The Impact of Learning through Strategic Alliances on Firm Diversification Decisions in Non-Diversified Economies: Evidence from Saudi Arabia A New Knowledge-Based Approach

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The Impact of Learning through Strategic Alliances on Firm Diversification Decisions in Non-Diversified Economies: Evidence from Saudi Arabia

A New Knowledge-Based Approach

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ABSTRACT

Until recently, our understanding of thought and practice in the strategic management and international business literature was based on Western countries. However, scholars have realized that these theories may be misjudged if not tested and validated for developing countries and even for non-diversified economies. Saudi Arabia is considered the largest economy in the Middle East but it has received little attention in the management literature (Alnatheer and Nelson, 2009). One of the important topics currently in the Saudi context is a diversification strategy among Saudi firms. Particularly, the Saudi private sector's contribution to economic diversification and growth is relatively small and under expectations compared to countries with similar economic structures e.g. Norway, Chile and Indonesia (Hertog, 2013; Kayed and Hassan, 2011). Hence, what a strategic asset is needed by Saudi firms in order to successfully implement a diversification strategy is knowledge such as know-how and know-that. Knowledge can be obtained through a few methods and strategic alliances among these which can allow partners to access each other's knowledge bases, allowing them to gain dynamic capabilities. Also, the study of Saudi's context responds to recent calls made in the international strategic alliance literature (e.g., Gomes et al., 2016) which emphasizes to broaden the geographic focus of international alliance research from Western economies such as North America and Asia to the Middle East. Therefore, Saudi firms could implement a diversification strategy after acquiring knowledge related to opportunities to diversify and how to diversify through strategic alliances with various global firms.

This thesis develops and tests a theoretical model to examine how Saudi partners in international strategic alliances learn from foreign multinational enterprises (MNEs) and how this learning impacts the host country partners' subsequent diversification decisions. The

analysis shows how the absorptive capacity of the knowledge seeker (i.e. the Saudi partner) and the disseminative capacity of the knowledge holder (i.e. the foreign MNE) affect the type of organizational learning needed to underpin diversification decisions. The thesis investigates the phenomenon through three studies. These studies show in general that learning from foreign MNEs influences the organizational learning needed to underpin the knowledge seeker's diversification decisions. On the one hand the relationship between absorptive capacity and disseminative capacity and on the other that between organizational learning and diversification strategies are impacted by the nature of the knowledge the foreign MNE brings to the host country, the partners' commitment to the alliance, and intensive communication within the host country. The proposed hypotheses are tested on a sample of Saudi companies.

In the first study, the results from a survey of 55 Saudi companies suggest a significant positive relationship between organizational learning from international strategic alliances and diversification decisions. In addition, the relationship between disseminative capacity and organizational learning is positive and strong. However, the empirical results do not support the hypothesis that the relationship between absorptive capacity and organizational learning should be positive. Furthermore, the study examines the effects of moderators on the relationship between absorptive and disseminative capacities and organizational learning, but only moderators on the side of the foreign partner are revealed and they are either statistically non-significant or negative.

The purpose of the second study is to investigate in depth the non-significant results for absorptive capacity and how each capacity has a different level. Of the 7 cases analysed, it is found that some Saudi partners obtained significant knowledge and achieved the required learning objectives with some difficulty, or at least had to make substantial efforts to achieve the learning objectives. In addition, the results indicate that the foreign partners were willing

to share knowledge and had a strong ability to transfer it. Furthermore, the study shows that the partners had various levels (weak, medium or strong) of each capacity. Each level is defined based on the dimensions of intent and ability to learn (on the side of the Saudi partner) and willingness and ability to share (on the side of the foreign partner).

The focus of the third study is on the diversification decision, and particularly the chronological structure of the impact of knowledge on this decision. The explorative results from a case in Saudi Arabia show how the absorptive capacity of the knowledge seeker (i.e. the Saudi partner) and the disseminative capacity of the knowledge holder (i.e. the foreign MNE) affect the organizational learning needed to make diversification decisions. It also breaks ground by revealing the chronological progress of the knowledge dynamics within an international strategic alliance and how they impact a decision by the host country partner to diversify. Three states of the diversification decision are considered: non-diversified, planning to diversify and diversified. The results show that the boundaries of each state are flexible and it is not necessary for a firm to pass through all these states in order to formulate the decision.

The data are collected using a questionnaire survey and interviews with Saudi firms in a variety of industries, including oil, gas, petrochemicals and construction. This thesis contributes to our understanding of firm diversification in a non-diversified economy and breaks new ground by examining the role that international strategic alliances play in this process. The implications for research, scholars, managers, policymakers and limitations are discussed. Recommendations are made for future research on international strategic alliances and diversification.

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LIST OF ABBREVIATIONS

Terminology	Abbreviation
Ability of foreign partner	AF
Ability of Saudi partner	AS
Absorptive capacity	AC
Average variance extracted	AVE
Coefficient of determination	R^2
Composite reliability	CR
Cultural distance	CD
Disseminative capacity	DC
Diversification decision	DD
Effect size	F^2
Intensive communication of foreign	ICF
Intensive communication of Saudi	ICS
Intent of Saudi partner	IS
Multinational enterprises	MNEs
Nature of knowledge	NK
Organizational learning	OL
Partial least squares	PLS
Predictive relevance	Q^2
Resource commitment by foreign	RCF
Resource commitment by Saudi	RCS
Willingness of foreign partner	WF

DECLARATION

I hereby declare all the work presented in this thesis is my own unless otherwise stated in the text. To the best of my knowledge, this thesis has not been previously submitted for consideration for any other degree in this or any other university.

DEDICATION

I dedicate this thesis to my family and friends.

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To begin, I would like to thank Allah for giving me the hope and knowledge to allow me to complete my PhD thesis. During my PhD journey, I have met people who have overwhelmed me with their valuable efforts and kindness. I am really indebted to all of them because without them it would have been hard to finish the thesis.

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To my parents: You are the world to me;
To my wife: You are the source of hope and strength;
To my brothers and sisters: You are always there in my heart;
To my Son: You are my future.

Chapter 1: Introduction to the Study

1.1. Introduction

For decades, an important question of the appropriate methods to implement a diversification strategy by the Saudi firms has often been raised. Saudi Arabia represents a rare case in which the private sector's (Saudi firms) role in the economy is still not clear and most of its contributions to the economy depend on government spending and government directions. At the country level, the five-year national development plans since 1970 and the new Vision 2030 policy have emphasized the importance of a diversification strategy and encouraged the private sector to move forward in this strategy as Saudi decision-makers realize the importance of diversifying on the whole economy. The government has been offering more facilitates to achieve this goal through Saudi firms such as attracting foreign investment, privatization programmes and tourism development. Regarding the latter, Saudi Arabia has just opened its doors to international tourists from 49 countries for the first time in a new policy to cut its economic dependence on oil. This policy aims to secure foreign investment in the tourism industry and to raise tourism from 3% to 10% of GDP by 2030 (BBC, 2019). The goal of the government is diversification in the economy which can be done through the private sector. In any economy particularly in a dynamic environment, it is a necessity to respond appropriately for the environmental conditions. The reliance on a narrow resource base may be accompanied by risks such as limitations in the ability to grow in the long term, so in order to achieve stability and sustainable growth, diversification strategy is required (Albassam, 2015). Therefore, building a strong economy among a situation of intense competition requires a diversification strategy by Saudi firms, which then will have a great strategic importance in the whole economy.

Diversification at the firm level refers to firms expanding into new markets that are different from their existing activities (Boz et al., 2013). Diversification in both products and markets may become essential strategies to face the challenges of this era. Diversification can be used as a strategy in organizations for many reasons. First, it is a way to survive (Martinez-Campillo et al., 2011). Scholars have widely discussed the issue of survival through diversification (Fields et al., 2015). According to Rumelt (1974) as cited in Park (2002), diversification takes into account any collapse in premier businesses. This means dividing risks among different products or markets in order to overcome any collapse in one particular product or market. Second, it may be a defensive reaction to a competitive environment (Martinez-Camplillo et al., 2011), which means firms may be forced to seek diversity in their products lines or markets due to competitors opting to diversify in their own products or markets. In addition, firms may choose a diversification strategy because the current market is too small for their capabilities and resources, thus becoming an opportunity for growth. For example, Tesco found the UK market to be smaller than its capabilities and resources, so it is now operating in various countries, including Hungary, Poland, Thailand, South Korea, Taiwan, Malaysia and China. Tesco's foreign sales in 2012 amounted to 22.4 billion pounds (Hill, 2014). If Tesco had not entered these markets, it would have lost an opportunity to increase its profits. Therefore, diversification can be a strategy to overcome new uncertainties and create opportunities (Fields et al., 2015), which means a way towards growth and spread risks.

The decision to diversify is influenced by factors such as top management mindsets, the nature of the industry, competitiveness and institutional pressures. However, in reality and in the modern economy knowledge is the critical resource (Grant, 1996) that required to make such a strategic decision. According to Marshall (1920), “Knowledge is our most powerful engine of production” (as cited in Costa et al., 2016, p:223). Knowledge has become a

strategic resource for firms (Frank and Ribeiro, 2014) due to the fact that limited knowledge imitability is a fundamental characteristic of competitive advantage (Spender and Grant, 1996). According to Leonard (1995, p: 135), "very few, if any, companies can build [new] core capabilities without importing some knowledge from beyond their boundaries." Therefore, to formulate a diversification strategy, firms need to acquire knowledge of new product lines (Santarelli and Tran, 2016) or new geographical markets (Lu and Beamish, 2004). Some firms lack new knowledge in certain environment (Park, 2011) which requires for a strategic decision, particularly in the non-diversified economy.

There are many alternatives in order to achieve the required knowledge for new product lines and geographic growth (e.g., strategic alliance, acquisition, merger, foreign experts, etc.). in In Saudi case, engaging in an international strategic alliance as a choice to strength competitive advantage is a key driver to access the assets and capabilities of foreign partner comparing to the other alternatives such as foreign acquisition, recruit foreign experts to work in Saudi firms and encouraging Saudi experts to return home for the following reasons. First, in terms of foreign acquisition, China and India are the most prominent behind the increasing importance of multinationals from developing economies (De Beule and Duanmu, 2012). The EMMNEs goal of the outbound investment is geographic growth (KPMG, 2010). Within the Saudi firms that own certain capabilities at international level are mainly large companies or state-owned firms (e.g., Aramco, Almarai, Sabic, Acwa Power, etc.) and it is similar to chinses firms (e.g., Lenovo, Huawei, and Haier) in some way by targeting firms face financial and strategic conditions (Rui and Yip, 2008) or use foreign acquisition as mode entry in both advanced and developing countries. However, this situation does not reflect the whole picture of the Saudi market (large firms represent roughly 5% of firms in the market) where many companies are in shortage of required abilities in risk assessment of new opportunities and advantages at the international level. In addition, the domestic climate in the Saudi market

encourages the engagement in international alliances due to the state's regulations that enforce foreign partners to work with locals in order to access the Saudi market. Also, there are many foreign partners (e.g. Chevron, Total, General Electric, Buker Hues, Siemens, Bechtel, etc.) with FDI hosted there. Second, recruit foreign experts, this can be a solution in some cases but not in all cases. There are some regulations that do not allow foreigners to be in charge in some of the top hierarchies and also foreigners may leave the country due to social or economic conditions and that can be problematic for a firm in some way in the long term (strategic plan). Finally, encouraging Saudi experts to return home, it is seldom to find Saudis that work overseas due to the huge benefits that citizens have in Saudi including free taxes, the low cost of living and the other social factors. In the case of the students who send to study abroad- scholarship program- they still need the required experiences in order to consider them by Saudi firms and become in charge of this strategic growth. In addition, in terms of time and cost, this approach will not be efficient to build this strategy from scratch within three to six years. Therefore, engaging in an international strategic alliance allows Saudi firms at home to achieve specific goals including acquiring capabilities to strengthen their competitive comparing to the other alternatives.

According to Wua et al. (2009, p: 4646), "partnerships of two or more corporations or business units that work together to achieve strategically significant objectives … are mutually beneficial." An alliance allows partners (depending on governance structures) to exchange resources and skills. Studies have shown that alliances may create learning opportunities for firms (Inkpen, 1996; and Iyer, 2002) allowing them to internalize knowledge in order to be creative (Holt et al., 2000). Therefore, knowledge, which is considered a significant resource for a firm, may be obtained through such strategic alliances. As a result, strategic alliances have received attention both at the theoretical and empirical levels in the last two decades (Albers et al., 2016). They have become the principal way for companies to

grow and expand (Tsang, 1998). Gaining complementary knowledge through strategic alliances may lead organizations towards sustainable growth (Kale and Singh, 2009). Indeed, they have been considered a tool for learning and sharing knowledge between organizations (Jiang et al., 2016).

Increasing partnerships between firms can lead to a major change in the business environment (Wua et al., 2009). Internationally, the number of alliances increased by 25% from 1987 to 1997 (Harbison and Pekar, 1997). In a decade, strategic alliances involved 16–25% of medium-sized companies and accounted for 40% of the market value of about a quarter of companies. As a result, the strategic alliances established in these five years will reach a value of $25–$40 trillion (Wua et al., 2009). Reports indicate that U.S. firms were engaged in 57,000 alliances in the period between 1996 and 2001, and 5000 or more alliances were created each year in 2002 and 2003. Firms that enter into alliances have a higher revenue rate (11%) and growth rate (20%) compared to those without alliances (Chou et al., 2014).

Alliances may provide firms with different advantages. First, by combining resources and skills, firms may enhance their efficiency. Second, alliances may lead to reducing and diversifying risks, thus promoting stability (Inkpen and Tsang, 2007). Third, alliances can be a vehicle for accessing a partner's knowledge and knowledge creation (Janczak, 2008). Nowadays alliances have become a necessity for survival in a dynamic environment, to attain growth and to acquire a sustainable competitive advantage. Therefore, firms can implement a diversification strategy by acquiring valuable knowledge through strategic alliances.

1.2. Research Problem

According to Sekaran (2006), a research problem is "any situation where a gap exists between the actual and desired state" (p:112). Despite the extensive literature on both diversification and strategic alliances (e.g., Palich et al., 2000; Parise and Casher, 2003; Wassmer, 2010),

there is a lack of research examining the interactive nature of the relationship and how the interplay between strategic alliances and diversification works out in non-diversified economies. On the one hand, previous studies of diversification in recent decades have made a considerable contribution to strategic management theory (Hoskisson and Hitt, 1990). The literature on diversification has considered motives, types, benefits and costs but has generally concentrated more on the impact of diversification strategies on financial performance outcomes (Lu and Beamish, 2004; Palich et al., 2000; Santarelli and Tran, 2016). However, while these studies have advanced our understanding with useful findings, many aspects of diversification strategies remain to be investigated, such as the antecedents of diversification, including organizational dynamics and the processes involved in making the decision to diversify into new areas (Santarelli and Tran, 2016) or new product lines.

On the other hand, most of the alliance literature has discussed topics such as the emergence, management and survival of alliances (Wassmer, 2010). In addition, strategic alliance studies also discuss learning and knowledge transfer, which are considered vital resources to adapt to environmental changes (Werner et al., 2015). Previous models of learning from partners have looked at issues such as how alliances can be used to mitigate risks or to provide complementarity in resources for the benefit of firms in the short- or medium-term (Parise and Casher, 2003). According to Inkpen (2002), previous alliance studies concentrated on learning as the end process. From the perspective of shareholders, organizational learning is viewed as the final objective as it is related to improvement in financial performance (Jiang and Li, 2008). However, what is lacking in previous studies is the basic principle of learning through alliances in firms' strategies to grow (Khamseh et al., 2017). In other words, the application of knowledge acquired through strategic alliances in order to formulate diversification decisions by host partner firms still remains an unexplored a gap in the literature. According to Tseng and Chen (2017), these two strategic moves have attracted enormous attention by

scholars but so far have been seen as two quite separate strands of literature. Alliances and diversification are seen as different types of knowledge transfer. While alliances are considered to be external across partners, diversification is seen as internal (Lu and Beamish, 2004; Palich et al., 2000; Tseng and Chen, 2017). In addition, firms may benefit from diversification experiences, which may help with alliance engagement (Tseng and Chen, 2017). The opposite may also occur, with alliance experiences supporting firms in diversification processes.

Moreover, most of both the diversification and alliance literature is based on empirical work regarding advanced Western economies and China (Du and Williams, 2017). However, to the best of our knowledge there has been no work investigating the impact of learning through strategic alliances on subsequent diversification decisions by firms in non-diversified economies. In addition, this study responds to recent calls that made in the international strategic alliance literature (e.g., Gomes et al., 2016) which emphasizes to broaden the geographic focus of international alliance research from Western economies such as North America and Asia to the Middle East including- non-diversified economies-. These economies historically depend on growing through export specialization – such as in fossil fuels and the contributions of private sector are not clear. However, this may lead to a 'resource curse,' which reduces innovation and growth in the long run (Sachs and Warner, 2001). In fact, firms come to realize the importance of diversification in order to sustainably grow their businesses in the long term. In the present thesis it is important to consider this due to knowledge transfer being heavily affected by the context in which it takes place (Hotho et al., 2015; Wathne et al., 1996).

My approach to addressing this gap is drawing on an organizational learning perspective because it is a suitable theoretical framework for understanding the formulation of a strategic decision. First, the model contains the two-modes of adaptation exploitation and exploration

(March, 1991) that operationalizes under four steps: knowledge acquisition, information distribution, information interpretation and organizational memory (Huber, 1991). Second, organizational learning could lead to an improvement in decision-making (Andreou et al., 2016). Third, the knowledge that acquired by the knowledge seeker through working operationally with a foreign MNE in the knowledge seeker's own country means a potential to contain tacit knowledge which may lead to insights into new opportunities for diversification and the means for pursuing new diversification decisions allowing the knowledge seeker ultimately to consider new strategic directions for itself. Much of the literature on external knowledge transfer involving MNEs has been MNE-centric, for instance considering learning for the MNE from foreign operations in host countries (e.g., Pérez-Nordtvedt, Babakus and Kedia, 2010) or knowledge sharing between the MNE's subsidiaries and partners in those remote locations (e.g., Du and Williams, 2017). My emphasis is different because I take the perspective of the local partner firm, not the MNE. In addition, the focus of the thesis is the application of the new knowledge and in my case building a strategic decision.

Acquiring knowledge from external sources requires efficiency and effectiveness in terms of the capacities of both receivers and senders. Absorptive capacity (which means focusing on the importance of external knowledge and then combining it with existing knowledge before applying it) has been studied in the organizational learning and innovation literature and has led to many positive findings and results. While disseminative capacity – to share knowledge among individuals, groups and organizations – is imperative for the successes of knowledge transfer, it remains a theoretical conjecture (Mu et al., 2010). In order to fill this research gap, first conceptualize both capacities by measuring them along the two dimensions of intent and ability to learn, for absorptive capacity, and willingness and ability to share, for disseminative capacity (Minbaeva et al, 2014; Minbaeva and Michailova, 2004). Then, it examines the two

capacities in the same framework to measure their impacts on organizational learning and subsequent diversification decisions.

As the setting, this thesis uses the Saudi context, a country that has received little attention in the management literature (Alnatheer and Nelson, 2009) and has a policy to move economy through the private sector towards being more diversified (namely, its Vision 2030). Saudi Arabia is considered a non-diversifying economy due to its heavy reliance on oil which affects obviously the private sector directions and future plans. Although development plans since 1970 have considered this issue and set diversification as one of their major objectives, the economy is still based on oil (Albassam, 2015). The recent fluctuation in oil revenue – due to the boom in shale oil and alternative oil production, a population increase and the inability of the public sector to create jobs – has forced the Saudi government to focus on diversifying the economy through Saudi firms. An indicator of the importance the government gives to this issue is the Vision 2030 project, which concentrates on shifting the economy away from being oil-based, such as through an effort to increase non-oil government revenue from SAR 163 billion to SAR 1 trillion ($267 billion). This effort of diversification planning is at the state level, which can be implemented through the private sector.

In developed and developing countries, firms may play an important role in economic diversification and growth (Luciani, 2006; Radetzki, 2012; Albassam, 2015) through their own diversification strategies. In contrast, in Saudi Arabia the role of these firms in the economic diversification and growth is not clear. Scholars have claimed that firms' unsuccessful implementation of diversification plans is due to the obscurity of details within the plans, the absence of support for non-oil sectors (e.g. agriculture, services), government support for specific industries that are based on oil (e.g. petrochemical industries) and the dependency of the private sector on government spending and projects (Albassam, 2015). In addition, key firms in the Saudi economy are often fully owned by the government, such as

the Saudi Arabian Oil Company (ARAMCO), or the government holds the majority of their equity, as in the Saudi Basic Industries Corporation (SABIC) and the Saudi Electricity Company (SEC). Moreover, government agencies own 70% or more of banks and company shares on the Saudi stock market (Saudi Stock Exchange, 2014). These agencies are greatly influenced by government strategies, most of which are based on oil revenue. Furthermore, the important factor is the absence of the required knowledge among these firms which considers as the crucial source for competitive advantage. As a result, the contribution of Saudi firms to economic diversification and growth through their strategies is still limited and well under expectations. According to Hertog (2013), the role of the private sector in economic growth within the Gulf Cooperation Council (GCC) countries (Saudi Arabia is a member of the GCC) compared to countries with similar economic structures (e.g. Norway, Chile and Indonesia) is much lower. In addition, according to Kayed and Hassan (2011), compared to the total economy, the contribution of the Saudi private sector is relatively small.

In summary, in order to successfully implement a diversification strategy within the Saudi's private sector, firms need knowledge such as know-how and know-that. This knowledge is not easy to find or exchange in markets. However, there are a few methods that may allow firms to acquire such beneficial knowledge. One of these methods is through strategic alliances, which can allow partners to access each other's knowledge bases, allowing them to gain dynamic capabilities. Inter-firm transfers of knowledge through strategic alliances are common in many developing economies. As Saudi Arabia and the other GCC countries have emerged as an economic hub, building strategic alliances with firms from advanced countries has become inevitable. Therefore, Saudi firms could implement a diversification strategy after acquiring knowledge through strategic alliances with various global firms. This thesis will investigate and elaborate further on how establishing and maintaining strategic alliances are important to ensure that there is diversity among the activities of firms.

1.3. Research Questions

The previous section has summarized an unexplored gap in the international business literature. This thesis takes a step toward understanding the causal relationship between strategic alliances and diversification by providing information from a non-diversified economy (Saudi Arabia) that enriches the relevant literature. The thesis seeks to answer important questions that include, but are not limited to, the following:

Main question

How does learning through international strategic alliances with foreign multinational enterprises (MNEs) impact diversification decisions among firms in a non-diversified economy such as Saudi Arabia?

Sub questions

1- How does absorptive capacity influence organizational learning?
2- How does disseminative capacity influence organizational learning?
3- What roles do resource commitment, intensive communication and the nature of knowledge play in the process of learning and knowledge transfer?
4- What are the levels of absorptive and disseminative capacity and how are these levels different in terms of their impacts on organizational learning in light of moderating effects?
5- What is the chronological structure through which Saudi partners need to move between diversification decision states?
6- What are the characteristics of the knowledge system across the states of a diversification decision over time?

Chapter 5 addresses the main question and questions 1, 2 and 3. Chapter 6 answers question 4. Finally, Chapter 7 addresses questions 5 and 6.

1.4. Objectives of the Study

Despite the importance of diversification and sustainable growth to all GCC oil-based economies, there has been little discussion about the challenges and opportunities that

accompany this strategy (AL-Ghorairi, 2010), and specifically about the role of the private sector, which is still heavily dependent on foreign partners in terms of technology and technical competencies. This thesis aims to contribute theoretically to the existing international business literature by examining learning from strategic alliances about diversification decisions through organizational learning with the following objectives:

- to stimulate a debate on the impact of strategic alliances on diversification decisions;
- to link learning from alliances and learning outcomes in empirical studies;
- to understand the influence of absorptive and disseminative capacities on organizational learning;
- to understand the levels of absorptive and disseminative capacities and how these levels are different in terms of their impact on organizational learning;
- to understand how these knowledge-related dynamics influence diversification decisions in the light of moderators and mediators;
- to measure strategic alliances using non-economic outcomes such as a diversification decision;
- to measure the impact of absorptive and disseminative capacities directly on organizational learning and indirectly on diversification decisions;
- to understand how the diversification decision takes place from a chronological perspective.

1.5. Originality and Major Contributions

To the best of my knowledge, no study has attempted to offer a clear framework that shows the influence of learning through strategic alliances on a future strategic decision such as diversification in the Saudi Arabian context or in other countries. The findings contribute to the current and future literature on international strategic alliances and diversification by outlining an argument that both strategic fields affect each other. The thesis makes the following contributions.

First, in terms of the theoretical debate, the study contributes by extending the current body of knowledge into the new and unexplored context of Saudi Arabia (Makadok et. al, 2018) which in some way different to the Western ones. In the Saudi context the study contributes at the phenomenon level (by examining the relationship between strategic alliances and diversification) through the lens of existing theories on organizational learning and knowledge transfer and at the level of analysis (by questioning the validity or utility of these theories in a different context). Current theories were built and tested based on the Western context. Therefore, it is important to apply these theories to different contexts in order to provide useful insights, which is what the current thesis offers. This thesis identifies a framework used in existing literature and hypothesizes the relationships between variables by taking into account how they can interact differently in the Saudi context.

Second, a major contribution of this thesis is that it reveals the impact of strategic alliances on diversification decisions, a topic not previously explored. The thesis suggests a framework that combines the source and the application of knowledge. In addition, although the two antecedent capacities (absorptive and disseminative) have been previously examined, they need to be viewed and conceptualized in the same framework, not as separate phenomena, in order to measure their impact accurately. This work finds that high organizational learning from foreign partners is associated with more opportunities to pursue firms' own diversification decisions. Inconsistently with previous studies -study one-, the absorptive capacity of Saudi firms (intent to learn and ability to learn from foreign partners) has little influence on organizational learning. The disseminative capacity of foreign partners (willingness and ability to share) is perceived to have a strong impact on organizational learning. The study also finds no effects of the moderators examined. Therefore, the significant finding is that when a firm engages in learning from an international strategic

alliance, it will increase its consideration of potential opportunities to diversify and how to diversify and then be more likely to engage in its own diversification.

Third, the empirical results provide answers to questions including 'Why was absorptive capacity negative and non-significant in some cases?' and 'How does disseminative capacity strongly influence organizational learning?" The thesis looks specifically into the processes of learning and knowledge transfer and why these capacities are different in terms of the impacts of organizational learning on Saudi firms. Furthermore, the study identifies and distinguishes levels of each capacity (low, medium and high). Saudi firms learn with some difficulty or at least need to make substantial efforts. The empirical findings also show that foreign partners have the willingness and ability to share, which is consistent with the previous literature.

Lastly, the thesis contributes by identifying the optimal case (i.e. one that can be tracked through all three states), which illustrates how learning and knowledge transferred from a foreign partner influence a subsequent diversification decision. It looks into the three diversification-decision states from a chronological perspective (i.e. how long each state took). The empirical findings suggest that it is not necessary for every firm to pass through all these states and that the borders of each state are flexible, particularly the second one.

1.6. Thesis Structure

The thesis consists of eight chapters. This first chapter has highlighted a gap in international business research and defined the research problem. The chapter has discussed the research questions and the objectives of the thesis. It has explained how the thesis contributes to the body of knowledge in the literature.

Next, the thesis focusses on the impact of learning from an international strategic alliance on a subsequent diversification decision in the Saudi context. Chapter 2 provides a comprehensive review of the literature on diversification decisions and strategic alliances. It consists of two

main sections – diversification and strategic alliances– with a specific focus on definitions and theories of diversification strategies and learning through strategic alliances.

Chapter 3 focuses on building the theoretical framework and hypotheses. The development of interactions between the two major strategic interventions will be tested through meditator organizational learning and in the light of possible moderating effects of the nature of knowledge, resource commitment and intensive communication. This development is followed by the major and sub-questions which drive the thesis. Chapter 4 discusses the research methodology with reference to the research philosophy and research methods employed. Then, it presents an overview of the Saudi context.

Chapters 5, 6, and 7 are the core of the thesis. As mentioned, Chapter 5 addresses the main research question and sub-questions 1, 2 and 3; Chapter 6 answers question 4; and Chapter 7 addresses questions 5 and 6. Each chapter has two parts. The first part begins by explaining the methodological approach, including the research design, data collection and data analysis. The second parts of these chapters present the results, followed by a discussion of the findings, implications for theory and practice, limitations of the study and directions for future studies.

Chapter 8 concludes the thesis by summarizing the studies. It then discusses the major contributions of the thesis, including theoretical, practical and policy-making implications in detail. Finally, it presents the limitations of the thesis and the implications of the findings on future research.

Overall, the thesis examines the impact of learning from an international strategic alliance on a subsequent diversification decision in the Saudi context.

Chapter 2: Literature Review

This chapter is divided into two main sections. Section 2.1 outlines previous definitions of diversification and motives for it. This is followed by a review of the current literature on diversification decisions and types of diversification strategy. Section 2.2 provides a comprehensive review of the literature on the concept of strategic alliances and the theoretical bases for forming an alliance. In addition, it explains learning through alliances by reviewing related literature, such as on knowledge transfers, organizational learning and forms of alliance. Finally, it summarises gaps in the literature and critiques previous works.

2.1. Diversification

2.1.1. The Diversification Strategy Concept

Diversification has become a popular business strategy. Beside other strategies such as market penetration, market development and product development, it is considered a strategy for growth and expansion in the business environment (Ansoff, 1957; Boz et al., 2013) and so it is one of the corporate strategies which firms may be involved in (Antoncic and Hisrich, 2003). Many researchers have variously defined and measured diversification on products (Santarelli and Tran, 2016) and markets. Ansoff's (1957) work provided a standard definition of diversification. It is conceptualized in one core idea: a departure from the current product line and market structure. However, Ansoff makes no mention of the type of new business (e.g. whether it is related or unrelated). According to Santarelli and Tran (2016), diversification refers to the degree of relatedness between the activities of a firm, which clearly emphasizes related diversification. The term ‘diversification strategy’ refers to the set of resources, products and revenue that enhance a firm’s ability to face uncertainties in the business environment (Fields et al., 2015). According to Zahavi et al. (2013), diversification refers to starting new businesses while the term ‘diversity’ refers to expansion of an

organization's businesses. Consequently, it is evident that diversification can currently be defined as expanding into new markets or products and services in order to grow, react to competitors' moves and survive.

2.1.2. Motivations for Diversification

Montgomery (1994) reviews several theories attempting to explain the motives for diversification: the market-power view, the resource view and the agency view. The market-power view assumes that when firms diversify they will benefit in terms of growth compared to non-diversified firms. The reason is not efficiency but access to conglomerate power (Montgomery, 1994). For example, an enterprise (a parent company) may have a number of sub-companies (subsidiaries) in unrelated businesses. Diversification in this view can lead to exploiting economies of scope which may increase the firms' market power (Santarelli and Tran, 2016). The link between firms' market power and economies of scope is derived from the multimarket contact hypothesis (Scott, 1993). This hypothesis is that when firms work in different markets they have high opportunities to sustain their collective power through networking with each other. In addition, diversification may have a positive impact on other industries. The value of resources in one industry can be raised by investment in another industry (Santarelli and Tran, 2016).

The resource-based view is that firms are capable of diversifying their activities when they have more productive resources (Dunning, 1992) and so can attain sustainable competitive advantages. Examples of such resources are knowledge, efficient processes, intrinsic patents, brand names, technologies, experience and expertise (Park and Jang, 2013). In this view, a surplus of resources and a free cash flow can be considered major motives for diversification (Hoskisson and Hitt, 1990; Santarelli and Tran, 2016). Furthermore, the value and type of diversification will be determined according to complementarities between resources in the existing businesses and new ones (Santarelli and Tran, 2016). In this view, related

diversification will increase resource value through exploitation of current resources in new businesses (Park and Jang, 2013). However, most diversification failures may be results of not achieving sufficient relatedness between current and new activities (Lien and Klein, 2006) without fully considering the differences between industries.

