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Knowledge and Learning from International Partnerships: a study of small firms in the fashion industry

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Abstract

This paper probes deeper into how small firms learn from external sources, specifically from international production partnerships, and build capabilities. We use a multiple case study design and draw on in-depth interviews to uncover the mechanisms that trigger and shape this learning process. From our analysis, we make the observation that learning from international production partnerships hinges on commitment of resources and dispersion of the alliance capability. We propose a model of 'drivers' by which small firms are motivated to learn from the partners.

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Keywords: global production network, internationalization, learning, knowledge, capabilities, fashion industry

1 Introduction

Organizations are increasingly outsourcing their production activities in order to respond to competitive pricing pressures. Consequently, the internationalization and fragmentation of the value chain has had sweeping effects on the coordination, capabilities and competitiveness of organizations. Managers in various manufacturing industries are faced with complex organizational and strategic challenges when it comes to making sourcing and outsourcing decisions (Berger, 2005; Pisano and Shih, 2009) and nowhere has this been more pertinent than in the high- and low-tech manufacturing industries.

Much of the literature on internationalization, knowledge transfer, organizational learning and strategic alliances focuses on aspects of foreign direct investment (Barkema and Vermeulen, 1998), governance and control (Leiblein, Reuer and Dalsace, 2002; Oxley, 1997), organizational form (Child and McGrath, 2001), market entry (Eriksson, Johanson, Majkgard, and Sharma 1997; Johanson and Vahlne, 1990; Lamb, Sanderg, Liesch, 2011) and performance (Boter and Holmquist, 1996; Gassman and Keupp, 2007; Karra, Phillips and Tracey, 2008) and is viewed through various theoretical lenses including the resource-based view (stemming from Penrose, 1959; Barney, 1988, 1991), organizational learning perspectives and the behavioral theory of the firm (Cyert and March, 1963), transaction cost economics (Williamson, 1981, 1993). There is a long-standing academic debate in the literature on firm capabilities and organization economics underlying the explanations of firm capability and heterogeneity (Argyres and Mayer, 2007). Studies from a ‘capabilities’ perspective center around firm heterogeneity; studies from the organization economics literature center on boundaries and coordination. Both theoretical perspectives have provided explanations to various aspects of internationalization, such as sales expansion, foreign direct investment and the selection and performance of inter-firm partnerships. Information and knowledge are considered to be the heart of the organization and are significantly different than goods and assets (Argyres et al, 2012).

In recent years, scholars have turned to understanding information flows across firm boundaries as the cross-border organizational coordination of these has become more complex (Child and McGrath, 2001) and central to sustaining competitive advantage (Lavie, 2007). Learning from partnerships, in general, is a complex and misunderstood process (Inkpen, 1998; Nonaka, Toyama and Nagata, 2000), requiring firms to have a certain level of absorptive capacity to be able to recognize, interpret, transform and integrate information from their partners into their own routines and capabilities (Cohen and Levinthal, 1990; Powell, Koput and Smith-Doerr, 1996). There are still many remaining questions in regards to

how firms, especially small and medium sized firms, access, interpret and integrate knowledge from international collaborations and thereby learn. Our study addresses this important gap in the literature and asks the question: *How do small and medium size firms learn from international production partnerships and build competitive capabilities?* Drawing on the literature on organizational learning and the knowledge-based view (Nonaka et al, 2000), we unpack cross-border learning in small and medium sized firms in order to shed light on the intricate and iterative process of learning and capability building. We use a multiple case study design and draw on in-depth interviews to uncover the mechanisms that trigger and shape this learning process. From our analysis, we make the observation that learning from international production partnerships hinges on commitment of resources and dispersion of the alliance capability. We propose a model of ‘drivers’ by which small firms are motivated to learn from the partners.

