest that the servant and transformational leadership concepts provide a better explanation for how shared leadership in alliances affects factors like entrepreneurial behavior as an influence on alliance capability development.

The various possible settings regarding the alliance leadership function also include the occurrence of informal leadership structures. Informal leadership can be a consequence of a growing tendency

for greater autonomy and decentralization or a leadership function that is simply not clearly defined. Leadership research recognized informal leadership structures as an important influence on group processes, norms, and efficacy (e.g. De Souza & Klein, 1995) by interpreting events, setting goals, and giving feedback to other group members (Pescosolido, 2001). To date there is only little research on the role of the informal leadership and associated behaviors that affect group performance. Some leadership theories incorporate informal aspects of leadership; as such, servant leadership (Greenleaf, 1977) and transformational leadership (Bass, 1985) account for team member autonomy and decentralization. We can build on these existing views and advance the understanding of informal alliance leadership structures by including them in our framework.

Transformational and transactional leadership

Transformational behavior is charismatic, inspirational, intellectually stimulating, and individually considerate. This behavior is particularly relevant in situations of change and has been linked to motivation and creativity (e.g. Shin & Zhou, 2003), organizational performance (e.g. Jung & Avolio, 1999), innovation and effectiveness (e.g. Jung, Chow, & Wu, 2003). It emphasizes an individually considerate behavior, which encourages alliance team members to share ideas and influence decisions and an inspirational and stimulating conduct, which empowers team members to think critically and develop their personal solutions. As such, transformational leadership supports not only a shared leadership function and informal leadership structures, but also the development of intrapreneurial alliance team member behavior.

Transactional leadership, in contrast, aims at motivating individuals primarily through contingent-reward exchanges and active management-by-exception (Bass, 1985). Transactional leaders set goals and articulate explicit agreements. In the alliance context transactional behaviors would inhibit shared leadership and, in particular when organizational cohesion among partnering firms is low, discourage the development of informal leadership. Intrapreneurial behavior amongst team members during early devolvement stages of alliance capabilities would be difficult to maintain

when alliance leadership is transactional yet transformational leadership behaviors would be beneficial in the early stages. However, in mature development stages of alliance capability development a transactional leadership style would be supportive due to its focus on goal and task achievement. Overall, despite transformational leadership's widely researched theoretical and practical relevance, to date, no studies have focused explicitly on examining how transformational or transactional leadership behaviors are related to the development of dynamic and operational capabilities in the alliance.

Servant leadership

Servant leadership (Greenleaf, 1977) encapsulates an understanding of leadership "that places the good of those led over the self-interest of the leader" (Laub, 1999: 83). It encompasses behavior that supports valuing and developing of people, building community, practicing authenticity, providing guidance and sharing power and status (Laub, 1999). Power and authority are used ethically, and trust, insight, listening, and cooperation are encouraged. While there has been significant interest in servant leadership, all-encompassing definitions are in their infancy with few empirical studies surrounding servant leadership behavior. Research conducted to date (e.g. Farling, Stone, & Winston, 1999; Sendjaya & Sarros, 2002; Smith, Montagno, & Kuzmenko, 2004), however, provides support in regards to the principles, values, beliefs, and ethics of the servant leader.

Servant leadership and transformational leadership are overlapping to some extend. They vary in that they relate to different organizational cultures (Smith et al., 2004) and leader focus (Stone, Russell, & Patterson, 2004). Servant leadership creates a spiritual generative culture where servant leaders' highest value is the people, while transformational leadership builds an empowered dynamic culture where leaders build commitment in followers toward organizational objectives. This is also supported by the view that servant-leaderships' strength in encouraging follower learning and autonomy affects the leadership of learning organizations (Senge, 1997). Differences in leader focus also influence other characteristics and outcomes, for example, follower motivation.

The explicit notion of behavioral dimensions like sharing leadership and power or permitting high levels of autonomy indicate that servant leadership might be especially appropriate for the alliance context where shared and informal leadership structures are likely to occur. In addition, given the conceptual similarities, yet distinct differences, between servant leadership and transformational leadership we argue that servant leadership might be more effective in certain alliance situations than transformational or transactional leadership behaviors. That is, servant leadership behaviors will in particular support alliances that are characterized by high requirements of mutual learning, knowledge development and innovation. From a capability lifecycle perspective this suggests that it would presumably offer greater support at the developing stages of alliance capabilities than the foundation or maturity stages.