The agency view traditionally focuses on the role of a firm's managers in driving the diversification decision at the expense of the firm's owners. For instance, in order to receive high compensation, executives may have an interest in a costly diversification (Montgomery, 1994; Dagnino et al., 2018). This view assumes a negative relationship between diversification and firm performance because of a likely increase in moral hazard and a conflict of interests between managers and investors. In general, owners prefer to focus on one business in order to increase their returns (Bhide, 1990). Mixed results in the previous literature regarding the relationship between international diversification and performance show curvilinear, inverted U-shaped or S-shaped relationships due to different preferences among managers, majority shareholders and minority shareholders (Cardinal et al., 2011; Hitt et al., 1997; Lampel and Giachetti, 2013; Lu and Beamish, 2004; Dagnino et al., 2018).

More recently, the theoretical perspective of organizational learning has been used to explain the motivation for diversification decisions. The concept of organizational learning has become prominent in the international business and strategic management literature. Organizational learning refers to a change in organizational knowledge or behaviour which results from experiences accumulated over time (Fiol and Lyles, 1985). It is important to highlight practical, theoretical and methodological advances in the literature that explain why firms are different in their abilities to learn from and reflect on their experiences (Argote and Miron-Spektor, 2011). At the practical level, it is obvious how organizational learning allows firms to respond to environmental changes (Werner et al. 2015). However, in organizational learning research there is still a debate over how to capture a change which occurs in a firm’s

knowledge and whether to measure it in cognitive or behavioural terms (Argote and Miron-Spektor, 2011). According to Hotho et al. (2015), in order to broaden the view of organizational learning in global strategy research, the context in which learning takes place should be taken into account together with whether firms have the ability to utilize the knowledge acquired (Hotho et al., 2015).

Previous literature suggests different approaches to demonstrating how a partner firm might benefit from the knowledge acquired in a strategic alliance i.e. by exploiting it or utilizing it in Hotho et al.'s (2015) terms (Khamseh et al., 2017). Much recent work builds on March's (1991) framework of exploration and exploitation in organizational learning. Scholars argue that both explorative and exploitative modes are essential (Liu, 2018).

Exploration refers to processes "involving search, variation, risk-taking, experimentation, play, flexibility, discovery, innovation" (March 1991: 71). Exploration focuses on learning new methods, solutions or ideas for entering a new business (Khamseh et al. 2017). Consequently, explorative learning can lead to enlarging a firm's absorptive capacity (Abebe and Angriawan, 2014). Exploration can become an opportunity for firms through organizational learning. The organizational learning perspective has been used to draw attention to the benefits of exploration through internationalization. Based on organizational learning, a firm's subsidiaries can apply experiential learning in order to improve their knowledge base, capabilities, and competitiveness (Lu and Beamish, 2004). In addition, each country or market has its own advantages in terms of both resources and location. This may motivate firms to explore these advantages and increase their competitiveness in the markets they serve (Lu and Beamish, 2004).

Exploitation, instead, refers to processes of "refinement, choice, production, efficiency, selection, implementation, execution" (March 1991: 71). Here, the focus is on the application

of the partner's knowledge (Khamseh et al. 2017). Through organizational learning, firms may exploit their accumulative experiences of diversification decisions and operations. For example, the absorptive capacity viewpoint on organizational learning may regard firm diversification decisions (through internal growth or acquisitions) as potentially being a way to develop through repeated and accumulated experience (Mayer et al., 2015).

Earlier works on learning from a strategic alliance focused on learning as an endpoint. This led to ignoring the important role of utilization of the knowledge acquired from partners (Inkpen, 2002). Recently, however, utilization has become a factor studied in depth. In fact, the main motivation for an alliance is to gain new knowledge, internalize it and then utilize it (Howard et al. 2016**)** or to pursue external opportunities (Khamseh et al., 2017). Exposure to a partner's knowledge will not necessarily lead to utilization (Dahlander et al., 2016). Studies examining the application or utilization of new knowledge from learning through an alliance have looked at the partners' levels of relationship satisfaction (Liu et al., 2010), innovation capability development (Dahlander et al., 2016; Liu, 2012; Nielsen and Nielsen, 2009) and enhanced internal collaboration (Howard et al. 2016**).**

A diversification decision involves many steps that require decision-making, with accompanying costs such as time and effort in order to identify investment opportunities, collect information, evaluate means of financing, exchange assets with an external party and integrate new operations (Andreou et al., 2016). A diversification decision may require a full analysis from different angles, e.g. considering other strategic decisions. According to Von Mises (1966, cited in Amanor-Boadu, 2013), an unacceptable current situation can provide the motivation for a diversification decision. According to the human action literature, the diversification decision may comprise distinct stages. First, at least one alternative which could resolve the current situation should be perceived by the decision-maker. The alternative may be categorized as either related or unrelated to what the firm is currently doing. Second,

the resources which are required to implement this alternative should be brought under control. Nowadays, knowledge is considered the most important resource in organizations (Grant, 1996). Finally, the decision-maker must believe in his/her ability to reach the desired situation (Amanor-Boadu, 2013).

Firms are different when it comes to making this strategic decision. While some firms have more experience and capabilities, such as managerial and technical skills and financial resources which can support an analysis for strategic decision-making, others may face difficulties. In the case of small businesses, the diversification decision may need to be more accurate than profitable because the decision-maker will want to ensure the business will survive, or at least maintain the current situation (Amanor-Boadu, 2013).

Organizational learning can also be a theoretical basis for explaining diversification decisions. From an organizational learning perspective, a diversification decision requires the development of repeated experiences that directly benefit firms through the accumulation of knowledge (Mayer et al., 2015). Diversification in the market, particularly at the international level, requires the utilization of the firm's existing knowledge in different countries, which at the same time also increases the accumulation of knowledge (Martin and Salomon, 2003). Organizational learning from repeated experiences occurs through codifying routines and systems and standardizing procedures (Haleblian and Finkelstein, 1999) which can be used in diversification processes. Organizational learning is also enriched by a firm's absorptive capacity to expand and extend its knowledge base, which can then be applied to produce new capabilities (Hoskisson et al., 2015). Moreover, through knowledge application, firms can realize opportunities for economies of scale and scope in different markets or products (Caves, 1996) and thus spread risk. In the utilization stage of diversification decisions, firms chose either exploitative or explorative utilization, or both of them. When the diversification is related, an exploitative strategy is more likely. When a firm extends to similar or

complementary products or markets this is a related diversification. On the other hand, an explorative strategy, which means entering an unrelated business, is characterized by long-term horizons, unpredictability, experimentation, discovery, innovation, variation and risk-taking (Hoang and Rothaermel, 2010; Rabbiosi et al. 2012). Organizational learning theory suggests that previous and repeated experiences have crucial role in the future strategic decisions such as on diversification. Therefore, the role of organizational learning in diversification decisions will be examined and explained in this thesis and it will be argued that organizational learning ought to be considered a motive and basis for diversification decisions. The next section will discuss and elaborate in detail on types of diversification strategies.

2.1.3. Diversification Strategy Types

Scholars of strategic management and other disciplines suggest that differences in firms' performance may be due to different diversification strategies such as related and unrelated ones (Palich et al., 2000), and these classifications are related to resources, customers and markets. On the basis of a study of Japanese companies, Geringer et al. (2000) show that performance varies because of diversification strategies. However, Purkayastha (2013) and Zahavi et al. (2013) point out that most earlier research makes no distinction between related and unrelated (intra- and inter-industry) diversification strategies. Studying Korean firms, Chang and Hong (2000) conclude that both strategies (related and unrelated diversification) have positive effects on firms' performances. Firms can also diversify in terms of customers. When firms enter new geographical markets or new industries, they provide their products and services to new customers in addition to the existing ones. In general, firms can apply diversification strategies in terms of products or geographical markets (Hitt et al., 1994), and diversification strategies may play a major role in achieving their objectives.

Wrigley (1970) classified diversification strategies for single products into dominant products, related products and unrelated products. Rumelt (1974) expanded Wrigley's work on diversification strategies and produced a classification with four main strategies and several sub-strategies: single business; dominant business (dominant-vertical, dominant-constrained, dominant-linked and dominant-unrelated); related business (related-constrained and related-linked); and unrelated business (active conglomerates and unrelated passive). 'Single business' refers to a firm with a specialization ratio that exceeds 95%. 'Dominant business' means that a firm has diversification to a certain extent but most of the revenue comes from a single business.

Theoretically and empirically, views of the relationship between diversification strategies (related and unrelated) and performance are inconsistent (Park and Jang, 2013) (see section 2.1.4). Related diversification refers to the expansion of businesses that have similarities in terms of skills, resources, technologies and customers (Zahavi et al., 2013). One of the obvious economic benefits of a related business is economies of scope and scale (Hill et al., 1992; Park and Jang, 2013) due to sharing of resources which may be used in different markets and products. There is broad consistency regarding how related diversification increases performance, while unrelated diversification decreases it. This may be due to economies of scope and scale and synergy (Park and Jang, 2013). Related diversification is considered to be the more valuable type due to the involvement of existing resources and structures (Tanriverdi and Venkatraman, 2005). In the literature generally, related diversification is given superiority over unrelated diversification due to the exploitation of existing resources in a related business (Sen, 2011). In the implementation stage, related diversification is more common than unrelated and can be considered a first step in a diversification strategy (Zahavi et al., 2013). However, it is still debatable when and how it is appropriate to implement a related diversification strategy in order to build a competitive

advantage (Markides and Williamson, 1994). In related diversification, transaction costs occur within firm boundaries, for example sharing common inputs such as joint designing, joint scheduling and mutual adjustments poses a challenge to the components of coordination (communication, information processing and joint decision-making), which can increase costs and the opportunities for decision errors (Zhou, 2011). Arguably, related diversification will benefit more from organization learning than unrelated diversification. Experiences which are stored in an organization's memory will have more impact in similar future experiences, including on strategic and operational performance.

Unrelated diversification occurs when firms enter a completely new business that is unrelated to their current activities (Geringer et al., 1989), which may result in a conglomerate. Because of the few operational synergies, firms with an unrelated diversification strategy may depend on financial synergies in order to maximize their value (Boz et al., 2013). Economies of scope can be benefits from unrelated diversification but the challenges which accompany this strategy, such as the implementation of current experiences with new markets (Zhao and Luo 2002), may prevent these benefits from being realised.

2.1.4. The Relationship between Diversification and Performance

Because diversification is a critical engine for firm growth, it is a central concern among strategy scholars (Zhou, 2011). The diversification-performance relationship has been much debated in the literature on both related and unrelated diversification (Palich et al. 2000; Park and Jang, 2013; Lo and Hsu, 2016). Most studies that examine diversification focus on its relation with performance but many questions are left unanswered (Park, 2002). Palich et al. (2000) review the literature on the relationship between diversification and performance and then empirically test it. They find that previous studies revealed inconsistency, which may lead to a question about the precise role of diversification in competitive advantage. Some scholars have identified a positive relationship between the degree of diversification and firm

performance (Lo and Hsu, 2016). Some argue that this is because of exploration and exploitation, which contribute to economic scope and scale, market power, risk-reduction and learning curve efficiencies (Boz et al., 2013). Chakrabarti (2007) also discusses how diversification positively influences performance through new use of existing resources. Others find a negative correlation, with diversification having a negative influence on performance (Collins, 1990). In general, there are certain costs such as differences in incentives, especially between headquarters and subsidiaries, coordination and information asymmetry which may increase the disadvantages of diversification with regard to performance. In addition, some find no relationship between diversification and firm performance (Boz et al., 2013; Martinez-Campillo et al., 2011).

Previous literature reviewing the relationship between diversification and performance shows that it is normally covered either by an industrial organization or a strategic management approach (Santarelli and Tran, 2016). Industrial organization and finance scholars have considered the relationship between performance and diversified or undiversified firms (Palich et al., 2000). This stream of research focuses on the relationship between the structure of the market/industry and the level of diversification (Santarelli and Tran, 2016). Strategic management researchers argue that differences in performance relate to the type of diversification, i.e. related or unrelated (Palich et al., 2000; Park, 2002). According to this stream of research, firms exploit synergies and make use of appropriate structures in order to manage diversification (Santarelli and Tran, 2016).

In addition, the reverse relationship, the impact of performance on diversification, has also been tested (Park, 2002). This relationship between diversification and performance has been investigated using two models in a study covering three decades (Palich et al., 2000). The first model is linear and it emphasizes that the relationship between diversification and performance is linear and positive and that related diversification outperforms unrelated

diversification. When diversification increases, performance increases too. This model is based on assumptions such as the market power theory and internal market efficiency (Palich et al., 2000). The second model is curvilinear and it indicates that the relationship increases up to a certain level at which performance will then decrease. The curvilinear model is supported by most research on the relationship between diversification and performance (Palich et al., 2000; Yigit and Berham, 2013; Santarelli and Tran, 2016). In this model, the relationship is dependent on the level and type of diversification (Palich et al., 2000). Curvilinear models can be divided into inverted U shape and intermediate models. An inverted U shape model emphasizes that related diversification is better than unrelated diversification and the performance of single businesses ranges from a low to a moderate level. Utilizing firm resources in various industries is one of the obvious advantages of related diversification (Lubatkin and O'Neill, 1987; Nayyar, 1992). In the intermediate model, related and unrelated diversifications have equal impacts on firm performance because both have certain weaknesses. Exploiting relatedness is the key point that renders related diversification better than unrelated (Markides and Williamson, 1994). At the same time, unrelated diversification may outperform related diversification due to risk reduction (Palich et al., 2000). However, related diversification may suffer from costs, such as of coordination and cooperation that lead to a loss of the benefits from exploiting relatedness (Nayyar, 1992). In addition, unrelated diversification can mean that a firm is far away from its main business, which reduces the advantages of diversification (Nayyar, 1992; Markides, 1992).

The inconsistency in the literature has led to studies of more theoretical complexes, including the sigmoid model (Hitt et al., 2006). According to Lu and Beamish (2004), who investigate international diversification performance, a horizontal S-curve is found to explain the relationship as positive at moderate levels and negative at both low and high levels. Costs are reduced due to experiential learning, which means that both organizational learning and

financial performance benefit. This curve is supported by other studies, such as Thomas and Eden (2004). Therefore, we can argue that efficient learning may contribute to differences in performance among diversification strategies and levels.

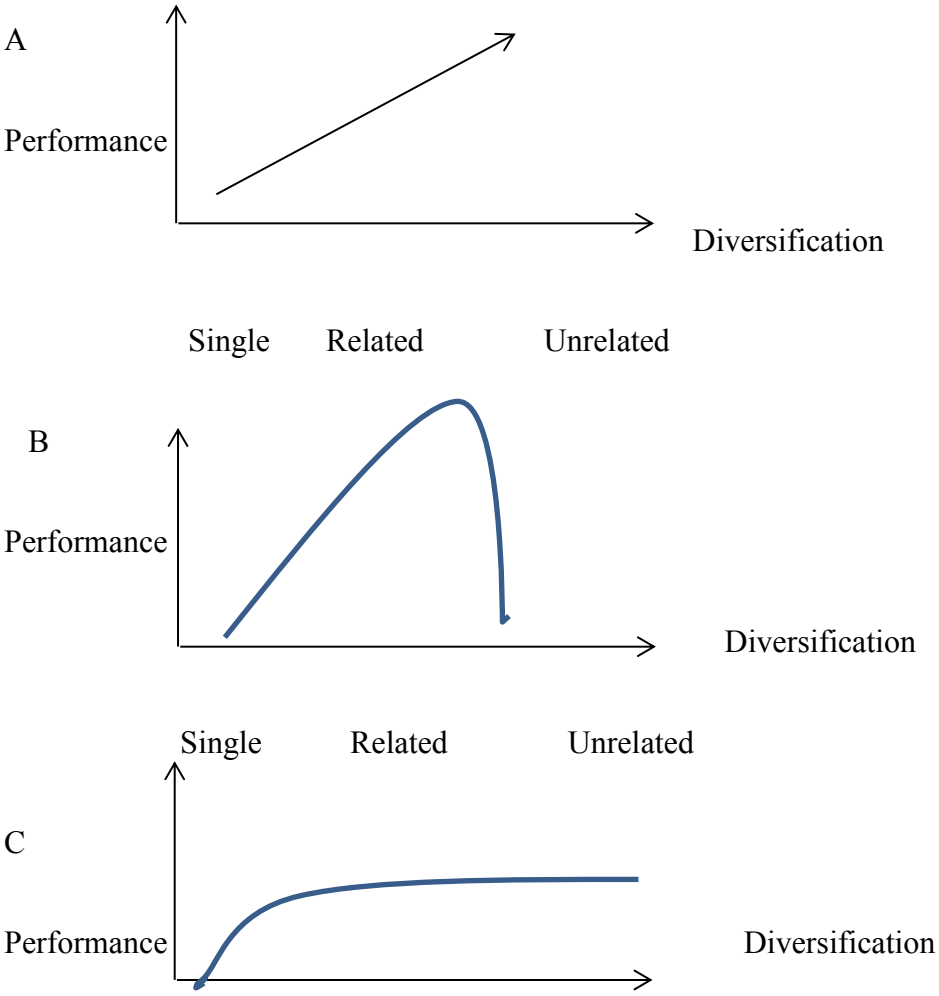

Figure 1 A Linear Model; B inverted U model; C Intermediate model (Palich et al., 2000).

2.2. Strategic Alliances

2.2.1. The Strategic Alliance Concept

Strategic alliances are found in the literature under different terminologies, including strategic partnerships, inter-firm cooperation, cooperative agreements, quasi-integration strategies, business alliances, inter-organizational linkages, cooperative strategies, collective strategies

and corporate linkages (Janczak, 2008). Strategic alliances have received almost unanimous definitions from scholars in international business studies although there is one controversial point among the definitions. Gulati (1998) considers alliances to be collaborations if they are short-term rather than long-term agreements. However, others consider strategic alliances to be long-term agreements, such as Tsang (1998), who defines an alliance as "a long-term cooperative arrangement between two or more independent firms that engage in business activities for mutual economic gain" (Tsang, 1998: 209). Others highlight trust, such as Phan and Peridis (2000), who define alliances as long-term agreements or trust-based relationships which entail highly relationship-specific investments in ventures that cannot be fully specified in advance of their execution. Mohr and Spekman (1994) also define alliances as advantageous strategic relationships between independent firms that share compatible goals, strive for mutual benefits and acknowledge a high level of mutual dependence. For Wua et al. (2009, p: 4646), strategic alliances are "partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial." Partnerships are a non-equity type of alliance (Lambert et al., 1996). An alliance is also defined as a “formal agreement between two or more business organizations to pursue a set of private and common interests through the sharing of resources in contexts involving uncertainty over outcomes” (Ariño et al., 2001, p: 110).

More recently, "alliances can involve a wide variety of configurations of partners, involve the pursuit of a multitude of specific goals, and exhibit various levels of commitment and investment from partners" (Albers et al., 2016, p: 4). The main points that emerge from the above definitions are that in the literature alliances have essential components, such as the duration of the agreement, a cooperative relationship, at least two independent firms, achieving common objectives, an equity structure and sharing resources. Therefore, in this

study the concept of strategic alliances will reflect these components and emphasize that an alliance is a long-term agreement.

2.2.2. Motives for Strategic Alliances

An alliance is considered a strategic method that provides firms with the necessary resources to allow them to work in a dynamic environment. Previously, access to the international market was the main motive behind alliances. However, nowadays, due to global competition and changes in local markets, firms even create alliances with competitors (e.g. IBM, GM, General Electric) (Almasaad, 2014). The general motivations for forming alliances range from sharing resources, reducing costs, learning and enhancing performance. One of the major motives for strategic alliances is to acquire new skills or capabilities from partners (Mowery et al., 1996). Strategic alliances are a vehicle for organizational learning because knowledge cannot be easily exchanged through market transactions (Doz, 1996; Inkpen, 1998a). Recently, motives for alliances have been classified according to the type of partner, for example international partners looking for market development and local contacts, and local partners seeking to access modern technology and quality products (Hyder and Abraha, 2003).

Several theories have been proposed to explain the reasons for forming alliances. These include transaction costs (Williamson, 1975, 1985; Kale et al., 2000), resource dependence (Grant and Baden-Fuller, 2004), organizational learning (Khanna et al., 1998), social exchange (Das and Teng, 2000), a resource-based view (Eisenhardt and Schoonhoven, 1996; Das and Teng, 2000; Grant and Baden-Fuller, 2004) and a knowledge-based view (Grant, 1996).

2.2.2.1. **Transaction Cost Theory**

As a motivation for strategic alliances, transaction cost theory (TCT) focuses on how firms minimize transaction costs and increase efficiency (Chen and Chen, 2003; Muthusamy and White, 2005). According to Williamson (1975, 1985) transaction costs can either be ex-ante or ex-post costs. Ex-ante costs are those of "drafting, negotiating and safeguarding an agreement" (1985: p. 20) while ex-post costs include (1) maladaptation costs; (2) haggling costs; (3) set-up and running costs; and (4) bonding costs" (Williamson, 1985). Glaister, (1996) highlights a fundamental principle in transaction cost theory that there is economic reasoning regarding the choice between markets (i.e. licensing) or hierarchy (i.e. subsidiaries). To transfer knowledge, a strategic alliance of the hierarchical form is considered an effective and efficient choice (Glaister, 1996, Hennart, 1988). Alliances can be seen as a method to minimize transaction costs, particularly by transferring technology and vertical integration (Almasaad, 2014). Therefore, TCT classifies governance structures in terms of ownership of a minority or majority equity stake, such as through acquisition, a joint venture or greenfield (Chen and Chen, 2003).

Firms that engage in strategic alliances encounter some risks regarding their assets, such as ones involving knowledge i.e. know-how, technology and markets. Opportunism is the main concern in transaction cost theory, which only addresses governance choices (Kozlenkova et al., 2014). According to transaction theory, partners in an alliance may seek to create 'hostages,' which is considered a firm strategy to overcome opportunistic behaviour. In this case, partners form several alliances to protect the stability of the focal alliance from the threat of any failure of one of the alliances (Young and Wiersema, 1999). However, we might argue that transaction cost theory has some disadvantages. It does not recognize other benefits of alliances, e.g. learning and the speed of entering the market (Eisenhardt and Schoonhoven, 1996). According to Ghosal and Moran (1996), transaction cost theory is suitable for cases

involving static efficiency and routine. In addition, TCT treats every transaction in alliances independently without considering how trust between partners, which is built over time, may decrease risky behaviour such as being opportunistic (Gulati, 1995). In addition, TCT does not consider other costs that arise from alliances such as coordination and failure costs (Beamish and Banks, 1987; and Gulati and Singh, 1998). Therefore, based on TCT, firms form alliances when seeking to reduce costs.

2.2.2.2. The Resource-Based View

Another common theory used to explain the formation of strategic alliances is the resource-based view (RBV). This attempts to answer the question of alliance formation. It is an internal perspective focussing on internal resources as the main source of competitive advantage and trying to explain the difference in performance between firms (Kozlenkova et al., 2014). According to Barney (1991), resources that may result in a sustainable competitive advantage have four characteristics: value, durability, rarity and inimitability. These resources consist of assets such as physical, human and organizational capital resources (Barney, 1991; Tsang, 1998). The resource-based view seems to have an adequate explanation of strategic alliance formation: firms use alliances in order to have access to the partner's distinctive resources (Das and Teng 2000). Eisenhardt and Schoonhoven (1996: 137) state that the main motive for strategic alliances is a "logic of strategic resource needs." Through alliances, partners can combine their valuable resources, which drives them toward gaining a competitive advantage. From a resource-based view, alliances may provide some benefits, e.g. economies of scale, market power and risk sharing (Das and Teng, 2000; Day, 1995). According to Tsang (1998), the motives for alliances in a resource-based view are fourfold: the creation of rents, resource usage (expansion and diversification), imitation and the disposal of resources. In addition, firms form an alliance either to gain or preserve certain resources (Chen and Chen, 2003).

Moreover, another motivation in the resource-based view is to create value by pooling resources together (Das and Teng, 2000) when this cannot be achieved alone.

In alliances, acquiring and accessing resources can be through exchange or integration (Chen and Chen, 2003). The resource alignment, which refers to how the resources of partner firms can be matched or integrated through alliances, is considered an important factor (Das and Teng, 2000). Resource alignment may be further subdivided into supplementary and complementary resources. Supplementary resources are similar, such as in the type and amount involved in the alliance (e.g. financial resources) (Das and Teng, 2000). Complementary resources are the non-redundant distinctive competencies which partners bring to their alliance (Hill and Hellriegel, 1994).

In the resource-based view, some risks can accompany the formation of an alliance. Complementary resources through alliances may increase dependency (Gravier et al., 2008), which can lead to alliances losing their advantage as effective tools for growth. In addition, the resource-based view does not consider social issues which may affect new opportunities for alliances (Gulati, 1999) due to firms concentrating on existing resources. Some scholars suggest that the RBV is still modelled on development of research strategies (Das and Teng, 2000). In addition, it may be difficult to have resources that can meet all of Barney's VRIN characteristics (value, rareness, imitability, and non-substitutable) (Eisenhardt and Schoonhoven, 1996). Finally, in this view alliances may involve risks such as imitation (Yasuda, 2005) of specific resources such as knowledge, which may in some cases become the main source of competitive advantage. Therefore, in this view alliances are established to access partners' distinctive resources.

2.2.2.3. Knowledge-Based View

Later, a knowledge-based view (KBV) emerged. This emphasizes that the task of organizations is to create and integrate knowledge in order to build and utilize a sustainable competitive advantage (Grant, 1996). Due to its ability to explain the existence of firms based on their successful use of knowledge, KBV is a very suitable theory (Blome et al., 2014). The major motivation for knowledge-based in alliances is knowledge access rather than knowledge acquisition (Grant and Baden-Fuller, 2004; Buckley et al., 2009). There are two knowledge-based approaches: access and acquire. The accessing approach views alliances as a way of increasing knowledge specialization, while the acquisition approach views alliances as a tool for broadening the knowledge base, and over time the knowledge bases of the partners converge (Grant and Baden-Fuller 2004; Pollitte et al., 2015). In the knowledge-based view, the firm's boundaries are determined by the amount of integrated knowledge (Grant, 1996), which means the application of knowledge. The knowledge-based view is suitable for environments where knowledge is intensive (Grant and Baden-Fuller, 2004) such as technological ones. Gold et al. (2001) hold that firms with knowledge-based resources may end up with the greatest performance.

The knowledge-based view and the resource-based view have commonalities in how distinctive resources play a major role in the formation of strategic alliances, which may result in growth. Moreover, the knowledge-based view is an extension of the resource-based view (Grant and Baden-Fuller 2004). The resource-based view considers many types of resources. In contrast, the knowledge-based view pays more attention to knowledge, and particularly to integrating tacit knowledge as a driver of strategy (Grant and Baden-Fuller, 1995; Conner and Prahalad, 1996).

However, the theory has little consistency with the concept of knowledge transfer compared to other theories related to knowledge dynamics. This is obvious regarding some points such

as the knowledge-protection imperative. This contrasts with knowledge-sharing and knowledge combination (Kaplan et al., 2001). Moreover, being knowledge-based is not enough to accomplish successful development (Verona, 1999). In fact, integration mechanisms are required in order to utilize existing knowledge (Zhou and Li, 2012), which may be accompanied by higher costs (Grant and Baden-Fuller 2004). Knowledge access may lead firms to become highly dependent on their partners in order to be more specialized (Nakamura et al., 1996). I argue that firms follow these views (resource and knowledge) since the motives for an alliance could end up with low-level knowledge generation due to dependency on partners' capabilities. In addition, integration process of the partner's knowledge with existing knowledge requires mechanisms that allow firms to later create new knowledge and put it to use.

2.2.2.4. Organizational Learning

Under conditions of intense competition, alliances can provide firms with the required knowledge and critical skills to survive (Hamel, 1991; Lane, et al., 2001). According to Chang and Lee (2007), the tool for business growth is learning. Organizational learning develops decision-making at different levels, including the strategic, financial and operational (Andreou et al., 2016). This may result in competitive advantage and better performance (Hitt et al., 2000). The positive relationship between organizational learning and firm performance is supported by empirical findings (Jiménez and Sanz-Valle, 2011). Decision-making in firms will be improved by the accumulated experiences which firms acquire during organizational learning.

Organizational learning refers to the change that takes place as the firm's experience increases (Argote and Miron-Spektor, 2011). According to Fiol and Lyles (1985), an agreed definition of organizational learning among scholars is that it refers to a change in organizational knowledge or behaviour which may result from accumulating experience over time. In the

strategic management literature, organizational learning is defined as a systematic change in a firm's behaviour because of new knowledge which the firm obtains by sharing previous experiences (Andreou et al., 2016).

March and Simon (1958, cited in Curley et al., 2016) emphasized the first stage in organizational learning theory to point to important issues for future research. These issues included the role of organizations in engaging individuals, planning for growth and learning and developing personnel, which may mean collective organization. Later, Argyris and Schon (1978, cited in Curley et al., 2016), offered a theory from the perspective of action with a framework that is appropriate for theoretical and empirical analyses of learning within organizations. They presented some essential concepts in organizational theory, such as single-loop learning, double-loop learning, theory in use, the theory of action, task systems and mental models. These concepts may explain the role of experiences in the learning process both within the organization and at the individual level (Curley et al., 2016).

One of the main important issues in organizational learning theory concerns the mode of adaptation. March (1991) distinguishes between the modes of adaptation known as exploitation and exploration. Exploitation refers to the development of existing knowledge in order to create value, which Spender (1992) calls "knowledge application," while exploration means increasing a firm's knowledge through risk-taking and innovation, which Spender (1992) calls "knowledge generation." According to Grant (2010), exploration and exploitation are associated with the development of organizational capabilities. Both processes include many activities that may improve such capabilities (Hotho et al., 2015; Khamseh et al., 2017; Liu, 2018) (See Table 1). The March model was applied to strategic alliances by Koza and Lewin (1998). They claimed that a decision by a firm to enter into an alliance can be based on either exploitation or exploration.

Organizational learning focuses on three issues: the main process in learning, who is involved in learning and when learning becomes beneficial (Chua and Pan, 2008). The processes in organizational learning range from knowledge acquisition, information distribution, information interpretation to organizational memory. The second issue is related to four levels of learning (Miner and Mezias, 1996): the individual level, the group level, the organization level, and the population of organizations. The last issue relates to some factors such as noise and timing, meaning that not all learning processes are valuable (Chua and Pan, 2008).

Knowledge Function	**Process**
Knowledge Generation (Exploration)	•Knowledge Acquisition •Knowledge Creation
Knowledge Application (Exploitation)	•Knowledge Integration •Knowledge Sharing •Knowledge Replication •Knowledge Storage and Organization •Knowledge Measurement •Knowledge Identification

Table 1 Knowledge Processes within an Organization (Grant, 2010: 165)

According to Huber (1991), organizational learning involves four steps: knowledge acquisition, information distribution, information interpretation and organizational memory. Others categorise five different but connected mechanisms of organizational learning: organizational memory, information acquisition, information distribution, information retrieval and information interpretation. Organizational memory refers to how organizations store information which they accumulate through experiences over time (Curley et al., 2016); information acquisition refers to the process of gaining knowledge (Huber, 1991); information distribution covers methods for sharing information which allow for understanding of it (Burch and Spillane, 2003); information retrieval means the ability of organizations to use

information in their decision-making; and information interpretation refers to socio-cognitive procedures which give meaning to information that is distributed (Curley et al., 2016). Therefore, this theory considers and covers knowledge acquisition and utilization, which may be needed in making diversification decisions.

The role of the firm in the learning process has been discussed in the literature. Huber's (1991: 88) definition of organizational learning focuses on the role of firms in learning: "an organization learns if any of its units acquire knowledge that it recognizes as potentially useful to the organization." He and other researchers have also identified three types of learning processes: tacit learning, explicit learning and dynamic learning. Tacit learning is informal and complicated; explicit learning means that knowledge is made clear, accessible and informal; while dynamic learning covers both explicit learning and tacit learning (Swift and Hwang, 2013). In addition, Nonaka and Takeuchi (1995) provide a spiral model of the stages creating organizational knowledge. These include socialization, externalization, combination and internalization (SECI). The SECI model concentrates on the idea of knowledge conversion (from tacit to explicit) in multiple stages.