2 Knowledge, learning and international partnerships

Various scholars have pointed out the importance of knowledge creation and organizational learning as a catalyst and source of an organization’s ability to innovate, change and create sustained competitive advantage (Argote and Ingham, 2000; Grant, 1996; Kale, Dyer, Singh, 2002; Powell et al, 1996; Nonaka, 1990, 1991, 1994; Prahalad and Hamel, 1990; Nelson, 1992; Cyert, Kumar and Williams, 1993; Henderson and Cockburn, 1994; Nonaka and Takeuchi 1995; Leonard-Burton, 1995; Kogut and Zander, 1996; Nahapiet and Ghoshal, 1998; Spender, 1996; Teece, Pisano and Shuen, 1997). Nonaka and colleagues (2000) view the firm as “a knowledge-creating entity, in which knowledge is created in a context-specific, relational, dynamic and humanistic environment”. Building on the resource-based view of the firm, these authors provide a theory of organizational knowledge creation that elaborates on the dynamic nature of a firm’s resources, attributing a firm’s uniqueness to its ability to create and integrate new knowledge into the organization. While firms in a specific industry may share similar characteristics due to a similar pool of resources, it is the idiosyncratic patterns of knowledge creation and integration comprised of complex social relationships (Nonaka et al, 2000,) that set them apart from each other. In this way, individuals and their relationships with others inside and outside the organization are an integral component of a firm’s competitive advantage (Dyer, Singh, 1998; Lavie, 2007). The potential for a firm to convert knowledge into organizational learning that is used for improving routines, creating new products or changing capabilities will depend greatly on *who* inside and outside the organization is participating in the process of knowledge creation and *how* that process is

taking place (Nonaka et al, 2000). Westney (1988) posits two types of cooperative strategies – output-oriented, producing goods, and learning-oriented, which aims to produce goods but also includes a learning intent. The learning intent from the parent and the strategic intent of joint venture are the driving forces behind the choice of cooperation strategy.

From an organizational learning perspective, studies show that firms need access to external knowledge in order for an organization to increase its absorptive capacity (Cohen and Levinthal, 1990) and sustain its competitive advantage. Learning is a deliberate, costly and focused activity but it can be limited and characterized by a firm's level of absorptive capacity. Zahra and George (2002) elaborate on the concept of absorptive capacity and identify four dimensions: i) *acquisition*, the ability to acquire externally generated knowledge; ii) *assimilation*, the ability to analyze, process and interpret the acquired knowledge; iii) *transformation*, the ability to improve or develop new organizational routines that enable firms to combine their stock of knowledge with the acquired and assimilated external knowledge (Fichman & Kemerer, 1999; Kim, 1997; Koestler, 1996); and lastly, iv) *exploitation*, the ability to leverage existing competences with newly created ones, generating benefits or rents from incorporating the acquired, assimilated and transformed knowledge from external sources into their operations.

Scholars generally draw on the distinction between explicit and tacit knowledge (Nonaka, 1990) as mediating the process of organizational learning in international joint ventures. Explicit knowledge, generally codified in specifications, procedures and manuals and associated with manufacturing or production partnerships, can be easily copied or transferred between individuals and firms. On the other hand, tacit knowledge is contextual and socially-embedded in individuals, locations and networks and is difficult to transfer, imitate, share and acquire. Firms need to cooperate closely in order to share and transfer tacit knowledge and thus learn from their international partners. This implies a certain level of commitment to the inter-firm relationship, one that is characterized by asset-specificity, dependency and long-term commitment rather than arms-length, market relations (Nooteboom, 1999).

Scholarly inquiry in the past decade or so has provided us with much insight about inter-firm relations (e.g. strategic alliances) and organizational learning. Kale, Dyer and Singh (1998) investigated the management of strategic alliances and found that firms that developed an alliance capability based on having alliance experience and a dedicated alliance function had

more successful alliances as measured by stock-market gains and managerial assessments (such as achieving objectives, avoiding and resolving conflicts, learning and competitive advantage). The authors also point out that firms may be organized differently and that firm heterogeneity may lead to differences in alliance capabilities and ultimately alliance performance. Small and medium sized firms may be especially limited in creating a dedicated alliance function, which in turn may limit their ability to develop an alliance capability. Additionally, the alliance function is rather vaguely defined. As firms increasingly outsource and the value chain becomes increasingly fragmented, the coordination of alliance functions becomes increasingly complex. We still know very little about how firms develop this alliance function and how it varies among different firms and different forms of international partnerships. For example, manufacturing and production joint ventures are characterized by more codified, explicit knowledge (Kale et al, 1998), whereas transferring knowledge about management skills entails tacit, socially-embedded knowledge (Shenkar and Li, 1999).