In conclusion, leadership behaviors have a systematic impact on various strategic, organizational and individual processes and outcomes. Full-range leadership includes shared and informal leadership aspects and stresses the positive impact of transformational leadership behavior on intrapreneurship, thereby supporting foundation stages of dynamic capabilities within alliances. Servant leadership provides a theoretical logic explaining the effects of leadership on alliance learning, while explicitly integrating shared leadership aspects; thus providing a basis for the developing stages of alliance capabilities. Finally transactional leadership, although not supporting shared or informal leadership structures, supports the management of mature capabilities in alliances. In what follows we develop a set of propositions that describe the interrelation of governance mechanisms and leadership behaviors and the effects of the latter on different stages of the development of dynamic and operational capabilities in alliances.

CONCEPTUAL MODEL AND PROPOSITIONS

The core of our conceptual model is that the influence of governance and leadership behaviors on different stages of alliance capability development can be assessed by using a framework that is rooted in dynamic capability theory and stewardship theory. Alliance leadership behavior within

alliance teams is interpreted as a consequence of alliance governance following the principles of stewardship theory. The development of dynamic and operational capabilities is modeled as a result of alliance leadership behavior. We derive a set of propositions that encapsulate the theoretic effects. A graphical representation of the conceptual model is represented in Figure 2.

Insert Figure 2 about here

Alliance governance mechanisms and leadership behavior

Embodied in the parent companies' agreement, an alliance team compromises usually one alliance team leader or two (or more) alliance team co-leaders. Alternatively, no leadership function is formally assigned and partnering firms merely allocate various commercial managers to the alliance. In the latter case informal leadership structures evolve. According to stewardship theory (Davis et al., 1997) the parent organizations' executives can be considered principals and formal or informal alliance team leader(s) can be considered agent(s) or correspondingly steward(s). Whether their relationship develops into a principal-agent or principal-steward way is predisposed by individual psychological and situational characteristics that underlie and influence the parties' behavior. Four scenarios can evolve: (1) Both principals and leader(s) choose a mutual agency relationship; (2) the principals choose a stewardship relationship and the leader(s) choose an agency relationship; (3) the principals choose an agency relationship and the leader(s) choose a stewardship relationship; and (4) the principals and leader(s) choose a mutual stewardship relationship. In case of inconsistency, as in situations (2) and (3), an agency-relationship prevails. Thus, alliance governance would follow either a principal-agent or a principal-steward approach. Given the relatedness of the underlying psychological and situational mechanisms of stewardship theory and leadership theory, Davis, Schoorman and Donaldson (1997) suggest their integration. Corresponding factors include leader characteristics like motivation (e.g. Manz, 1986), identification with an organization's mission and vision (e.g. Burns, 1978), the use of power (e.g.

French & Raven, 1959), and situational factors like management philosophy, organizational culture (e.g. Dickson, Den Hartog, & Mitchelson, 2003), risk orientation and trust (e.g. Mayer, Davis, & Schoorman, 1995).

We argue that a steward demonstrates transformational- or servant leadership since the key assumptions and behaviors that underlie transformational and servant behavior correspond with those underlying stewardship. A steward is highly autonomous, empowered, intrinsically motivated and committed to employ available alliance resources in order to achieve personal and partnering firms' objectives. Correspondingly, transformational and servant leadership reflect the behavior of a steward who is highly self-motivated, inspiring, and supporting towards the alliance team. An agent, in contrast, is assumed to exhibit transactional leadership because key assumptions and behaviors of transactional behavior are aligned with the mechanisms underlying the agent-relationship. Agents, as opposed to stewards, are controlled because of their possible self-interested behaviors. Agency governance therefore focuses on incentive alignment, extrinsic motivation and other control and monitoring systems. In the same way transactional leadership reflects behaviors that are associated with extrinsic motivation, contingent-reward exchanges and management-by-exception. The agent displays transactional leadership in the alliance as a reflection of the principal-agent governance, which relies on identical mechanism of control and influence. The first two propositions within the framework presented in this paper therefore derive from the supposition that the nature of governance determines leadership behavior in the alliance, that is:

> *Proposition 1a: An alliance leader or co-leader in a principal-steward governance relationship will demonstrate transformational leadership or servant leadership behavior within the alliance.*

> *Proposition 1b: An alliance leader or co-leader in a principal-agent governance relationship will exhibit transactional leadership behavior within the alliance.*