One of the central and oldest debates within organizational learning theory is the level of analysis. Hedberg (1981: 6, cited in Vera and Crossan, 2000) argues as follows: "although organizational learning occurs through individuals, it would be a mistake to conclude that organizational learning is nothing but the cumulative result of their members' learning … Members come and go, and leadership changes, but organizations' memories preserve certain behaviours, mental maps, norms and values over time." Organizational learning takes place when individual and group learning reach the institutional level. As a result, knowledge is established in firms' cultures, routines, strategies, systems and structures (Vera and Crossan, 2000). However, Simon (1991) argues that learning occurs at the individual level, and organizations learn via new members who have knowledge that the organization does not yet

possess. The role of organizations in organizational learning may be obvious, as in routines (i.e. culture, procedures, norms, paradigms, strategies, frameworks, codes and beliefs) (Almasaad, 2014) but it can also be developed through increasing the capacity to learn, which is consistent with the first opinion. The role of individuals and firms in creating knowledge is complementary. Therefore, on the basis of organizational learning theory, the main motive for forming a strategic alliance is to facilitate meaningful learning from foreign partners.

Theory	**Motive**
Transaction Cost Theory	To reduce costs, reduce opportunism; suitable for static efficiency and routine cases.
Resource-Based View	To access a partner's distinctive and valuable resources.
Knowledge-Based View	To access a partner's knowledge base.
Organizational Learning	To facilitate meaningful learning from partners through access to their knowledge.

Table 2 Theoretical Perspectives on Motives for Strategic Alliances.

2.2.3. Types of Strategic Alliances

There is no consensus among scholars on the types of alliances. A number of studies have suggested different types of alliances based on criteria such as the length of the contract and governance structure. There are three types of criteria to differentiate types of alliances: activity domain-based, partner characteristics-based, and alliance structure-based (Albers et al., 2016). Factors such as the type of resources may affect the choice of alliance structure. For example, knowledge is an important resource so a firm may choose a certain structure in order to protect itself from its partner in some cases. In spite of differences in the forms of alliances, each one has goals that are based on the partners' intent (Spekman et al., 1998), such as to learn or access partners' resources, and ways to form and operate. Studies focussing on one type of alliance include ones on: joint ventures (Inkpen and Currall, 2004; Kogut, 1988),

buyer-supplier alliances (Mesquita and Brush, 2008), R&D alliances (Li et al., 2008) and international alliances (Oxley and Sampson, 2004).

Das and Teng (2000) state that forms of alliances include joint ventures, minority equity, bilateral contract-based (e.g. joint R&D, joint marketing and promotion and joint production) and unilateral contract-based (e.g. licensing and R&D contracts). Another category of strategic alliances ranges from long-term purchasing agreements and co-marketing and licensing agreements to R&D collaboration teams and joint ventures (Spekman et al., 1998). Alliances can also take the form of equity or non- equity stakes in the partners (Lia and Ferreira, 2008). Contractor and Lorange (2002) divide alliances according to equity and length of agreement (See Figure 1).

Alliances take various governance forms, ranging from relation contracting to equity joint ventures (Gulati and Singh, 1998). Some alliance types (Figure 1) are based on the length of the relationship between the partners. For example, licensing can be worked around five years (unless renewed) and can involve transferring knowledge. Supply chain alliances sometimes extend to involving suppliers in joint R&D. For instance, Japanese suppliers follow their partners in the auto industry around the world. Joint ventures, which expect to be forever, require huge investments and commitment (Contractor and Lorange, 2002). Joint ventures are preferred when there are inefficiencies in intermediate markets because they can be used to overcome these inefficiencies (Glaister, 1996).

One-time very short agreements	"relational" contracts (turnkey or training)	Medium-term contractual relationships (licensing)	Medium- to long-term (supply chain)	Equity joint venture	Complete merger or acquisition or greenfield subsidiary

Figure 2 Alliance Types according to Contractor and Lorange (2002)

In addition, alliances can be horizontally or vertically linked. Horizontal alliances may occur with competitors in the same industry, e.g. the R&D departments of Apple and Google have alliances in key apps (Albers et al., 2016). Vertical alliances can be with suppliers or customers (Belderbos et al., 2012) such as Toyota and Yokohama. Horizontal alliances have higher risks such as of knowledge spillover and free-ridership compared to vertical alliances (Belderbos et al., 2012).

Hill (2014) groups strategic alliance types on the basis of equity. They range from an equity stake (formal joint venture, long-term) to a non-equity stake (a contractual agreement, short-term) (See Table 3). The governance structures which are used most often in alliance research are equity and non-equity alliances (Das and Teng, 2000). Equity alliances are partnership arrangements which involve investment such as equity joint ventures and minority equity alliances. Non-equity alliances are cooperative arrangements which do not involve investment, e.g. franchising, licensing and distribution agreements (Das and Teng, 2000). I argue that an equity alliance is more appropriate to acquiring tacit knowledge, which is important in making strategic decisions. According to Kogut (1988), transferring tacit knowledge (know-how) through an equity joint venture would be a suitable and more effective tool, which is also supported by the empirical results of scholars such as Mowery et al. (1996), who argue that equity-based governance is better for learning from partners due to increases in transparency and proximity. In order to acquire tacit knowledge from partners, an equity joint venture is held to be the best governance structure by Das and Teng (2000). Moreover, each partner should transfer knowledge to the venture due to the equity position and the motivation to have a successful venture (Ireland et al., 2002).

2.2.4. Learning in Alliances

Strategic alliance research previously focused on issues such as governance and structure, meaning that the issue of learning was not discussed. However, learning through alliances has

become a current issue and is still being examined (Inkpen and Tasng, 2007; Williams and Du, 2014; Du and Williams, 2017; Williams and Kumar, 2014). Learning through alliances takes place either by transferring existing knowledge from one partner to another or by creating new knowledge through pooling the existing knowledge of each firm (Larsson, et al., 1998).

According to Rodan (2005), learning through alliances means acquiring beneficial knowledge from partners. Knowledge often refers to tacit knowledge, which can be described as non-codified and hard to transfer, even though knowledge can be transferred using different methods such as training programmes, interpersonal relationships, face-to-face interaction, teaching, visiting sites and on-the-job experience (Inkpen and Ramaswamy, 2006). The learning benefits will be different according to the category of alliance. For example, link alliances (complementary resources), rather than scale alliances, give firms more opportunities for learning (Ireland et al., 2002). The reason behind this is that having less overlapping of complementary resources may lead to learning new capabilities (Dussauge et al., 2000). One of the issues that has been discussed is the different views of learning through alliances. Hamel (1991) introduced "learning race" terms, with partners in alliances viewing themselves as in a race to acquire and access each other's knowledge and skills (Inkpen and Beamish 1997), which may lead to the termination of alliances.

In addition, alliances are viewed as opportunities for co-specialization (Mowery et al., 2002; Zeng and Hennart, 2002), and this view may lead partners into win-win alliances. For instance, Lear Interiors and Magna International have become leaders in the market due to their cooperative arrangements with General Motors, Ford and Chrysler. They have learned about the industry's particular technologies by dealing closely with these firms (Phan and Peridis, 2000). The learning intent among the partners is the main difference between these views (Simonin, 2004).

Another issue is the type of learning in the alliance. According to Inkpen and Tsang (2007), there are four types of alliance learning. Firms may learn about alliance management through

Concept	Definition
Equity joint venture	Two firms or more that create an independent legal organization in order to integrate their efforts and achieve a common goal (Todeva and Knoke, 2005).
Minority equity	One firm or more take an equity position in others (Das and Teng, 2000).
R&D alliances	Research and development collaboration between two or more firms (Todeva and Knoke, 2005).
Joint marketing	Two firms or more join their marketing activities with a view to achieving a market position or increasing profits.
Franchising	A legal agreement allows using a brand name within a geographical area but withholds control over the marketing mix (Todeva and Knoke, 2005).
Licensing	A legal agreement in which a firm permits another to use technologies or production processes in return for fees (Todeva and Knoke, 2005).
Joint production	Two firms or more join to produce products and services which cannot be created separately.
Supply chain alliances	An agreement between two or more firms to facilitate activities that range from providing raw materials, designing and transportation to customers.
Technology alliances	These comprise improving joint routines and capabilities, and sharing intellectual and scientific skills (Yu et al., 2011).

Table 3 Definitions of Strategic Alliances.

other alliances (Inkpen and Tsang, 2007). This means experiences and techniques that can be used in future alliances. In learning about an alliance partner, firms look at skill familiarity, which may lead to creating value (Inkpen and Tasng, 2007). Learning in this type of alliance cannot be viewed as a motive for the alliance. However, learning here is an effective tool for

alliance management. Learning with an alliance partner means that partners learn through alliances by entering new businesses and developing new capabilities. This is known as ‘reciprocal learning.’ The goal in this type is not knowledge transfer but for each partner to become specialized in the other’s areas (Mowery et al., 2002). Finally, in learning from an alliance partner, alliances may give partners the opportunity to learn by acquiring and accessing each other's knowledge (Inkpen and Tasng, 2007; Williams and Du, 2014; Du and Williams, 2017), which may justify the use of the term ‘learning race’ in alliances (Inkpen and Beamish, 1997). The last two types, which are based on the intent of the partners, will be examined in this study.

As a result, the strategic alliance has become a useful area in the literature on organizational learning. According to Inkpen and Tsang (2007: 499), "alliances provide an interesting and rich contextual base for studying organizational learning." Alliance learning research can lead to the development of new concepts beyond alliances, such as organizational transparency (Hamel, 1991) and partner learning asymmetry (Makhija and Ganesh, 1997). It also provides opportunities to develop existing concepts, such as absorptive capacity (Inkpen and Tsang, 2007).

2.2.5. Knowledge Transfers and Organizational Learning

Organizational learning may lead to an increase in a firm’s knowledge base and it very often occurs through knowledge transfer from external resources (Perez-Nordtvedt et al., 2008). When the learning task takes place and the recipient recognizes the implication of the knowledge, it means that the knowledge transfer process is complete (Ko et al., 2005). The organizational learning literature discusses how firms may acquire new knowledge from different sources (Chua and Pan, 2008). Nowadays, organizational learning and knowledge transfer are recognized as organizations’ most valuable assets (Ho and Ghauri, 2015).

It could be argued that the distinction between organizational learning and knowledge transfer is not clear in the literature. Some scholars fail to distinguish between the two terms and may use them interchangeably to explain the same phenomena (Buckley et al., 2009). However, organizational learning is a major tool for firms' survival, adaptation and renewal by exploring and exploiting new knowledge from partners, while knowledge transfer focuses on the process that take place between the transferrer and recipient of resources and capabilities (Ho and Ghauri, 2015).

There are certain similarities between knowledge transfer and organizational learning such as the mechanisms and sub-processes (Chua and Pan, 2008) and they are both elements of knowledge management (King et al., 2008). In addition, some features of the knowledge transfer environment – such as transferrer and recipient organizations, the knowledge transferred and the knowledge transfer processes – are important in the organizational learning process (Teo and Bhattacherjee, 2014; Williams and Durst, 2019), which may be impacted by these processes due to the dependent relationship between them. The learning process can be seen to be a result of knowledge transfer, e.g. when a source transfers knowledge to a recipient and applies it in the form of solutions (Bartezzaghi et al., 1997). There is clearly a relationship between the two terms.

A shortcut to obtain knowledge from external sources is knowledge transfer through strategic alliances (Genç and Yigün, 2011). Knowledge transfer can lead to many opportunities for firms such as mutual learning, access to the partner's knowledge base, cooperation, innovation and future strategic decisions (Tsai, 2001). Previous research shows that knowledge transfer and learning outcomes (financial or non-financial) are demonstrations of alliance performance (Ho and Ghauri, 2015). On the other hand, the connections between knowledge transfer, organizational learning and alliance performance are unclear in earlier works because of the difficulty of controlling for other variables which may affect

performance (Easterby-Smith et al., 2008). This means that investigation of this issue has only recently been done (Bresman et al., 2010). Knowledge transfer and organizational learning may be viewed as two sides of the same coin. They are different activities but they can both have a direct influence on an alliance's performance. For example, when the level of protection is high knowledge acquisition will be low, leading to poor alliance performance and *vice versa* (Ho and Ghauri, 2015).

In a similar way, knowledge creation and transfer are considered significant components of a sustainable competitive advantage, and this may occur sequentially. There are two views of knowledge creation among firms. According to Nonaka (1994), the conversion of explicit and tacit knowledge may clarify the creation of knowledge. On the other hand, Argote (1999) states that the creation of knowledge is a result of a learning process.

To connect the creation of knowledge to the learning process, a learning-based model integrates the two main processes of knowledge management: organizational learning and knowledge transfer. Firms that aim to improve their knowledge creation abilities should consider these processes (Gil and Carrillo, 2016). Therefore, the relationship between knowledge transfer and organizational learning will be examined in this study as they create new knowledge that can result in a diversification decision.

2.2.6. Knowledge Transfer between Partner Firms

Once knowledge is considered a vital organizational resource (Grant, 1996), the importance of knowledge transfer for organizations becomes obvious. Knowledge transfer is a systematic procedure that comprises multiple stages. By means of these transfers, organizations can acquire knowledge externally from partners through strategic alliances (Buckley et al., 2009). Marquardt (1996) considers knowledge transfer to be an important procedure for managing knowledge, in addition to other procedures like acquisition, creation, utilization and storage.

Much research has recently been carried out on the issue of knowledge transfer. Studies have focused on: the acquisition of knowledge, learning and strategic alliances (Inkpen, 1998a); ambiguity and the process of knowledge transfer in strategic alliances (Simonin, 1999b); an integrated model of knowledge transfer from a multinational parent to a subsidiary in China (Wang et al., 2004); a knowledge-accessing theory of strategic alliances (Grant and Baden-Fuller 2004); a social exchange view of learning and knowledge transfer in strategic alliances (Muthusamy and White, 2005); knowledge at risk in offshore outsourcing (Williams and Durst, 2019); and knowledge transfer and the learning process in Spanish wineries (Gil and Garrillo, 2016). However, most research on knowledge transfer has focused on factors that impact the transfer processes (Frank and Ribeiro, 2014).

Empirical studies in the last two decades have shown that firms may improve their knowledge base and capabilities through knowledge transfer from a partner or within firm boundaries (Smith et al., 2008). Knowledge transfer can take place within an organization (intra), such as between units or subsidiaries, or between organizations (inter). Various mechanisms can lead to knowledge transfer, such as personnel movement, communication, presentations, training, observation, replicating routines, interactions with suppliers and customers, and technology transfer (Chua and Pan, 2008). According to Keeble and Wilkinson (1999), the spatial transfer of knowledge can take place through three major mechanisms within the boundaries of an industrial district and this may increase cumulative local know-how. These mechanisms include the movement of the labour force within an industry, interactions between organizational networks (i.e. suppliers and customers) and the emergence of new organizations from existing ones.

Knowledge transfer between partners involves many issues regarding tacit knowledge, for example knowledge-holder attitudes, such as opportunism, protection and the learning race. Some terms have become dominant, e.g. absorptive capacity. Transfer processes tend to differ

according to whether the knowledge is explicit or tacit (Williams, 2011). Explicit knowledge is codified and transferable, while tacit knowledge is non-codified and hard and complex to transfer. Tacit knowledge is either embedded in individuals' cognitive processes or in firms' routines (Bhagat, et al., 2002) and can be transferred through close interaction and by analysing the actions of the holder (Dhanaraj, et al., 2004). The type of knowledge crucially affects the speed of transfer (Simonin, 2004).

According to Björkegren (1999), there are two views about knowledge transfer. First, it may be seen as knowledge copying, which means the knowledge is explicit and to begin the transferring processes a copy should first be made. Second, knowledge transfer can function as a process of translation, reconstruction and utilization. Interpretation of the knowledge is based on the receiver's previous experiences. The two views differ in how knowledge is obtained. The first view implies that recipients can receive the same knowledge, while in the second view previous experience determines the amount of knowledge acquired (Björkegren, 1999).

It can be argued that knowledge transfer does not occur separately. Many scholars (e.g. Inkpen, 1998; Szulanski, 2000; Garavelli et al., 2002; Schlegelmilch and Chini, 2003; Hansen et al., 2005; Frank and Ribeiro, 2014) hold that knowledge transfer is not a random process but one that goes through various stages, each of which may have effects on the knowledge transfer. According to Szulanski (1996), the knowledge transfer process occurs in four distinct stages. The first is initiation, which concerns the decision to transfer knowledge. Next is implementation, where the transfer plan is already carried out by both the source and recipient. The third stage is ramp-up, in which the recipients start to utilize the knowledge acquired. Finally, there is integration, in which the recipients move to routinize the new knowledge as a new practice. The last two stages begin when the recipients start to utilize the knowledge transferred. Schlegelmilch and Chini (2003) see knowledge transfer taking place

in three steps – initiation, transfer and integration, which is consistent with Szulanski (1996). Acquiring useful knowledge and utilizing it are the main parts of the knowledge transfer process (Minbaeva et al., 2013). At different stages, organizations, groups, teams or individuals will have responsibilities (see Table 4).

Level	Initiation and implementation	Ramp-up	Integration
Organization	- Creates a transition guide for all teams to follow. - Decides which teams to send offshore and the percentage of team composition onshore and offshore.	Not applicable	- Reorganization into one team, to ensure better cohesion and continued learning between the onshore and offshore teams
Team	- Onshore project manager plans knowledge transfer schedule, content of training and assigns the onshore resources. - Offshore project manager looks for suitably qualified new recruits based on technical and application domain knowledge requirements.	- Intensive knowledge transfer for all through: • presentations, • quizzes • support simulation • playback	- Onshore and offshore project managers do a team readiness assessment together. - Quality manager audits the team transition process and checks that the business users are satisfied
Individual	- Onshore team members prepare training material in their own area of expertise. - Offshore team members study existing documentation	Repeat the above but for 20% of selected senior staff for analysis and design specialization	Oral tests are given to each team member to gauge deeper understanding and absorption of processes, functions and features.

Table 4 Summary of Knowledge Transfer Stages (Chua and Pan, 2008: 276)

The notion of stickiness refers to how easy or difficult it is to transfer knowledge within the firm's boundaries. This is reflected in the incremental cost of transferring it. Stickiness can result from four factors that may impact the knowledge transfer process: the characteristics of the knowledge transferred, the recipient, the source and the relation between the source and recipient, i.e. the "context" (Szulanski, 1996). There is agreement among previous studies about the barriers to knowledge transfer: the source of the knowledge, the recipient of the knowledge and the knowledge itself (Dyer and Hatch, 2006) (See Figure 3).

The various attributes of knowledge transfer are related to the type of knowledge, ambiguity and the degree of complexity. Explicit knowledge can be easy to transfer, interpret and absorb, while tacit knowledge cannot be easily transferred (Simonin, 2004). The attributes of the receiver relate to the intent of the recipient to learn, "the desire of employees" (Wang et al., 2004) and absorptive capacity (Szulanski, 1996).

According to Cohen and Levinthal (1990: 128), absorptive capacity is the "ability to recognize the value of new external information, assimilate it and apply it to commercial ends." This is considered a major factor for both the recipient and the source. The role of the intra-organizational knowledge transfer capability of the recipient is to make sure that the new knowledge is assimilated and utilized (Smith et al., 2008).

The attributes of the source relate to the willingness of the source to engage in the processes of transferring and starting to share information with partners (Muthusamy and White, 2005) and credibility (Szulanski, 1996). The source's intra-organizational knowledge transfer capability is its ability to pass on knowledge to the recipient via an efficient method (Smith et al., 2008). The ability of the knowledge holder is known as disseminative, and it can be measured using the information shared. The attributes of the relationship between the source and the recipient result from their experiences as partners, which may influence the transfer of

knowledge. While previous experiences with partners may facilitate the transferring processes, new experiences can encounter difficulties in the same processes due to a lack of social ties and trust (Teo and Bhattacherjee, 2014).

According to Szulanski (1996), attributes of the context, which relate to the organizational environment, such as systems and structures, may be considered barriers to knowledge transfer, which is consistent with Dyer and Hatch's (2006) idea of internal process rigidities. While Szulanski (1996) does not find empirical evidence for this, Dyer and Hatch (2006) find support for their claim.

In addition, the alliance structure such as equity joint or non-equity joint (Mowery et al., 1996) can play a major role in the transferring processes. Moreover, there have recently been studies of knowledge transfer that emphasize cultural differences (Lievre and Tang, 2015). According to Sirmon and Lane (2004), culture both at the organizational and national levels can have various effects on knowledge transfer. While culture similarities positively impact learning among partners (Lane et al., 2001; Sirmon and Lane, 2004), cultural differences negatively influence learning through alliances. In addition, cultural distance can weaken absorptive capacity (Bjorkman, et al., 2007). However, in the organizational learning view, a high cultural distance between partners can result in more innovation and learning (Chakrabarti et al., 2009; Vermeulen and Barkema, 2001). Therefore, firms that intend to enter into alliances and whose motive is learning should carefully consider the above factors in order to maximize the knowledge transfer processes.

2.2.7. Partner Selection

According to their motives, firms move forward to the next stage, which is partner selection. Partner selection has become a stream in the strategic alliance literature (Shah and Swaminathan, 2008). It is the most significant stage in establishing a successful partnership (Chen and Tseng, 2005; Elmuti and Kathawala, 2001). The reason behind this level of

importance is that the “overall mix of available skills and resources, the operating policies and procedures, and the short- and long-term viability” (Geringer, 1991: 55–56) may affect the success of strategic alliances. Partner attractiveness refers to "the degree to which the initiating firm in a particular alliance project sees a partner as desirable, favourable, appealing and valuable" (Shah and Swaminathan, 2008: 473). Previous studies have concentrated on specific issues in partner selection such as trust, commitment, complementarity and value. In addition, the degree of fit between partners in both strategic and organizational partner selection has been considered (Hamel et al., 1989; Wua et al., 2009). This study will focus on resource commitment between partners due to its impact on organizational learning.

Figure 3 Factors Influencing Inter-Organizational Knowledge Transfer (Easterby-Smith et al., 2008).

Commitment is considered an important factor in a partnership. It means that partners promise to achieve the alliance’s goals (Shah and Swaminathan, 2008). It can be described as a tangible resource in alliances that protects the relationship from certain risks (Das and Rahman, 2001; Morgan and Hunt, 1994; and Mohr and Spekman, 1994). When partners have high commitment levels, the relationship may continue for a long time. Browning et al. (1995) find that unconditional contributions by partners encourage them to increase their contributions to the venture. In contrast, alliances can fail if there is a low level of commitment by the partners (Morgan and Hunt, 1994).

A firm may commit to involving experienced staff in the alliance processes at both the management and operation levels. Other resources such as financial, physical and technological ones, which facilitate acquiring and transferring knowledge in the first stage and then sharing, interpreting and storing it, should also be committed to. Furthermore, a reward system within the knowledge seeker for effective acquisition by its staff may be required (Simonin, 2004), and a reward system may also work well within the partner firm to increase willingness to share knowledge. Thus, the level of commitment between the partners may increase or decrease the benefits they gain from the alliance.

2.2.8. International Alliances

International alliances have become common in the business world (Gomes-Carsseres, 1996). Some industries (such as aerospace) view alliances as a necessity, particularly those that have a high level of technology (Smith, 2003). One of the best examples of international alliances is the joint venture between General Electric (USA) and SNECMA (France), Pratt and Whitney (USA) and Rolls-Royce (UK). Experience from current activities in the business environment may develop knowledge which is needed in international alliances (Johanson and Vahlne, 1990).

There are two forms of knowledge that can motivate firms to be involved in international markets, namely technological and foreign marketing knowledge (Yu et al., 2011). Technological knowledge is related to the scientific and technical application of products (Spencer, 2003), which may support firms in their product quality, operational efficiency and innovation capacities (Knight and Cavusgil, 2004). Foreign marketing knowledge includes financial, cultural, social and political information about host countries (Yu et al., 2011) together with marketing know-how (Park et al., 2012). This information is used to determine opportunities and improve certainty perceptions (Yu et al., 2011). Through alliances with

overseas partners, firms may find access to these types of knowledge, resources and skills to achieve their goals.

It can be argued that one of the weaknesses of international alliances is cultural distance. This can be one of the main difficulties faced in a collaboration agreement (Dasí-Rodríguez et al., 2015). Organizational cultural distance refers to the degree of difference between partners in terms of organizational and administrative practices (e.g. decision-making), employee expectations, and interpretations of and responses to strategic problems (Dasí-Rodríguez et al., 2015). Another type of cultural distance concerns national cultures (e.g. communication and languages), which are considered important elements in international alliances. In addition, national cultures may have other differences in terms of religious beliefs, ethnicity and social norms (Angué and Mayrhofer, 2010) which can affect the interaction between individuals from different cultures. At the organizational level, management and leadership are examples of features of national culture which may influence alliances (Dasí-Rodríguez et al., 2015). For instance, how decisions are made, the degree of formality and hierarchy are possible factors which reflect the impact of national culture at the organizational level. In the Saudi context, national culture is shaped by religion (as the birthplace of Islam) and historic heritage (Bedouin) (Al-Rasheedi, 2012). Empirically, according to Reus and Lamont (2009) national cultural distance obstructs the understanding of key capabilities that need to be transferred, and also restricts communication between receivers and their units, which results in a negative indirect impact on the acquisition performance. In addition, Holtbrügge and Mohr (2010) show that national cultural values influence individuals' preferred learning styles. Knowledge transfer, national cultural distance and organizational differences have varied effects on the success of cross-border alliances. While national cultural distance has been found to have a non-significant effect, organizational culture has a significant and strong influence on knowledge transfer and cross-border acquisition success (Ahammad et al., 2016).

Finally, the cultural distance between the home and host country negatively impacts knowledge transfer and decentralization decisions between HQ and subsidiaries (Williams and van Triest, 2009; Williams, 2010; Williams and Kumar, 2012). Therefore, Saudi firms should consider these two levels of culture as they can impact learning and knowledge transfer from international strategic alliances in the Saudi context.

2.3. Summary of the Current Gap in Literature

Research on strategic alliances and diversification has evolved over time. However, some fundamental debates about the relationship between these two strategic moves continue to draw attention. The current gap in the previously presented literature will be explained in detail and then hypotheses based on the research questions that will be presented in the next chapter (framework).

2.3.1. Critique

In spite of extensive research on diversification and strategic alliances, a gap in the literature is noticeable. Studies on diversification have concentrated on one issue: the impact of diversification on firm performance (Santarelli et al., 2016), either in related or unrelated diversification. These studies have contributed to understanding of the relationship between the level of diversification or diversification strategies and firm performance. However, findings on the relationship between diversification and performance are inconsistent. As a result, many diversification issues remain to be resolved, such as diversification processes and the outcomes of diversification (Santarelli et al., 2016). For example, it is little known that the first stage of diversification is the preparation of diversification decisions. In addition, although there is common understanding of how organizational learning may improve strategic decisions such as on diversification (Andreou et al., 2016), the combination of the

source of knowledge and its utilization has remained unnoticed by scholars and therefore will be addressed here.

According to Wassmer (2010), scholars tend to study aspects of alliances such as the emergence, management and survival of alliances. Examples of scholarly contributions include: Hamel (1991) on “inter-partner learning in strategic alliances,” Doz (1996) on “learning processes in strategic alliances,” Simonin (1999b) on "ambiguity and the process of knowledge transfer in strategic alliances," Gulati et al. (2012) on "the two facets of collaboration: cooperation and coordination in strategic alliances" Li et al., (2013) on "Do partners in international strategic alliances share resources, costs, and risks?” and Benavides-Espinosa and Ribeiro-Soriano (2014) on "Cooperative learning in creating and managing joint ventures." In addition, previous studies have highlighted the role of strategic alliances in firm performance. For example, R&D alliances allow firms to access partners' knowledge, which may result in positive outcomes such as innovation capability, e.g. "Knowledge Mobility in Cross-Border Buyer-Supplier Relationships" (Liu, 2012). Moreover, the impact of strategic alliances on financial performance has been examined, as in "The relationship between organizational learning and firms’ financial performance in strategic alliances: A contingency approach" (Jiang and Li, 2008). These examples either focus on how alliances respond to urgent risks or on outcomes in the short or medium term such as entering new markets. Consequently, the impact of alliances on performance in the long term needs to be considered, e.g. learning from partners, especially when considering new strategic decisions, needs to be measured. This is an open future research question that will find consideration in this thesis.

2.3.2. The Gap

To the best of my knowledge, to date there has been no empirical research investigating the role of learning through alliances in formulating strategic decisions such as on diversification (See Figure 4). Studies in the strategic management literature that combine strategic alliances

and diversification and examine how they affect each other are rare. In addition, there are few studies of successes of strategic alliances in terms of non-economic outcomes such as making strategic decisions. Furthermore, no one has looked at this in the context of a non-diversified economy. Andreou et al. (2016) suggest that future studies, especially in-depth longitudinal studies in different regions, are needed to get a better understanding of diversification decisions and learning processes.

2.3.3. Filling the Gap

In order to run their activities in a competitive environment, firms should use their resources to meet their strategic goals. However, firms may encounter gaps in their resources which need to be filled. A gap in resources means a difference between the resources available and those needed for the firm's strategic direction (Teng, 2007). In this study, knowledge, which is nowadays considered a significant resource for firms, is indeed the gap. According to Teng (2007), there are different ways to fill a resource gap: internal development, market transactions, acquisitions and strategic alliances. This study focusses on strategic alliances as a way of filling the knowledge gap. The underlying reason is that alliances may help firms to acquire and access partners' knowledge. After acquiring knowledge externally through strategic alliances, organizational learning can help create and circulate the required knowledge inside firms in order to build a diversification decision.

Organizational learning is a suitable theoretical framework for understanding the formulation of a strategic decision. First, the model of learning as organizational exploitation and exploration, which can be a main reason for engaging in an alliance, is related to improving organizational capabilities (Grant, 2010; Koza and Lewin, 1998). Second, improvement in decision-making at different levels, including strategic, financial and operational, may result from organizational learning (Andreou et al., 2016). Therefore, this study aims to fill the gap

in the literature by studying the effect of learning through alliances and using organizational learning to formulate such strategic decisions as on diversification.