Following this study, Anand and Khanna (2000) find that the form of partnership has an influence on the partners' accumulated learning and the value creation. Joint ventures show a positive correlation between accumulated learning and value creation, whereas accumulated learning from licensing partnerships has a neutral effect on value creation. Studies also show that learning is more apparent in joint ventures that focus on R&D or production and is limited in marketing joint ventures. Looking specifically at the literature on knowledge transfer in international joint ventures, a good starting point is the study by Lane, Salk and Lyles (2001), which builds on their prior work (Lyles and Salk, 1996). Lane et al (2001) adopted an absorptive capacity perspective to explain organizational learning and performance in international joint ventures. They investigated knowledge transfer – the ability to understand, assimilate and apply external knowledge – between foreign parents and their international joint venture partners. They find that knowledge relatedness between partners facilitates knowledge transfer and that trust, as an influencing factor in the ability to understand, assimilate and apply knowledge, is associated more with joint venture performance rather than learning. Makhija and Ganesh (1997) argue that to accomplish knowledge transfer partners need to participate actively in the relevant processes in which knowledge is embedded. Visits and tours of the partners' sites are effective ways of accessing tacit knowledge from partners (Inkpen, 1996) but in order to exploit the knowledge, first-hand experience with the partner is essential and usually achieved by appointing expatriate management at the partner's site (Inkpen and Crossan, 1995).

Previous literature also shows how knowledge is transferred *from* a foreign parent *to* the international joint venture partner (Dhanaraj et al, 2004; Lane et al, 2001; Simonin, 2004). An exception is a study by Tsang (2002) that contends that firms learn from their overseas partners even if they don't acquire skills (Luo, 1999). Tsang asserts that firms absorb knowledge from their international joint venture partners through two mechanisms: overseeing effort and management involvement, also finding that overseeing effort is more important for firms with experience in international joint ventures while management involvement (e.g. expatriate management in the JV) is more important for firms without experience. An important insight from Tsang's study is that learning has an asymmetrical pattern and that once a parent has improved its information processing capacity, either by experience or longevity of the partnership, less managerial involvement is needed. It suggests that 'overseeing' partners facilitates continuous learning.

From the above review, it is evident that there is a great deal of work that contributes to our understanding about knowledge transfer and organizational learning in international joint ventures and to a certain extent other forms of inter-firm cooperation. There is an emphasis in the literature on learning that occurs in strategic alliances involving substantial asset specificity and complementary resource combination leading to long-term partnerships with substantial lock-in (Williamson, 1981). Much less is known about international partnerships of a more arms-length nature. Is organizational learning absent in these types of international partnerships? And how do firms learn from their international suppliers? By investigating international production partnerships, it is here that our study aims to make a contribution to the extant literature. We unpack the paradoxical nature of arms-length and organizational learning.

3 Methodology

As our objective is to understand *how* small and medium size firms learn from international production partnerships and the effects of this learning on their capabilities, we use a multiple case study research design to provide a deeper understanding of the mechanisms involved in the learning process across a number of illustrative cases (Siggelkow, 2007; Eisenhardt, 1989; Yin, 2003). As we are concerned with the interplay between actors and events, inductive qualitative studies are appropriate methods for "opening up the black box" of organizational processes (Doz, 2011). A qualitative inductive approach can provide a

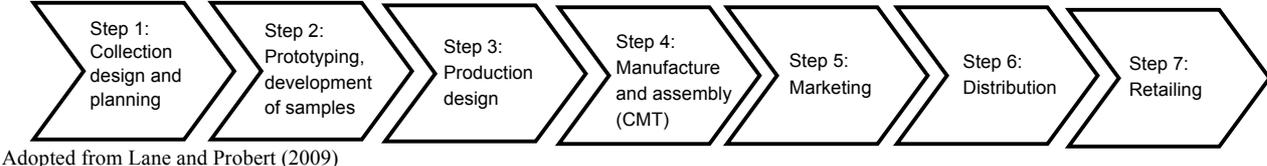
‘missing link’ between the conceptual abstraction in the extant literature on theory testing and the grounded progression of theory building (Birkinshaw et al, 2011; Glaser and Strauss, 1967). The process of learning between small firms and arms-length production partners is still a relatively unexplored area and an inductive inquiry allows theoretical insights to emerge from a systematic and iterative analysis of the collected data.

