Alliance Team Governance, Leadership and Innovation Capabilities

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We integrate governance and leadership literature to explain the effects of leadership behaviour on the development of dynamic capabilities in alliances. From a stewardship perspective, it is argued that the choice of governance mechanisms influences the alliance managers' leadership behaviour. Transformational and servant leadership behaviours are proposed to influence the development of dynamic capabilities, whereas transactional leadership behaviour influences the maintenance of operational capabilities. Hypotheses are derived outlining the theoretical relationships between leadership behaviours and the alliance innovation process.

Keywords: Leadership, Collaboration, Alliance, Stewardship, Innovation Capabilities

Introduction

In the past years the number of collaboration and different forms of partnering has grown notably (Archol and Kotler, 1999; Gulati, 1998; Powell, et al., 1996; Webster Jr., 1992). Inter-firm alliances have been defined in various ways. They are seen as purposive linkages between organisations (Kale, et al., 2000), or as independently initiated inter-firm linkages that cover collaborations involving exchange, sharing or co-development (Gulati, 1995). Common characteristics of most definitions are that alliances involve investment of time and resources by all partners, interactivity across partners and some defined outcome. Alliances provide firms with collective benefits that are not necessarily achievable for a single firm. The division of knowledge and technological resources makes it difficult to realise major innovation or systemic product offerings without a partner (Möller and Svahn, 2003; Powell, et al., 1996;

Teece, et al., 1997). Alternatively, it allows partners to specialise in the value-creation activity that is supported by their individual unique competence, thereby leading to increased efficiency (Jarillo, 1988; Miles, et al., 2000). In this context, firms often form knowledge transfer partnerships or seek joint creation of new knowledge and innovations through alliances (e.g. Dyer and Nobeoka, 2000; Greis, et al., 1995; Lubatkin, et al., 2001; Lyles and Gudergan, 2005; Numela, 2003; Pisano, 1991; Tsai, 2001). Such alliances can involve setting up a new organisational entity in which the alliance partners hold equity shares or a partnership in which the alliance partners do not hold equity.

Some alliances are successful, but there has also been a high level of discontent with the realised outcome. Many partnerships between organisations have been reported to fail (Ellis, 1996; Hennart, et al., 1998; Parkhe, 1991; Pearce, 1997), particularly in non-equity partnerships (Gudergan, et al., 2002). Thus, while organisations try to realise innovative and competitive product and service offerings through non-equity alliances, they experience difficulties regarding the development of capabilities that enable them to achieve the anticipated innovation outcome.

Among other factors, governance and leadership have been considered critical factors for the success of alliances. A recent survey (Rea, 2004), for example, found that management and governance issues rank among the top three reasons why alliances fail. Alliance governance has been examined regarding its impact on the management of coordination costs and appropriation concerns (e.g. Gulati and Singh, 1998) and regarding inter-organisational relationships and related organisational structures (e.g. Ring and Van de Ven, 1992). But only few studies (e.g. Gudergan, et al., 2002) focus on its influence on alliance performance, and no study has yet explained its influence on alliance leadership behaviour.

The importance of alliance leadership is supported by Hefner (1994), who asserts that strategic alliances require a unique style of leadership. Further, Ellis (1996) states that, to enhance the success of strategic alliances, managers should be able to create an environment of trust, maintain a broad strategic vision, and feel genuine empathy for others. Leadership behaviour has also been identified as a central contextual factor affecting organisational creativity and innovation (e.g. Amabile, et al., 1996; Amabile and Gryskiewicz, 1989; Amabile, et al., 2004; Basadur, 2004; Cummings and Oldham, 1997; Jung, 2001; Mumford, et al., 1997). Yet, no research has so far examined leadership behaviour and its influence on the alliance innovation process.

Given the role of governance mechanisms and leadership behaviour in alliances and lack of a detailed understanding of their relationships with alliance innovation capabilities, this paper aims to address this gap. More specifically, we seek to enhance the understanding of governance and leadership aspects and their effects on innovation in non-equity alliances and provide guidelines for managers that help them practise leadership behaviours that support the realisation of innovation associated objectives. This is of practical relevance as the application of these guidelines might help improve the performance of non-equity alliances.

Review of the relevant literature

Management literature experienced an increase in research regarding the formation and management of strategic alliances. We build on theoretic perspectives in the fields of strategic management (Gudergan, et al., 2002; Madhok and Tallman, 1998; Teece, 2003; Teece, et al., 1997), governance (Davis, et al., 1997) and leadership (Bass and Avolio, 1997; Laub, 1999) to develop an integrated understanding of the interplay of governance, leadership and dynamic capabilities in alliances.