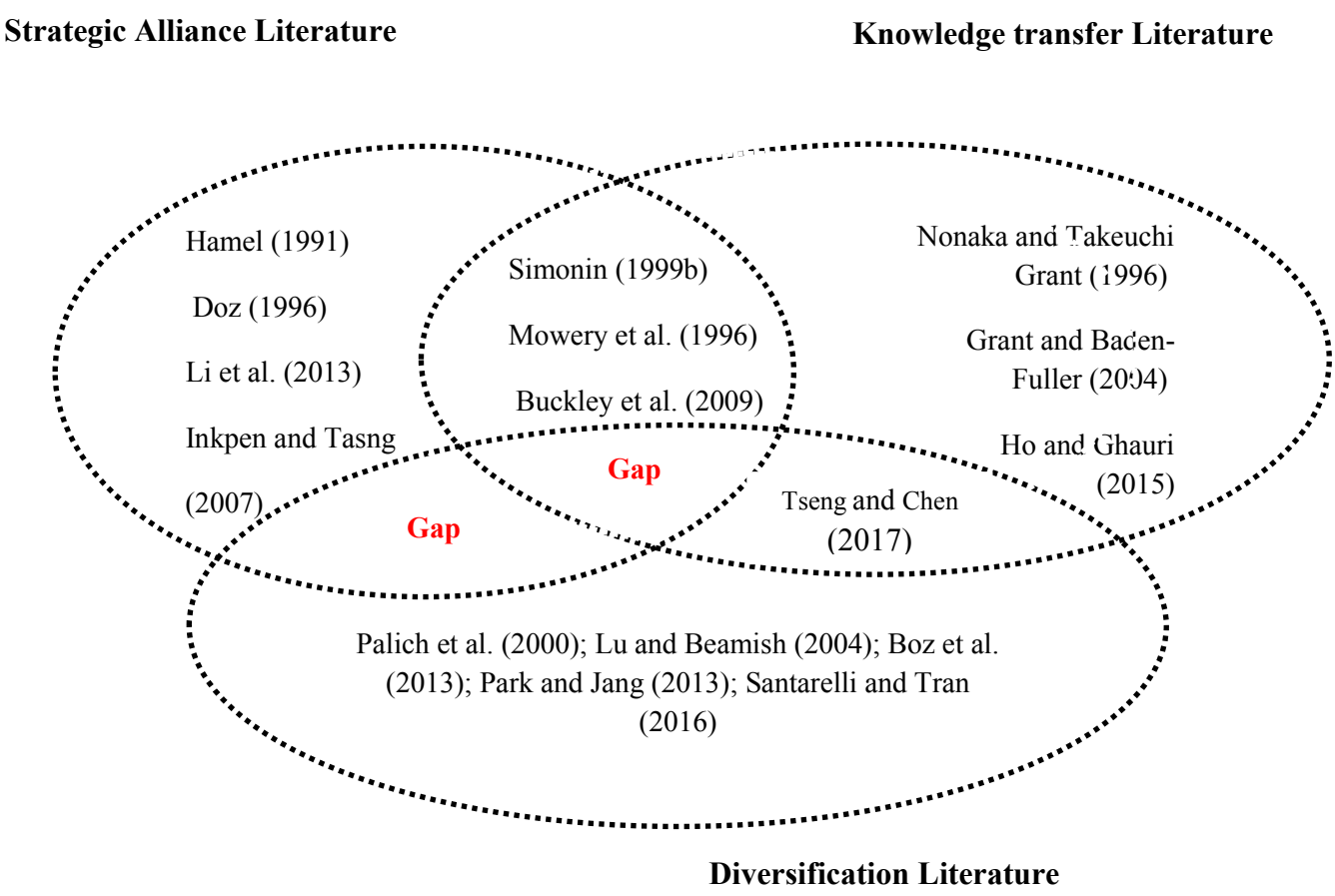

Figure 4 Selected Works and the Knowledge Gap

Chapter 3: Theoretical Framework and Hypotheses

3.1. Model Development

The model developed in this study extends the organizational learning approach to explain diversification decisions by host country firms partnering with foreign MNEs. This model first focuses on the context of Saudi Arabia, which is a non-diversified economy. Second, it explains how the model uses the organizational learning approach to link inter-firm and intra-firm knowledge acquisition and knowledge utilization. Third, it shows how the model takes into account the possible moderating effects on the impact of a strategic alliance of a constellation of variables at play in the operating phase. These include the nature of the knowledge, resource commitment and intensive communication. In the model, the host country firm is considered to be a knowledge seeker. The knowledge it may acquire by working with a foreign MNE in its own country (i.e. the host country, from the perspective of the MNE) has the potential to contain insights into new opportunities for diversification and the means to pursue new diversification decisions. Working closely with foreign MENs is a fundamental way to acquire tacit knowledge (Tallman and Chacar, 2011), which is considered an important component of such decisions. The foreign MNE is considered the knowledge holder. Through its systems, technologies, people and organizational culture, the foreign MNE has knowledge that has the potential to be brought into the host country and that might be of benefit to the knowledge seeker as it considers its strategic direction.

3.2. Knowledge Seeker Absorptive Capacity: Learning Intent and Ability

There are certain factors related to the knowledge seeker that can affect the process of knowledge acquisition within alliances. Hau and Evangelista (2007) argue that the effectiveness of learning is influenced by factors such as absorptive capacity, learning capacity, prior knowledge/experience, learning intention and knowledge relatedness.

One of the dominant concepts in learning through alliances is the knowledge seeker's absorptive capacity, which refers to the firm's ability to recognize, assimilate and apply a partner's knowledge in order to increase rents (Cohen and Levinthal, 1990). This capacity relies on domain-specific knowledge, which creates the environment for individual creativity (Schweisfurth and Raasch, 2018). A lack of absorptive capacity puts firms at risk of learning blindly, which means accepting new information without filtering it, resulting in difficulty in understanding its application (Hughes et al., 2014). Absorptive capacity is linked to two important factors that may affect a firm's willingness to learn: overlapping resources and knowledge bases (Lane and Lubatkin, 1998; Mowery et al., 1996) and partners with prior relationships (Mazloomi and Jolly, 2008). Empirical studies have demonstrated that firms with prior knowledge are better at recognizing and absorbing new knowledge (e.g. Inkpen, 1997; Lane et al., 2001). Firms may increase their absorptive capacity through involvement in alliances, which can lead to more experiences (Inkpen, 2000). Tsang (1999) suggests that firms with sufficient experience are likely to be more effective learners than inexperienced ones.

Studies have shown that the degree of knowledge transfer depends on absorptive capacity (Minbaeva, et al., 2003; Dhanaraj, et al., 2004; Easterby-Smith et al., 2008; Van Wijk et al., 2008). Absorptive capacity can lead to certain advantages such as a lower cost of knowledge transfer. Empirical studies show that firms with a high level of absorptive capacity are more likely to have lower costs in transferring processes and higher transfer speeds (Cummings and Teng, 2003; Williams and Vossen, 2014). Lane et al. (2001) find a partial relationship between absorptive capacity and the knowledge learned from partners. The outcome of learning from alliances is affected by the partner's absorptive capacity (Mowery et al., 2002). Hughes et al. (2018) find that absorptive capacity enhances the relationship between entrepreneurial orientation and performance as both a moderator and a mediator.

Empirical research has conceptualized and measured absorptive capacity regarding technology using R&D spending, the number of patents or the number of scientists (Volberda et al., 2010; Schweisfurth and Raasch, 2018). As a result, the concept of absorptive capacity has become narrow because it does not explain how the capacity operates with other types of knowledge or in other contexts (Lane et al., 2001). The international business and strategic management literature has paid little attention to how firms absorb the knowledge needed for future strategic decisions. According to Simonin (2004), firms must have both learning intent and learning capability in order to acquire valuable knowledge from their partners. In addition, firms can utilize acquired knowledge better if they have both the motivation and the ability to absorb partner knowledge (Minbaeva et al., 2003; Argote et al., 2003). These two dimensions of motivation and ability constitute the firm's absorptive capacity. Minbaeva et al. (2003, 2014) conceptualize absorptive capacity in this way and examine its impact. In their work they measure the direct effect of absorptive capacity and also that of the interaction between the dimensions (motivation and ability) on knowledge transfer. They find that the direct effect is non-significant but the interaction between the dimensions is significant. It is important to note that Minbaeva et al.'s (2003, 2014) studies focus on internal knowledge transfer within MNEs, which may be different to learning and knowledge transfer in an international strategic alliance. However, I build on Minbaeva et al.'s (2014) work by measuring the knowledge seeker's (Saudi partner's) intent and ability to learn knowledge that is needed for strategic purposes.

The first of these two dimensions of absorptive capacity is intent to learn. According to Tsang (2002), learning intent refers to the desire and will of the knowledge seeker to acquire knowledge from its (foreign) partner. Learning intent has been shown to be an important factor in the processes of acquiring and internalizing knowledge from partners (Tsang, 2002). At the individual level, intention to learn is one of the main determinants of learning. At the

inter-organizational level and in the context of a strategic alliance, learning intent denotes how firms internalize partners' skills and competencies (Simonin, 2004). The outcome of learning from a partner will be negatively influenced by an absence of intent to learn (Mowery, et al., 1996). Firms can increase the quality and speed of knowledge transfer and learning if the intent is there (Hau and Evangelista, 2007; Rottman, 2008; Teo and Bhattacherjee, 2014), so learning intent is the first step towards effective learning (Tsang, 1999).

Learning intent in alliances can be manifested differently. Some firms are interested in using the alliance to create new knowledge, while others enter an alliance with the intention of acquiring the other partner's knowledge. Nevertheless, Simonin (2004) found that the relationship between learning intention and knowledge transfer is a strong and positive one in the context of an international alliance. Studying Chinese subsidiary employees of MNEs, Wang et al. (2004) found that the level of knowledge which a subsidiary gains depends to a great extent on its intention to learn. Ghauri and Park (2012) found that the greater the intention to learn, the more quickly new information is gained. Therefore, the intent to learn of a host country partner firm (the knowledge seeker) in a strategic alliance with a foreign MNE is the first dimension of the knowledge seeker's absorptive capacity.

The second dimension of absorptive capacity is learning ability (Simonin, 2004), which in some way reflects receptivity (Hamel, 1991). The learning ability of a firm can be at the level of the employees, represented by educational qualifications, skills and experiences that are necessary to acquire, assimilate and utilize partner knowledge (Cohen and Levinthal, 1990) and then create new knowledge. Understanding and internalizing of a foreign partner's knowledge depend on a firm's learning ability. Previous studies have acknowledged that learning ability facilitates the learning process among partners (Simonin, 2004). Concern about imitation by competitors in the same industry in terms of knowledge and skills

(Dussauge et al., 2000) is evident in cases of international joint ventures with developed country firms, which may be due to a small gap in between the knowledge and experience of partner employees (Minbaeva et al, 2014). Thus, the ability to learn of a host country partner firm (the knowledge seeker) in a strategic alliance with a foreign MNE is the second dimension of the knowledge seeker's absorptive capacity.

Scholars have argued that learning intent is connected with learning capability. This is based on the assumption that when the knowledge seeker has an interest in acquiring a partner's knowledge it will improve its learning environment (Tsang, 2001; Inkpen, 2005). If the knowledge seeker has the intent, it can increase its staff's ability to learn in many ways. One of the better-known methods is an incentive or reward system. According to Hurley (2002), knowledge acquisition is effective when the knowledge seeker's staff is motivated by incentives to learn from the foreign partner. As shown, the literature indicates that absorptive capacity (learning intent and ability) affects the level of knowledge acquisition from a partner. On this basis, the following hypothesize is formed:

H1*: The greater the level of the host country partner's absorptive capacity in a strategic alliance with a foreign MNE, the greater will be the host country partner's organizational learning related to awareness of diversification opportunities and the means to pursue them.*

3.3. Knowledge Holder Disseminative Capacity: Willingness and Ability

The knowledge holder plays an essential role in knowledge transfer processes. Important factors that affect the effectiveness of the knowledge holder transferring knowledge include partner assistance and knowledge protectiveness. Partner assistance means the extent to which the knowledge holder provides assistance to the knowledge seeker, as this will influence the effectiveness of the international joint venture (Lyles et al., 1999). Knowledge protectiveness means the foreign partner having procedures, routines and policies that intentionally aim to restrict the sharing of relevant information regarding know-how (Simonin, 1999a). According

to Minbaeva and Michailova (2004), two behavioural factors that determine knowledge transfer are the willingness and ability of the knowledge holder. These two dimensions have been conceptualized as disseminative capacity. This thesis will build on Minbaeva and Michailova's (2004) approach to conceptualizing and measuring disseminative capacity.

The first dimension of disseminative capacity is the knowledge holder's willingness to disseminate knowledge, which depends on its attitude toward sharing knowledge with partners. When a partner requests knowledge, the knowledge holder's behaviour depends on this willingness (Husted and Michailova, 2002; Michailova and Husted, 2003; Minbaeva, 2007). Therefore, in the context of an alliance, the effectiveness of knowledge acquisition by a knowledge seeker relies on the support and willingness of the knowledge holder to fully cooperate (Simonin, 1999b). Studies on the willingness of knowledge holders to disseminate knowledge have different empirical findings. On the one hand, Teo and Bhattacherjee (2014) and Minbaeva et al. (2018) find that willingness has a significant impact on the knowledge transfer process. However, other studies (e.g. Minbaeva and Michailova, 2004; Szulanski, 1996) find a non-significant relationship between the knowledge holder's willingness and knowledge transfer.

A second dimension is the ability of the knowledge sender to transfer knowledge (Minbaeva and Michailova, 2004). This depends on the ability of its employees to efficiently and effectively articulate and spread knowledge in a way that is understandable by the receiver (Mu et al., 2010: 33). This ability is related to skills and competencies such as language efficiency and cross-cultural competence. If the ability is absent, the knowledge holder may have difficulty in transferring knowledge (Cabrera, 2003; Chang et al., 2012). Without the necessary ability, the knowledge transfer processes can start wrongly and lead to incorrect interpretations of the same idea (Zellman-Bruhn, 2003), so the ability of the knowledge holder to share knowledge among alliance partners has a strong positive effect on the

knowledge transfer process (Minbaeva and Michailova, 2004). The ability to encode positively influences the success of knowledge transfer (Schulze et al., 2014).

The foreign partner firm's willingness and ability to share knowledge constitute its disseminative capacity and this affects the extent that the knowledge seeker acquires knowledge (Minbaeva et al., 2018). Based on this, the following hypothesize is formed:

H2*: The greater the level of the foreign MNE's disseminative capacity in an alliance with a host country partner, the greater will be the host country partner's organizational learning related to awareness of diversification opportunities and the means to pursue them.*

3.4. Organizational Learning and Subsequent Diversification Decisions

Learning from partners through strategic alliances can lead to various benefits based on the experiences accumulated, for instance avoiding repeating mistakes, reducing production and transaction costs and enhancing the capacity for mutual understanding, coordination and problem-solving (Lei et al., 1997; Simonin, 1997; Jiang and Li, 2008; Andreou et al., 2016; Howard et al. 2016). Nevertheless, importantly, knowledge acquisition from foreign partners does not directly influence a firm's financial or non-financial outcomes. Firms need to move on to the next stages in organizational learning (i.e. information distribution, interpretation and organizational memory) to integrate the partner's knowledge with existing knowledge to effectively utilize the acquired knowledge. The model in this study is derived from the organizational learning approach, which emphasizes the importance of knowledge acquisition from the alliance partner and dissemination (linking inter-firm and intra-firm knowledge transfer).

Previous studies have examined organizational learning processes in alliances separately as inter-firm linkages (Inkpen and Pien, 2006; Tsang et al., 2004) or intra-firm linkages (Hansen et al., 2005; Tsai, 2001). Inter- and intra-firm learning can act as fundamental strategic resources that managers exploit to achieve better alliance outcomes (Walter et al., 2007).

According to Foss and Pedersen (2004), most studies of alliance learning focus on acquiring knowledge from the partner. Less attention is paid to the utilization process and there is little empirical research linking learning from an alliance and learning outcomes (Liu, 2012; Dahlander et al. 2016).

A definition and possible measures of the benefits from alliances have found no consensus in the literature (Nielsen, 2007; Sarkar et al., 2001). Alliance outcomes can be assessed either subjectively or objectively, or a combination of the two, and they can also be measured in financial or operational terms (Lunnan and Haugland, 2008). Geringer and Hebert (1991) argue that subjective and objective measures of alliance outcomes are related and one can be used in the place of the other. Ownership stability, financial survival, market share, and duration are examples of objective measures (Geringer and Hebert, 1991; Liu et al., 2010). Subjective measures include a partner's level of relationship satisfaction (Liu et al., 2010) and a partner's innovation capability (Liu, 2012).

The literature confirms that learning activities shape strategic intentions in the internationalization process (Khamseh et al., 2017). However, the reverse can occur when firms shape strategic intentions to direct learning activities and impact their outcomes (Casillas et al., 2015). According to Johanson and Vahlne (2009), firms' intentions can guide managers to concentrate on specific issues such as how they internalize and interpret new information, and then on the action required.

In this study, the strategic intention of a firm is taken to be diversification, and the knowledge-seeker learning activities considered focus on tacit knowledge that is related to identifying potential opportunities for diversification and how to diversify and then integrating the new knowledge with existing knowledge. Tacit knowledge which is acquired from a partner becomes part of organizational knowledge after multiple processes. It is

perceived as complex, consensual and accurate, and can increase the effectiveness of decisions regarding both processes and implementation (Gayawali et al., 1997). According to Brockmann and Anthony (2002: 440), "tacit knowledge is used to fill gaps of missing information, make sense of the complex and abstract, distil numerous alternatives, and provide structure" and therefore can be a major factor which can enhance the quality of strategic decisions (Brockmann and Anthony, 1998). As De Clercq et al. (2012) argue, a broad framework of knowledge and organizational learning activities guides firms' decisions. In addition, Casillas et al. (2015) find that the direct effects of learning and knowledge types interact to impact the pace of internationalization. Empirically, knowledge acquisition and utilization have a positive influence on the enhancement of innovation capability (Liu, 2012). Finally, Jiang and Li (2008) suggest that firms' financial performance is significantly, positively and strongly affected by organizational learning from a partner.

When a firm has the intention to diversify, it needs to take several steps. More specifically, management first identifies opportunities, then collects information to evaluate diversification synergies, means of financing and the exchange of assets, and finally integrates new operations (Andreou et al., 2016). At this stage, the firm may depend on organizational learning which consists of tacit knowledge. From the perspective of absorptive capacity, firms can benefit from organizational learning when their actions are related to their current knowledge base (Cohen and Levinthal, 1990; Zahra and George, 2002; Hoskisson et al., 2015). A higher level of learning from previous experiences leads to an improved ability to allocate capital efficiently, better monitor and coordinate, and effectively cope with competition (Andreou et al., 2016). For instance, related diversification enables firms to utilize their current resources and therefore more benefits are gained since these resources involve similar processes, systems and organizational culture (Chatterjee, 1990; Andreou et al., 2016). This is not the case with unrelated diversification. Pennings et al. (1994) find that

related expansion is more likely to succeed than unrelated diversification. Furthermore, as a diversification choice, internal growth has a higher value than acquisition (Andreou et al., 2016). Lane and Lubatkin (1998) find that unrelated diversification requires different resources, which may create some difficulties in the integration stage. On the other hand, unrelated diversification is significantly less expensive than related diversification in terms of administration costs (Pennings et al., 1994). Based on the above discussion, I argue that organizational learning from foreign partner will affect the host country partner's subsequent diversification decision. Hence the following hypothesis:

H3*: The greater the organizational learning by a local partner firm in a strategic alliance with a foreign MNE related to opportunities to diversify and how to diversify, the more likely the host country partner firm will be to engage in its own diversification decisions.*

3.5. The Nature of Knowledge Transferred from the Foreign MNE

The nature of the knowledge involved plays an important role in acquisition and transfer processes between partners. The tacit and explicit knowledge dichotomy arises because of differences in codification, transmutation and documentation (Simonin, 2004). Kogut and Zander (1992) classify organizational knowledge as being either declaratively 'explicit' (know-that), which can be provided in a statement or description, or as 'tacit' procedural knowledge (know-how), which relates to a process. Explicit knowledge may be codified and expressed in various ways (Wang et al., 2004) and so is easier to transfer (Ranucci and Souder, 2015). In a study on transfers of manufacturing capabilities, Zander and Kogut (1995) find that non-tacit knowledge significantly influences the speed of transfer. Furthermore, Teo and Bhattacherjee (2014) find that knowledge codifiability positively affects the knowledge transfer process. In contrast, tacit knowledge is not codified, as it is an accumulation of skills which comes from practice, close interactions and analysis of actions (Reed and DeFillippi, 1990; Dhanaraj, et al., 2004). Therefore, tacit knowledge is not easily transferable and is

difficult to exchange across firms (Inkpen, 1998a). When knowledge is complex and difficult to transfer, it is likely to include a considerable tacit component (Szulanski, 1996). According to Reed and DeFillippi (1990), tacitness leads to barriers against imitation. In the context of strategic alliances, tacitness is a significant determinant of knowledge transfer. Empirical studies of alliance performance have shown positive effects of tacit knowledge transfers on performance (Anh et al., 2006; Becerra et al., 2008; Park et al., 2015).

From the perspective of the knowledge seeker, tacit knowledge is desirable and this is one of the main reasons for forming an alliance. According to Norman (2004), firms that engage in alliances are likely to invest more to acquire knowledge that is often tacit. The intent and capability of partners regarding tacit knowledge vary; some firms enter into alliances in order to acquire the partner's tacit knowledge, whereas others rely on co-specialization (Mowery et al., 2002; Zeng and Hennart, 2002), which leads the partners to create new knowledge. According to Choi and Lee (1997), the transfer process depends on the level of tacit knowledge, which affects the type of alliance. For example, joint ventures are effective in cases involving a high level of tacit knowledge (Kogut, 1988; Mowery et al. 1996; Das and Teng, 2000), franchises and licenses for medium tacitness cases, and outsourcing for low tacitness ones.

From the perspective of the knowledge holder, tacitness is a source of ambiguity and competitive advantage (Reed and DeFillippi, 1990). As a result, the knowledge holder may attempt to protect knowledge during the alliance. Firms tend to protect their knowledge if they are unsure about the impact of knowledge spillover, especially when partners are competitors or potential competitors (Inkpen, 1998a, 1998b; Wong et al., 2002). In addition, sharing knowledge leads to concerns such as loss of market position or the level of return in relation to the time and effort required (Hau and Evangelista, 2007). This argument is supported both theoretically (Inkpen, 1998a, 1998b, 2005) and empirically (Hau and

Evangelista, 2007). Hau and Evangelista (2007) find that protectiveness on the part of a partner has a negative effect on knowledge acquisition by other partners when either explicit or tacit knowledge is involved. Finally, although foreign partners may facilitate the acquisition of explicit knowledge, their efforts regarding the transfer of tacit knowledge may be different (Hau and Evangelista, 2007). Therefore, I argue that tacit knowledge will have different effects on the knowledge seeker and knowledge holder. Hence:

***H4a**: Nature of knowledge will moderate the relationship between absorptive capacity and organizational learning: when the nature of knowledge is tacit, this relationship will increase; when it is explicit, it will decrease.*

***H4b**: Nature of knowledge will moderate the relationship between disseminative capacity and organizational learning: when the nature of knowledge is tacit, this relationship will decrease; when it is explicit, it will increase.*

3.6. Resource Commitment between Partners

The absorptive capacity (intent and ability) of the knowledge seeker and the disseminative capacity (willingness and ability) of the knowledge holder are not sufficient for tacit knowledge to be transferred and acquired. Commitments by the firms' leaderships of financial, human, physical and technological resources are also required. Reciprocal commitments in terms of human resources and other assets foster knowledge connections between partners, which can facilitate the exchange process (Lane and Beamish, 1990; Muthusamy and White, 2005; Ainuddin et al., 2007; Farrell et al., 2011). Regarding human resources, in order for the partners in an alliance to reach their goals, firms may involve experienced staff in the management and operation processes. In addition, a reward system within the knowledge seeker for effective acquisition by staff might also be required because it can have a significant positive effect on knowledge transfer (Simonin, 2004). However, highly experienced or well-trained staff cannot be a guarantee that new knowledge and capabilities will be acquired more quickly or effectively (Zhao and Anand, 2009).

Browning et al. (1995) find that unconditional contributions by partners encourage them to increase their efforts in a venture. Furthermore, reciprocal commitment between partners has a significant and positive effect on learning from an alliance (Muthusamy and White, 2005). Therefore, arguably, partners' commitments of resources affect the processes of knowledge acquisition and transfer. Hence:

***H5a**: Resource commitment will moderate the relationship between absorptive capacity and organizational learning: when commitment is high, this relationship will increase; when it is low, it will decrease.*

***H5b**: Resource commitment will moderate the relationship between disseminative capacity and organizational learning: when commitment is high, this relationship will increase; when it is low, it will decrease.*

3.7. Intensive Communication between Partners

Emphasis on the role of communication as a critical element in acquiring and transferring knowledge in an alliance has become obvious. Effective knowledge acquisition processes are based on open communication and a rich foundation of knowledge to share. In order to access and acquire new knowledge from a partner, effective information and communication systems between partners are essential (Zhao and Anand, 2009). In this context, Hamel (1991) argues that openness between partners is a fundamental factor in the process of learning from partners. Park et al. (2008) highlight that communication facilitates higher levels of knowledge acquisition. Empirically, open communication with foreign partners in an alliance has been found to have significant positive effects on the acquisition of technology (Park, 2011). Furthermore, according to Mohr and Spekman (1994), formal and informal communication can impact the outcomes of alliances.

Two major elements determine how intensive communication occurs in an alliance, which affects the choice of communication processes: the type of alliance and the nature of the knowledge involved. Equity forms, such as joint ventures, are likely to involve a higher level

of communication, including face-to-face and close interaction, which are associated with tacit knowledge transfer. However, non-equity forms, such as licensing, are likely to have lower levels of interaction and therefore a lower level of transfer (Jiang and Li, 2008). In addition, the nature of the knowledge plays a role in the choice of intensive communication process. Explicit knowledge, which can exist in written form, requires less intensive communication and may be transferred through formal processes such as training (Polanyi, 1966; Nonaka and Takeuchi, 1995; Park et al., 2012), for example overseas on-the-job training (Zhao and Anand, 2009), where knowledge is transferred by hosting members of the knowledge seeker. Daghfous (2004) highlights that investment in training develops the acquirer's absorptive capacity. In fact, the provision of training is identified as a fundamental element that improves the absorptive capacity of the knowledge seeker (Ghauri and Park, 2012).

On the other hand, because of its particular nature the acquisition of tacit knowledge requires highly intensive, active and direct communication, such as observation, apprenticeships, mutual involvement, mentoring and participation (Panahi et al., 2013). One method that can overcome the difficulty in acquiring tacit knowledge is sharing experiences followed by socialization to come to a common meaning of the knowledge (Nonaka, 1994). An example of this method is the 'community of practice,' which allows the knowledge seeker to acquire tacit knowledge from the knowledge holder through high intensive interaction with the partner over time (Williams, 2011). Another example is an informal process such as expert teamwork on a project (Zhao and Anand, 2009), which may enhance interaction between partners and lead to the transfer of tacit knowledge. Frequent partner communication may result in better and intensive interaction (Van Wijk et al., 2008; Murray and Peyrefitte, 2007) and the effective transfer of tacit knowledge.

Empirical findings in relation to intensive communication through formal process are mixed, while those on informal process are almost in agreement. According to Park et al. (2012), in contrast to predictions, formal communication has no significant relationship with tacit knowledge acquisition. Similarly, Ghauri and Park (2012) find that formal communication, represented by the provision of training, has no significant effect on knowledge acquisition. In addition, Park (2011) finds an insignificant relationship between technology acquisition and the provision of training. In contrast, Prochno (2003) finds that overseas training helps recipients gain a solid understanding of knowledge. Anh et al. (2006) suggest that efficient absorption of knowledge from a foreign partner depends on the training not taking place in developed economies. Furthermore, training has been found to positively influence the acquisition of knowledge from foreign parents (Lyles and Salk, 1996; Anh et al., 2006). Williams (2011) finds that formal communication through training has a positive impact on knowledge transfer, while informal communication has a significant positive influence but it is not strong. Nonaka and Takeuchi (1995) emphasize that informal communication is suitable for tacit knowledge acquisition because it requires repeated observations of actual practices. I argue that intensive communication through both formal and informal will affect the acquisition and transfer of tacit knowledge. Hence:

H6*a: Intensive communication with the foreign partner will moderate the relationship between absorptive capacity and organizational learning: when intensive communication is high, this relationship will increase; when it is low, it will decrease.*

H6b*: Intensive communication with the host country partner will moderate the relationship between disseminative capacity and organizational learning: when intensive communication is high, this relationship will increase; when it is low, it will decrease.*

Figure 5 provides a conceptual model of absorptive capacity and disseminative capacity and their impact on organizational learning.

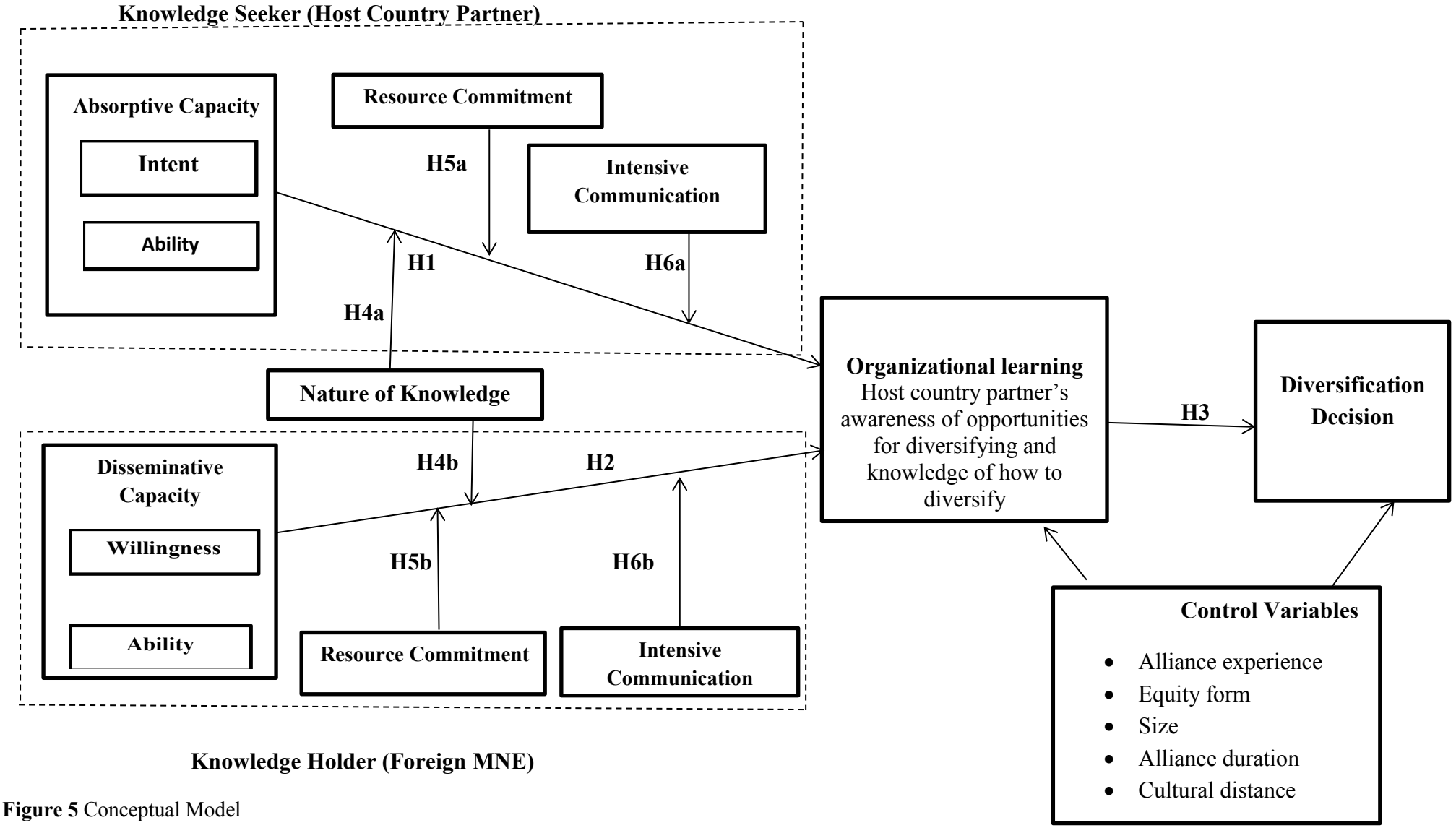

Figure 5 Conceptual Model

Chapter 4: Methodology

The focus of this thesis is on the role of organizational learning on diversification decisions in a non-diversified economy (the Saudi case) and the implications of organizational learning on the strategic decision policy in these economies. The aim of the current chapter is to present a description of the procedures used in order to collect the primary data and introduce the Saudi context.

Research is conducted and utilized according to whether the aim of the study is exploratory, explanatory or both. According to Miller and Brewer (2003), the research topic will impact the method used. An investigation into the impact of learning from foreign partners on a strategic decision requires a suitable blend of approaches including data collection, analysis and interpretation. Therefore, a mixed-method approach was used. On the one hand, a quantitative approach provides data and analysis which indicates the role of organizational learning in diversification decisions in Saudi firms. It is a positivist approach focussing on explaining the causal relationship between variables using statistical techniques in order to test or verify theories (Muijs, 2011). In this context, a qualitative approach will help to explain and provide insight into the role of each capacity on organizational learning and how the learning impact from a chronological perspective through conversing with decision-makers and top management teams in the private sector within Saudi context. These methods provide an enriched understanding of the phenomenon under study. This study examines how learning and knowledge transfer from foreign partners enable home-country partners to pursue diversification decisions from the perspective of Saudi partners. The study relies on a self-administered questionnaire (quantitative approach) and interviews (qualitative approach) for primary data collection and other sources for secondary data collection such firm's website. In the following sections, each method is discussed in detail.

4.1. Research Philosophy

There are two fundamental fields of philosophy in science: ontology and epistemology (Klakegg, 2016). Ontology is the branch of metaphysics that deals with the nature of being, existence and reality. Some major questions in ontology are "What is the nature of existence?" and "What is a thing?" Epistemology is a branch of philosophy which deals with the nature of knowledge, justification and the rationality of belief and the overall basis of knowledge (Klakegg, 2016). Questions in this branch are "What does it mean to say that we know something?" (Wenning, 2009) "How do we know things?" and "How do we know what is true?"