Selection of sampled firms

In order to select a sample, we needed to choose a research setting where SMEs engage in cross-border production partnerships and where the outsourcing of manufacturing is common. Our aim in selecting a research setting was to limit variation in the sector and national contexts. At the sector level, we chose the fashion industry. Since the 1970s, manufacturing in the fashion industry has undergone significant changes, leading to the fragmentation of the value chain (Gereffi, 1999) and the decline of fashion/textile manufacturing in developed countries (Lane and Probert, 2009). At a national level, we chose the Netherlands. As is in line with other developed countries, the manufacturing of clothing and textiles in the Netherlands has been largely, if not completely, offshored, making it essential for Dutch fashion firms to engage with international manufacturing and production suppliers (Wenting, Atzema and Frenken, 2011). Additionally, the Netherlands is a small country economy with a limited home market. In small country economies, SMEs tend to internationalize more quickly in order to increase scope and scale economies (Belso-Martinez, 2006), providing us with a population of fashion firms that engage in internationalization from a relatively young age. By limiting the national context, we also reduce variation in cultural differences between the Dutch fashion firms and their partners.

The next step in selecting a sample was to review the fashion industry value chain, which informed a classification of the types of fashion firms. The value chain in the fashion industry encompasses several different activities that require different skills and occupations. Figure 1 provides a simplified and stylistic overview of the value chain (Lane and Probert, 2009).

Figure 1. Simplified fashion industry value chain



Each activity in the value chain can be separated and performed in a more ‘modular’ manner in different locations, using different resources and skills and incurring different cost structures. The first step of collection development and planning involves several skilled activities including knowledge of market trends and of fabric availability, the integration of both into development of product lines and the costing of the planned collection. The second step of design and prototyping of the collections models and styles requires both creativity and technical aptitude in addition to understanding market demand and cost structures. In the third step, production design and sample-making entails producing the item in the most cost-efficient manner, keeping in mind scaling of production in large quantities (fabric sourcing, detailing), quality standards and fit. The fourth step involves the actual manufacturing and assembly (in quantities) of the garments, often termed cut-make-trim (CMT). In step five, sales and marketing seek sales channels that fit the brand positioning in quality and value. In the next step, the garments are distributed to the various sales and retail channels using computerized logistic operations. The final step, retailing, is selling the garments to consumers. As in other manufacturing industries, such as semi-conductors, pharmaceuticals and automobiles, the upstream pre-production functions, having high-value and high appropriability risk, and the post-production functions of marketing and distribution, generally remain internal. Production design and manufacturing (steps 3 and 4) generally move to low-wage countries, as the skills involved in manufacturing clothing require low-skilled workers who use simple in sewing and assembly operations.

Following the value chain analysis, we identified what type of firms to select. Based on prior work from Gereffi (1999), Lane and Probert (2009) developed a typology of five types of fashion firms (Table 1).

Table 1. Typology of fashion firms

Type of firm	Value Chain Functions	Product	Examples
Branded manufacturers	Collection design and development, production design, marketing, distribution (steps 1, 2, 3, 5 and 6)	High quality brands	Sara Lee (Hanes, L’Eggs)
Branded marketers	Collection design and development, marketing, distribution (steps 1, 2 and 6)	High quality brands	Nike, Liz Claiborne
Domestic suppliers to large retailers	Collection development, marketing, distribution (steps 2 and 6)	Private label, customized or standardized made-to-order	Wholesalers, importers
Cut, Make and Trim Firms	Manufacturing (step 4)	n/a	Sewing and assembly factories/plants

Retailers, integrated into design	Collection design and development, retailing (steps 1, 2 and 7)	Standardized	C&A, WalMart
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Adopted from Lane and Probert (2009)

The *branded manufacturer* engages in all steps of the value, except CMT (step 4). They produce high quality brands and coordinated collections. The *branded marketers* are similar to branded manufacturers but they also outsource production design (step 3) in addition to CMT. They produce high quality brands and have primarily design development and marketing capabilities. Firms such as Nike are examples of brand marketers. Then, there is the domestic supplier to large retailers who make standardized or customized products that are made-to-order for retailers. Although they engage in steps 1, 2 and 3 of the value chain, their design, technical and marketing capabilities are not as strong as the branded manufacturer or marketer. In Britain, these types of firms dominate the industry and supply domestic retailers with private label clothing. The cut, make and trim (CMT) firms engage primarily in step 4 of the value chain. They have semi-skilled workers and managerial coordination capabilities. And lastly, the retailers who have integrated backwards in the value chain into design and development and primarily engage in steps 1, 2 and 7.