Strategic management theory and alliance innovation

Strategic management l ture on alliance performance and innovation has taken a dynamic capability perspective (Bucic and Gudergan, 2003; Gudergan, et al., 2002; Gudergan, et al., 2003; Madhok and Tallman, 1998). Dynamic capability theory (Teece, et al., 1997) aims to explain how organisations can obtain competitive advantage in rapidly changing environments. It suggests that the generation of rents depends on the perfection of technological, organisational, and managerial processes inside the organisation (Eisenhardt and Martin, 2000; Teece, 2003; Teece, et al., 1997). From this perspective the formation of alliances enables the alliance partners to develop capabilities that alter their resource base by creating, integrating, recombining and releasing resources (Eisenhardt and Martin, 2000; Madhok and Tallman, 1998). Two types of rent generation can occur. Ricardian (quasi) rents are generated through the development of operational capabilities that stem from the synergistic interaction of pooled resources within the alliance. Schumpeterian rents are generated through dynamic capabilities that stem from the innovative application of the alliance's pooled resources (Madhok and Tallman, 1998). The development of dynamic capabilities is determined by the firms routines regarding learning (Teece, et al., 1997), product development, quality control, technology transfer and knowledge transfer (Eisenhardt and Martin, 2000). These routines are further supported by the intrapreneurship and entrepreneurship occurring within the firm (Teece, (2003). They relate to governance mechanisms and the managers role, activity and behaviour within the firm (intrapreneurship) and outside the firm (entrepreneurship). This notion is also supported by Madhok and Tallman (1998), who suggest that alliance value can be enhanced "through entrepreneurial ... action" (Madhok and Tallman, 1998, p. 336).

Based on dynamic capability theory Gudergan, Devinney and Ellis (2003) propose and find empirical support for a *competence-innovation framework of non-equity alliance performance,* which encompasses the alliance innovation process as a dynamic capability. The study (Gudergan, et al., 2003) confirms the relevance of dynamic capabilities in the alliance context and demonstrates that the development of dynamic capabilities like alliance innovation is influenced by creativity and learning routines within the alliance.

However, the framework falls short in fully explaining the influence of what Teece (2003), Madhok and Tallman (1998) termed entrepreneurship. To better understand the influence of entrepreneurial behaviour we need to look into governance mechanisms and leadership behaviour.

Governance theories

Governance theories are generally concerned with "defining and realising missions and goals, establishing strategic direction, policies and objectives to that end, and monitoring implementation" (McNally, 2003). Approaches to governance like agency theory (Jensen and Meckling, 1976) and stewardship theory (Davis, et al., 1997) aim to explain how to best organise relationships in which one party (the principal) defines the work, which another party (the manager) undertakes. Within the context of alliances, governance concerns the patterns of authority and influence that determine the use of alliance resources and the integration of alliance partner interests.

Agency theory bases on a model of economic rationality. It views individualism and opportunism as a human tendency and assumes an economic self-interest of the agent. This can create a potential goal conflict with the principal. The theory argues that extrinsic motivation is required to align goals (Sundaramurthy and Lewis, 2003).

Control and monitoring mechanisms have to be put in place to that alliance managers (or "agents") decide and an act in a way that serves the parent organisations best interests (or "principals") (Jensen and Meckling, 1976). Stewardship theory is rooted in psychology and sociology. Its assumptions are that the interests of parent organisations (or "principals") and alliance managers (or "stewards") converge (Daily, et al., 2003) and that the steward derives higher utility from pro-organisational, cooperative and collectivistic behaviour than from individualistic, opportunistic behaviour. The focal point of the steward-relationship is goal alignment, trust and intrinsic motivation (Sundaramurthy and Lewis, 2003). Stewardship focuses on learning and growth directed towards higher levels of performance, whereas agency theory focuses on cost control. Stewardship as the dominant model is inclusive rather than exclusive, as it can encompass agency theory, whereas, agency theory as the dominant model excludes other approaches (Davis, et al., 1997). Stewardship theory accounts for both extrinsic and intrinsic motivations and, as a governance approach, it suits to both the need for efficiency and effectiveness.

Leadership theories

Leadership is commonly seen as an influence process that is concerned with facilitating the performance of a collective task (Yukl, 2001); it has behavioural, relational and situational aspects and occurs on the individual-, group- and organisational-level, both within the leader-subordinate interaction and in the situational environment (Sadler, 2003). Leadership in the alliance context can be defined as the influence process that facilitates the performance of the alliance team to achieve the alliance objectives.

Extant leadership theories emphasise different aspects of the of leadership process,

that is the personal qualities and characteristics of the leader in trait approaches (e.g. Boyatzis, 1982; Bray, et al., 1974; Howard and Bray, 1988; McClelland and Boyatzis, 1982; Miner, 1965; Stogdill, 1974), the individual behaviour or style of the leader in behavioural approaches (e.g. Blake and Mouton, 1964; Bowers and Seashore, 1966; Fleischmann, 1953; Likert, 1967; Misumi and Shirakashi, 1966), the use of different forms of power in power-influence approaches (e.g. French and Raven, 1959; Kotter, 1982; Pettigrew, 1973; Yukl and Falbe, 1991), and the situational context of the leader-subordinate relationship in situational approaches (e.g. Fiedler, 1967; 1986; House, 1971; Kerr and Jerminer, 1978; Yukl, 1989).

Leadership behaviour has been linked to individual and organisational creativity, and innovation, but only little empirical research has investigated the existence and nature of the link (Mumford, et al., 2002). An approach that has been studied repeatedly in this context is the full-range leadership theory (Bass and Avolio, 1995). A second approach—servant leadership (Greenleaf, 1977) —is also considered given its overlapping assumption with stewardship theory. Both, full-range leadership theory and servant leadership theory take an integrated perspective and aim to explain effective leadership by integrating trait, behavioural and situational approaches. In what follows, we review the theories in more detail.