The philosophy of academic research is that the answers to specific research questions will then become a basis for further questions which can be addressed in future research. Consequently, although the current study contributes to the body of knowledge on strategic alliances and diversification because of its novelty and convincing results, data continue to expand over time and through further research (Holden and Lynch, 2004). Therefore, the philosophical understanding of epistemology leads to new contributions.

Despite the strengths of retrospective data collection include efficient in terms of time and cost, give space to measure the impact of the relationships in the phenomenon and using the existing data to answer new questions, there are some weaknesses in this approach. A major weakness of this approach is missing data. In this particular case, key respondents who might worked in the international strategic alliance for a long time may quit or change their positions (appointed in new departments or subsidiaries) which means an important data has been lost (Euser et al., 2009). In addition, a recall error regarding events or experiences from the past international strategic alliance is another weakness that may affect the accuracy of the recollections retrieved. Finally, when participants try to answer the questions inaccurately or

falsely in order to please the researcher by doing what is expected from them (Furnham, 1986). In this research, retrospective approach was used in all of the three studies due to time and cost limitations and due to time purpose that required to measure the impact of knowledge transfer and learning on diversification decision which suggested by scholars (Lyles and Salk, 1996) at least three years in order to notice the impact on firm behavior.

4.2. Quantitative Method

Quantitative methodology is associated with a number of research procedures. The most common are surveys and experiments, followed by the analysis of secondary data (previously-collected data) (Bryman: 1996, p12). This study is deductive in nature, and the hypotheses are tested by means of an empirical questionnaire. In deductive research, the researcher starts with a real-world problem and on the basis of related literature creates a solution to this problem. The quantitative approach enables a researcher to contribute theory through prediction, understanding and explanation of particular phenomena. One of the important advantages of this approach is considered to be generalization from a sample to a population (Moser and Kalton, 2001). The main instrument used in this study is a questionnaire. Many previous researchers have used questionnaires for exploratory, descriptive and comparative purposes.

4.3. Qualitative Method

Qualitative approaches involve various enquiry techniques, theoretical frameworks and means of data collection. The four basic data collection instruments are observation, interviews, documents and visual images (Creswell, 2009). Interviews are used as the main qualitative method in the second and third study in order to gain insights from key figures in Saudi firms into learning from strategic alliances and the subsequent impact on a strategic decision, i.e. a diversification decision. This method improves knowledge and delves deeply into social

science issues (Wengraf, 2001). Investigating the views of experts involved in international alliances is fundamental in order to provide analytical answers to the questions in these studies. The studies that adopt this method are also deductive because they are based on the previous study and rely on their outcomes.

4.4. Mixed Method (Triangulation)

Because of the complexity of the phenomenon under study (knowledge transfer, learning and diversification decision), it is necessary to use more than one research method to achieve the thesis's aims. Mixed method -triangulation- refers to the combine of quantitative and qualitative approach in the data collection and/or analysis (Hurmerinta-Peltomäki and Nummela, 2006). According to Denzin (1989), triangulation can be either inter-method (two or more studies with different methodologies) or intra-method (two or more studies with the same methodology). Creswell and Plano Clark (2017), pointed out to the purpose of using mixed methods research is the combination of quantitative and qualitative- triangulating- which advance our understanding of research questions and complex phenomena that cannot be achieved in one approach alone. In addition, the rationales of mixed methods research are complementarity, development or expansion (Greene et al., 1989). Complementarity means the elaboration or clarification of the results from one approach with the other one and that is one of the important reasons to adopt the mix methods in the current thesis.

The mixed method may be applied only in one stage of the study process or in many stages. These stages are initiation, implementation, integration, and interpretation (Hurmerinta-Peltomäki and Nummela, 2006). In the current case, I applied the stages when collecting the data, when analyzing the data, and when the conclusions are drawn respectively implementation, integration, and interpretation (Hurmerinta-Peltomäki and Nummela, 2006). The two main elements that determine the mixed methods design type are priority and

implementation of data collection. In terms of priority, the researcher emphasized quantitative (questionnaire survey) more first because of the recent work in strategic alliance emphasis the use of quantitative (e.g., Simonin, 1999a; Simonin, 2004; Jiang and Li, 2008; Muthusamy and White, 2005; Khamseh et al., 2017) and from the need to understand quantitative data before proceeding to the qualitative form (interviews). The implementation of data collection means the sequence in data collect -quantitative and qualitative-(Molina-Azorin, 2016). In the current case, the quantitative data preceded qualitative data. In study one (Chapter 5), I used quantitative method to test the variables with a large sample and then the results need more explanations specifically in absorptive capacity and moderator variables. In study 2 (Chapter 6), I used qualitative method - the explanatory sequential- to investigate and explore in more depth the questioned results from study one. Also, the validity of the other results including disseminative capacity and the impact of organizational learning on diversification decision is confirmed which can be offered by triangulating approach. In addition, this approach produced new findings (the level of each capacity, the age of firms and strategic alignment) which led to create knowledge that would not have emerged otherwise. Furthermore, the use of triangulation improves accuracy in measuring a phenomenon and formulating a generalizable finding (Bulmer and Warwick, 1993). In the current case, qualitative and quantitative data were collected and they both analyzed qualitatively (Hurmerinta-Peltomäki and Nummela, 2006) in study 2 and 3.

The development that may add value and contribute to business filed due to the use of mixed methods research which the results gathered from more than one method (Molina-Azorin, 2011, 2012, 2016). This leads to enrich our understanding of international business phenomena as completely as possible and particularly in Saudi Context in the current research. The negligence of exploring how to measure the impact of knowledge transfer and learning through an explicit focus on absorptive/disseminative capacity from foreign partner

in international strategic alliances in the long term within home country partner particularly on strategic decision has presented a challenge. To address that, this requires variety in terms of methods in order to study the phenomenon as completely as possible and then add to the existing knowledge in strategic alliance and diversification literature.

4.5. The Saudi Arabian Context

This empirical work concentrates on the case of Saudi Arabia as it is a non-diversified economy. The Saudi case is a good context for data collection for the following reasons. First, Saudi Arabia has received little attention in the management literature, even in comparison with countries in the same region (Dedoussis, 2004; Noer, et al., 2007; Alnatheer and Nelson, 2009; Almasaad, 2014). Second, the role of Saudi firms in the economic diversification is not clear. Third, there are many foreign partners (e.g. Chevron, Total, General Electric, Buker Hues, Siemens, Bechtel) that work in Saudi Arabia, which allows local partners to learn from them. Finally, the reliance of the national economy on oil revenue may strongly and directly affect the firms, which has encouraged the Saudi government to focus on its Vision 2030 of a non-oil based economy through firms' diversification strategies. As a result, diversification strategy through firms both directly and indirectly has promoted by the government, for example through loans, building industrial cities and exemption from taxes. For these reasons, the context of Saudi Arabia is a suitable case for addressing the questions of this thesis and may enrich the existing literature on international alliances and diversification.

4.5.1. Saudi History

Saudi Arabia's history goes backs nearly three centuries and can be divided into three stages: the first, second and third Saudi States. The third Saudi State, which is the current one, was founded by King Abdul-Aziz in 1902 and bears the name of his family (Saudi tourism, 2016). Saudi Arabia is a monarchy and the King is the prime minister. It is an Islamic country

because it is the birthplace of Islam, and Mecca and Medina are the homes of the two holy mosques. The Islamic religion strongly impacts Saudi culture.

Saudi Arabia is located in western Asia and has a land area of around 2.125 million square kilometres, or 865,000 square miles. In 1993 the population was 12.1 million (Alkhelaiwi, 2001) and in 2015 it was more than 20 million, more than half of which were younger than 25 (McKinsey, 2015). The growth rate is nearly 2.2% per year (see Table 5), which may be due to advances in the country's medical and educational systems.

4.5.2. Organization Culture in Saudi Arabia

While cultural research in Arab countries and specifically in Saudi Arabia (Dirani, 2008; Klein et al., 2009; Al-Rasheedi, 2012) is lack, Saudis consider as a collectivist society and homogenous that demonstrates by highly personalized and kinship, friendship, regionalism (Ali, 2009) and commitment to the group. Saudi Arabian society is a convergent society, which means efforts have been made to protect the culture from influences by others (Al-Khatib, et al., 2004; Almasaad, 2014).

Year	Population (in millions)
2009	26.7
2010	27.6
2011	28.4
2012	29.2
2013	29.4
2014	30.0
2015	30.9
2016	31.8
2017	32.6
2018	33.4

Table 5 Saudi Population, Source: General Authority for Statistics (2019)

Historically, to understand the Saudi national culture and the influence of it on organizations in Saudi Arabia, the two main shapers religion and heritage (Ali and Al-Kazimi, 2005; Mababaya, 2002; Rice, 2003, 2005) should be studied. The impact of traditional Islamic and tribal (i.e. loyalty, trust, consultation, face-to-face interaction and obedience) extends to the management culture and how a business operates in Saudi Arabia (Al-Rasheedi, 2012). For example, the roots of managerial style in Saudi companies back to how Islamic culture that defines the employer (shepherd) who is responsible for followers who expect to obey the leaders (Kalliny et al, 2006). In addition, many areas in business related to activities managed by Islam including agreements, trading, monopolistic, pricing and the employer-employee relationship. In terms of tribal heritage, loyalty and honor created top-down authoritative structure-Bedo-aucracy or Sheikocracy- that emphasize collaboration and positive relationships within the organization environment (Dirani, 2008; Al-Rasheedi, 2012).

The implications of Saudi culture on organizations and management have been studied (Dirani, 2008; Ali, 2009; Klein et al., 2009; Al-Rasheedi, 2012) and demonstrated the nature of dominant of typical Saudi firms compare to Western ones, the role of state and cultural norms play that influences the nature of firms, and how cultural norms potentially influence interactions between people from different firms within Saudi context. First, the important barrier in managing firms in Saudi Arabia is kinship (Wasta). Relationships play a major role in Saudi society and this is similar to the concept of *quanxi* in the eastern context and it has an influence on organizational culture (Farh, et al., 1998; Almasaad, 2014). This makes firm less-rule based on institutional criteria in terms of decision and nepotism effects becomes on business and management (Al-Aiban and Pearce, 1993). Managers in Arab countries work in the environment that the distinction between the in-group (relatives, clans, and tribes) and others is evident (At-Twaijri and Al-Muhaiza, 1996). However, in Western culture, there is a clear separation between personal and professional which contradicts the situation of Saudi

Arabia (Ali, 2009) due to social factors. Second, accountability is an interesting factor that affects management style in Saudi. This style attributes mistakes to fatalism and therefore, accountability is at the lowest level (Bhuian et al., 2001). When something is going wrong or delay in the workplace, normally it can be justified institutionally through accountability but instead blaming fate in this style (Almasaad, 2014). Third, Saudi score high in power distance and that means the making decisions are autocratically and paternalistically (Cassell and Blake, 2012). However, consultative that both Islam and Bedouin tradition favor a more is the dominant style of leadership and decision-making with Saudi firms; despite the change of attitude towards this leadership style (Al-Yahya, 2009). According to Ali (2009), one of the problems in decision making that prevents institutionalism, initiatives, and professionalism within the Saudi context is a tribal mentality. Forth, the legal system is different in Saudi compared to developed countries such as the US and UK. The bases of the legal system in Saudi are Islamic teachings and secularized laws (Marar, 2004; Kwong and Levitt, 2009). This dual legal system in Saudi has raised some concerns regarding the effectiveness (Almasaad, 2014). Therefore, it is obvious that some government agencies tend to use their own laws which are different from Saudi court law (Wapler, 2001; Marar, 2004).

An interesting point regarding the differences between Western firms and Saudi ones that may affect the levels of knowledge transfer -particularly tacit-, learning and information sharing is communication. Within Saudi context communication in both oral (speaking) and aural (listening) are important in dealing with business and that goes back to an essential base in Saudi culture which is Bedouin and their way of communication. However, the approach of Western firms concentrates on oral communication (Moran et al, 2007). In addition, trust is emphasized in the Saudi context especially in alliance with a foreign partner. When both partners are from a different perspective in terms of culture (collectivist vs individualist) Saudi partners will become open and corporate with a foreign partner based on the buildup of

trust. In order to transfer the required knowledge, trust is crucial besides the other factors such as communication. Face-to-face meetings are preferred by Saudis because it enhances trust and relationships (Ali, 2009) and subsequently, allows Saudi firms to learn the foreign partner. As it said, in Saudi Arabia, businesses are not operated by companies or due to contracts but it is conducted between people (Al-Rasheedi, 2012).

4.5.3. The Saudi Economy

The history of the economy of Saudi Arabia can be divided into two stages. First, before the discovery of oil (the period 1902-1938) the main sources of income were pilgrims to the holy mosques (50%), customs charges (nearly 37%) and *Zakat* (religious alms-giving) (Alkhelaiwi, 2001). When oil was discovered in 1938, the second stage began. The discovery led to development in different fields such as education, health, transport and infrastructure. Since that time, the Saudi budget has been heavily dependent on oil, which accounts for 90% of government revenue. The boom in oil prices from 2003 to 2013 led to increased prosperity with Saudi Arabia becoming the world's 19th largest economy (McKinsey, 2015). In 2013, oil revenue fluctuations resulted in a surplus in the budget of nearly 6.5% of GDP. However, in the next year (2014) there was a deficit of around 2.3% of GDP (McKinsey, 2015). In 2014, Saudi Arabia's nominal GDP was approximately $750 billion (See Table 6). As a result, oil prices have spearheaded growth in the Saudi economy (Albassam, 2011; Aldukheil, 2013; Ramady and Saee, 2007). Saudi's GDP is now $683.8 billion and GDP per capita is $20.760.91. Economic growth in Saudi Arabia averaged 0.96 % from 2010 to 2018, with a maximum of 8.50% in 2010 and a minimum of -2.10% in 2017 (See Table 6). Saudi Arabia is a G20 member and produces around 25% of total Arab GDP (Al-Filali and Gallarotti, 2012). In addition, its economy is the largest in the Middle East. Nevertheless, Saudi Arabia is considered a developing economy (Almasaad, 2014).

For decades the Saudi government has been trying to diversify the economy away from oil in many ways, such as by creating industrial cities (i.e Jubail and Yanbu) and supporting the private sector to increase its role in the economy (Schliephake, 1995; Al-Filali and Gallarotti, 2012). The private sector's contribution to GDP in Saudi Arabia is around 58.75% (Arabnews, 2013) (See Table 7). However, the role of the private sector in the diversification plans has not been successful. Researchers have found several reasons for the unsuccessful implementation of the diversification plans. These include the obscurity of the details in the plans, a lack of support for non-oil sectors (e.g. agriculture, services), support for industries based on oil (e.g. petrochemical industries) and dependency of the private sector on government spending and projects (Albassam, 2015). Furthermore, key firms in the Saudi economy are fully owned by the government, such as the Saudi Arabian Oil Company (ARAMCO), or the government holds the majority of their equity, as in the Saudi Basic Industries Corporation (SABIC) and the Saudi Electricity Company (SEC). Moreover, government agencies own 70% or more of the banks and company shares on the Saudi stock market (Saudi Stock Exchange, 2014). Therefore, the role of the private sector and its diversification is affected by the government's strategies, which are based on oil revenue.

4.5.4. Diversification and the Saudi Economy

Together with Russia and the United States, Saudi Arabia is one of the largest producers of oil. Among the Arab nations, Saudi Arabia is the largest economy and the only one that is a G-20 member. For decades, the Saudi economy has been based on oil as the main source of income and so, historically, economic booms have relied on oil revenue, which has become the major player leading to improvement of the whole Saudi economy (Albassam, 2011, 2015; Belayachi and Haidar, 2008; Ramady and Saee, 2007). In addition, oil has helped the government provide an environment that supports the growth of the economy.

Year	GDP per capita (US$)
2011	23,655
2012	25,208
2013	25,413
2014	25,214
2015	21,180
2016	20,289
2017	21,114
2018	23,539

Table 6 Gross Domestic Product Per Capita, Source: General Authority for Statistics (2018)

Sector	2016	2017	2018
Oil Revenue	64%	63%	68%
Other Revenue	36%	37%	32%
Total*	519,457	691,510	905,609
Expenditure*	830,513	929,997	1,079,467
Deficit/Surplus (Expected)*	-311,056	-238,487	-173,858

Table 7 Annual Government Revenue by Sector and Expenditure. Source: Ministry of Finance (2018)
*Million SR

Since the late 1960s, the government has realized the importance of having a diversification strategy and not relying on one commodity. Efforts to diversify the Saudi economy's base began forty years ago with the government regularly issuing five-year plans called the Five-Year National Development Plans. These are considered basic elements in the Saudi economy as they set goals and represent the economic base for production and services. Since 1970, the plans have been considered key in development efforts in Saudi Arabia which pay attention to the development of human resources. Saudi Arabia aims to continue economic and social progress through subsequent development plans which are not influenced by variations in the oil price (Ministry of Economy and Planning Report, 2010). The results of these plans are clearly visible in different areas, i.e. infrastructure, education and health. The most important aspects of each five-year national development plan will be discussed below.

4.5.3.1. The First Five-Year National Development Plan (1970-1975)

In this stage, Saudi Arabia began to establish the institutions that could help to achieve the first five-year plan's goals. In 1974 and 1975, the Saudi Industrial Development Fund, the Ministry of Commerce and Industry and the Ministry of Commerce and Industry were

formed. The achievements of the first Five-Year Plan were mixed because some of the programmes were not fully implemented. Some infrastructure projects were executed including water, roads, airports, education, health and social services. Economically, the target average annual GDP growth rate was 9.8% but only 18.7% growth was achieved during the plan. In addition, the government increased expenditure by 54% to 63.6 billion Saudi riyals, although the target was 41.3 billion. The financial allocations made by the first Five-Year Plan were $2,780 million (Ministry of Economy and Planning Report, 1975).

4.5.3.2. The Second Five-Year National Development Plan (1975-1980)

In the second plan, the focus was on the agricultural and industrial sectors in order to diversify the Saudi economic base. The major industrial cities of Jubail and Yanbu were built with factories on the western and eastern coasts. In addition, education received more attention. Non-oil sectors reached 8.9% of the economy and the financial allocations in this plan were $31,400 million (Ministry of Economy and Planning Report, 1980).

4.5.3.3. The Third Five-Year National Development Plan (1980-1985)

The focus in the third stage was on the completion of infrastructure projects, which were considered the base for a diversified economy with the private sector having a major role. The Saudi government was eager to ensure that the private sector played a crucial role in diversifying. The government facilitated the involvement of Saudi firms in business through regulations, such as contractors of government projects having to use local products and services. The non-oil economy increased at an average rate of 6.2%. The non-oil sector's share of GDP grew from 34.8% to 60.2% (Ministry of Economy and Planning Report, 1985).

4.5.3.4. The Fourth Five-Year National Development Plan (1985-1990)

The 1985-1990 plan put more emphasis on diversification and privatization. What made this plan different was a decline in oil prices, which reflected the weaknesses of the Saudi

economy and the need for an approach that helped the country to adapt to the changes in international markets. This decline was evident in government expenditure, which fell from the planned SR 1000 billion to an actual SR 853 billion, with serious consequences for the private sector. However, some industries such as petrochemicals had a positive impact from this decline and these also received huge investments. In addition, non-oil exports increased from 13.8 % to 19.5% in this stage (Ministry of Economy and Planning, 1990).

4.5.3.5. The Fifth Five-Year National Development Plan (1990-1995)

In the fifth plan, attention was still focused on the private sector's role in diversifying the Saudi economy. The government offered many incentives (e.g. loans, the establishment of the stock market, more privatization and close collaboration with other sectors) to the private sector in order to develop it to become ready for diversification. Saudi GDP reached an annual growth rate of 4.4%. $201 billion were allocated under the fifth plan. Nevertheless, the Second Gulf War (1991) negatively impacted the implementation of the plan (Ministry of Economy and Planning Report, 1995).

4.5.3.6. The Sixth Five-Year National Development Plan (1995-2000)

In the sixth plan, the private sector became more independent from government expenditure and more mature with the adoption of a flexible approach toward the international situation. The private sector created many jobs for Saudis. Several incentives were provided to the private sector in order to bring it financial resources or technology, such as building joint ventures with foreign partners. During the sixth plan, the government expenditure on development was around SR 420.4 billion. The Saudi economy increased by an annual average of 1.1%. The non-oil sector’s share of GDP rose from 66.8% to around 68.4% (Ministry of Economy and Planning Report, 2000).

4.5.3.7. The Seventh Five-Year National Development Plan (2000-2005)

The seventh plan was based on the previous ones, which emphasized the private sector. To implement diversification and privatization the development of tourism was evident in this plan. The investment climate in Saudi Arabia was supported by new regulations that encouraged private investment, for example the Foreign Investment Law (FIL), and the Saudi Arabian General Investment Authority (SAGIA) was established. Saudi GDP reached 3.16 % during the years of the plan. The private sector grew by 5%, which resulted in a GDP surplus of 6.9% in 2004 (Ministry of Economy and Planning Report, 2005).

4.5.3.8. The Eighth Five-Year National Development Plan (2005-2010)

The eighth plan focused on raising the standard of living, developing human resources and diversifying the economic base by increasing the private sector's participation in economic activities. An important aspect of this plan was that Saudi Arabia had become a member of the WTO. Despite the fact that the financial crisis in 2008 affected the entire world, the Saudi market was solid and the crisis had little impact. Real GDP was around SR 895.2 billion in 2009, which was reflected in per capita income of around SR 48.2 thousand in 2009. The number of private-sector enterprises was 823.5 thousand in 2008, 94.2% of which were small enterprises which provided 43.3% of all job opportunities (Ministry of Economy and Planning Report, 2010).

4.5.3.9. The Ninth Five-Year National Development Plan (2010-2014)

In the ninth plan, the focus continued to be on accelerating the pace of economic growth and distributing growth among the Saudi regions. In addition, enhancement of the environment for foreign direct investment was considered. The important feature here was a shift towards a knowledge-based economy. The kingdom aimed to promote human development and disseminate knowledge, and so was looking for opportunities to acquire new knowledge, experience and skills in order to indigenize knowledge in the Saudi economy. During the

years of the plan, oil prices reached a peak of around $ 140. The average annual growth rate was 5.2%. Over the period of the strategy, private investment was growing at an annual rate of 10.5% and therefore private contributions to GDP jumped from 16.3% to 40.2%. Finally, the labour force increased with an average annual rate of 3% (Ministry of Economy and Planning Report, 2014).

4.5.3.10. Vision 2030 (2016-2030)

Vision 2030 is a plan that draws on the fundamental strengths of the Saudi economy, such as the two holy mosques, investment power and a strategic location. The Vision's agenda is for a vibrant society, a thriving economy and an ambitious nation. It is an ambitious plan that covers all the main aspects of the economy. Economically, Vision 2030 focuses on creating an environment that brings more business opportunities, broadens the economic base and creates jobs for Saudis (Vision 2030). These can be achieved through leveraging Saudi Arabia's location, recruiting the best talent and raising global investment. The main headings are oil, a public investment fund, natural gas, refining and petrochemicals, renewable energy and industry. The Vision's target is to raise the share of non-oil exports in non-oil GDP from 16% to 50%. Private sector contributions will expand by 25% from 40% to 65% of GDP. The contributions of SMEs to GDP will rise from 20% to 35%. In addition, FID will grow from 3.8% to 5.7% of GDP (See Table 8). Finally, the assets of the Public Investment Fund will increase from SAR 600 billion to more than SAR 7 trillion (Vision 2030).

Year	Foreign direct investment, net inflows (US$ millions)
2000	-1,881
2010	29,233
2018	3,209

Table 8 Saudi Inward FDI 2000-2018. Source: World Bank, World Development Indicators database

4.5.5. Strategic Alliances in Saudi Arabia

In recent years globalization and foreign investment have been important aspects of business and they impact the whole world, including Saudi Arabia. International firms consider Saudi

Arabia an attractive country for investment. This may be due to government efforts to make the market accessible, such as allowing access to natural resources (i.e. oil and gas), an absence of tax, developed infrastructure and government support through incentives (Al-Rasheedi, 2012). In addition, the potential growth in the economy in general and the young population may lead to increasing market demand. Saudi Arabia receives the most direct foreign investment among the Arab countries (Saudi Arabia General Investment Agency, 2010).

The engagement of Saudi firms in international strategic alliances started early when oil was discovered in Saudi Arabia. However, in the beginning the aims of international strategic alliances from the perspective of developing countries (learning and knowledge transfer) were not clear. Later, Saudi firms realized the importance of alliances as a way to learn and receive knowledge transfers in order to strengthen their existing capabilities and competencies. In addition, Saudi firms consider alliances and internationalisation a way to utilize their competitive advantage in different markets (Williams, 2009; Jasimuddin, 2001).

International strategic alliances exist in Saudi Arabia in various forms. While some international firms license their technology to Saudi partners, others choose to collaborate in other ways (Williams, 2009). However, the preferred dominant form is the international joint venture (Williams, 2009; Mababaya, 2002). The Saudi government prefers international joint ventures because they allow Saudi firms to be involved in businesses and let partners exchange technical capabilities and competencies. Moreover, they are preferred over foreign wholly-owned subsidiaries in government contracts (Mababaya, 2002). Both partners have an advantage in the alliance. For example, the foreign partner usually receives the advantage of location and market knowledge and the Saudi partner gains the advantages of capabilities and competencies.

4.6. Ethical Issues

In this research, there are no major ethical restrictions of relevance to the analysis of primary and secondary data. The researcher accessed the data required in the study with written authorization from government agencies. Appropriate analyses which align with the methodological approach and sample size were carried out.

The researcher visited around 60 companies in Saudi Arabia to build a network and then sent questionnaires directly to the appropriate respondents. Consent procedures that ensured respondents were aware of their rights were followed. These procedures included informing participants of the purpose of the study, the expected duration and that participation in the study was voluntary. The researcher also told the participants about their right to decline or to withdraw from the study. In addition, the participants were aware that they could contact the researcher with questions or receive the results of the study. Finally, the questionnaires and interviews were anonymised to make sure that confidentiality was protected and the data would only be used for academic purposes (Gajjar, 2013).

Chapter 5: The Impact of International Strategic Alliances on Diversification Decisions

The purpose of this chapter is to develop and test a theoretical model to examine how a host country partner in an international strategic alliance learns from a foreign MNE and how this learning will impact its subsequent diversification decisions. The analysis shows that the absorptive capacity of the knowledge seeker (i.e. the host country partner) and the disseminative capacity of the knowledge holder (i.e. the foreign MNE) will affect the type of organizational learning needed to underpin diversification decisions. The chapter argues that the relationships between absorptive capacity and disseminative capacity, on the one hand, and organizational learning and diversification strategies, on the other, are impacted by the nature of the knowledge the foreign MNE brings to the host country, the partners' commitment to the alliance and intensive communication in the host country. On the whole, the results from a survey of 55 Saudi companies suggest a significant positive relationship between organizational learning from international strategic alliances and diversification decisions. In addition, the relationship between disseminative capacity and organizational learning is positive and strong. However, while a positive relationship between absorptive capacity and organizational learning was expected, the empirical results do not support this hypothesis. The data were collected in a questionnaire survey of Saudi firms in a variety of industries including oil, gas, petrochemicals and construction. The study contributes to our understanding of firm diversification in a non-diversified economy and breaks new ground by examining the role that international strategic alliances play in this process.

The empirical work in this study covers Saudi Arabia, which is a non-diversified economy. The Saudi case is a suitable context for data collection due to the little attention that has been given to the Saudi context (Dedoussis, 2004; Noer, et al., 2007; Alnatheer and Nelson, 2009; Almasaad,2014), the ambiguous role of the private sector in the economy and the number of

foreign partners (e.g. Chevron, Total, General Electric, Buker Hues, Siemens, Bechtel, etc.) with FDI hosted there.

The chapter begins with a brief section on the research questions. This is followed by an explanation of the research method, with emphases on the process of sample selection, measures, questionnaire design, pre-testing and the pilot study and the control variables. Finally, I conclude the chapter by explaining the data analysis used in the study and the results.

5.1. Research Questions

The research questions include, but are not limited to, the following:

Main question

How does learning through international strategic alliances with foreign multinational enterprises (MNEs) impact diversification decisions among firms in a non-diversified economy such as Saudi Arabia?

Sub-questions

1- How does absorptive capacity influence organizational learning?
2- How does disseminative capacity influence organizational learning?
3- What roles do resource commitment, intensive communication and the nature of the knowledge play in the processes of learning and knowledge transfer?

5.2. Research Design

5.2.1. Sample Selection

The model is tested using empirical data which is obtained from a multi-industry sample of international alliances in Saudi Arabia that includes the oil, gas, construction and petrochemical industries. The aim is to have a large sample which may lead to rigorous analysis and generalizable results (Bello et al., 2010). These industries were chosen because they are fairly advanced and mature in Saudi Arabia and are also more likely to form alliances with international partners.

In Saudi Arabia, there is no easily accessible information on the exact size of the target population, which may explain why the size varies considerably according to different government agencies. Particularly in developing markets such as the Saudi one, observational investigations have constantly encountered various impediments and difficulties (Robertson, et al., 2013). Moreover, information on international strategic alliances is known to be hard to acquire (Silva, et al., 2012). Therefore, due to the unavailability of a precise list which could be used as a sampling framework, I drew on a sample frame based on multiple lists obtained from different government agencies.

Several procedures were required to identify an appropriate sample. First, initial lists from different government sources that are related to business in Saudi Arabia were required. In early 2017, the researcher contacted several government agencies, including the Ministry of Commerce and Investment, the Saudi Arabian General Investment Authority (SAGIA), the Royal Commission and the Chambers of Commerce in different cities in order to obtain the required data on potential respondents. However, the responses were varied.

The Ministry of Commerce and investment was contacted several times. At the beginning there was no response. Later, they transferred my request to the SAGIA due to their experience in foreign partner policies. Then, the SAGIA was approached by email and phone. It took a long time for a response but they finally sent a list. This list was rich in information, including the company names, email addresses, phone numbers and cities of more than 7700 companies. However, it was unorganized and contained pure foreign companies and Saudi companies that had never engaged in an international strategic alliance. In addition, the SAGIA has companies in its records that only use its services, because companies need to be listed by the SAGIA in order to enter the Saudi market (Almasaad, 2014). In addition, the Chambers of Commerce in various cities were contacted but only two responses were received, from Riyadh and Jeddah. These later sent the required lists. Finally, the Royal

Commission in Jubail was approached and it was very cooperative. Eventually, after much work with the various databases, the researcher built a sample of 300 international strategic alliances. The database for the sample included the names of the companies and their contact details.

Next, a question was added to the beginning of the questionnaire to filter firms and meet the selection criteria: engagement in international strategic alliances with foreign partners between 2005 and 2015 or before 2005 if the alliance is still working. The period between 2005 and 2015 is considered to be one of economic boom. There are several reasons for focusing on this period. First, there was a huge increase in oil revenue during this time. Second, a new leadership came to power (King Abdullah was named the new king in 2005). He launched reform projects which included: education projects (the King Abdullah scholarship programme sends outstanding students to study abroad and the number of universities jumped from 7 in 2005 to more than 35 in 2018), industrial projects (building economic cities), and economic projects (Saudi Arabia has been a member of the G20 since 2008) (Al-Harthi, 2014). Third, Saudi Arabia has been a member of the WTO since 2005. Finally, it is also a very suitable period for analysing the impact of alliances on building strategic decisions. The study focuses on foreign partners from North America, Europe, Asia and Africa and examines the impact of alliances on diversification decisions from the perspective of the knowledge-seekers – Saudi firms.

5.2.2. Measures

The study measures how international strategic alliances may impact a company's diversification decision from the standpoint of Saudi firms. Based on the literature review, a decision was made about whether to adopt an existing or to modify it to fit the context of the study. The items measuring the constructs involved in the study are adopted from previous literature and the constructs are provided in Table 9 (also see Appendix A for the measures).