We expand on this logic and argue that the same relationship characteristics that drive leadership behavior also feed back on the governance of the alliance. This is because agents/stewards influence

principals through regular interaction in regards to various aspects of the alliance, in particular in regards to changing, reinforcing and agreeing on governance issues. However, these effects differ due to the nature of the governance mechanisms for a principal-steward relationship and a principal-agent relationship. By showing transformational or servant leadership behavior a steward can reinforce stewardship governance because transformational and servant leadership related behaviors support stewardship characteristics like mutual trust, understanding, intrinsic motivation and shared objectives. Other stewardship characteristics that are reinforced through transformational and servant leadership behavior (on the part of the steward) are a culture of low power distance, high involvement in decision making, and the use of personal power. The stewards' transformational and servant leadership will maintain and improve the chosen governance for the alliance. A principal-agent relationship, on the other hand, is characterized by the principals' and agents' believe in well defined hierarchical structures, high power distance, the use of institutional power, extrinsic motivation and control and monitoring mechanisms. Given the agents' little involvement in the principals' decision making and the structural, hierarchical and cultural distance within principal-agent governance we argue, that the effect of the agents' leadership behavior on the alliance governance is limited and lesser than in the principal-steward governance. However transactional leadership behavior exhibited by the agent(s) preserves the principal-agent governance because mutual mistrust, economic self-interest and goal conflict lead to continual or even more control- and monitoring needs, thereby reinforcing the principal-agent governance mechanisms. We encapsulate this argument in two propositions that derive from the suggestion that the exhibited leadership behavior influences governance within the alliance, that is:

Proposition 2a: An alliance leader or co-leader, who exhibits transformational or servant leadership behavior, reinforces principal-steward governance in the alliance.

Proposition 2b: An alliance leader or co-leader who exhibits transactional leadership behavior reinforces principal-agent governance in the alliance.

Alliance leadership behavior and alliance capabilities

Leading an alliance is an influence process involving the (co-)leader defining and shaping the context in which the team members interact and work towards a common goal. The alliance team (co-)leader, for example, envisions outcomes, selects and combines resources, agrees on objectives, timeframes, roles and responsibilities; thereby influencing the development of routines and capabilities within the alliance.

The development of dynamic capabilities requires entrepreneurship, intrapreneurship and learning (Teece, 2003). The entrepreneur articulates goals, influences culture, builds trust, and plays a critical role in key strategic decisions. Intrapreneurship is focused on achieving effective internal cooperation, functional integration, incentive alignment, and shared goals throughout the organization. In the alliance context intrapreneurship relates to the cooperation, functional integration and alignment of the alliance resources and competencies, which are contributed by the partner organizations. However, Teeces' (2003) conception of intrapreneurship does not adequately account for the inter-organizational nature of the alliance context. We therefore term this ability interpreneurship as it encompasses different mechanisms that are required for the inter-organizational cooperation and integration. Expanding on the notion of intrapreneurship we argue that interpreneurship encompasses relational capability, as the capability to interact with other companies (Lorenzoni & Lipparini, 1999) and alliance management capability as a firm's ability to capture, share, disseminate and apply alliance management knowledge (Eisenhardt & Martin, 2000; Kale et al., 2002). Hence, interpreneurship acknowledges that to effectively integrate pooled resources in alliances and to develop those capabilities that lead to competitive advantages partnering firms also utilize learned and repeatable patterns of action that stem from prior alliance experiences (Nelson & Winter, 1982). These routines facilitate the transfer, copying and recombination of knowledge within the partnering firms (Zollo & Winter, 2002). Relational capital (Lorenzoni & Lipparini, 1999) refers to the firms' ability to efficiently manage the complex relational set in which it is embedded.; this includes the ability to absorb competencies from others,

combine and coordinate the technical dimensions of a large number of firms (Kogut & Zander, 1992) and the ability to combine existing competencies or generate new knowledge (Henderson & Cockburn, 1994). Other authors (e.g. Madhok & Tallman, 1998) suggest that the relationship between partnering organizations is a productive resource for value creation and realization. Alliance management capabilities refer to the firms' ability to identify partners, initiate and maintain relationships and restructure individual alliances or an alliance portfolio (Simonin, 1997). Finally learning mechanisms support dynamic and operational capabilities through the co-evolution of tacit accumulation of past experience, knowledge articulation, and knowledge codification processes (Zollo & Winter, 2002) during different capability lifecycles stages. The development and maintenance of operational capabilities on the other hand requires the management of known routines where decisions are made with reference to standard contracting or transaction cost economic frameworks. Thus, operational capabilities represent established resources and competencies.