We selected firms for our sample based on theoretical fit from an initial list of 149 Dutch fashion firms compiled from a database from the Amsterdam Fashion Institute.¹ We then narrowed down the list by applying several selection criteria, e.g. size of firm, location of headquarters, established international partnerships. We excluded retailers, as these were generally larger firms in terms of sales and employees. We also excluded firms that were subsidiaries of foreign firms. In this way we could be assured that the essential managerial processes and decisions in managing inter-firm relations took place in the firms' home country. Lastly, we excluded any firms that lacked international partnerships. This process excluded 47 firms from original list. The remaining 102 firms were called to solicit participation in the study. We interviewed nine fashion firms, classified as 'branded marketers' and 'domestic suppliers to larger retailers'; however this paper focuses primarily on five cases. An overview of the five firms is provided in Table 2. The sample of selected cases is not representative of the larger population but rather they illuminate particular relationships and constructs of the question being investigated (Eisenhardt and Graebner, 2007).

¹ The Amsterdam Fashion Institute, Amsterdam University of Applied Sciences, is one of three higher education institutions in the Netherlands that provides a specialized education program in fashion.

Table 2. Characteristics of the selected fashion firms

Firm	Type of fashion firm	Year of founding	Size of firm (employees)	Value Chain functions	Product Strategy
BR1	Branded marketer	1986	20 - 30	Design, development, marketing, distribution	Lifestyle, coordinated brand Mid market
BR2	Branded marketer	1995	10 - 20	Design, development, marketing, distribution	Women's outerwear Mid to High segment
BR3	Branded marketer	1948	10 - 20	Design, development, marketing, distribution	Lifestyle, coordinated brand Mid segment
DS1	Domestic supplier to large retailer	1981	<10	Collection development, marketing, distribution	Customized private label Low segment
DS2	Domestic supplier to large retailer	2006	<10	Collection development, marketing, distribution	Accessories Low to mid segment

Collecting and analyzing data

We used multiple sources of data; however the primary source of data was in-depth, semi-structured interviews held with executive managers in operations, production and design. The interviews were held on-site and two researchers were present at each interview. For a more complete overview of the firm, historical and founding information was gathered as well as information about their product and market strategy. An emphasis was placed on understanding the production process and supply chain. On average, the interviews lasted an hour and a detailed interview schedule was used in order to gather facts (e.g. the number and location of partners) but also to allow for deeper reflection and probing (e.g. about changes in processes or what was learned from partners). For example, in addition to gathering data on the nature and characteristics of their partnerships, respondents were asked to explain any changes that took place in their key production processes as a result of working with international supply partners. In a few cases, follow-up interviews were held with either the original respondent or another referred respondent in order to clarify, verify or gather additional information. Prior to and following the interview, we reviewed publicly available sources of data, such as media coverage, financial news, press releases and company web sites, to triangulate and verify the facts and inferences from the interview data.

All the interviews were digitally recorded, transcribed, and coded into categories. Reliability was established by using a detailed interview schedule, conducting interviews with two researchers and peer replication of the coding process. Having coded the data, event

histories of each case were made and recorded the changes that took place in value chain activities and processes. The identification of themes and patterns in the data took place by creating various types of data matrices from the event histories (Miles and Huberman, 1994; Yin, 2003) and drawing conclusions from these matrices by contrasting and comparing the data. The analytical approach can be described as a ‘synthetic strategy’ (Langley, 1999), in which researchers transform the data from narratives into ‘variables’ that synthesize critical components of the events. Through an iterative and interpretative process of data analysis, constructs (or variables) emerged that were used to conduct within and cross-case analyses, allowing us to uncover causal links and draw richer conclusions for theory building.

As each interview took place we contrasted the collected data with prior interviews. From our iterations of data analysis, we discovered inductively the importance of quality control in our firms’ effort to oversee production suppliers. Our respondents repeatedly referred to quality in relation to production suppliers, which triggered us to probe them further for a definition of quality.² We came to realize that firm heterogeneity leads to various definitions of quality; yet, the *quality* of products and service, however defined by a firm, is an essential aspect in achieving the firms’ strategic performance objectives and in our sample of firms many aspects of this *quality* have been externalized. Therefore, we use primarily quality management and control as a proxy to analyze the learning acquired from international supplier partnerships.