The questionnaire items used in the study have been used in previous studies (i.e. Hoskisson et al., 1993; Simonin, 2004; Szulanski, 1996; Teo and Bhattacherjee, 2014; Schulze et al., 2014; Park et al., 2012; Jiang and Li, 2008; Lane et al. 2001). Based on these studies and consultations with experts, I developed and modified the items to create a questionnaire that explores the influence of international strategic alliances from the perspective of the Saudi local partner. In a first stage, the questionnaire was pre-tested on two faculty members and twelve Ph.D. candidates. Next, it was tested on a pilot group of 20 companies from different industries in Saudi Arabia. Finally, once all the resulting comments had been addressed the questionnaire was ready for the actual study. All the independent, moderator and mediator variables are measured on a seven-point Likert scale (1 = strongly disagree to 7 = strongly agree). According to previous literature, the optimal length for reliability and validity of a Likert scale ranges between 5 and 7 points (Lyberg, et al., 2012; Givon and Shapira, 1984). The dependent variable is measured on an ordinal scale: 1 = not diversified, 2 = we have started planning for a major diversification at some point in the next 3 years, and 3 = there has been at least one diversification decision (Hoskisson et al., 1993).

Absorptive capacity has two dimensions: intent and ability to learn. Intent to learn is measured with three items (Simonin, 2004) and learning ability is measured with eight items (Norman, 2004; Schulze et al., 2014; Jasimuddin et al., 2015; Ho and Wang, 2015; Hau and Evangelista, 2007; Szulanski, 1996).

Disseminative capacity has two dimensions: willingness and ability to transfer knowledge. Willingness to transfer is measured with two items (Teo and Bhattacherjee, 2014) and ability to transfer knowledge is measured with thirteen items that assess the attainment of expert knowledge, assessment of the recipient's knowledge, detachment of knowledge, ability to encode knowledge and support for knowledge application (Szulanski, 2000; Cummings and Teng, 2003; Schulze et al., 2014).

The strength of the relationship between the independent variables and organizational learning is also examined in the light of possible moderating effects of the nature of the knowledge involved, resource commitment and intensive communication. The nature of the knowledge is measured with six items (Simonin, 1999b; Norman, 2002; Khamseh et al., 2017). Resource commitment is measured with three items which assess how the foreign partner is willing to contribute to the alliance in terms of resources (Simonin, 2004; Muthusamy and White, 2005). Intensive communication by foreign partners is measured with six items covering formal and informal processes of communication (Park et al., 2012; Williams, 2011; Jasimuddin et al., 2015; Hau and Evangelista, 2007). The organizational learning mediator is measured with eight items that assess knowledge acquisition and integration (Muthusamy and White, 2005; Li et al, 2010; Jiang and Li, 2008; Lane et al. 2001; Kale et al.,2000).

5.2.3. Data Collection

At the epistemological level, this research takes a positivist approach. The questionnaire is adopted as the method of data collection because of the complexity of the phenomena. The hypotheses are about the direct and indirect effects found in data collected in a questionnaire survey of Saudi companies involved in international alliances in the time period 2005-2015 or before 2005 if the alliance is still working. The questionnaire was developed on the basis of related literature and consultations with experts. The study adopts all the items found in the questionnaires of earlier empirical studies. This increased its reliability and validity before testing it in a new context. The questionnaire is structured in nine sections: 1) an introduction explaining the purpose and requirements of the survey; 2) general information; 3) absorptive capacity; 4) disseminative capacity; 5) resource commitments between the partners; 6) intensive communication between partners; 7) the nature of the knowledge involved 8) organizational learning; 9) diversification decisions; 10) comments and contact details.

The first draft of the questionnaire was in English. Later, the questionnaire was translated into Arabic using a back-translation process (Brislin, 1986). The process was as follows: first, it was translated into Arabic; second, two Arabic professionals (one was a translator and the other was an associate professor in the Business School, management department) translated it back into English; finally, once the Arabic and English versions agreed with each other they were successfully pre-tested for instrument validity. The current study takes a cross-sectional approach and the questionnaire was administered in the Kingdom of Saudi Arabia from January 2018 to September 2018.

Mail, face-to-face interviews and the telephone have been used by researchers as methods to collect data, and lately web-based surveys have become popular due to the advantages they offer (Couper, et al., 2001; Fan and Yan, 2010; Jiang and Li, 2008) such as a wider distribution, less distribution bias, cost and time savings (Simsek and Veiga, 2001) and ease of data entry and export. In contrast, they may lead to excluding those with limited or no access to the internet and therefore a low response rate (Almasaad, 2014). I adopted a web-based email survey to collect data. First, I sent an email in Arabic and English to the potential respondents briefly explaining the purpose of the study, indicating how the data would be used and how it might be beneficial for them and letting them know that I was waiting to hear if they were interested in participating or not. When they confirmed they would participate in the study, I sent the main email in Arabic and English with embedded URL links to the questionnaire (the respondents had the option to choose the language that they felt more comfortable with). They could then easily click on the link to visit the questionnaire page, which included the cover letter and contained information about the topic, including definitions of key words in the questionnaire, the nature of the respondents and how important the study is for companies and for the Saudi economy. In addition, promises regarding anonymity were made.

Constructs	Author
Absorptive Capacity (intent and ability)	Simonin (2004)
	Norman (2004)
	Ho and Wang (2015)
	Hau and Evangelista (2007)
	Szulanski (1996)
	Schulze et al. (2014)
	Jasimuddin et al. (2015)
Disseminative Capacity (willingness and ability)	Teo and Bhattacherjee (2014)
	Szulanski (2000)
	Cummings and Teng (2003)
	Schulze et al. (2014)
Nature of Knowledge	Simonin (1999b)
	Norman (2002)
	Khamseh et al. (2017)
Resource Commitment	Muthusamy and White (2005)
	Simonin (2004)
Intensive Communication	Park et al. (2012)
	Williams (2011)
	Jasimuddin et al. (2015)
	Hau and Evangelista (2007)
Organizational Learning	Muthusamy and White (2005)
	Li et al (2010)
	Jiang and Li (2008)
	Lane et al. (2001)
	Kale et al (2000)
Diversification Decision	Hoskisson et al. 1993

Table 9 Constructs in the Study (for the measures, see Appendix A)

Finally, the researcher's contact information was provided in case clarification was needed or there were questions. The questionnaire was based on previous literature and the units of analysis were executives and senior managers in Saudi firms. Middle management, represented by managers, was chosen to complete the questionnaire due to their practical experiences. Top management, as represented by executives (e.g. presidents, CEOs, vice-presidents, directors and general managers) was chosen because they are able to observe and determine the impact of alliances on organizational activities (Simonin, 1999a). In addition, they have extensive knowledge of their firm's history (Eisenhardt and Schoonhoven, 1996), and understanding of the process of formulating a diversification decision.

The fieldwork was conducted in Saudi Arabia from October 2017 until September 2018. During this period, the researcher travelled to Saudi Arabia to meet the respondents and create a close network to facilitate the data collection process. The researcher visited more than 60 companies. The criteria that applied in the study were having engaged in an international strategic alliance between 2005 and 2015 or before 2005 if the alliance is still working. In addition, the international strategic alliance must be existence for at least three years, which is more than the three years which are considered necessary for organizational learning to take place (Lyles and Salk, 1996).

5.2.4. Pre-test and Pilot Study

Piloting and testing the research design before the main research provides researchers with an opportunity to identify potential challenges (Babbie, 1998; Fowler, 1993). To avoid measurement error, I focussed on comments regarding language (vocabulary, sentence structure and wording), design, presentation, relevant questions that were not included and clarity of the instructions. The wording is of fundamental importance as it may increase the survey completion rate (Anseel, et al., 2010). The test group in the current study came from the Business School, Durham University. I also pre-tested the questionnaire with two faculty members who are experienced in international business and twelve Ph.D. candidates. In general, the feedback was positive and there was some praise for the questionnaire. Most of the comments regarding the questionnaire mentioned clarity of the language and presentation or were suggestions for filter questions at the beginning of the survey. I then made minor modifications and the questionnaire was ready for the pilot study.

The pilot group comprised 20 companies in various industries in Saudi Arabia. The companies were randomly selected from the sample of international strategic alliances. First, I sent an email to them containing a brief description of the study, emphasizing the importance of the respondent having first-hand experience working in an international strategic alliance

(e.g. as an executive or senior manager) and providing the URL link to the questionnaire. Second, I followed up with phone calls and an email reminder.

In total, 20 questionnaires were delivered and 13 were returned. As a result of the filter question (engagement in an international strategic alliance between 2005 and 2015), six companies were excluded from participation in the study and seven were included. Four of the seven did not complete the questionnaire and the remainder did. The overall response rate was 15%, which can be considered satisfactory given the study criteria, which excluded many of those who returned the questionnaire, the Saudi context, the nature of the respondents and the economic situation at the time the data were collected (see Tables 10 and 11). On average it took the respondents 30 minutes to fill out the questionnaire.

Sent	20
Viewed	13
Excluded from the study	6
Included in the study	7
Completed	3
Response rate	15%

Table 10 Pilot Study, Participant Statistics

Cases / **Characteristics**	**Case 1**	**Case 2**	**Case 3**
Type of Company	Family business	Limited company	Family business
Company Sector	Manufacturing	Manufacturing	Manufacturing
Staff in the alliance partner (Foreign)	None	338	1250
Annual Sales	SR36 million	SR600-1000 million	SR2500 million
Continent of Foreign Partner	Europe	Asia	Europe
Alliance Form	Non-Equity-based	Equity-based (49%)	Equity-based (50%)

Table 11 Pilot Sample Characteristics

An initial analysis based on the data shown in Table 12 suggests that the absorptive capacity (intent and ability) of the knowledge seeker is high, which indicates a desire to learn from the partner's know-how in the three cases. The disseminative capacity (willingness and ability) of

the knowledge holders is weak in Case 3, which may explain the reason for not taking a diversification decision and needing additional time to gain the required knowledge. In other words, the knowledge seeker may need to engage in another international strategic alliance to consider the potential opportunities for diversifying and obtain knowledge of how to diversify. In general, the partners made strong resource commitments, including financial, human, physical and technological resources. The role of intensive communication through both formal and informal channels between the partners was not clear.

In Case 1, where the form of the alliance was non-equity, there should be a high level of formal communication because it might be the only way of communication and knowledge transfer between partners. However, the level was low, which could be due to the explicit nature of the knowledge, which existed in written form and required less communication and interaction. In Case 3 the informal communication was weak even though there was an equity form of alliance, which involves the higher level of communication and closer interaction associated with tacit knowledge transfer. This could explain why the knowledge-seeker needed more time to take a diversification decision. The partner's knowledge was closer to being explicit than tacit in the three cases. Particularly in Case 1, the level of protectiveness of the partner was low, which might be due to the explicit nature of the knowledge involved. This appears to support the idea that organizational learning from international strategic alliances can be beneficial to making a strategic decision such as a diversification decision.

5.2.5. Control Variables

I controlled for several variables that may affect knowledge acquisition, knowledge transfer in the alliance and making diversification decisions. First, I controlled for alliance experience, because partners with more experience may have a lower cost of knowledge acquisition and transfer because of an enhanced absorptive capacity (Cohen and Levinthal, 1990; Barkema et

Dependent variable	Independent variables								Moderator variables												Mediator			
	Absorptive capacity				Disseminative capacity				Resource commitment				Communication				Nature of knowledge				Organizational learning			
	Intent		Ability		Willingness		Ability						Formal		Informal									
	1	2	7	9	12	13	17	26	27	28	30	31	33	38	36	42	43	44	47	48	49	50	54	56
1 (Not diversified)	**6**	**5**	**6**	**5**	5	4	5	6	6	6	6	6	**4**	**3**	6	6	6	4	**1**	5	5	4	6	6
2 (Planning to diversify)	**6**	**5**	**7**	**4**	**3**	**3**	7	2	4	6	5	6	7	6	**4**	**2**	4	5	**6**	6	5	7	5	7
3 (Diversified)	**6**	**6**	**6**	**6**	6	6	6	6	5	4	5	5	6	6	6	6	5	4	**5**	3	6	5	6	5

Table 12 An Initial Sample of the Respondents' Answers (for the selected questions, see appendix A)

al., 1996), which would affect the impact of learning. Second, firm size could hinder knowledge acquisition and transfer, so the number of staff for both partners (Lane et al., 2001) and annual sales of Saudi partner were measured. Third, the alliance form was included as a control variable because it may play a major role in knowledge acquisition and transfer. Fourth, alliance duration was controlled for in order to evaluate the impact of learning, which is measured using the number of years that the alliance existed. In addition, cultural distance was controlled for due to the possibility of it creating difficulty and ambiguities in interactions and communications. Finally, sector alignment was tested for to show if there is an impact when the two partners mainly operate in the same industrial sector.

5.2.6. Data Analysis

5.2.6.1. Common Method Bias

The researcher adopted certain steps to address the issue of common method bias. Procedurally, the constructs were measured with several individual items and they were not labelled in the questionnaire. In addition, I ensured confidentiality and anonymity of the data, which was only used for research purposes, in order to reduce the effects of social desirability bias (Ghauri and Park, 2012). Statistically, Harman's single factor (a post hoc test) test and the marker variable technique were chosen for the analysis (Podsakoff et al., 2003). I adopted a full collinearity assessment approach to address common method bias. According to Kock (2015), if the VIF values at the variable level are lower than 3.3, the model can be considered free of common method bias. This was not a problem in the model.

5.2.6.2. Reliability and Validity

Construct reliability was evaluated with Cronbach's alpha and I followed Nunnally's (1978) approach of accepting a minimum reliability in the range of 0.7 (Park et al., 2012). In addition, composite reliability is acceptable when its value ranges from 0.60 to 0.70 in exploratory research (Hair et al., 2017). Validity can be assessed using different methods such as examination by two business school faculty members who are familiar with strategic

alliance topics (Muthusamy and White, 2005). In addition, convergent validity was assessed using factor loadings, composite reliability and AVE (Hair et al., 2017; Kline, 2005). Discriminant validity was tested using cross-loading, and variable correlation using the square root of AVE and the HTMT criterion (Hair et al., 2017; Schoefer and Diamantopoulos, 2008).

5.2.6.3. Hypothesis Testing

I ran a number of tests to assess the data quality. I first tested the model using descriptive statistics and correlations between the variables. Second, in order to examine the relationships in the theoretical model in Figure 1, a structural equation model (SEM) was used. PLS is a software modelling approach to SEM aiming to maximize the explained variance of the dependent variables (Hair et al., 2017). PLS has become accepted as the statistical tool to test structural equation models because it makes fewer demands regarding sample size, can be applied to complex models, does not require normal-distributed data, handles first- and second-order together (Urbach and Ahleman, 2010) and is suited for testing or developing a theory (Chin, 1998; Williams, 2011). In addition, PLS enables us to examine reliability and validity (internal consistency, convergent validity and discriminant validity) at the measurement model level. Therefore, Smart PLS 3 was used in this study to assess the measurement model and the structural model.

5.3. Results

5.3.1. Response Rate and Sample Characteristics

Low response rates are a well-known issue in research and this became clear in the case of Saudi Arabia. Many researchers have faced challenges in collecting data from multinational companies in Saudi Arabia such as questionnaires being unanswered, unopened or refused because of confidentiality (Viola, 1982; Mababaya, 2002). In general, Saudi interest in participating in research processes such as filling in a questionnaire is weak (Merdah and Sadi, 2011; Elmusa, 1997; Robertson, et al., 2001), which may be due to confidentiality and giving research low priority (Almasaad, 2014). In order to increase the response rate, the

researcher used methods (such as a follow-up email, a summarized results report and considering the time of sending the questionnaire) to encourage and remind the respondents to complete the questionnaire.

In total, 300 questionnaires were delivered and 60 were returned, but 5 were excluded due to missing data. The final data set only consisted of 55 usable questionnaires (See Table 13). In detail, 52 cases answered 'no' to the filter question regarding engagement in international strategic alliances between 2005 and 2015 or before 2005 but the alliance is still working. In addition, more questionnaires were opened (88) than actually completed, which may indicate that the study did not apply to the company, the wrong person attempted to answer the questionnaire, confidentiality, low priority or lack of time availability. Finally, the overall response rate was 18.33%. This is satisfactory if we consider similar studies in Saudi Arabia (Almasaad, 2014; Aydin, 2019) and the context of the country (confidentiality and low priority). In addition, it is similar to the 15-24% response rates published in inter-firm alliance studies (John 1984).

Sent	300
Viewed	200
Selection criteria (No)	52
Selection criteria (Yes)	88
Missing data	5
Completed	55
Response rate	18.33%

Table 13 Questionnaire Statistics

The demographics of the firms in the sample are shown in Table 14. Of the 55 respondents, 23 (41.8%) were senior executives (including the chairman, presidents, vice presidents, CEOs and general managers) and 30 (54.5%) were functional heads (e.g. department managers) and two respondents opted for anonymity. Of the 55 firms, 20 (36.4%) of the alliance partners were from Europe, 16 (29.1%) were Asian, 14 (25.5%) were North American, 2 (3.6%) were from Africa and one (1.8%) was from South America. 35 (63.6%) of the alliances were equity-based and 16 (29.1%) non-equity-based. Most of the Saudi partners were in service

sectors and the foreign partners were generally in manufacturing. 25 (45.5%) had more than once alliance experience while 9 (16.4%) had only one experience. The highest alliance duration was more than 20 years (18 alliances – 32.7%) and 9 alliances (16.4%) lasted between 5 and10 years.

Sample characteristics		N	%
Respondent's Job Title	Senior Executives	23	41.8
	Functional Heads	30	54.5
Continent of Foreign Partner	Africa	2	3.6
	North America	14	25.5
	South America	1	1.8
	Europe	20	36.4
	Asia	16	29.1
Alliance Form	Equity-based	35	63.6
	Non-Equity-based	16	29.1
Type of Saudi Company	Publicly-listed company	18	32.7
	Family business	18	32.7
	Government-owned corporation	3	5.5
	Limited liability company	8	14.5
	Semi-Government	1	1.8
	Joint Venture	3	5.5
	Closed Joint Stock Company	2	3.6
	Mixed company	2	3.6
Saudi Partner's Sector	Manufacturing	26	47.3
	Services	27	49.1
Foreign Partner's Sector	Manufacturing	31	56.4
	Services	23	41.8
***Foreign Staff**	Less than 25%	18	32.7
	Between 26% and 49%	4	7.3
	Between 50% and 75%	10	18.2
	Between 76% and 100%	8	14.5
	None	8	14.5
Alliance experience	None	18	32.7
	Once	9	16.4
	More than once	25	45.5
Alliance duration	Less than 5 years	13	23.6
	Between 5 and 10 years	9	16.4
	Greater than 10 years and less than 20 years	12	21.8
	Greater than 20 years	18	32.7

Table 14 Sample Characteristics

*Foreign staff located in Saudi Arabia as part of the alliance (% of foreign staff in Saudi Arabia).

Table 15 presents a general descriptive statistics overview for each of the study variables and provides a better understanding of the Saudi context. The results of skewness and kurtosis tests were in acceptable ranges, with a skewness value of -.3 and a kurtosis value of -2.5 (skewness and kurtosis values of zero indicate a normal distribution (Bali, 2007; Agarwal and Niak, 2004). Therefore, I assume that the data is normally distributed. The minimum values found for the willingness of foreign partners and intensive communication by foreign partners were the lowest compared to the other variables. The mean for the nature of the knowledge involved was slightly lower at 4.43.

Descriptive Statistics							
Construct	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**	**Skewness**	**Kurtosis**
Intent of Saudi	55	2.00	7.00	5.8091	1.27835	-1.363-	1.751
Ability of Saudi	55	2.29	7.00	5.4000	.94457	-1.066-	1.587
Willingness of foreign	55	1.00	7.00	5.0818	1.28655	-.506-	.421
Ability of foreign	55	1.86	6.86	5.1391	1.12610	-.845-	.382
Organizational Learning	55	1.00	7.00	5.0836	1.34973	-.964-	.679
Diversification Decision	55	1	3	1.85	.780	.263	-1.294-
Intensive Communication by foreign	55	1.00	6.67	4.6173	1.22962	-.599-	.149
Resource Commitment of foreign	55	2.00	7.00	5.1515	1.26657	-.719-	-.007-
Resource Commitment of Saudi	55	2.67	7.00	5.4727	.98066	-.514-	-.241-
Intensive Communication by Saudi	55	2.75	7.00	5.0185	1.04621	-.133-	-.503-
Knowledge Nature	55	2.17	7.00	4.4352	1.03260	.219	.193

Table 15 Descriptive Statistics

5.3.2. Key Findings

There is a low degree of correlation (0.261) between organizational learning and a diversification decision. The R^2 value indicates that the total variation in the diversification decision dependent variable can be explained by the organizational learning independent variable. 0.068% can be explained, which is small. The regression model statistically

significantly predicts the dependent variable (diversification decision), as determined by one-way ANOVA: F(1,53)= 3.884, P= 054.

Overall, the results suggest that organizational learning has a significant and positive impact on diversification decisions. The results indicate that the relation between absorptive capacity and organizational learning is negative and non-significant. To explain this surprising result, the study examines the underlying constructs of Saudi partner intent to learn from foreign partners and ability to learn. There appears to be a contradiction of the idea that organizational learning heavily depends on the partner's absorptive capacity, which previous studies have suggested. However, disseminative capacity has a positive relationship with, and therefore a strong impact on, organizational learning. This means that when a foreign partner has the willingness and ability to transfer knowledge to the Saudi partner more learning will take place, which makes this knowledge important for a diversification decision (knowledge of potential opportunities to diversify and of how to diversify). The significant contribution is the finding that a firm that has engaged in an international strategic alliance has the potential opportunity to enhance and enrich its knowledge base by accessing and acquiring knowledge from its partner. The firm can integrate its existing knowledge with the partner's knowledge and new knowledge becomes available for application. As a result, new knowledge directly contributes to building a strategic decision such as diversification (See Table 16).

Diversification Decision	%
None (there were no diversification decisions)	38.2 %
Planning for a major diversification at some point in the next three years	40.0 %
There has been at least one diversification decision	21.8 %

Table 16 States of Diversification Decisions

5.3.3. Full Model Findings

Table 17 shows the correlation coefficients between the variables. These reveal additional indications of the role of strategic alliances in diversification decisions. Most of the relations are not statistically significant, particularly between the dependent, independent, mediator and moderator variables. However, there is a positive correlation between absorptive capacity and all the variables and a strong correlation with disseminative capacity and resource commitment by the Saudi partner. This follows the logic that when a foreign partner increases the amount of knowledge it shares, the Saudi partner will increase its intent and ability to learn and its commitment in terms of qualified employees and necessary infrastructure. However, the impact of absorptive capacity on diversification decisions through organizational learning is extremely weak. On the other hand, disseminative capacity has a strong relationship with organizational learning (0.572^{**}) and a negative relationship with diversification decisions as a direct effect. Significant positive correlations are reported between organizational learning and diversification decisions. A correlation analysis is performed of the variables (resource commitment by the Saudi and foreign partners, intensive communication by the Saudi and foreign partners, and the nature of the knowledge involved) moderating the relationship between absorptive and disseminative capacities and the mediator variable organizational learning. There are weak correlations between the nature of the knowledge and diversification decisions (r = -0.076-) and between disseminative capacity and diversification decisions (r = -0.019).

Construct	AC	DC	OL	CF	RCF	RCS	CS	NK	DD
Absorptive capacity	**1**								
Disseminative Capacity	.587**	**1**							
Organizational Learning	.248	.572**	**1**						
Intensive Communication by Foreign	.160	.416**	.649**	**1**					
Resource Commitment by Foreign	.360**	.514**	.554**	.514**	**1**				
Resource Commitment by Saudi	.613**	.418**	.286*	.389**	.458**	**1**			
Intensive Communication by Saudi	.470**	.657**	.575**	.646**	.540**	.489**	**1**		
Knowledge Nature	.263	.193	.061	.011	.062	.252	.106	**1**	
Diversification Decision	.065	-.019-	.261	.208	.058	.064	.143	-.076-	**1**

Table 17 Correlation Matrix

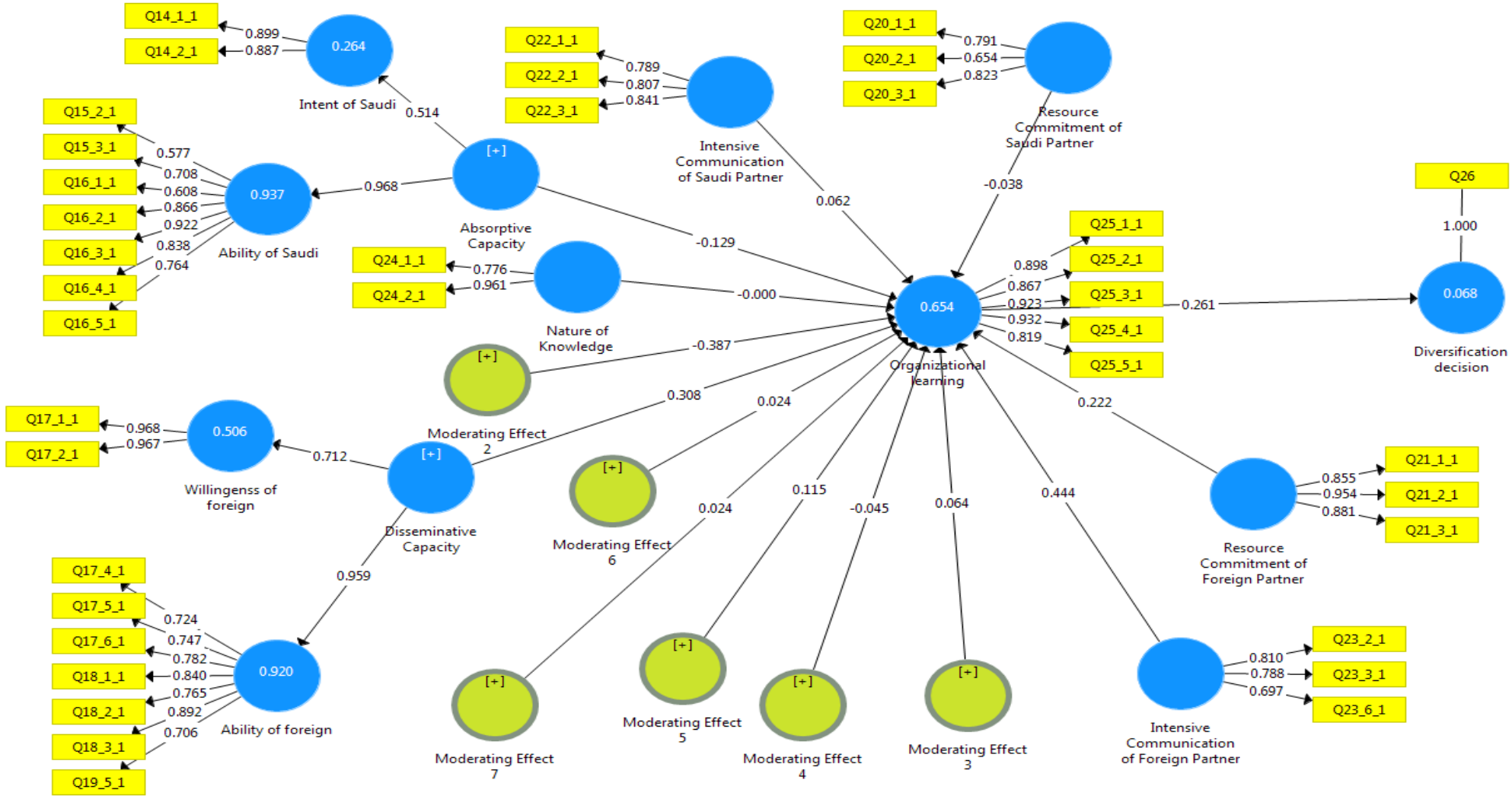

Figure 6 Full Model Result

*Moderators with numbers are explained in Table 18

5.3.3.1. Measurement Model

After analysing the full model, no issues were found in the assessment of the measurement model (convergent validity and discriminant validity). The internal consistency reliability (composite reliability) values range between 0.81 to 0.96, which are acceptable. Regarding indicator reliability, the content validity was considered in the decision whether to keep or delete an indicator. The outer loadings of the indicators are between 0.57 and 0.96. All the average variance extracted (AVE) values are higher than the threshold of 0.50 for all the constructs except absorptive capacity, which is considered to be a second-order variable.

Constructs	Cronbach's Alpha	CR	AVE
Ability of Saudi	0.875	0.906	0.584
Ability of foreign	0.893	0.916	0.611
Absorptive capacity	0.848	0.885	0.473
Disseminative capacity	0.892	0.913	0.539
Diversification decision	1.000	1.000	1.000
Intensive communication by foreign	0.659	0.810	0.587
Intensive communication by Saudi	0.743	0.853	0.660
Intent of Saudi	0.746	0.887	0.797
Nature of Knowledge	0.728	0.864	0.763
Organizational learning	0.933	0.949	0.790
Resource commitment by foreign	0.878	0.926	0.806
Resource commitment by Saudi	0.646	0.802	0.577
Willingness of foreign	0.931	0.967	0.936

Table 18 Construct Reliability and Validity

As a result, convergent validity is established. The indicator's outer loadings on the associated construct are greater than any of its cross-loadings on (i.e. its correlation with) other constructs. The Fornell-Larcker criterion (comparing the square root of the AVE values with the latent variable correlations) is used. Finally, the confidence interval of the HTMT statistic

is not above value 1 for any of the combinations of constructs except the second-order absorptive capacity (1.113) and disseminative capacity (1.082). Therefore, discriminant validity is established. Table 18 shows a summary of the measurement model.

5.3.3.2. Structural Model

However, the structural model has a major flaw. According to Cohen (1988), the effect size values (f^2) represent large, medium and small effects (0.35, 0.15 and 0.02).

Constructs	AS	AF	DD	IS	OL	WF
Ability of Saudi (AS)						
Ability of foreign (AF)						
Absorptive capacity (AC)	14.92			.359	0.01	
Disseminative capacity (DC)		11.5			0.07	1.02
Intensive communication by foreign (ICF)					0.22	
Intensive communication by Saudi (ICS)					0.00	
Moderating effect 2 (ICF = DC on OL)					0.14	
Moderating effect 3 (RCF= DC on OL)					0.00	
Moderating effect 4 (RCS= AC on OL)					0.00	
Moderating effect 5 (ICS= AC on OL)					0.00	
Moderating effect 6 (NK= AC on OL)					0.00	
Moderating effect 7 (NK= DC on OL)					0.00	
Nature of Knowledge (NK)					0.00	
Organizational learning (OL)			0.07			
Resource commitment by foreign (RCF)					0.05	
Resource commitment by Saudi (RCS)					0.002	
Willingness of foreign (WF)						

Table 19 Effect Size

Table 19 shows that the values of the effect size of absorptive capacity, intensive communication by the Saudi partner, moderating effect 3, moderating effect 4, moderating effect 5, moderating effect 6, moderating effect 7, the nature of the knowledge and resource

commitment by the foreign partner are less than 0.02, which indicate there is no effect. The model estimate several times after various modifications to try to obtain better results but the results remain the same. The final model only shows moderator effects on the side of the knowledge-holder.