We argue that transformational leadership and servant leadership characteristics correspond with entre- and intrapreneurship and what we define as interpreneurship. Transformational leadership supports in particular operational and dynamic capability development, with a likely stronger effect on foundation stages of capability development. Servant leadership characteristics correspond with learning mechanisms and also support operational and dynamic alliance capabilities, with an expected stronger effect on development stages of the alliance capabilities. Finally transactional leadership characteristics relate to operations management and promote operational alliance capabilities particularly in mature alliance development stages. In what follows we establish these relationships in greater detail by exploring the underlying concepts of transformational, transactional and servant leadership and linking them to entre-, intra- and interpreneurship, as well as learning mechanisms as prerequisites of different development stages of alliance capabilities. We will conclude each section with propositions reflecting the anticipated effects.

Transformational leadership effects on alliance capabilities

Bass (1985) proposes four dimensions of transformational leadership, that are (1) idealized influence (charisma), (2) inspirational motivation, (3) intellectual stimulation and (4) individual consideration. We argue that each of these behavioral dimensions directly or indirectly influences the development of dynamic and operational capabilities.

Idealized influence (1) or charismatic behavior is reflected in displaying a clear vision and a sense of purpose, and representing a charismatic role model. It includes sacrificing for the group, demonstrating a high ethical standard, displaying conviction, emphasizing trust, taking stands on difficult issues, presenting important values, and emphasizing the importance of commitment and the ethical consequences of decisions. Transformational leaders generate alignment around a shared purpose. Jung and co-authors (2003) argue that transformational leaders actively foster a collective identity of their organization, its vision and values. Shin and Zhou (2003) show that intrinsic motivation mediates the relationship between transformational leadership and creativity. In following this view, we argue that the extent to which a team leader displays charismatic behavior influences the alliance team members' intrinsic motivation which is an integral aspect of entrepreneurial and interpreneurial behavior and a prerequisite for organizational learning (Osterloh & Frey, 2000). Further, the realignment of followers personal values according to their leader's vision and goals also creates strong values of internalization, cooperation, and congruence among followers (Shamir, House, & Arthur, 1993). The resulting shared vision leads to increased group cohesiveness and collective identification. We argue that the extent to which a transformational leader exhibits charismatic behavior affects the alliance teams' communicative interaction and the development of a collectivistic alliance culture. Both vibrant communication among alliance team members and a collectivistic culture support learning aspects like tacit accumulation of past experience and knowledge articulation, which Zollo and Winter (2002) identified as being essential for capability development.

Inspirational motivation (2) refers to energizing followers by articulating a compelling vision of the future. When exhibiting inspirational motivation leaders challenge followers with high standards and provide encouragement and meaning for what needs to be done (Hater & Bass, 1998). We suggest that the extent to which a transformational leader encourages, motivates and inspires followers affects both followers' intrinsic motivation and the communicative interaction within the alliance team. Communicative interaction supports relational capability as a component of interpreneurship and also learning mechanisms within the alliance team (Lyles, 1988).

Intellectual stimulation (3) involves inspiring followers to be creative and innovative. Leaders who display intellectual stimulation encourage followers to challenge their beliefs and values, to question assumptions, and to challenge the status quo. Intellectual stimulation inspires followers by encouraging problem reformulation, imagination, intellectual curiosity, and novel approaches, leading followers to think critically and develop their own solutions to complex problems Hence, the extent to which an alliance team leader intellectually stimulates team members influences the alliance team members' critical thinking. Critical thinking and strong communication are vital skills for the entre-/interpreneurial alliance team member as they reflect the ability to think cogently and to put thoughts into action. In addition transformational leaders seek followers' involvement by stressing the importance of cooperation in performing tasks, providing the opportunity to learn from shared experience, and delegating responsibility to followers. This facilitates creating a work environment that empowers followers to seek innovative approaches to perform their job. Howell and Avolio (1993) suggest a positive relationship between the intellectual stimulation provided by the leader and performance given a climate of support for innovation. Dvir and co-authors (2002) argue that followers with a transformational leader have high self-confidence and take critical and independent approaches toward their work. Thus, when transformational leaders stimulate followers by questioning their assumptions, reframing problems, and approaching old situations in new ways, they help establish organizational cultures that value creative thought processes, risk-taking, and

innovative work approaches. We therefore contend that the extent to which a transformational leader intellectually stimulates followers influences the risk orientation within the alliance team. A risk taking orientation permits entrepreneurial and interpreneurial action among alliance team members, which facilitate the development of alliance capabilities.