Following the construct validity recommendations of Miles and Huberman (1994), we checked the validity of our observations and findings as presented in the next section by asking colleagues and industry professionals to review our insights that underpin the framework we present.

4 The mechanisms of learning from international partners in smaller firms

In this section, we present our findings about how small Dutch fashion firms used the quality control function to learn from their international supplier partnerships. We describe the mechanisms associated with learning by illuminating the actors and events involved in the process of managing the quality of suppliers. Our analysis led us to make two key observations.

² Quality refers to various aspects of creating the garment, such as fit, color fading, trimming, detailing of buttons, zippers.

Observation 1: The commitment of resources related to quality control of international suppliers varies between the two types of fashion firms.

Branded marketers had less direct involvement with their international supplier partnerships, as exemplified in the quotes in Table 3. They relied heavily on contracted agents to coordinate supplier selection and control supplier quality. Even though branded marketer firms (as the suppliers' buyers) naturally retained decision-making authority, the influence of the agent (or several agents) cannot be ignored. The agents facilitated cross-border negotiations, monitoring and acted as brokers reducing the cognitive and cultural distance between the supplier and brand marketers' home countries. Agents provide information and knowledge about the supplier country, e.g. institutional, norms, rules and regulations, and provide access to institutional stakeholders, e.g. state, labour representatives. Although these branded marketer firms visited their suppliers and toured facilities, the agents buffered the firm from its international supplier limiting opportunities to cooperate directly and engage actively in knowledge transfer with the supplier.

The domestic suppliers, however, had more direct involvement to maintain control of the quality of their orders. These firms had entered equity partnerships (IJVs) with factories in a two different countries and one firm also established local offices for quality control and sourcing in China and India. The extent of involvement with suppliers varied between the domestic suppliers but both had frequent direct contact with numerous suppliers, managing more than 30 suppliers in multiple countries. In both cases, the founders' prior experience and background facilitated the selection and control of their equity partnerships. This was especially evident in DS2 as the founder immigrated to the Netherlands from Pakistan and was able to exploit his personal and family ties in this country. The respondent explained that without those ties, the country risks of direct investment in Pakistan would have been too high.

Table 3. Data supporting the derived observations

	Observation 1	Observation 2
BR1 (JC Rags)	Our own product developers travel to the factories and see how the production is going and how the product is finalized. ... we let our agents do the audits ...	
BR2 (Creenstone)	the quality control is done by the agent, this is important because they have their own people on the floor, they their own staff, so they are literally working for us who are travelling to the factories to control the quality, so before it is going into shipment everything is checked.	
BR3 (Van Gils)	[the agent] has a specific sourcing team and if I am asking I need T-shirts in this quality, then they come up with 3 or 4 suppliers.	
DS1		... [we] produce in Pakistan because we have our own factory there, and know a lot of people ... we just go through the factory, sometimes we use agents, but Pakistan is really corrupt so it is better ...
DS2 (Blue)		... we have someone on the ground in China that can go to the factory and that also knows everything about this order, about what customers want, their needs, how it should be packed and when it should be ready.

Observation 2: The coordination of planning, selecting, negotiating and managing suppliers is embedded in the quality control activities of different functions (e.g. operations, design, logistics).

The firms in our sample showed that the knowledge associated with the coordination of production suppliers was dispersed among different actors inside and outside the firms. The quotation below is an example of how a brand marketer managed their production process with the links to suppliers underlined.

“ ... design is based on creativity but also on commerciality, successes of last season or best sellers in current season ... Then we go from a mood board to fabric fairs, where we source ... Then we go back to the drawing board and make sure [we want] the styles [and] check on competition. Then we make the actual [sketches]. From the sketch it goes to the pattern maker, and [both go] with the [sketch] to the factory in East Europe or in the Far East to make a prototype and then we amend the style. Then, we decide if it will be in the collection ... when fabric selection has been done, and all the style development has been done, there is a moment that we connect those things. We connect a certain suit style to a certain fabric, choose the trimmings and materials, the button, the zipper, everything. Then the whole sample order is going to the factory. This is again happening in East Europe or China. The whole sample production starts, the whole thing comes in and then we present the collection to all the [sales] agents, distributors, at our showrooms. Then we are going to international fairs. Then orders are gathered. ... the buying order is being placed in different factories around the world. Prices are negotiated. Delivery moments are negotiated. Quantities have been sourced, for maybe cheaper options or more technically better options. Then it is shipped [to the retailers, distributors].”