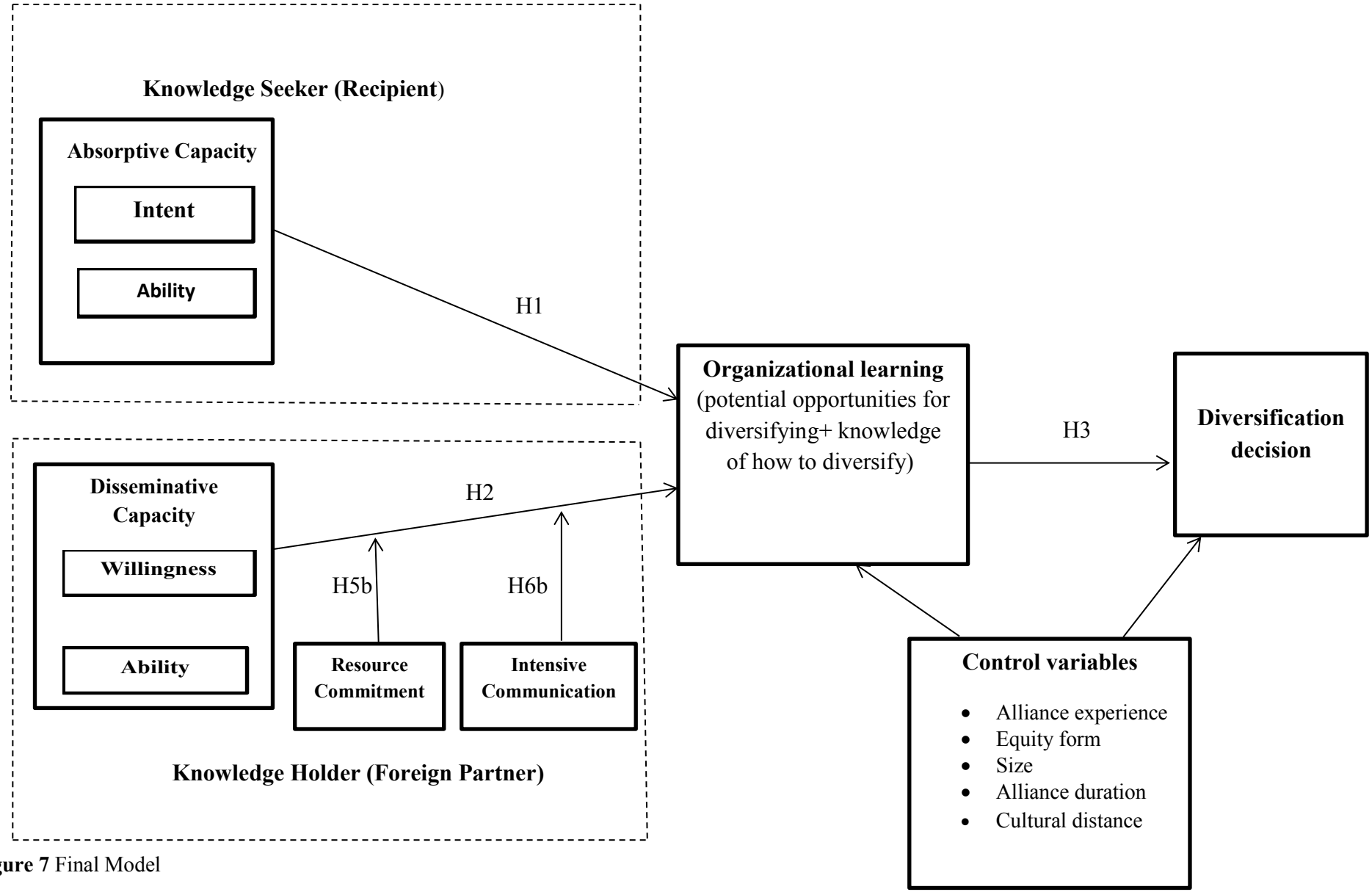

Figure 7 Final Model

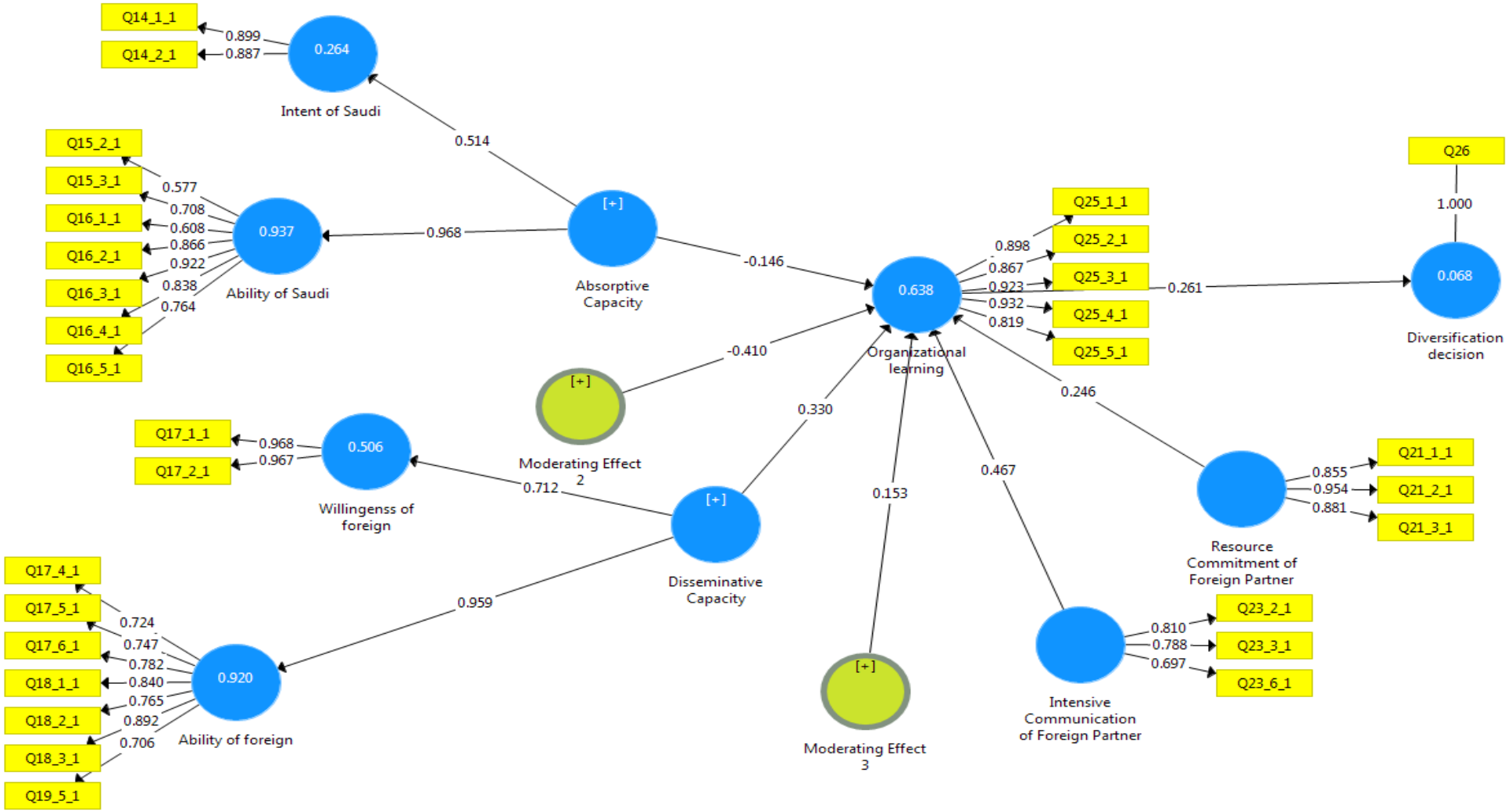

Figure 8 Final Model Results

5.3.4. Final Model Findings

5.3.4.1. Measurement Model

The convergent validity, discriminant validity and reliability of the constructs are tested using the Smart PLS 3 technique. All the scale items in the study are modelled as indicators reflecting their underlying latent constructs and a bootstrap algorithm (with 300 resamples) is used to estimate significance levels.

Constructs	Cronbach's Alpha	CR	AVE
Ability of Saudi	.875	.906	.584
Ability of foreign	.893	.916	.611
Absorptive capacity	.848	.885	.473
Disseminative capacity	.892	.913	.539
Diversification decision	1.000	1.000	1.000
Intensive communication by foreign	.659	.810	.587
Intent of Saudi	.746	.887	.797
Moderating effect 2 (ICF = DS on OL)	1.000	1.000	1.000
Moderating effect 3 (RCF= DC on OL)	1.000	1.000	1.000
Organizational learning	.933	.949	.790
Resource commitment by foreign	.878	.926	.806
Willingness of foreign	.931	.967	.936

Table 20 Construct Reliability and Validity

Convergent validity is assessed using three criteria. First, the item factor loadings should be significant and exceed 0.70. Second, the composite construct reliabilities should exceed 0.80. Third, the average variance extracted (AVE) for each construct should exceed (0.5). Table 20 and Figure 8 present the results. They show that there are satisfactory levels of reliability and validity of the constructs.

Discriminant validity is assessed using cross-loading, and the variable correlation using the square root of AVE and the HTMT criterion. Fornell and Larcker (1981) suggest that the square root of the AVE of a construct must be greater than any of its correlations with other constructs. Table 21 presents the square root of the AVE scores (on the diagonal) for each construct. These are higher than the corresponding correlations except for absorptive and disseminative capacities, which are second-order. The confidence interval of the HTMT statistic is not above value 1 for any combination of constructs except for the second-order absorptive capacity with the ability of the Saudi partner (1.113) and disseminative capacity with the ability of the foreign partner (1.082).

Furthermore, in Table 22 the variance inflation factor (VIF) is tested to measure the multicollinearity level among the independent variables. All the constructs satisfy the above criteria and discriminant validity is adequately established. Figure 7 summarizes the initial analysis of the model, including path coefficients, the variance of each endogenous variable and the factor loadings.

	Constructs	1	2	3	4	5	6	7	8	9	10	11	12
1	Ability of Saudi	**.764**											
2	Ability of foreign	.509	**.782**										
3	Absorptive capacity	.968	.564	**.688**									
4	Disseminative capacity	.528	.959	.573	**.734**								
5	Diversification decision	-.017	.009	.049	-.019	**1.000**							
6	Intensive communication by foreign	.141	.429	.180	.448	.225	**.766**						
7	Intent of Saudi	.283	.418	.514	.385	.242	.199	**.893**					
8	Moderating effect 2(ICF = DS on OL)	-.010	-.150	-.198	-.137	-.115	.150	-.413	**1.000**				
9	Moderating effect 3 (RCF= DC on OL)	-.240	-.331	.247	-.313	.025	.044	-.125	.658	**1.000**			
10	Organizational learning	.178	.554	.241	.579	.261	.677	.307	-.167	-.165	**.889**		
11	Resource commitment by foreign	.386	.482	.361	.533	.055	.544	.056	.059	.556	.556	**.898**	
12	Willingness of foreign	.378	.485	.377	.712	-.089	.305	.146	-.047	-.136	.400	.435	**.967**

Table 21 The Square Root of AVE of the Constructs and Corresponding Correlations

	Constructs	1	2	3	4	5	6	7	8	9	10	11	12
1	Ability of Saudi												
2	Ability of foreign												
3	Absorptive capacity	**1.000**						**1.000**			**1.571**		
4	Disseminative capacity		**1.000**								**2.066**		**1.000**
5	Diversification decision												
6	Intensive communication by foreign										**1.664**		
7	Intent of Saudi												
8	Moderating effect 2(ICF = DS on OL)										**2.016**		
9	Moderating effect 3(RCF= DC on OL)										**2.240**		
10	Organizational learning					**1.000**							
11	Resource commitment by foreign										**1.968**		
12	Willingness of foreign												

Table 22 Collinearity Statistics (VIF)

5.3.4.2. Structural Model

The structural model is assessed using the coefficient of determination, R^2, the effect size, f^2, predictive relevance, Q^2, and mediation, moderator and hypotheses testing. The coefficient of determination R^2 represents the amount of variance in dependent variables explained by all the independent variables linked to them. Table 23 shows that organization learning is moderate, ranging from 0.33 to 0.67, and diversification decision is weak (0.070) (Hair et al., 2011; Henseler et al., 2009). Together, the independent variables explain 63.8% of the variance in organizational learning. As expected, organizational learning has a positive influence on diversification decisions (H3).

Constructs	R Square
Ability of Saudi	.937
Ability of foreign	.920
Diversification decision	.068
Intent of Saudi	.264
Organizational learning	.638
Willingness of foreign	.506

Table 23 R-Squared of the Endogenous Latent Variables

According to Cohen (1988), the effect size values (f^2) represent large, medium and small effects (0.35, 0.15 and 0.02). Table 24 summarizes the effect sizes. Intensive communication by the foreign partner and absorptive capacity have large effect sizes of 0.362 on organizational learning and of 0.359 on the intent of the Saudi partner. The moderating effect of intensive communication by the foreign partner has a medium effect size of 0.169 on organizational learning. Absorptive capacity, disseminative capacity and resource commitment by the foreign partner have small effect sizes on organization learning.

	Constructs	1	2	3	4	5	6	7	8	9	10	11	12
1	Ability of Saudi												
2	Ability of foreign												
3	Absorptive capacity	**14.91**						**.35**			**0.03**		
4	Disseminative capacity		**11.55**								**0.14**		**1.02**
5	Diversification decision												
6	Intensive communication by foreign										**0.36**		
7	Intent of Saudi												
8	Moderating effect 2(ICF = DS on OL)										**0.16**		
9	Moderating effect 3(RCF= DC on OL)										**0.03**		
10	Organizational learning					**0.07**							
11	Resource commitment by foreign										**0.08**		
12	Willingness of foreign												

Table 24 Effect Sizes

Predictive relevance, Q^2, shows whether a study model has adequate ability to predict. In the current study it is greater than zero, which supports the previous claim.

Constructs	Q^2= 1-SSE/SSO
Ability of Saudi	0.484
Ability of foreign	0.505
Absorptive capacity	
Disseminative capacity	
Diversification decision	0.021
Intensive communication by foreign	
Intent of Saudi	0.189
Moderating effect 2(ICF = DS on OL)	
Moderating effect 3(RCF= DC on OL)	
Organizational learning	0.419
Resource commitment by foreign	
Willingness of foreign	0.445

Table 25 Predictive Relevance Q^2

5.3.5. Hypotheses Testing and Control Variables

Two of the five hypotheses (disseminative capacity and the moderating effect of intensive communication by the foreign partner) have significant effects ($p < 0.05$) on the mediator variable organizational learning. These results support H2 and H6b. Organizational learning has a significant effect ($p < 0.05$) on the dependent variable diversification decision and this supports H3. However, absorptive capacity and resource commitment by foreign partners have non-significant effects ($p > 0.05$), thereby failing to support H1 and H5b. The largest effect is of absorptive capacity on the ability of the Saudi partner ($b = 0.968$), followed by disseminative capacity on the ability of the foreign partner ($b = 0.959$). In addition, I find that intensive communication by the foreign partner negatively moderates the relationship between

disseminative capacity and organizational learning (b = -0.410), which I expected to be positively moderated. These results answer the research questions as follows.

Examining the Main Question: The Impact of Learning from International Strategic Alliances on Diversification Decisions

To investigate the influence of organizational learning on diversification decisions and to test hypothesis 3 – as OL has a positive effect on DD – PLS analyses of a structural equation model are performed. It was hypothesized that OL from foreign partners positively influences a firm's subsequent diversification decision. Confirmation is found of a positive effect of OL on firms' subsequent diversification decisions.

Examining RQ1: The Relationship between Absorptive Capacity and Organizational Learning

Hypothesis 1 is tested to confirm whether or not there is an impact of AC on OL, as previous studies have found (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002; Minbaeva et al., 2003, 2014). Both dimensions of AC were expected to be positive and significant and they were. Surprisingly, AC has a negative and non-significant effect on OL and results in no impact on diversification decisions. Hence, hypothesis 1 is rejected.

Examining RQ2: The Relationship between Disseminative Capacity and Organizational Learning

Hypothesis 2 regards the influence of DC on OL and how this impact may contribute to diversification decisions. The results support this hypothesis as DC has a strong effect on OL and this effect is robust across the control variables. In addition, the results support the hypothesis for both dimensions (willingness and ability).

Examining RQ3: The Roles of Resource Commitment, Intensive Communication and the Nature of the Knowledge Involved in the Process of Learning and Knowledge Transfer.

Hypothesises 4 a,b 5 a,b and 6 a,b are tested to explore how resource commitment, intensive communication and the nature of the knowledge involved moderate the relationship between absorptive and disseminative capacities on the one hand and organizational learning on the other. However, only moderators on the side of the foreign partner meet the statistical standards and so become testable particularly (resource commitment and intensive communication). Resource commitment is non-significant and intensive communication shows a significant but negative relationship. Table 26 shows a summary of the tests of the hypotheses.

Hypothesis	**Proposed relationship**			**Hypothesized effect**	**Supported**
H1	Absorptive capacity	→	Organizational learning	+	***No***
H2	Disseminative capacity	→	Organizational learning	+	Yes
H3	Organizational learning	→	Diversification decision	+	Yes
H5b	Moderating effect 3	→	Organizational learning	+	***No***
H6b	Moderating effect 2	→	Organizational learning	+	No*

Table 26 Summary of Hypothesis Tests, * The direction is negative

The control effects are mostly non-significant, especially on absorptive capacity. Exceptions are the continent of the foreign partner and the alliance form. The control effects on disseminative capacity are strong and significant. Only the Saudi partner was asked about its annual sales. Table 27 summarizes the effects of the control variables on the relationship between absorptive capacity and disseminative capacity on the one hand and organizational learning on the other.

Control Variable	Absorptive capacity	Disseminative capacity
Alliance form	.014	.000
Alliance experience	.080	.000
Alliance duration	.073	.000
Annual sales	.151	-------
Continent of Foreign Partner	.028	.000
Number of Permanent Staff	.065	.000
Sector	.71	.000

Table 27 Effects of Control Variables on Organizational Learning

A range of control variables, including alliance duration (in years), alliance experience (in years), alliance form (non-equity vs equity), size (sales and number of permanent foreign staff), cultural distance between Saudi Arabia and the home country of the foreign MNE and sectoral alignment are tested to show the impact of knowledge transfers on diversification outcomes. Cultural distance is calculated using the Kogut and Singh (1988) formula, which is based on all six of Hofstede's dimensions. A new dichotomous dummy is used for sectoral alignment which indicates if the two partners operate principally in the same industrial sector. There are significant relations in three of the seven effects. All the control variables have non-significant effects on diversification outcomes with the exception of cultural distance, which is negative. Table 28 summarizes the effect of the control variables on this relation.

5.4. Discussion

Knowledge transfer from foreign parent firms to host country partners is considered a main factor in building a competitive advantage. Previous studies of alliances suggest that the reasons firms form alliances are that they mitigate risks or provide complementarity in resources, which benefit them in the short- or medium-term

(Parise and Casher, 2003). In addition, most empirical works on alliances have covered areas such as the emergence, management and survival of alliances (Wassmer, 2010).

Control Variables	Path coefficient	T-test
Alliance duration	0,06	0.36
Alliance experience	-0.01	0.08
Alliance form	0.10	0.71
Annual sales	0.08	0.60
Number of Permanent Foreign Staff	-0.10	0.69
Cultural distance	-0.29***	2.29
Sector alignment	-0.17	1.23

Table 28 Effects of Control Variables on Diversification Decision

***p<0.001

While previous studies have highlighted the role of learning and how it impacts performance (e.g. Hamel, 1991; Simonin, 1999b; Lane et al., 2001; Gulati et al., 2012; Liu, 2012; Jiang and Li, 2008), less attention has been paid to the role of alliances in encouraging diversification decisions. The need for studies examining the utilization of learning from alliances such as by improving a firm's internal processes (Howard et al. 2016) and innovation capability (Dahlander et al., 2016; Liu, 2012; Nielsen and Nielsen, 2009) and on the level of relationship satisfaction (Liu et al., 2010) is obvious. There is still a noticeable gap in the literature and our understanding of how firms in a non-diversified economy can benefit from strategic alliances with foreign MNEs in making subsequent diversification decisions is limited. This study has addressed this gap using the Saudi context to show how local partner firms in Saudi Arabia make subsequent diversification decisions as a consequence of learning from foreign MNEs in strategic alliances. In this chapter, the study has attempted to

close the gap in our understanding at the theoretical and practical levels. Finally, limitations and future research will be discussed.

Theoretically, in spite of the fact that learning from an international strategic alliance has often been assumed and tested in previous literature, there has been a gap in the strategic alliance literature. This study has added an essential missing link which is the application of new knowledge in strategic decisions. The current study has, first, filled this gap by developing a theoretical model that extends the organizational learning approach (by linking knowledge acquisition and application) to explain diversification decisions by Saudi firms partnering with foreign MNEs. A review of the organizational learning and knowledge-based literature was carried out to gain more insights and a better understanding of how firms in non-diversified economy diversify into new product lines and new markets that result from engaging in a strategic alliance with a foreign MNE. Then, a model was tested which included the impact of moderator variables such as the nature of knowledge the foreign MNE brings to the host country partner, the partners' commitment to the alliance and intensive communication in the host country. The empirical findings support the claim that a higher level of acquisition and internalization of knowledge from a foreign MNE partner will influence a future diversification decision by local partner firms. This study has demonstrated that organizational learning from a foreign partner plays an important role in a firm's growth strategy. This contributes to the strategic alliance and international business literature (Simonin, 1999a, 1999b; Lane et al., 2001; Inkpen, 2005; Mu et al., 2010; Gulati et al., 2012; Howard et al., 2016; Liu, 2018; Dahlender et al., 2016). The study tested the model with data obtained from a survey of 55 firms in Saudi Arabia. The overall results of the test support the contention that

organizational learning has a significant impact on the host country partner's subsequent diversification decisions.

Second, another contribution to the literature on organizational learning and knowledge transfer in international strategic alliances is that this study has have shown how each capacity (absorptive and disseminative) has different effects on learning from the perspective of the knowledge-seeker. On the one hand, the study found no significant relationship between a higher level of absorptive capacity of the host country partner firm (the knowledge-seeker) in a strategic alliance with a foreign MNE and its degree of awareness of diversification opportunities and the means to pursue them, as was initially proposed. This result contradicts previous studies that assert an importance of absorptive capacity for knowledge transfer and learning from a foreign partner (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002; Minbaeva et al., 2003, 2014). Minbaeva et al. (2003, 2014) operationalize absorptive capacity as an interaction between the ability and motivation of the knowledge-seeker which then affects knowledge transfer. The results are in some way consistent with those of Minbaeva et al. (2003, 2014) in that the relationship between absorptive capacity (the direct effect of each aspect) and knowledge transfer is non-significant, but with a difference in the direction (I find a negative relation). It is important to note that Minbaeva et al.'s (2003, 2014) work was investigating internal knowledge transfer within MNEs. There may be several possible reasons for the above results. One explanation is that some of the Saudi partners were not prepared for an international strategic alliance and they lacked the necessary resources such as human, financial or infrastructure ones. Another is that the knowledge bases of the partners might be too divergent, which might affect the absorption of new knowledge.

On the other hand, disseminative capacity has been shown to have a strong positive significant relationship with organizational learning. This result is consistent with observations in the literature that the ability of the knowledge holder to transfer knowledge to the partner has a strong positive effect on knowledge transfer (Minbaeva and Michailova 2004; Mu et al., 2010; Tallman and Chacar, 2011; Schulze et al. 2014). In this second respect, the result contradicts previous studies that find willingness of foreign partners has a non-significant on share information (Minbaeva and Michailova 2004; Szulanski; 1996; Simonin 1999a, 1999b) and consistent with Teo and Bhattacherjee (2014) in the significant of willingness. Minbaeva et al.'s (2018) study finds results which are in some ways different to both those in the previous literature and mine. They find a non-significant ability to share but a significant willingness. The findings have revealed that foreign partners have the skills and competencies necessary for knowledge transfer. The study has also found that disseminative capacity is a robust construct because the relationship remains strong and significant with all the control effects (see Table 27). This result demonstrates that in the context of organizational learning, disseminative capacity is sufficient to encourage diversification decisions, and this can be considered a new insight that has not been made in previous work.

Third, in terms of its implications for the diversification literature, this study advances our understanding by explaining the interaction between strategic alliances and diversification. The findings indicate how diversification theory needs to account for strategic organizational learning in alliances with foreign partners that have vast experience and capabilities. The organizational learning underpinning diversification includes learning on opportunities for diversification, how to diversify and how to manage the risks of diversification. This goes beyond the explanations of the market-

power view, the resource-based view and the agency view (Montgomery, 1994) which have been advocated in previous literature on diversification (Palich et al., 2000; Santarelli and Tran, 2016) and demonstrate how knowledge transfer and learning from foreign partner particularly tacit knowledge enhances decisions and considers as the key for future strategic decision (Cohen and Levinthal, 1990; Brockmann and Anthony, 1998; Zahra and George, 2002; Jiang and Li,2008; De Clercq et al., 2012; Liu, 2012; Hoskisson et al., 2015; Casillas et al., 2015; Andreou et al., 2016).

The study has distinguished between absorptive and disseminative capacities within an alliance and shown how they determine the organizational learning which is needed for future diversification decisions. These results explain how knowledge transfer provides the knowledge-seeker with increased awareness of new areas that can lead to potential diversification opportunities. Moreover, the model used in this study is original in that it provides an explanation of diversification decisions from the perspective of knowledge-seekers. Previous literature lacks an explanation of how the knowledge-seeker acquires tacit knowledge that is needed for its diversification. The approach here highlights that alliances are a key source of the tacit knowledge that underpins subsequent strategic decisions by knowledge-seekers in a non-diversified economy.

In addition, this study has contributed to the debate on the role of international strategic alliances and knowledge transfer in strategic decision-making by emphasizing the importance of knowledge utilization. Most studies of alliance learning have focused on the first element in knowledge systems: acquiring knowledge from the partner (Foss and Pedersen, 2004). This research has focussed on the parts of the system (acquisition and utilization).

While the role of communication is critical in acquiring and transferring knowledge in an alliance, an unexpected finding has been the negative moderating effect of intensive communication by the foreign partner on the relationship between disseminative capacity and organizational learning. The study has examined the underlying items that represent intensive communication in order to analyse this surprising result. Intensive communication has been measured as either formal or informal. The result might be due to the form of alliances in this study, where the sample contains more equity-based alliances (63.6%) than non-equity-based ones (29.1%), which require intensive communication. Figure 8 has shown that intensive communication by the foreign partner has positive effects up to a certain level and then the relationship becomes negative. When the foreign partner communicates intensively with the Saudi partner it might be difficult for this to contribute to transferring knowledge for two reasons. First, it might due to the quantity of information received (in full detail), which cannot be processed at the same time. Second, it may lead to an environment that does not support the transfer of knowledge because information is transferred in only one direction, which may prevent the receiver from asking questions or giving feedback regarding the transferred knowledge. To transfer knowledge an exchange environment is required. A good and balance level of intensive communication is important to acquire and transfer knowledge in an international strategic alliance.

In terms of practical implications, management teams in host country firms in non-diversified economies should consider mechanisms for utilizing and integrating learning from international alliance partners in order to effectively use the knowledge on how to diversify. In this way the lack of required knowledge (particularly know-how and know-why) among firms in non-diversified economies can be managed.

This study is not without limitations. The main limitation is sample size. The sample is relatively small, which limits the generalizability of the results. This may be due to the filter criteria in the questionnaire and also the time the data were collected, when huge restructuring was underway under Vision 2030.

The findings raise some essential questions to be explored in the future. For example, in knowledge transfer, why is absorptive capacity non-significant and negative? Why do absorptive and disseminative capacities have different impacts on organizational learning? How does disseminative capacity influence organizational learning so strongly? Since previous studies have emphasized the importance of absorptive capacity in learning and knowledge transfer, these questions should be explored in future research in depth. More (theoretical, research and managerial) limitations and more directions for future studies are discussed in detail in Chapter 8.

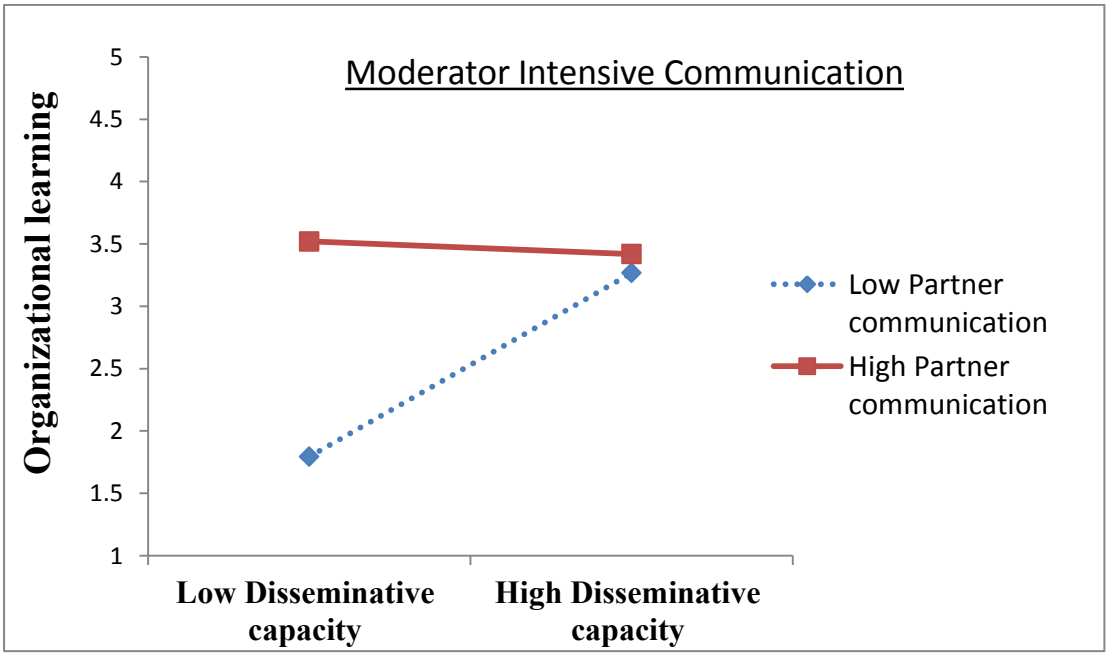

Figure 9 Moderating Effect

Chapter 6: The Impact of Absorptive and Disseminative Capacities on Organizational Learning

The findings in Chapter 5 contradict previous literature (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002; Minbaeva et al., 2003, 2014) by showing a negative and non-significant relationship between absorptive capacity and the organizational learning. In addition, none of the moderator variables on the Saudi partner side met the statistical requirements to perform hypothesis testing and the moderators between disseminative capacity and organizational learning were mixed. Therefore, the qualitative study -the explanatory sequential- was necessary to explore in greater depth the issue around absorptive capacity in the Saudi firms that was not captured in the first study (questionnaire). The qualitative study does not provide all the answers, but they do fill in some key gaps in understanding that were not answered by the questionnaire. Hence, the purpose of Chapter 6 is to identify the role of the absorptive capacity of Saudi partners plays in the process of knowledge acquisition from foreign partners and how this learning drives diversification decisions in Saudi companies. In addition, this study tests the impact of the moderator variables on the side of Saudi partners including knowledge nature, resources commitment and intensive communication. This study contributes to the existing knowledge on strategic alliances and diversification by investigating the relationship between them in depth through the focus on knowledge seeker and knowledge holder capacities (absorptive and disseminative). The novelty of this study, therefore, justifies a qualitative approach. This is suitable for a study that answers a 'how' question (Yin, 2009). The study is carried out using case studies from different industries in the Saudi market.

6.1. Research Questions

Main Question

How does learning through international strategic alliances with foreign multinational enterprises (MNEs) impact diversification decisions among firms in a non-diversified economy such as Saudi Arabia?

Sub-questions

1- Why was absorptive capacity non-significant in the previous study (Chapter 5)?

2- What are the levels of absorptive and disseminative capacity and how are these levels differ in terms of their impacts on organizational learning in light of moderating effects?

6.2. Research Design

6.2.1. Data Collection

In this study, interviews were mainly employed for data collection, with the purpose of improving knowledge and allowing deep evaluation (Wengraf, 2001). Interviews are considered a very useful tool for gathering information on respondents' subjective perspectives and can also supplement a questionnaire with more detailed answers. According to Kvale (1996) interviews are "attempts to understand the world from the subjects' point of view, to unfold the meaning of peoples' experiences, to uncover their lived world prior to scientific explanation." Interviews vary in terms of the level of formality and structure. The categories are structured, semi-structured and unstructured interviews. Semi-structured interviews are used in this study because they allow flexibility and improvisation and give the researcher time to plan and prepare questions (May, 2001). Open and closed questions are chosen according to interview themes. Open questions give the respondent the opportunity to answer in his/her own words, provide extensive thoughts and reply as he/she wishes to questions. This category of question helped the respondents to avoid difficulty in answering questions and allowed the researcher to ask for more detail about

knowledge acquisition in strategic alliances and how to use it in a strategic decision. In addition, closed questions were used for the specific purposes of obtaining particular information or confirming opinions. In addition, a survey - the sample of 55 firms- about the impact of international strategic alliances on diversification decisions in a non-diversified economy (Saudi case) was used.