Full-range leadership theory

Full-range leadership theory (Bass and Avolio, 1995) encompasses transformational and transactional leadership behaviour. Transformational leadership is charismatic, inspirational, intellectually stimulating, and individually considerate (Avolio, et al., 1999). Transformational leaders help individuals to go beyond their self-interest for the sake of the larger vision of the organisation. They inspire others with their vision,

create excitement through their enthusiasm, and question time-worn assumptions (Bass and Avolio, 1990b). Transformational leadership is particularly relevant in situations of change (Avolio, et al., 1999; Bass, 1985) and has been linked to motivation and creativity (Burns, 1978; Jung, 2001; Shin and Zhou, 2003; Sosik, et al., 1998b; Sosik, et al., 1999), organisational performance (Jung and Avolio, 1999; Jung and Sosik, 2002; Ogbonna and Harris, 2000), innovation (Jung, et al., 2003), and effectiveness in different types of organisations (Bass and Avolio, 1997). Meta-analysis results confirm that these relationships are stable across different levels of leadership (Lowe, et al., 1996).

Transactional leadership, in contrast, motivates individuals primarily through contingent-reward exchanges and active management-by-exception (Avolio, et al., 1999). Transactional leaders set goals, articulate explicit agreements and provide constructive feedback to keep everybody on task (Bass and Avolio, 1993; Howell and Hall-Merenda, 1999). Operating within an existing organisation, transactional leaders seek to strengthen an organisation's culture, strategy, and structure. Full-range leadership theory asserts that the best leaders are those who display both transformational and transactional behaviours (Bass, 1998). Despite transformational leadership's theoretical significance and potentially positive impact on creativity and innovation, to date, no studies have focused on examining how transformational or transactional leadership is related to innovation 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, p. 83). It encompasses behaviour that supports the valuing and development of people,

the building of community, the practice of authenticity, the providing of leadership and the sharing of power and status (Laub, 1999). Power and authority are used ethically, and trust, insight, listening, and cooperation are encouraged. Servant leaders provide resources and support without an expectation of acknowledgement. A key difference in the servant leadership model compared to other models is that it is a values-based instead of being trait-based or behavioural based (Stone, et al., 2004).

Smith, Montagno and Kuzmenkoet (2004) compare transformational leadership and servant leadership and conclude that both concepts overlap to some extent but relate to different organisational cultures. Servant leadership creates a spiritual generative culture, while transformational leadership builds an empowered dynamic culture. Along similar lines Stone, Russel and Patterson (2004) argue that the two styles differ in leader focus. Transformational leaders build commitment in followers toward organisational objectives, whereas servant leaders' highest value is the people. This is also supported by Senge (1990; 1997), who perceives the servant's focus on people as influential for the leadership of learning organisations. Differences in leader focus may also influence other characteristics and outcomes. Stone, Russel and Patterson (2004) for example assume an effect on follower motivation.

Although there has been considerable interest in servant leadership, it remains an unconfirmed concept, as only little empirical evidence of servant-leader behaviour exists. The research conducted so far (e.g. Farling, et al., 1999; Laub, 1999; Russell, 2001; Russell and Stone, 2002; Sendjaya and Sarros, 2002; Smith, et al., 2004; Stone, et al., 2004; Wheatley, 1994) found principles, values, beliefs, and ethics of the servant leader, but anecdotal evidence prevails. Full definitions of servant leadership are scant and early servant leadership models provide little empirical validation. Given the conceptual similarities, yet distinct differences, between servant

leadership and transformational leadership we argue that servant leadership might be effective in certain alliance situations in which transformational and transactional leadership behaviours are not appropriate.

Conclusion

In conclusion, dynamic capability theory is a strategic management perspective that has been confirmed to explain the alliance innovation process as a dynamic capability. Entrepreneurship, which is suggested to influences the development of dynamic capabilities, compromises governance and leadership behaviour. Stewardship theory explains governance mechanisms and full-range leadership theory confirms the positive influence of transformational leadership behaviour on creativity and innovation. Servant leadership theory, albeit rarely empirically tested, also provides a theoretical logic explaining the effects of leadership on innovation. We need to build on this base to expand the theoretical relationships between these theories in the alliance context. This would enable us to better understand the role of intrapreneurship and entrepreneurship (as proposed by Teece, 2003), the development of dynamic capabilities and ultimately the generation of Schumpeterian rents in alliances. We therefore take a dynamic capabilities perspective and apply stewardship theory to explain the effect of alliance governance on alliance leadership behaviours that, in turn, influence the development of operational and dynamic capabilities, in particular the alliance innovation process.

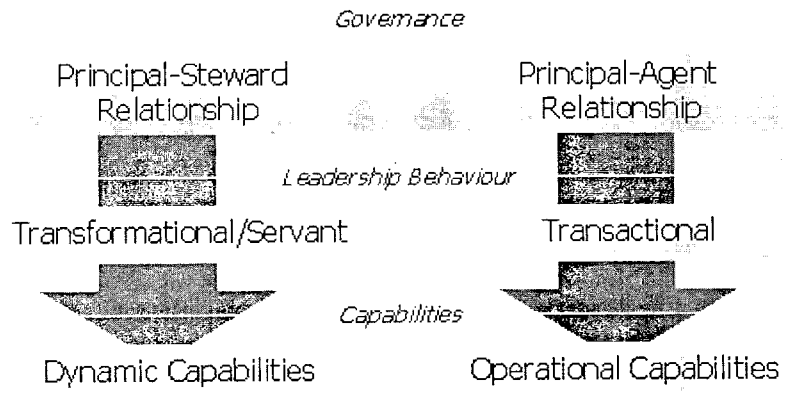
Conceptual framework

The core of the framework developed here is that the influence of governance and leadership behaviours on the development of alliance capabilities (e.g. the alliance