Leaders who exhibit individualized consideration (4) treat their followers in a caring and unique way by paying attention to their needs, showing empathy, and showing appreciation and support of individual initiatives and viewpoints. With the leaders' understanding, support, and encouragement, followers are likely to focus on their tasks and to freely explore and take risks when experimenting with ideas and approaches (Shamir et al., 1993). A culture that allows for risk taking therefore supports the development of new ideas and knowledge within the alliance. Thus, we suggest that the extent to which an alliance team leader individually considers followers affects the alliance teams' cultural risk orientation.

Other aspects of individual considerate leadership behavior focus on the development of followers' capabilities by providing information and resources and giving followers discretion to act. As a consequence, followers who are encouraged are expected to try new and different approaches to their work, operate independently, and develop their capacity to think on their own. This implies an influence of the extent to which an alliance team leader shows individualized consideration on followers' job autonomy as an integral part of entrepreneurial and interpreneurial behavior.

Moreover, individualized consideration assists in an appreciation of diverse ideas within the group. Similar to intellectual stimulation behavior, it motivates followers to make unique contributions to the group's efforts by recognizing their individual capabilities (Sosik, Avolio, & Kahai, 1997). The leaders' cooperative, supportive participation and questioning of other team members' ideas allow for the development of critical thinking capabilities within the team. Following earlier argumentation, this supports entrepreneurial action in the alliance.

The characteristics of transformational leadership further support shared and informal leadership structures that are typical in alliances. A charismatic alliance (co-)leader who motivates and stimulates the alliance team to work independently, in a self-responsible manner and critical towards established routines deliberately shares responsibility with both, the formally appointed co-leader (shared leadership) and those alliance team members who are not formally appointed (informal leader). In support of this view Avolio and Gibbson (1988) propose that transformational leaders aim to develop followers' self-management and self-development skills by allowing them to implement actions without direct supervision or intervention. We argue that the extent to which a transformational leader intellectually stimulates, motivates and inspires followers increase the alliance team members' job autonomy. By giving alliance team members sufficient freedom to explore new ideas the transformational leader deliberately supports entrepreneurial behavior within the alliance and promotes the sharing of power and responsibility. In conclusion we find support in the exiting management literature that the behavioral dimensions of transformational leadership can be linked to antecedent factors of alliance capability development. This fundamental influence of transformational leadership on the development of alliance capabilities leads to the following two propositions:

> *Proposition 3a: An alliance leader or co-leader who exhibits transformational leadership behavior supports the development of dynamic capabilities in the alliance.*

> *Proposition 3b: An alliance leader or co-leader who exhibits transformational leadership behavior helps develop and maintain operational capabilities in the alliance.*

Servant leadership effects on alliance capabilities

Laub (1999) suggests six dimensions of servant leadership behavior: (1) value people, (2) develop people, (3) building community, (4) display authenticity, (5) provide leadership, and (6) share leadership. As discussed in the subsequent sections, all of the dimensions directly or indirectly influence the development of dynamic and operational capabilities.

Valuing people (1) behavior encompasses respecting others, putting their needs first as well as receptive, non-judgmental listening to followers. It fosters that followers enjoy their work, are interested in and satisfied with what they do, feel competent and that their contribution is important, valuable and useful (Laub, 1999). For followers a task is intrinsically motivating when it encompasses motivators such as responsibility, challenge, achievement, advancement opportunity (Herzberg, 1966), significance and autonomy, (Hackmann & Oldham, 1976). Accordingly, we argue that the extent to which a servant leader values people affects the alliance team members' intrinsic motivation; and intrinsic motivation is a vital element of entrepreneurial action and an essential prerequisite for alliance learning.

Developing people behavior (2) includes providing followers with opportunities for learning and growth, modeling appropriate actions, and building up others through encouragement and affirmation. The servant leader acts as a mentor, encourages learning and uses power and authority to help people develop. They consider an intrinsic value beyond people's tangible contribution as workers, leading them to be highly committed to followers' personal, professional, and spiritual growth. We argue that the extent to which a servant leader develops people affects both, the alliance learning and the team members' intrinsic motivation.