The production process was similar across all of the sampled firms, with the exception that domestic suppliers followed a more simplified version since they do not engage in the first step of the value chain: collection design and planning. The above quotation illustrates

that in the process of making a collection or garment, several actors in different organizational functions need to interact: namely designers, product managers (sometimes called operations, production or account managers), agents and sales representatives. Designers, product managers and agents were more closely linked to the quality control of the product and supplier. Table 4 provides some supporting quotations of the interaction between the different actors and quality control.

Table 4. Data supporting the various connections between actors and quality control

Combinations of actors	Supporting quotations
Designer – Product Manager	It is just the two designers and myself who are judging if the design is right or wrong. So a designer is more creative and saying I want that type of mood, I want that white stripe and the product manager is there saying your limit is x amount of euros per meter.
Sales – Designer – Product Manager	International sales people are checking ... going to judge if it is good for their market. There is also a product manager that is always involved in that, who is responsible for a commercial value of a product. It needs to be for the right price, at the right moment for the right quality. ... we produce for customers like [retailers], they come [to us] with their design or we design [to their specifications]. They have a house label or their own label ... then the order comes to me and I make all the art work ready, all the details or the specifications and send it all to the suppliers for pricing and the one who has the best price or the best quality gets the order.
Product Manager – Supplier agents / IJV / Local offices	The senior product manager is in charge of getting the margins and doing the negotiations and the [several] product managers for Europe and Far East have daily contact with the factories and is talking about planningI ask for a sample, to check the workmanship and quality and then I start sampling ... you don't know when they send something if they produce it themselves or if they just bought the sample and send it, so if we start sampling they must follow our requirements and then we can judge them better.

The product manager acted as the integrator in the middle of complex manufacturing processes among many different suppliers. As individuals, they hold highly tacit, firm-specific, contextual knowledge about which suppliers they can trust to deliver the quality expected. All of the sampled firms had long and stable relationships with their suppliers; yet the firms did terminate supplier relationships when problems occurred with suppliers, e.g. financing, work conditions, delivery. Table 5 presents an overview of the sampled firms and their international supplier relationships.

Table 5. Overview of sampled firms and their international supplier relationships

Firm	Supplier Interface	Supplier Countries	Approximate number of suppliers ¹
BR1	Agents	China, India, Turkey, Tunisia, Bangladesh, Indonesia, Thailand	20
BR2	Agents	China, South Korea	3
BR3	Agents Subsidiaries of parent company	China, Bulgaria, Turkey	10

DS1	Agents Joint ventures	China, India, Pakistan, Bangladesh	20
DS2	Agents Local Operations Joint ventures	China, India	30

1) Number of suppliers excludes supplier sub-contracting.

5 Discussion

The purpose of this study was to examine the underlying mechanisms of organizational learning from international production partnerships and the effect on capability building in small firms. We looked specifically at small Dutch fashion firms and their international production partnerships. Through inductive and iterative scrutiny of the data, we made two key observations by which organizational learning in the small firm is affected. First, firms differ in their commitment of resources dedicated to overseeing international production partners; secondly, the coordination of supplier management, the alliance capability, is dispersed across various internal and external actors. Our findings build on and extend previous work (Kale, et al 2002; Tsang, 2002) in that it unpacks the alliance capability and learning channels in small firms. From our findings, we derive a model of small-firm inter-firm learning by which this complex and dispersed process can be better understood and managed. In our model we juxtapose the small firms' willingness to commit resources to oversee the international partnership, which may be a result of either strategic intent and/or resource availability, and the dispersion of the alliance capability, the extent to which the activities of supplier management is dispersed or concentrated among actors. We suggest four drivers of small-firm inter-firm organizational learning (Table 6).