innovation process) can be assessed by using a framework that is rooted in dynamic capability theory and stewardship theory. Alliance leadership behaviour is interpreted as a function of alliance governance following the principles of stewardship theory. The development of dynamic and operational capabilities is modelled as a function of alliance leadership behaviour. The following research questions are addressed: (a) How does governance structure influence leadership behaviour within the alliance context; (b) how does leadership behaviour, in turn, affect the development of dynamic and operational capabilities; and (c) how does transformational, transactional and servant leadership behaviour influence the creativity, learning, knowledge management and ultimately innovation processes in business alliances?

The integration of recent developments in dynamic capabilities theory (Eisenhardt and Martin, 2000; Madhok and Tallman, 1998; Teece, 2003), governance theory (Davis, et al., 1997), leadership theory (Bass and Avolio, 1997; Laub, 1999), and research regarding alliance performance and innovation (e.g. Bucic and Gudergan, 2003; Gudergan, et al., 2003; Madhok and Tallman, 1998) provides the foundation for the proposed framework. A graphical representation of the framework is presented in Figure 1.

Figure 1: Non-equity Alliance Governance and Leadership Framework



Alliance governance and leadership behaviour

Resulting from the parent companies' agreement, an alliance team compromises either one alliance team leader or two (or more) assigned alliance team co-leaders. According to stewardship theory (Davis, et al., 1997) the parent organisations of the alliance (i.e. their executives) can be considered principals and the alliance team leader(s) can be considered agent(s) or steward(s). Whether their relationship develops into a principal-agent or principal-steward relationship is predisposed by individual psychological and situational characteristics.

Four possible situations of individual governance 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. The theory further suggests in case of inconsistency, as in situations (2) and (3), an agency-relationship prevails. Thus, alliance governance will follow either a principal-agent or a principal-steward approach.

Davis, Schoorman and Donaldson (1997) proposed to integrate stewardship theory and leadership theory, since the psychological and situational mechanisms that underlie agency- and steward-relationships are related to those underlying extant leadership theories. Corresponding factors that have been found to influence leadership behaviour include leader characteristics like motivation (e.g. Manz, 1986; Manz, 1990; Mumford, et al., 2000a; Mumford, et al., 2000b), identification with the organisations mission, vision and objectives (e.g. Burns, 1978; Greenleaf, 1977; Laub, 1999; Spears and Lawrence, 2002), the use of power (e.g. French and Raven, 1959;

Kotter, 1982; Pettigrew, 1973; Yukl and Falbe, 1991), and situational factors like management philosophy and organisational culture (e.g. Dickson, et al., 2003), risk orientation (e.g. Antonakis, et al., 2003), and trust (e.g. Greenleaf, 1977; Laub, 1999; Mayer, et al., 1995; Schein, 1992; Spears and Lawrence, 2002).

A steward is assumed to demonstrate transformational- or servant leadership since the key assumptions and behaviours that underlie transformational behaviour (Bass and Avolio, 1995) and servant behaviour (Laub, 1999) correspond with those underlying stewardship (Davis, et al., 1997). An agent, in contrast, is assumed to exhibit transactional leadership because key assumptions and behaviours of transactional behaviour (Bass and Avolio, 1995) are aligned with the mechanisms underlying the agent-relationship (Davis, et al., 1997). The first proposition within the framework presented in this study therefore is, that the nature of governance determines leadership behaviour in the alliance.

Alliance leadership and capability development

Leading an alliance is an influence process (Yukl, 2001) where the (co-)leader defines and shapes 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 team.

From a dynamic capabilities perspective both operational and dynamic capabilities contribute to alliance performance by generating Ricardian (quasi) rents and/or Schumpeterian rents (Gudergan, et al., 2002; Teece, 2003). To develop dynamic capabilities entrepreneurship and intrapreneurship among other factors are required

(Teece, 2003). Entrepreneurship is about "coordinating the assembly of disparate elements [and] getting 'approvals' for non-routine activities" (Teece, 2003 p. 10). The entrepreneur must articulate goals, set culture, build trust, and play a critical role in key strategic decisions. Intrapreneurship, in contrast, is focussed on achieving effective internal cooperation, functional integration, incentive alignment and shared goals throughout the organisation (Teece, 2003). The development and maintenance of operational capabilities requires the management of known routines where decisions can be made with reference to standard contracting or transaction cost economic frameworks. This is referred to as operations management (Teece, 2003).

Transformational leadership and servant leadership characteristics corresponds with what Teece (2003) describes as entrepreneurship and intrapreneurship, likewise transactional leadership characteristics relate to operations management. The second proposition within the suggested framework is that transformational and servant leadership behaviours are more likely to support the development of dynamic capabilities, whereas transactional leadership behaviour is more likely to support the development of operational capabilities for the alliance.