Building community (3) incorporates creating strong personal relationships with followers, practicing collaborative working, and valuing the individual and cultural differences of others. It promotes the formation of diverse and inter-related alliance teams by respecting and encouraging differences in organizational culture that support individuality in style and expression (Laub, 1999). The process puts an emphasis on team building and teamwork and supports a collaborative approach to work. We suggest that the extent to which a servant leader builds a community influences both the communicative way the leader interacts with followers and the way followers interact with each other. Communicative interaction promotes knowledge exchange and learning

between alliance team members and thereby supports the development of operational and dynamic capabilities.

Display authenticity (4) includes being open, accountable, having the willingness to learn from others, and maintaining integrity and trust within the organization. The level of trust between leaders and followers and among followers is essential for solving mutual problems. Trust is determined by personal values, motives, skills, and prior experience; it moreover characterizes a collectivistic organizational culture (O'Reilly, 1989). An authentic, honest and trustworthy leader affects the development of a collectivistic team culture. We contend that a collectivistic team culture supports knowledge exchange and learning within the alliance and that aspects of authenticity, such as being open to receive criticism, being open-minded and non-judgmental, maintaining high ethical standards and admitting personal limitations and mistakes also influence the teams' communicative interaction, supports knowledge sharing among alliance team members and learning.

Providing leadership (5) includes envisioning the future, taking the initiative, and clarifying goals. The servant leader provides support and resources and encourages followers to take risks. While a negative cultural risk orientation discourages risk taking, a positive cultural risk orientation encourages members to accept risky situations and mistakes. Risk taking allows innovation to be a part of the job and has a positive attitude towards change (O'Reilly, 1989). A climate that supports members' decisions and not enforces penalties for mistakes encourages people to experiment with new ideas, whereas a climate that enforces risk avoidance encourages conformity. We argue that a servant leader providing leadership influences the development of a risk orientated culture. Entrepreneurial and intrapreneurial behavior encompasses risk taking (Kuratko & Hodgetts, 2004).

Sharing leadership (6) refers to facilitating a shared vision, sharing power, releasing control, sharing status and promoting others. A servant leader encourages followers to share and take responsibility and to participate in decision processes that determine the future of the organization. We suggest that a servant leader sharing leadership affects the creation of a collectivistic alliance culture that

encourages alliance team members to act in an entrepreneurial fashion. Servant leaders reinforce the alliance team members' responsibility and autonomy through involving them in joint decisions making and encouraging them to exercise leadership themselves. It encourages decentralization and empowers the individual (O'Reilly, 1989). We argue that the extent to which a servant leader shares leadership has an impact on the followers' job autonomy. The explicit notion of sharing the leadership function within servant leader behavior is of particular relevance to the alliance context. By accepting and encouraging the distribution of power and responsibility a servant leader can successfully co-exist with a co-leader and/or informal leader within the alliance team.

Overall we are able to relate the behavioral dimensions of servant leadership to factors that influence capability development in alliances. They influence alliance entrepreneurship, interpreneurship and learning and capture the effects of servant leadership behavior on alliance capability development:

> *Proposition 4a: An alliance leader or co-leader who exhibits servant leadership behavior supports the development of dynamic capabilities in the alliance.*

> *Proposition 4b: An alliance leader or co-leader who exhibits servant leadership behavior helps maintain and build operational capabilities in the alliance.*

The foundation and development of capabilities is influenced by the individuals' and team's knowledge, skills, experiences, cognition, possibly pre-existing interaction routines and access to other resources in conjunction with the characteristics and decisions of the alliance (co-)leaders. Given the differences of transformational and servant leadership behaviors, that is the transformational leader's focus on goal achievement and motivation and the servant leader's emphasis on people development, we argue that there are stronger effects of certain leadership behaviors on capability development depending on the alliance and capability developmental stage. The formation stage of new capabilities, at first, requires an organized team, comprising some form of leadership, capable of joint action and a central objective, that entails the creation of a new

capability (Helfat & Peteraf, 2003). We argue that the transformational leaders' charismatic, motivational and inspiring behavior is, in contrast to servant leadership behavior, particularly supportive in forming, motivating and inspiring the team, formulating a shared vision and working towards a shared objective. Thus, transformational leadership behaviors are expected to support foundation stages of the alliance and capability development. After the foundation phase a capability further develops through the combination of the alliance team's accumulation of experience and its search for an effective solution. The mechanisms that are employed in this phase include learning-by-doing, strategic process improvement and problem solving as w ell as an ongoing reflection of what has been learned. Servant leadership, in contrast to transformational leadership, puts an emphasis on the creation of learning mechanisms and routines in order to enable team members to build up the capabilities that are necessary to accomplish the alliance objective. Hence, we contend that the development phase of the alliance capability lifecycle is best supported by those alliance managers' who display servant leadership behaviors. We encapsulate this in the following two propositions:

> *Proposition 5a: An alliance leader or co-leader who exhibits transformational leadership behavior has a stronger supportive effect on foundations stages of alliance capabilities than an alliance leader or co-leaders who displays servant leadership behavior.*

> *Proposition 5b: An alliance leader or co-leader who exhibits servant leadership behavior has a stronger supportive effect on development stages of alliance capabilities than an alliance leader or co-leaders who displays transformational leadership behavior.*

Transactional leadership effects on alliance capabilities

Transactional leadership behavior encompasses two key dimensions, that is contingent reward behavior and management by exception (Bass, 1985). We consider both dimensions as influential for the development of dynamic and operational capabilities in a direct and/or indirect way.

Contingent reward behavior refers to an understanding where performance of the follower is exchanged for particular rewards that are provided by the leader. Reward schemes are often formalized with specific rewards for specific performance. The followers participation and cooperation is primarily influenced by the leaders ability to clarify goals and provide feedback and motivated by highlighting desirable outcomes that result from successful task completion (Eisenberger, Armeli, & Pretz, 1998). Previous research has shown transactional contingent reward leadership to be positively related to followers' commitment, satisfaction, and performance (Bycio, Hackett, & Allen, 1995). Extrinsic motivation in itself is insufficient in motivating followers to perform in an entrepreneurial way or to encourage learning that leads to the development of dynamic capabilities. We therefore consider the extent to which a transactional leader displays contingent reward influences the alliance team members' extrinsic motivation. Moreover contingent reward behavior only rewards the expected and anticipated outcome and therefore does not foster the development of dynamic capabilities. Nevertheless we affirm that for the management of existing operational capabilities, that is resources and known routines within the alliance, contingent reward behavior helps support what Teece (2003) termed operations management.

Management-by-exception focuses on monitoring task execution for any problem that might arise and correcting it to maintain current performance levels. Transactional leaders focus on control, standardization, formalization, and efficiency by assigning high value to organizational rules, procedures, and experiences. When using management-by-exception the leader specifies standards for compliance and ineffective performance, and possibly penalize followers for not satisfying those standards. Transactional leaders therefore emphasize a formal and centralized organizational structure. A formal alliance structure refers to a mechanistic, inflexible system of control and a centralized one to the concentration of decision-making power within a small group of alliance team members. Bucic and Gudergan (2004) suggest that such mechanistic structures in alliances hinder creativity and learning, and subsequently the development of dynamic capabilities. We follow this

notion and argue that the extent to which a transactional leader follows a management-by-exception approach affects structural formality and centralization of the alliance. We further argue that, both structural formality and centralization reduce entrepreneurial or interpreneurial activity within the alliance team, thereby negatively affecting the development of dynamic capabilities. The management of operational capabilities, however, benefits from a management-by-exception approach. This affects, in particular, the maturity stage of capabilities as this primarily requires capability maintenance (Helfat & Peteraf, 2003). Since the alliance team might in fact reach the limits of capability development due to restrictions associated with available technologies, inputs, employees, and state of managerial practice, the capability enters the maturity stage requiring the continual employment of that given capability. In this stage routines are habitual, requiring less and less conscious thought (Helfat & Peteraf, 2003).

In sum transactional leadership behaviors support the development and maintenance of mature operational alliance capabilities through extrinsic motivation and a mechanistic organizational structure. The development of dynamic capabilities on the other hand are hampered since centralized decision making, structural formality and extrinsic motivation as a result of transactional leadership do not support entrepreneurial and interpreneurial action and learning within the alliance. We conclude with the following three propositions to capture the influence of transactional leadership behavior:

> *Proposition 6a: An alliance leader or co-leader who exhibits transactional leadership behavior negatively influences the development of dynamic capabilities in the alliance.*

> *Proposition 6b: An alliance leader or co-leader who exhibits transactional leadership behavior supports the maintenance and building of operational alliance capabilities.*

> *Proposition 6c: An alliance leader or co-leader who exhibits transactional leadership behavior has a stronger supportive effect on mature operational alliance capabilities than on formation or development stages of operational alliance capabilities.*

CONCLUSION

The objective of this paper is to outline the role different governance mechanisms and leadership behaviors play in developing capabilities in alliances so that their strategic performance can be increased. Although research on alliances has increased, specifically in explaining effects on alliance performance (e.g. Arino, 2003; Gerwin, 2004; Hoang & Rothaermel, 2005), no comprehensive theoretical model that explains governance and leadership effects on different phases of the development of alliance operational and dynamic capabilities has yet been developed. We focus on these effects within the context of non-equity alliances and advance the theoretic discussion by proposing a conceptual framework of alliance governance, leadership and capability development.