Table 6. Drivers of small-firm inter-firm learning

		Commitment of resources	
		High	Low
Alliance Capability Dispersion	High	Customer-driven	Experience driven
	Low	Product-driven	Process-driven

The category of '*customer-driven*' learning represents both high levels of committed resources and dispersed alliance capability. The firms that fell into this category highly customized their products and service to their customers' needs. Maintaining customer satisfaction was the driving force in committed resources to suppliers and in a more direct

approach to managing them. Unsurprisingly, the domestic suppliers represent this category of learning. If the ‘quality’ of their service is poor, then these firms risk losing a customer. This increased risk – the risk of unacceptable goods and the risk of losing future rents – may explain why domestic suppliers entered forms of partnerships in which they could exert more internal control. The high level of committed resources facilitates continuous acquisition of external knowledge and the dispersed alliance capability allows for rapid transfer and absorption, again driven from the motivation to satisfy changing customer needs and requirements.

Next, in the combination of low committed resources and high dispersion of alliance capability, organizational learning is ‘*experience-driven*’. In this category, the low levels of committed resources in partnerships, which were more akin to arms-length relations regardless of the longevity of the relationship, did not negatively impact the firms’ ability to directly engage with the suppliers. Instead the responsible individuals initiated contact and involved suppliers directly in improving processes, and in our cases, quality. An example is provided by BR3, whose product manager had specific and contextual experience in managing suppliers.

“That is a step which I took with the relations, to take them with me into the passion for the product. To give them a kind of connection to the beauty of a nicely made suit and then they really, slowly understand what you mean and what you try to do [with your product]. ... In the end, what counts, is that we are growing with quantities and that we pay a fair price. If you take them with you in your passion for the product, and they see six months later that the orders are increasing because they do a good performance, then you can show them that it is working and if [they] pay a little more attention to quality or detailing that it is going to work. ... when it shows and is going to be successful, then they are with you.” Branded Marketer 3

The ‘*product-driven*’ category is illustrated by firms that have a high level of committed resources and low dispersion of alliance capability, or in other words the alliance capability was concentrated among fewer actors. In these firms, design and creativity dominated the competitive strategy. Switching costs, in terms of the effort required to search for other suppliers and the risks associated with maintaining quality, encouraged more long-term, committed partnerships. The data from these cases gave indications of more lock-in in the partnership and the firms focused on solving problems mainly associated with priority of production runs or delivery lead time. The level of loyalty and trust inherent in the longevity of the partnership was emphasized but these firms expressed difficulty in managing the ‘mighty’ supplier. The opportunities to engage and learn from the international supplier was limited.

The category ‘process-driven’ represents firms with a low level of committed resources in partnerships and low dispersion of alliance capability. The findings from our cases show that there are few indications of external knowledge acquisition leading to changes in internal capabilities. However, it is presumptuous to imply that these firms are not learning from their partnerships. On the contrary, these firms in reacting to ‘problems’ in the supply chain engaged with the supplier to ‘solve’ the problem. This was particularly visible in situations that arise due to poor working conditions or child labour in which the firm takes the necessary action to rectify the situation but also acknowledges the lack of resources and knowledge it has to control it. In our model, we define this as ‘*process-driven learning*’. The indirect and infrequent supplier contact hindered opportunities to acquire external knowledge, limiting absorptive capacity and the recognition of ‘needing’ learn. Our cases showed that explicit knowledge was used to ‘solve’ these problems, such as revising the ‘code of conduct’ or manuals and occasional site visits to enforce compliance. Once the problem is resolved, reliance on agents to manage suppliers increases.

6 Conclusion

In this paper we examined how small Dutch fashion firms learn from their international production partners and improve or build firm capabilities. Drawing on five cases involving two different types of fashion firms, brand marketers and domestic suppliers to large retailers, we identify four different types of learning models, based on a proxy of managing quality control. We posit that firms adopt models according to the level of committed resources and the dispersion of the alliance capability across various actors. The different models that firms adopt will influence the way in which they learn from their partners and the capabilities they develop.

This study makes a contribution to the literature on the knowledge-based view of the firm and organizational learning, as it uncovers the underlying drivers of small-firm learning models. It has important policy ramifications; as firms adapt to meet global demands and compete in an increasingly global market, the knowledge and skills developed and required change. Policy makers need to understand these shifts in greater detail so that home institutions, such as vocational training, support the requirements of the industry in the home market. The study also informs practitioners and managers who need to understand how strategic choices in resource commitment and control influence a firm’s learning behavior and its absorptive capacity to transform knowledge into learning and capabilities.

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