In conclusion, we suggest a theoretical framework of alliance governance, leadership and capability development based on stewardship theory and the dynamic capability view of the firm. This integration of management theory, governance and leadership provides a new perspective that explains the influence of governance mechanisms and leadership behaviours on the development of dynamic capabilities. In the following sections we will outline how this proposed framework can be applied to the alliance innovation process and its antecedent factors as proposed by Bucic and Gudergan (Bucic and Gudergan, 2003), as it advances our understanding of how alliance governance and leadership behaviours affect alliance innovation.

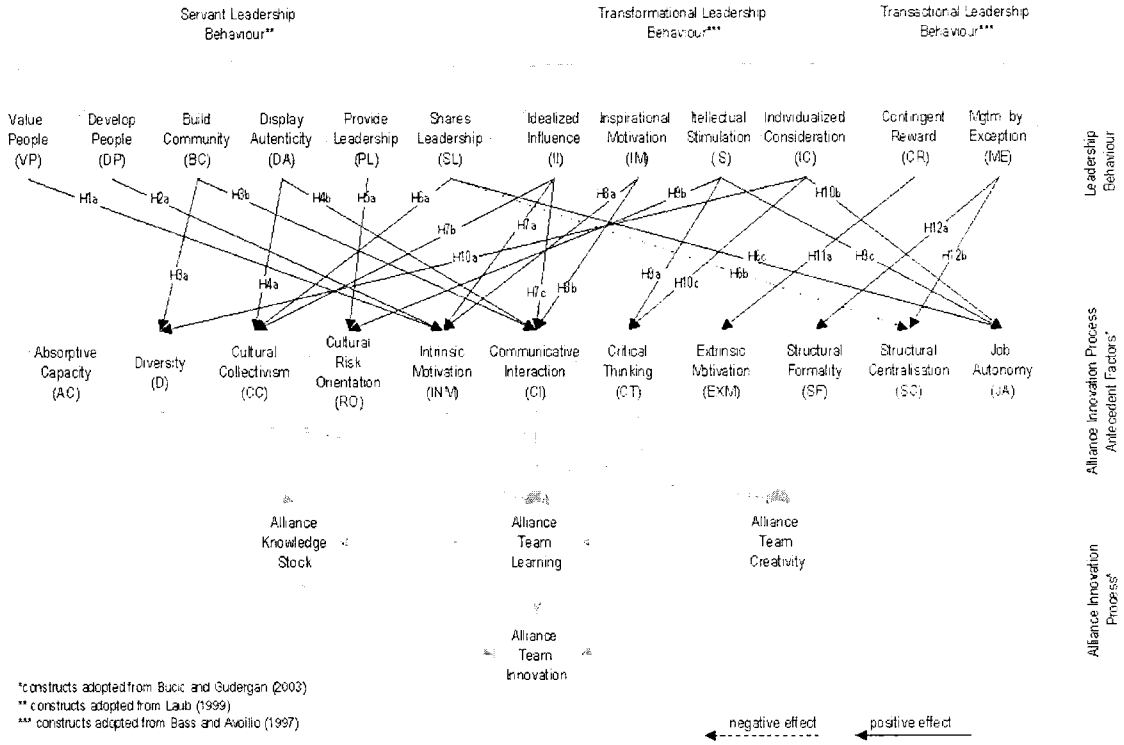
Conceptual model and hypothesis

Model overview

We advance the Process of Innovation in Alliances model (Bucic and Gudergan, 2003) by integrating transformational-, transactional, and servant- leadership theories to develop the *Alliance Leadership and Innovation* model. The resulting model encapsulates four components: alliance innovation, the "chain of innovation", antecedent factors of alliance innovation, and leadership behaviours influencing the chain of innovation.

The Process of Innovation in Alliance model as proposed and empirically tested by Bucic and Gudergan (2003) involves innovation as the output of the "chain of innovation", which is referred to as the "systematic flow between the inputs of the creativity and learning process and the knowledge stock in alliances" (Bucic and Gudergan, 2003 p. 12). Antecedent factors include individual level factors (intrinsic motivation, extrinsic motivation, and critical thinking), group level factors (communicative interaction, job autonomy, and diversity), and alliance level factors (cultural risk orientation and collectivism, structural centralisation and formality, and absorptive capacity) (Bucic and Gudergan, 2003). Leadership behaviours that influence these antecedent factors comprise servant leadership behaviour (value people, develop people, build community, display authenticity, provide leadership, share leadership) (Laub, 1999), transformational leadership behaviour (idealised influence, inspirational motivation, intellectual stimulation, individual consideration), and transactional leadership behaviour (contingent reward, management by expectation) (Bass and Avolio, 1997). A graphical representation of the model is presented in Figure 2.

Figure 2: Alliance Leadership and Innovation Model



Constructs and hypotheses

In what follows, hypotheses are developed articulating the theoretical effects proposed in the model. We address servant-, transformational- and transactional leadership behaviours and their influences on antecedent factors of the alliance innovation process (Bucic and Gudergan, 2003).

Servant leadership and alliance innovation

Value people (VP)

Valuing people behaviour encompasses maintaining a high view of people, putting the needs of others first and receptive, non-judgmental listening to subordinates. The servant leader trusts and respects subordinates, accepts them as they are and is aware of their needs. Valuing people behaviour ensures 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).