Our framework is based on the dynamic capability view of the firm (Teece et al., 1997) and embodies stewardship theory (Davis et al., 1997), full-range leadership theory (Bass, 1985) and servant leadership theory (Greenleaf, 1977). This conceptualization suggests three contributions, which this paper makes to the alliance literature. First we extend previous theory on alliance governance and leadership by linking the psychological and sociological antecedents of agency and stewardship governance to the alliance managers' leadership behavior: Transformational leadership and servant leadership behavior follow stewardship governance, while transactional leadership behavior follows principal-agent governance and associated governance mechanisms. Secondly we advance the understanding of capability development within the alliance by describing how certain leadership behaviors influence the different stages of operational and dynamic capabilities. We show that the development of dynamic and operational capabilities in the foundation and development stages is supported by the alliance managers' transformational and servant leadership behavior, whereas the development and management of mature operational capabilities is supported by transactional leadership. Finally, we provide further theoretical explanation regarding the role and development of operational and dynamic capabilities. We propose that dynamic capabilities in

the alliance context are influenced by not only existing learning mechanisms and entrepreneurial action, but by the partnering firms' ability to build and manage relational aspects of the partnership. We term this ability interpreneurship.

The proposed framework has some important implications for the management of alliances. Firms seeking to increase alliance performance would benefit from assessing the type of capability (operational or dynamic) and stage of alliance capability development (formation, development or mature) in order to employ governance structures that support the occurrence of appropriate and supportive alliance leadership. While all three incorporated leadership styles promote operational capabilities, only transformational and servant leadership are hypothesized to support the development of dynamic capabilities. Partnering firms can thus support both types of capabilities when they establish alliance governance that follows the stewardship approach since it determines transformational and servant leadership behavior. Given the stickiness of governance structures, this allows dealing with different alliance capabilities at different developmental stages at the same time.

The limitations of this study provide some challenging opportunities for future research. Since the proposed framework is lacking empirical evidence, case studies and cross sectional studies would need to be carried out to examine the hypothesized effects of governance mechanisms and leadership behavior. In addition to testing the propositions, future research is required to better understand the different alliance capability stages over time. This requires dynamic or longitudinal studies of alliances.

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FIGURE 1

Alliance Governance, Leadership and Capability Framework
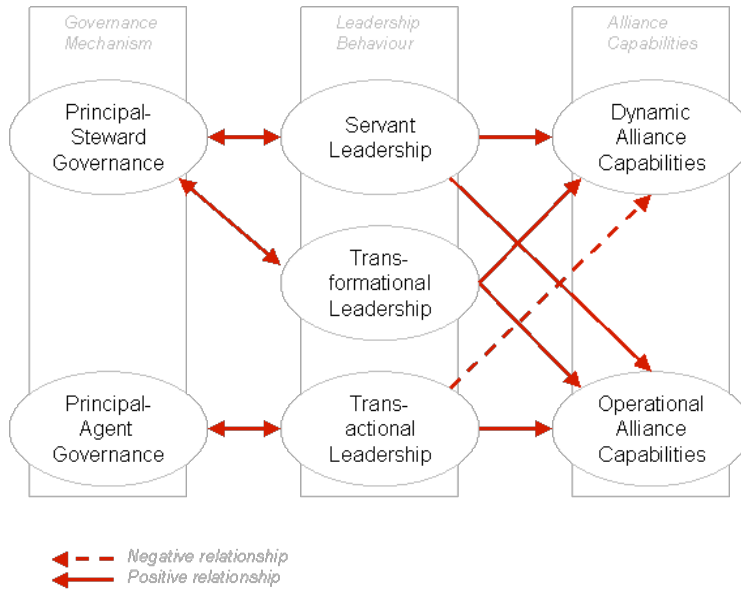
FIGURE 2

Governance and Leadership Effects on Alliance Capability Development-Model