According to Herzberg (1966) intrinsically motivating tasks are characterised by key "motivators" such as responsibility, challenge, achievement, variety, and advancement opportunity. Hackmann and Oldham (1976) add task identity, task significance, autonomy, and feedback from the task. Psychology literature states that intrinsically motivated behaviour derives from and satisfies needs like competence and autonomy (Deci and Ryan, 1985; Kasser and Ryan, 1996) and finally, Deci (1980) states that, perceptions of personal control satisfy these needs and lead to intrinsic motivation. Bucic and Gudergan (2003) define intrinsic motivation as *the alliance team member's involvement in an activity for personal interest and satisfaction.* We apply this conceptualisation and argue that the extent to which a servant leader values people affects the alliance team members' intrinsic motivation. The following hypothesis is derived:

> ***H1a:*** *The more the alliance team (co-)leader exhibits behaviours that reflect valuing people, the greater the alliance team members' intrinsic motivation.*

Develop people (DP)

Developing people includes providing followers with opportunities for learning and growth, modelling appropriate actions, and building up others through encouragement and affirmation (Laub, 1999). The servant leader acts as a mentor, encourages learning and uses power and authority to help people develop. Spears (1995) states that servant leaders 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 the team members' intrinsic motivation, as defined by Bucic and Gudergan (2003), and derive the following hypothesis:

> ***H2a:*** *The more the alliance team (co-)leader displays behaviours that reflect developing people, the greater the alliance team members' intrinsic motivation.*

Build community (BC)

Building community incorporates creating strong personal relationships with followers, practicing collaborative working, and valuing the individual and cultural differences of others (Laub, 1999). Respecting and supporting differences in culture, race and ethnicity and allowing followers individuality in style and expression (Laub, 1999) promotes the formation of diverse teams. Bucic and Gudergan (2003) define alliance team diversity as the *varied composition of the alliance team*. We follow their conceptualisation and propose that the extent to which a leader builds community affects the diversity within the alliance team. The following hypothesis is derived:

> ***H3a:*** *The more the alliance team (co-)leader demonstrates behaviours that reflect building community, the greater the alliance teams' diversity.*

Building community also aims at maintaining positive relationships with and among followers. The process puts an emphasis on team building and teamwork and supports a collaborative rather than solitary approach to work (Laub, 1999). We argue that the extent to which a servant leader builds the community influences both the communicative way the leader interacts with followers and the way followers interact with each other. Bucic and Gudergan (2003) view communicative interaction as *group-oriented interaction whereby team members communicate through shared frames of reference and mutual understandings*. We employ their perspective and derive the following hypothesis:

H3b: *The more the alliance team (co-)leader exhibits behaviours that reflect building community, the greater the alliance teams' communicative interaction.*

Display authenticity (DA)

Display authenticity includes being open, accountable, having the willingness to learn from others, and maintaining integrity and trust within the organisation (Laub, 1999). The level of trust between leaders and followers and among followers is essential for solving mutual problems. It is determined by personal values, motives, skills, and prior experience (Yukl, 2001). Trust within and pride in the organisation characterise a collectivistic culture (Bucic and Gudergan, 2003; O'Reilly, 1989). An authentic, honest and trustworthy leader may affect the development of a collectivistic team culture. We follow Bucic and Gudergan (2003) in conceptualising cultural collectivism as *the set of values and beliefs reflecting the overall willingness to collaborate*, and articulate the following hypothesis:

H4a: *The more the alliance team (co-)leader reveals behaviours that reflect displaying authenticity, the greater the alliance teams' cultural collectivism.*

We further argue that aspects of authenticity, such as being open to receive criticism, being open-minded and non-judgemental, maintaining high ethical standards and admitting personal limitations and mistakes (Laub, 1999) also influence the teams' communicative interaction. The following hypothesis builds on this rationale:

H4b: *The more the alliance team (co-)leader displays behaviours that reflect displaying authenticity, the greater the alliance teams' communicative interaction.*

Provide leadership (PL)

Providing leadership includes envisioning the future, taking the initiative, and clarifying

goals. The servant leader provides support and resources and encourages followers to take risks (Laub, 1999). 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 (Bucic and Gudergan, 2003). We argue that the extent to which a servant leader provides leadership has an impact on the development of a risk orientated culture, defined as *collective values and beliefs reflecting the risk-taking tendencies of the alliance team* (Bucic and Gudergan, 2003). The following hypothesis is derived:

> ***H5a:*** *The more the alliance team (co-)leader exhibits behaviours that reflect providing leadership, the greater the alliances' cultural risk orientation.*

Share leadership (SL)

Sharing leadership refers to facilitating a shared vision, sharing power, releasing control, sharing status and promoting others (Laub, 1999). A servant leader encourages followers to share and take responsibility and to participate in decision processes that determine the future of the organisation. We argue that the extent to which a servant leader shares leadership influences the creation of a collectivistic alliance culture as proposed by Bucic and Gudergan (2003) and suggest the following hypothesis:

> ***H6a:*** *The more the alliance team (co-)leader reveals behaviours that reflect sharing leadership, the greater the alliances' cultural collectivism.*

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 decentralisation and gives freedom and empowerment to the individual (O'Reilly, 1989). We argue that the extent to which a servant leader shares leadership has also an effect on the followers' job autonomy. Bucic and Gudergan (2003) define job autonomy as *the alliance team members' empowerment through decentralisation of authority and responsibility*. The following hypothesis takes into account this argument:

> ***H6b:*** *The more the alliance team (co-)leader demonstrates behaviours that reflect sharing leadership, the greater the alliance team members' job autonomy.*

We further argue that the extent to which an alliance leader shares leadership by sharing power and control with subordinates affects the development of an organisational structure that is characterised by decentralised decision making. Mintzberg (1982) suggests a decentralised structure is one in which the power is shared among many people. Poncet (2001) refers to structural (de)centralisation as an indicator for the individuals' ability to reach others in the network. Following Bucic and Gudergan (2003; 2004). who define structural centralisation as *an authoritative structure in guiding the extent to which decisions are made by a 'central authority'*, the following hypothesis can be formulated:

> ***H6c:*** *The more the alliance team (co-)leader exhibits behaviours that reflect sharing leadership, the lower the alliances' structural centralisation.*

Transformational leadership and alliance innovation

Idealised influence/Charisma (II)

Bass and Avolio (1995) define idealised influence or charismatic behaviour as having

a clear vision, a sense of purpose, and serving as followers' charismatic role model. It includes sacrificing for the group, demonstrating a high ethical standard, displaying conviction, emphasising trust, taking stands on difficult issues, presenting important values, and emphasising the importance of commitment and the ethical consequences of decision. Transformational leaders generate pride, loyalty, confidence, respect and alignment around a shared purpose.

Jung and co-authors (2003) argue that transformational leaders actively engage followers' personal value systems and link it to the collective identity of their organisation, its vision and values which increases followers' intrinsic motivation and raises their performance expectation. 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 behaviour influences the alliance team members' intrinsic motivation. We specify the following hypothesis capturing this logic:

> ***H7a:*** *The more the alliance team (co-)leader displays behaviours that reflect idealised influence, the greater the alliance team members' intrinsic motivation.*

The realignment of followers personal values according to their leader's vision and goals also creates strong values of internalisation, cooperation, and congruence among followers (Jung and Avolio, 2000; Shamir, et al., 1993). The resulting shared vision leads to increased group cohesiveness and collective identification. House and Shamir (1993) argue that transformational leaders stimulate followers affiliation. Strong group cohesiveness can give group members a sense of where they need to direct their efforts to achieve their goals (Jung, et al., 2003). We argue that the extent to which a transformational leader exhibits charismatic behaviour affects the alliance

teams' communicative interaction and the development of a collectivistic alliance culture (Bucic and Gudergan, 2003). The following two hypotheses are derived:

> ***H7b:*** *The more the alliance team (co-)leader shows evidence of behaviours that reflect idealised influence, the greater the alliance teams' communicative interaction.*

> ***H7c:*** *The more the alliance team (co-)leader practices behaviours that reflect idealised influence, the greater the alliances' cultural collectivism.*

Inspirational motivation (IM)

Inspirational motivation refers to energising followers by articulating a compelling vision of the future (Avolio, et al., 1999; Sosik, et al., 1998a). It includes the use of symbols and emotional arguments to convince followers to become committed to the shared vision of the organisation. Transformational leaders use encouraging words to let followers know how important their contribution is. When exhibiting inspirational motivation leaders challenge followers with high standards and provide encouragement and meaning for what needs to be done (Hater and Bass, 1998). We argue that the extent to which a transformational leader encourages, motivates and inspires followers influences followers' intrinsic motivation and the communicative interaction within the alliance team. The following hypotheses manifest these arguments:

> ***H8a:*** *The more the alliance team (co-)leader exhibits behaviours that reflect inspirational motivation, the greater the alliance team members' intrinsic motivation.*

> ***H8b:*** *The more the alliance team (co-)leader displays behaviours that reflect inspirational motivation, the greater the alliance teams' communicative interaction.*

Intellectual stimulation (IS)

Intellectual stimulation involves stimulating 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 including those of the leader and the organisation. 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 (Bass and Avolio, 1995; Bass and Avolio, 1997). Intellectual stimulation encourages followers to think "out of the box" and to adopt generative and exploratory thinking processes (Sosik, et al., 1997). We suggest that the extent to which an alliance team leader intellectually stimulates team members influences the alliance team members' critical thinking (Bucic and Gudergan, 2003), and formulate the following hypothesis:

> ***H9a:*** *The more the alliance team (co-)leader demonstrates behaviours that reflect intellectual stimulation, the greater the alliance team members' critical thinking.*

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 (Bass, 1985). In so doing they create a work environment that empowers followers to seek innovative approaches to perform their job. Howell and Avolio (1993) found a positive relationship between the intellectual stimulation provided by the leader and unit performance when there was a climate of support for innovation within the leader's unit. Dvir and co-authors (2002) also found that followers with a transformational leader were more self-confident and took more critical and independent approaches toward their work than

followers in a control group. Thus, when a transformational leader stimulates followers' by questioning their assumptions, reframing problems, and approaching old situations in new ways, he/she helps to establish an organisational culture that values creative thought processes, risk-taking approaches, and innovative work approaches. We therefore argue that the extent to which a transformational leader intellectually stimulates followers affects the cultural risk orientation of the alliance, and articulate the following hypothesis:

> ***H9b:*** *The more the alliance team (co-)leader reveals behaviours that reflect intellectual stimulation, the greater the alliances' cultural risk orientation.*

Further, Avolio and Gibbson (1988) proposed that transformational leaders aim to develop followers' self-management and self-development skills by allowing them to implement actions without direct supervision or intervention. Following this view, we suggest that the extent to which a transformational leader intellectually stimulates followers has an impact on the alliance team members' job autonomy. The following hypothesis is built on this rationale:

> ***H9c:*** *The more the alliance team (co-)leader exhibits behaviours that reflect intellectual stimulation, the greater the alliance team members' job autonomy.*

Individualised consideration (IC)

Leaders who exhibit individualised consideration treat each follower in a caring and unique way by paying attention to their needs, showing empathy, and showing appreciation and support of individual initiatives and viewpoints. The focus is on the development of a supportive climate where the leader mentors/coaches the followers to meet their higher order needs (Avolio and Bass, 1995). Given leaders' understanding, support, and encouragement, followers are likely to focus on their

tasks instead of being concerned about their situation, which in turn allows them to freely explore and take risks when experimenting with ideas and approaches (Amabile, 1996; Deci and Ryan, 1985; Shamir, et al., 1993). Thus, the extent to which an alliance team leader individually considers followers may affect the alliance teams' cultural risk orientation (Bucic and Gudergan, 2003). The following hypothesis captures this logic:

> ***H10a:*** *The more the alliance team (co-)leader demonstrates behaviours that reflect individual consideration, the greater the alliances' cultural risk orientation.*

Developing followers' capabilities, providing information and resources, and giving followers discretion to act (Bass, 1985) may also encourage followers 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 individualised consideration on followers' job autonomy (Bucic and Gudergan, 2003). We formalise this argument in the following hypothesis:

> ***H10b:*** *The more the alliance team (co-)leader displays behaviours that reflect individual consideration, the greater the alliance team members' job autonomy.*

Individualised consideration also supports the understanding and appreciation of diverse ideas within the group. Similar to intellectual stimulation behaviour, it motivates followers to make unique contributions to the group's efforts by recognising their individual capabilities (Sosik, et al., 1997). Questioning other team members' ideas and cooperative, supportive participation may support critical thinking capabilities within the team. We suggest the following hypothesis to articulate this logic:

H10c: *The more the alliance team (co-)leader exhibits behaviours that reflect individual consideration, the greater the alliance team members' critical thinking.*

Transactional leadership and alliance innovation

Contingent reward (CR)

Contingent reward behaviour refers to a system where performance of the follower is exchanged for specific rewards given by the leader. Most contingent reward systems are formalised with specific rewards for specific performance. Leaders who exhibit contingent reward look for positive performance in their followers in order to exchange a reward (Bass and Avolio, 1995). Leaders and followers participate in contingent rewards, because this behaviour is common in nature (Howell and Avolio, 1993). Each party agrees to the system of rewards and works to meet mutual expectations for certain achievements or behaviours (Bass and Avolio, 1990a). Motivation to participate and cooperate is influenced by clarifying goals and providing feedback (e.g., recognition), which is dependent on followers' task input (Bass and Avolio, 1994). By highlighting desirable outcomes that result from successful task completion, a transactional leader extrinsically motivates followers (Eisenberger, et al., 1998). We therefore argue that the extent to which a transactional leader displays contingent reward influences the alliance team members' extrinsic motivation. Bucic and Gudergan (2003) conceptualise extrinsic motivation as *the alliance team member's involvement in a task for externally driven reasons.* The following hypothesis is derived building on the preceding argument:

H11a: *The more the alliance team (co-)leader reveals behaviours that reflect contingent reward, the greater the alliance team members' extrinsic motivation.*

Management-by- exception (ME)

Management-by-exception focuses on monitoring task execution for any problem that might arise and correcting it to maintain current performance levels (Bass and Avolio, 1997). Transactional leaders focus on control, standardisation, formalisation, and efficiency by assigning high value to organisational rules, procedures, and experiences. They focus on knowing what clearly works and how to keep the system running (Bass and Avolio, 1995). Bucic and Gudergan (2003; 2004) define structural formality *as a mechanistic, inflexible system of control governing the alliance team* and structural centralisation as *the concentration of decision-making within a small group of people within the alliance team.* We follow their conceptualisation and argue that the extent to which a transactional leader follows a management-by-exception approach affects structural formality and centralisation of the alliance. We conclude with the following two hypotheses to capture this rationale:

> ***H12a:*** *The more the alliance team (co-)leader exhibits behaviours that reflect management-by-exception, the greater the alliances' structural centralisation.*
>
> ***H12b:*** *The more the alliance team (co-)leader displays behaviours that reflect management-by-exception, the greater the alliances' structural formality.*

Conclusion

The focus of this paper is to better understand the effects of leadership behaviour on dynamic capabilities in non-equity alliances. This is to improve the alliances' chance to be successful in achieving its innovation related objectives.

Although research on alliances has increased, specifically in explaining effects on alliance performance, no comprehensive theoretical model that explains governance and leadership effects on the development of dynamic capabilities has yet been

developed. We propose a theoretical framework of alliance governance, leadership and capability development based on stewardship theory and the dynamic capability view of the firm. The integration of these views on management theory, governance and leadership provides a new perspective that helps to explain the influence of governance mechanisms and leadership behaviours on the development of dynamic capabilities.

We further illustrate how the proposed framework can be applied to the alliance innovation process and its antecedent factors by developing a set of hypotheses that improve our theoretical understanding of leadership in the alliance context. This will also help formulate recommendations that enable managers to practice leadership that promotes innovation in alliances.

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