The fieldwork was conducted in 2017-2018 in Saudi Arabia. During an eight-month period, the interviewing researcher travelled to Saudi Arabia to perform face-to-face semi-structured interviews. Due to the explanatory nature of this study, caution was required in the selection criteria. To answer the research questions, a theoretical sampling method was used to choose the case companies (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). The criteria for choosing the case companies were as follows. The researcher determined the actual cases that directly involved in the international strategic alliance with a foreign partner to be interviewed based on their coverage of diversification decision states (non-diversified, planning to diversify, and diversified) during the period of interest from 2005 to 2015 (for the reasons stated in Chapter 5). These cases are considered among the largest of Saudi companies working with foreign MENs for many years. In addition, the cases were chosen because they were from mature industries (construction, food, pharmaceutical, mechanical, electrical and electronics, poultry, and decoration and building material) and for its size in Saudi markets. The objective of targeting firms from different industries was to gather data from manufacturers and service providers. Most of these cases are family companies and some of them have just publicly listed which can advance our understanding regarding the Saudi context. They show the impact of the management culture particularly in knowledge transfer and learning (communication and trust with partners) and decision-making (hierarchical). Furthermore, all the

international strategic alliances had been in existence for at least three years, which is more than the three years that considered necessary for organizational learning to take place (Lyles and Salk, 1996) and as result, the successful outcomes in the knowledge transfer and learning reflected in the majority of the cases taking a diversification decision. Finally, these cases are different in many aspects in terms of the international alliance including the year of establishment, alliance experience, partner's countries, and duration of the alliance (See Table 30). With the above criteria, I used the questionnaire list as the basis for cases selection. After analyzing the cases from the list, I identified 12 cases that can meet the criteria. Eventually, I chose and accessed seven cases that are the cases in this study. The sample needed to be relatively small in size but fill the requirements of the objectives of the study. It was important for the sample to cover all the states of diversification decisions and that was the key criterion in selection.

The respondents were chosen based on their roles and contributions to their companies in the alliance as top management and experts in the field. They were executives and senior managers in Saudi firms. Middle management, represented by managers, was chosen due to their practical experiences and involvement in the international strategic alliance particularly in the knowledge transfer and learning processes. Top management, as represented by executives (e.g. presidents, CEOs, vice-presidents, directors, and general managers) were chosen because they are able to observe and determine the impact of alliances on organizational activities (Simonin, 1999a) especially in the long term. In addition, they have extensive knowledge of their firm's history (Eisenhardt and Schoonhoven, 1996), and understanding of the process of formulating a diversification decision within their firms. Both levels of management (top and middle) are the best who can inform the

research questions (Creswell, 2009). Finally, the interviewees must have worked with a foreign partner for at least three years. Due to the access limitations to Saudi firms that consider as the top greatest challenge in qualitative research (Piekkari and Welch, 2004), time-consuming and cost limitations, the identified participants provided a breadth and depth of data that are essential for analysis and answer the research questions (Curtis et al., 2000).

The researcher contacted 12 participants, but only seven agreed to participate in the study. The participants were contacted through several channels, including email, which was employed for the questionnaire in Chapter 5, and via the researchers' personal network. In most cases, the researcher met individuals who fit the participant selection criteria. Because the research focuses on the Saudi perspective, interviews were conducted exclusively with Saudi nationals in most cases working in international strategic alliances (ISAs) and located in Saudi Arabia. The participants included CEOs, department managers, and engineers. Some participants occupied multiple positions simultaneously in the Saudi company. The participants had between 5 and 15 years of work experience. All the participants and companies requested strict confidentiality. The interviewees authorized recording of their interviews to ensure that no information was missing. The time allocated for each interview was 40 minutes but generally they actually lasted between 20 and 30 minutes. All the interviews were conducted in Arabic because it is the native language of the respondents and it allowed them to speak freely and spontaneously with no language concerns. At the end of the data collection, the information was transcribed word for word in Arabic so that it could be verified at any time. The transcripts were then translated into English. Tables 29 and 30 show the profile of the interviewees and describe the characteristics of Saudi companies under study.

Method	Description of data collection details	Time frame
Questionnaire	Survey about the impact of international strategic alliances on diversification decisions in a non-diversified economy (Saudi Arabia). The sample is 55 firms.	October 2017 To October 2018
Interview	Interviewed 7 key participants of Saudi partners, including CEOs, department managers and engineers.	

Table 29 Data Collection Methods

6.2.2. Data Analysis

The study adopts a multiple case study approach, following Yin (2009). The dominant qualitative method in IB research was the multiple cases (Welch et al., 2011) due to the use of different sources of data and flexibility in a new research context(Ado et al., 2017). Determining themes is an important task in the analysis of a semi-structured interview in order to achieve the purpose of the study. The data from interviews were analyzed thematically using Nvivo 11. Thematic analysis as a qualitative descriptive approach refers to "a method for identifying, analysing and reporting patterns (themes) within data" (Braun and Clarke, 2006: 79). This approach analyses the transcripts of the interviews using procedures including a reduction (coding), reorganization and comparison of the contents (Miles and Huberman, 1994). The coding processes for the events or facts in the international strategic alliance with foreign MNEs were conducted into first and second-order categories and then were further coded into aggregate themes. Therefore, the scope, definitions and titles of each of the themes that were driven by the existing literature and by the data were generated. Table 31 shows the definition of each theme, while Table 32 presents the themes, codes and sample extracts. Statistics tests are presented in Table 33 (a lower degree of similarity based on the occurrence and frequency of words is displayed particularly Jaccard's and Sørensen's coefficient) and Table 34 (a higher degree of

similarity is displayed due to the many coding from the same sources except Pearson coefficient).

After the themes were generated, I went to analyze the relationships between the themes. The technique of within-case analysis was conducted detailing for each case (Eisenhardt, 1989; Yin, 2009) which then lead to an increase the internal validity (Riege, 2003). In addition, cross-case analysis was used to compare each case with each other, first within the level of absorptive capacity and disseminative capacity and then between diversification decision states (e.g non-diversified, planning to diversify and diversified) to advance our understanding of the similarities and differences among the cases. The focus in the analysis was on various factors that together gave a perspective regarding the impact of strategic alliances on diversification decisions. To refine the findings, I moved back-and-forth between our empirical data, findings, and the literature (Eisenhardt, 1989).

The researcher used various data sources including interviews and questionnaires for mixed-method –triangulation-, especially when problematic, or incomplete information was obtained from certain interviewees. The data collected from the interviews and questionnaires were linked together as the questionnaire respondents and the interviewees were from the same companies. A number of issues related to data quality may arise when semi-structured interviews are used, such as reliability of data and bias. First, in order to increase the reliability of the data, through deep preparation the researcher understood well the themes of the interview and the information available about the companies and interviewees. In addition, before conducting the interview the respondents received information about the topic and the list of interview themes. The reason behind this was to help the interviewees to be informed and prepared with the necessary right information so the information

Job Title	Alliance Experience	Alliance Form	Continent of partner	Duration	Foreign Sector	Saudi Sector	Cultural Distance
Functional Head	Once	Equity-based	Asia	Greater than 10 years and less than 20 years	Services	Services	.010
Functional Head	None	Equity-based	Asia	Less than 5 years	Manufacturing	Services	2.47
Senior Executive	More than once	Non-equity-based	Europe	Less than 5 years	Manufacturing	Manufacturing	.89
Senior Executive	Once	Equity-based	Asia	Between 5 and 10 years	Manufacturing	Manufacturing	1.75
Functional Head	More than once	Non-equity-based	Europe	Greater than 20 years	Manufacturing/ Services	Manufacturing	1.25
Senior Executive	None	Non-equity-based	Europe	Greater than 20 years	Manufacturing	Manufacturing	4.33
Functional Head	None	Equity-based	Africa	Less than 5 years	Manufacturing	Manufacturing/Services	1.68

Table 30 Characteristics of the Cases

Theme	Definition
Knowledge transfer processes	The physical process between the knowledge seeker (absorptive capacity involving intent and ability) and knowledge holder (disseminative capacity including willingness and ability) in an international strategic alliance in light of the moderator variables such as resource commitment, intensive communication and nature of knowledge.
Organizational learning	The change of behaviour of Saudi firms that is related to the knowledge of opportunities to diversify and how to diversify which allows the host country partner (Saudi firm) to engage in its own diversification decisions.
Diversification decisions	The result of knowledge transfer and learning from the foreign partner that lead the host country partner to take one of the diversification decision states (non-diversified, planning to diversify or diversified).

Table 31 Definitions of the Themes

provided would be valuable. Second, the researcher was conscious of the possibility of bias in his own cultural beliefs in the analysis so the analysis of the transcripts was done with an objective perspective.

6.3. Findings

In this section, the main finding will be presented first. Next, each case will be presented to show the three themes –knowledge transfer process, organizational learning and diversification decision- in an international strategic alliance within the Saudi context. The following section presents cross-case analysis results in terms of the level of each capacity and diversification decision states.

6.3.1. Main Finding

In this study, the investigation focuses on how the knowledge transfer from an international strategic alliance impacted the organizational learning of knowledge-seeker that allowed it to take a subsequent diversification decision. This knowledge was transferred from the foreign partners through formal and informal communications, including training and daily interaction about the awareness of

Theme	Code	Sub-code	Example
Knowledge transfer processes	Absorptive capacity	Intent	"Yes, we had clear and specific intentions and objectives to make strategic alliances or to achieve the goals through strategic alliances"
		Ability	"It was somewhat suitable in terms of qualifications, but honestly in terms of the number of qualified people to carry out the process of learning from the partner the preparation was less than required"
	Disseminative capacity	Willingness	"Not vice versa, the foreign partner in many cases was fighting for the success of the experiment"
		Ability	"Technical team, technical analysis for buildings in any project was given through accurate reporting on how the project was going so far"
	Moderator variables	Resource commitment	"Resources were provided and ready, including human resources, training and financial resources."
		Intensive communication	The communication with the European partner was at both the formal and informal levels. Formally, it was through meetings and site visits and informally through daily communication.
		Nature of knowledge	"Technical team, technical analysis for buildings in any project was given through accurate reporting on how the project was going so far."
Organizational learning	Awareness of opportunities		"Sometimes alliances lead you to discover other opportunities and expand in a certain area"
	How to diversify		"The knowledge we have taken from our partner has helped us, first in identifying diversification opportunities such as in metal and wire-formation"
Diversification decisions	Non-diversified		"No, no, there was none"
	Planning to diversify		"There is thinking which resulted from the knowledge. It is changing the menu in the evening"
	Diversified		"Yes, wire forming-, metal forming and metal extension, three kinds."

Table 32 Themes and Codes from the Thematic Analysis

Theme A	Theme B	Pearson correlation coefficient	Jaccard's coefficient	Sørensen's coefficient
Knowledge Transfer	Organizational Learning	0.542617	0.217362	0.357104
Knowledge Transfer	Diversification Decision	0.499781	0.218611	0.358787
Organizational Learning	Diversification Decision	0.645544	0.271547	0.427112

Table 33 Themes Clustered by Word Similarity

Theme A	Theme B	Pearson correlation coefficient	Jaccard's coefficient	Sørensen's coefficient
Knowledge Transfer	Diversification Decision	0	1	1
Organizational Learning	Diversification Decision	0	1	1
Organizational Learning	Knowledge Transfer	0	1	1

Table 34 Themes Clustered by Coding Similarity

opportunities for diversifying and how to diversify. After the processes of integration with existing knowledge it then became valuable for the diversification decision. The Saudi partners worked with foreign partners from different countries, including developed and developing ones.

Of the seven cases analysed, the researcher found that some Saudi partners obtained significant knowledge and achieved the required learning objectives with some difficulty, or at least had to expend substantial efforts to achieve the learning objectives and that consistent with previous studies which emphasize the importance of absorptive capacity in knowledge transfer and learning from a foreign partner (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002). The results also suggest that the foreign partners were open, willing to share and had the ability to transfer knowledge and that confirm previous literature results in the willingness and ability of the knowledge holder on

knowledge transfer (Minbaeva and Michailova 2004; Mu et al., 2010; Tallman and Chacar, 2011; Minbaeva et al., 2018; Schulze et al. 2014; Teo and Bhattacherjee, 2014). Even though the knowledge transferred was of various types in the cases, a considerable and important amount of tacit knowledge was transferred which supported the Saudi firms to engage in its own diversification decision (Cohen and Levinthal, 1990; Brockmann and Anthony, 1998; Zahra and George, 2002; De Clercq et al., 2012; Hoskisson et al., 2015; Andreou et al., 2016) and also confirm the empirical findings of the impact of knowledge acquisition and utilization on firm's capabilities and performance (Liu, 2012; Jiang and Li,2008; Casillas et al., 2015). The Saudis, at both the organizational and individual levels, used various strategies, mechanisms and tactics to acquire the foreign partner's knowledge. These are the main findings of this study.

6.3.2. Within-Case Analysis

6.3.2.1. Construction Company

Knowledge Transfer Processes

The analysis highlights the side of the knowledge-seeker (Saudi partner) in terms of the intent and ability during the alliance with the foreign partner. There was no intention or preparation to learn from the foreign partner before the alliance started because this partnership was basically the idea of a government authority. The law at that time in Saudi Arabia required Saudi partners to work with foreign partners in certain fields. The Saudi partner respondent stated:

"There was not a study or something from us as a company to search for and find a foreign partner and then bring him from abroad." (Department Manager)

"They brought those partners, as the foreign partners need Saudi partners when they want to work in Saudi Arabia." (Department Manager)

Therefore, no preparation processes for learning in this alliance took place per alliance. However, during the alliance a desire to learn emerged because of the distinctive experiences that the foreign partner had. Then resources, including human and technological ones, became available to support the establishment of the alliance and the learning process. For example, the Saudi partner recruited qualified employees to facilitate knowledge transfer. Later, the process of learning gradually started along all curves, including technology and project design. For instance, the knowledge that the Saudi partner transferred during this alliance includes the design of housing units, one-room apartments and studios and landscape and marina design. In addition, on the standards and management side, knowledge was transferred such as on company structure. Both channels of communications formal and informal were used and the Saudi partner tended to depend more on the formal due to the type of required knowledge which can be obtained through for example training. A director of the Saudi partner stated:

"The company starts looking for things that it needs and suit it such as design finishes, but at the level of design, apartment and landscape design because we have entirely different designs." (Department Manager)

The knowledge-holder was willing to share its knowledge and had the ability to go forward in the process. In addition, all of the partner's employees had expertise which supported knowledge transfer. The Saudi partner respondent stated:

"No, no, no, this is not, we did not experience it. But on the contrary, they were fully cooperative, in the end, they are businessmen who want success." (Department Manager)

Organizational Learning

The results indicate that working with a foreign led the Saudi partner to know more about diversification opportunities. For example, it found out about opportunities for

entertainment in its projects. In addition, this opportunity allowed the Saudi partner to know how to diversify by introducing this aspect into industrial and marina projects which are based on strategy and market requirements. As the Saudi partner stated,

"In the market four years ago there was a demand for industrial land. Now there is a decrease in demand. However, now there is an increase in the demand for entertainment programmes in general, all of which let you change your strategy constantly, not continuing on one strategy alone." (Department Manager)

Diversification Decision - Non-Diversified

As a result of learning in this international strategic alliance, no diversification decision was made by Saudi partner, which may be due to the strategy of the company. As the Saudi partner stated,

"No, no, there was none" (Department Manager)

Summary

Intent to learn emerged during the alliance, which led the Saudi partner to strengthening its ability to receive knowledge by acquiring the necessary resources. The foreign partner was cooperative and had the ability to transfer knowledge. The Saudi partner found out about diversification opportunities and the process of diversification. However, no diversification decision was made.

6.3.2.2 Food Company

Knowledge Transfer Processes

The findings in this case demonstrate the obvious intention and preparation to learn from the foreign partner. First, the Saudi partner selected a partner which is an expert in its field. Second, the Saudi partner, including the top management and the team that worked later with the Japanese partner, visited Japan to have a close look at the partner's projects. The Japanese partner employed theory from Toyota which was useful to maximise production with fewer errors, take less time and involve fewer

workers. During the visit, the Japanese partner introduced the theory on the ground. The alliance contract was signed in 2014 and the partners work together in the food industry.

"They arranged a visit to Japan for us and took the board of directors and a group of management and asked the board to determine a team to work with them after they gave them tasks. They wanted the team to live the work there." (Public Relations Manager)

The management was highly committed in terms of supporting the processes of absorbing a partner's knowledge including human and financial resources. When the Japanese partner team arrived in Saudi Arabia, they worked around 14 hours a day with the Saudi team for the first 9 months, which may explain how the knowledge was transferred quickly. During the long working hours, both partners engaged in formal communications such as meeting and also through informal (i.e. daily communication). Most of the knowledge transferred was administrative and operative. Examples of this knowledge are on designing machines inside the restaurant, following the employees in the restaurant, the product laundry room, a window to hand the requested products to the customer, SMS tracking of requests and a food storage room. In addition, the Saudi partners started to use their team that had worked with the Japanese partner to apply these changes in the other 27 branches. As a result, the Saudi partner reduced the staffing in all its branches by 20%. The Saudi partner respondent stated:

"Imagine reducing the staffing in all branches by 20%. We then opened new branches and we did not employ anyone new. We took the increase from here and dropped it there." (Public Relations Manager)

The Japanese partner was willing and cooperative during the knowledge transfer and also had the ability based on its experience in the field to accelerate the process. In

addition, working with the Japanese partner for long hours supported knowledge transfer. The Saudi partner respondent stated:

"There were no obstacles, it was an organized process before the process started and each one takes its time". (Public Relations Manager)

Organizational Learning

The Saudi partner learned from this alliance about diversification opportunities to expand the restaurant's menu. It learned how to apply this knowledge in any production process which contains product finishing and assembly.

"Yes, yes, in any process of production it will help us, and the processes include products that come and are assembled. Whether it is food or a car, this knowledge will be applied." (Public Relations Manager)

In addition, due to the cooperation of the Japanese partners, knowledge of how to diversify was obtained. For example, the Saudi partner applied the new design in the other branches and also transferred the knowledge to a different field. The Saudi partner respondent stated:

"A factory owned by the same or most of the board of directors, a factory specialized in paper, aluminium, handkerchiefs and these things and they have packaging and packaging bags. They began to transfer the same knowledge." (Public Relations Manager)

Diversification Decision - Planning to diversify

Based on the learning from the Japanese partner, the Saudi partner has started planning for a major diversification at some point in the next 3 years. This diversification will be at the product level and related to the current lines. The Saudi partner respondent stated:

"There is thinking which resulted from the knowledge. It is changing the menu in the evening, for example, if you compare our products with the second restaurants' pizza, burgers and shawarma. If you go to these restaurants in the afternoon you will find

them empty a little bit, which is the opposite of us, at night is the opposite." (Public Relations Manager)

Summary

The preparation and intention were clear in this case and resulted in the selection of a partner which is an expert in its field. The ability of the Saudi partner was adequate and met the requirements of the knowledge transfer process. The Japanese partner was willing to share knowledge and also had the ability to transfer it. Production processes which contain product finishing and assembly were seen as diversification opportunities and the Saudi partner learned how to conduct them. As a result, the Saudi partner has started planning for a major related diversification at the level of products (the restaurant menu) at some point in the next three years.

6.3.2.3. Pharmaceutical Company

Knowledge Transfer Processes

Through the analysing, the Saudi partner had the intention to learn and transfer knowledge focussed on technology from the European partner. In addition, the ability of the Saudi partner to receive knowledge was sufficient. The Saudi partner respondent stated:

"Yes, we had clear and specific intentions and objectives to make strategic alliances or to achieve the goals through strategic alliances". (Vice President)

"Resources were provided and ready, including human resources, training and financial resources." (Vice President)

Different departments were involved in the process of knowledge transfer, including business development, human resources, marketing and finance with total commitment to the learning processes from foreign partner. Formal communication methods were used during the alliance such as meetings and face-to-face visits to facilitate the knowledge transfer. Sometimes knowledge transfer depended on

infrastructure, which determined whether or not the technology of product (manufacturing and analytical) could be transferred or applied. The acquisition of knowledge from the partner was a systematic process from manufacturing products to successfully registering it with the Food and Drug Administration. The Saudi partner respondent stated:

"The product file (parts of technology are divided into two parts: manufacturing methodologies and analytical methodologies)." (Vice President)

There were not any obstacles on the side of the foreign partner during the alliance which demonstrated by the findings. In fact it was willing to share its knowledge. This may be due to the agreement, which clearly stated that the second party committed to answering all questions and providing full support in the event of any query either from the manufacturer of the first party or the Food and Drug Authority. The Saudi partner respondent stated:

"No, the truth was cooperation and response." (Vice President)

Organizational Learning

This alliance led the Saudi partner to consider a new diversification opportunity which is related to the therapeutic group of heart drugs. It realized that it was possible to expand with heart medicines which are also profitable. In addition, the Saudi partner obtained knowledge which allowed it to know how to diversify in heart medicines from manufacturing products to registration with the Food and Drug Administration. The Saudi partner respondent stated:

"Sometimes alliances lead you to discover other opportunities and expand in a certain area." (Vice President)

"We know how to diversify and took steps in diversification." (Vice President)

Diversification Decision - Diversified

As a result of this alliance, the Saudi partner made at least one diversification decision. This diversification was at the product level and related to its current line of business: heart drug products (adding certain product lines). The Saudi partner respondent stated:

"We considered some products for the heart, for example, I will give it clearly, we have a product for the treatment of heart disease. We found the opportunity to create the drug by combining. We looked at the market and we are still looking for partners and also to assess the opportunity completely." (Vice President)

Summary

There was an intention to learn from the foreign partner and the focus was on technology. In addition, the requirements to achieve sufficient ability were met. The foreign partner was cooperative and willing to share knowledge and also had the ability to transfer knowledge. The Saudi partner considered a new diversification opportunity into heart drugs and took steps towards diversification. Therefore, the diversification decision was made at the product level and related to the current therapeutic group.

6.3.2.4. Construction Company

Knowledge Transfer Processes

Preparation for engagement in an international strategic alliance started at the beginning of the peak period for business in Saudi Arabia (2005-2015) in which huge development took place. Therefore, the Saudi partner intended to learn and transfer knowledge from a foreign partner. The choice of partner focused on Chinese companies due to their experience in construction. There was a high commitment to strengthening the ability of the Saudi partner to meet the requirement to transfer

knowledge, including regarding human and financial resources. The Saudi partner respondent stated:

"No, No, we were ready and we had the intention and because of the requirements of the business, in a short period of time we had a sudden development in the construction market particularly." (Chairman)

"The choice and our orientation and the direction of the State in general were to China because of their rapid development in the field of construction, construction, implementation and business skills." (Chairman)

At the beginning of the alliance, there were formal and informal communications. Later, the Saudi partner focused more on formal communication because some obstacles arose. At the site the Chinese partner had employees at different levels, such as directors, engineers and labourers. The Saudi partner learned new knowledge from the Chinese which was both administrative and operational. For example, it benefited in terms of the volume of work (working on a huge project or working on different projects at the same time), reporting, analysing material and technically. The Saudi partner respondent stated:

"The volume of work that we have done, the strength of the material and technically, this is a fact that we have benefited from". (Chairman)

"Technical team, technical analysis for buildings in any project was given through accurate reporting on how the project was going so far." (Chairman)

This case showed different type of cooperation from the side of the knowledge-holder. While the previous foreign partners were willing to share knowledge without any hesitation, with the Chinese partner there were many obstacles. First, the Chinese system is communist, which is different from Saudi Arabia. The disadvantages of this system include the speed of decision-making and the movement of money from China (they brought the machinery and equipment and everything possible except cash). Second, language problems played a major role during the knowledge transfer. Most

of the Chinese in the alliance did not speak English or Arabic. Finally, it is common in China for employees to go on strike but this is not common or acceptable in Saudi Arabia. These obstacles impacted the knowledge transfer in this alliance. The Saudi partner respondent stated:

"China has obstacles in terms of speed of decision-making and also has some problems of translation into Chinese always being necessary." (Chairman)

"Strikes are very normal even in their normal policy. Here they are unacceptable in any company. If their salary is delayed two or three days, they strike on site." (Chairman)

Organizational Learning

Based on learning from the Chinese partner, the Saudi partner discovered a new diversification opportunity in a different field but basically in the commercial sector. He realized that it was possible to expand in the commercial sector because of demand in the Saudi market and potential profitability. In addition, the Saudi partner obtained the necessary knowledge to exploit this opportunity to diversify from choosing an agency to delivering the product (oil and water pipeline valves) to the final customer. The Saudi partner respondent stated:

"After our contact with the Chinese, we knew there were opportunities in their country because factories in the commercial sector make products that our market needs here and we took advantage of this." (Chairman)

Diversification Decision - Diversified

On the basis of the results in this alliance, the Saudi partner made at least one diversification decision. This diversification was at the industry level and was unrelated to the previous business. The Saudi partner respondent stated:

"Yes, the construction sector is a sector where there was no diversification, but diversification in another area." (Chairman)

"I took the agency for the valves for pipeline projects (oil, water) with a Chinese company and we worked with them." (Chairman)

Summary

The Saudi partner prepared for the alliance and had an intention to learn from the Chinese partner. In addition, with a high commitment of resources, it had sufficient ability to learn and for knowledge to be transferred. However, there were many obstacles on the side of the Chinese partner, such as the speed of decision-making, language and strikes, which hindered knowledge transfer. The Saudi partner discovered a new diversification opportunity: pipeline valves for oil and water projects. Therefore, the diversification decision was at the industry level and unrelated to the current business.

6.3.2.5. Mechanical, Electrical and Electronics Company

Knowledge Transfer Processes

The Saudi partner had a previous intention to learn and transfer (purely technical) knowledge from its European partner. In this case, the Saudi partner knew exactly what knowledge it wanted from the partner. This regarded how to design and implement electrical systems. The top management of the Saudi partner made a commitment of human and financial resources to strengthen its ability in several ways, such as by taking on qualified employees and running training courses. The Saudi partner respondent stated:

"The intention was on the second part, which was work on designs to serve business projects such as for towers, water plants, factories and industrial plants. As for raw materials, we did not have the intention to learn them. We intended to work on panels or electrical systems that meet the needs in Saudi Arabia".

" Of course, there was a total commitment." (Department Manager)

The communication with the European partner was at both the formal and informal levels. Formally, it was through meetings and site visits and informally through daily communication. The knowledge transferred was purely technical and most of it concerned designing, programming, operation, assembly and running tests. The Saudi partner went through many stages during the knowledge transfer process, from designing to working with a different capacity according to the size of projects. The Saudi partner respondent stated:

"Yes, at different levels. From customer service to design to estimating sales, the management, the end-user and the owners had meetings and the most repeated meetings were at the lower levels. We had daily communication (day-to-day business) and questions were answered in a day, while at the level of strategy the meetings were few (every six months or once a year). Such cooperation exists from the highest level to the lowest level in the management of the company." (Department Manager)

"They transferred knowledge and we had a training course programme on how to design and build. We went through many stages (in the course programme) because there are many products in electric panels, starting from small distribution boards and ending with the sensors and automatic panels which are needed in large projects. Then we entered the second stage, which is working on the site and installing electric panels ranging from 100 to 6000 amperes, and we got a bigger job and reached 7,500 amperes." (Department Manager)

The European partner was cooperative and willing to share its knowledge, which may be because of the importance of the Saudi market to the European partner. The Saudi partner conducted daily communication, including many questions from small design details to operation and the foreign partner provided full support. The Saudi partner respondent stated:

"There were no obstacles because the interest was mutual. Always when there is a problem you will see no conflict of interest. It is to the manufacturer's benefit to enter the market of the Kingdom and sell, and in our interest to take the know-how and work and control with national hands so that we manufacture, export and follow the customer in after-sales service. There was a common interest, not a counter-interest. Every increase in consumption, manufacturing and production, the more they have a

sale and the more it is in the same interest, the one strategic plan." (Department Manager)

Organizational Learning

The Saudi partner learned from this alliance about many diversification opportunities, particularly regarding the design of electric panels and the utilization of them in a different field. The transferred knowledge helped them to consider many opportunities in water, electricity, telecom and hospital projects. In addition, cooperation with the partner led the Saudi partner to know how to diversify by utilizing the knowledge transferred, for example how to first look at the client's needs and then design electric panels based on these requirements. The Saudi partner respondent stated:

"Sure, sure, because we have reached a stage, let me tell you something. An example was the time the mobile entered the Kingdom. In that period we were building protections. The first thing was the basic design was to come from Siemens and the team did the installation (not the ECO team). Accidentally one man said "let's make it local, you have the idea, we have a meeting," and there were seven engineers present. We gave them the vision, explained it and then we designed the panel locally." (Department Manager)

Diversification Decision - Diversified

Based on the learning and knowledge transfer in this alliance, the Saudi partner made more than one diversification decision. These decisions were at the product level (designing electric panels) and were applied in many different fields. The Saudi partner respondent stated:

"Protections for mobiles." (Department Manager)

"We have equipped 50-60 hospitals in the Kingdom." (Department Manager)

"An example, we speak about hospitals, the hospital must have control of infection because of germs. When they control and reduce the number of germs in a building, the electrical and mechanical people work to design a building management system, which is a device put in AC because AC is air and is carrying germs. They put sensors to measure the temperature in some cells and bacteria cannot live at that temperature

and try to reduce control of the temperature. Some bacteria live in certain humidity. Then we control the humidity and fight and block infection in it. Also, some bacteria are not affected by heat or humidity so we put in biological rust filters and so on." (Department Manager)

Summary

The Saudi partner had an intention to learn from the European partner, particularly regarding designing electric panels. The ability of the Saudi partner was strong and was supported by the commitment of the top management. The ability of the European partner and its willingness to share knowledge were noticeable. Many diversification opportunities were considered by the Saudi partner in different fields, such as hospitals, electricity, water and communication projects. Therefore, more than one diversification decision was made at the product level (the application).

6.3.2.6. Poultry Company

Knowledge Transfer Processes

The findings demonstrate that the knowledge seeker (Saudi partner) had a clear intention to learn from the European partner before the alliance was established. This learning focused on recent technology in the poultry industry. However, the ability of the Saudi partner was not sufficient to fully engage in the knowledge transfer process even with total commitment by the top management. The Saudi partner suffered from obstacles within its team, such as language issues and qualifications and diversity in the team. The Saudi partner respondent stated:

"Without a doubt, the main objective is the transfer of experience to us." (Vice president)

"It is true that human element efficiency has a great role and sometimes becomes an obstacle, such as in terms of language, qualifications and diversity. Sometimes this can be a reason for other reasons that hinder the transfer of experience." (Vice president)

In this alliance, most of the communication was at the formal level. There were frequent meetings and workshops with the European partner. The type of knowledge which was transferred was related to technology in the poultry industry. For example, different methods of breeding birds, including grounds and cages. Based on this knowledge, the Saudi firm designed a new model for breeding birds. The Saudi partner respondent stated:

"We have periodic meetings like I explained to you before. We have four major meetings every three months. We have a technical discussion and based on this discussion there were workshops at that time." (Vice president)

The European partner had total commitment and willingness to transfer knowledge. It trained the Saudi staff for a period of time, which helped and supported the circulation of knowledge. The European partner considered the Saudi partner one of the largest companies in the Middle East and one of the top 20 companies in the world so it could be a very important reference in the future. Therefore, a successful experience with the Saudi partner regarding its products, particularly technology in the poultry industry, meant a lot to them. The Saudi partner respondent stated:

"Not vice versa, the foreign partner in many cases was fighting for the success of the experiment". (Vice president)

Organizational Learning

The new diversification opportunity that the Saudi partner considered was particularly related to technology in the poultry industry (breeding birds) and utilizing it in a different stage of production. In addition, working with the European partner guided the Saudi partner in diversifying by utilizing the knowledge transferred. For example, the number of resources imported (chicken mothers and grandmothers) decreased from two million to one hundred thousand a year due to learning from the European partner. The Saudi partner respondent stated:

"In some cases, as I mentioned, you find that you were in an alliance with a particular company for a specific goal and then you achieve this goal, but it generates second ideas that can improve the quality of your product or possible diversity in the product." (Vice president)

Diversification Decision - Diversified

At least one diversification decision by the Saudi partner resulted from the learning and knowledge transferred in this alliance. This decision regarded back-integration of resources (chicken mothers and grandmothers). The Saudi partner respondent stated:

"We started the grandmothers three years ago. Now, thanks to god, our company does not import any mother from outside Saudi Arabia but we still import grandmothers although the number is small. Instead of importing two million, we import about 100 thousand." (Vice president)

Summary

The intention of the Saudi partner to learn from the European partner, particularly in technology related to the poultry industry, was clear. However, the ability of the Saudi partner was not sufficient for the knowledge transfer processes even with a high commitment by the top management. The ability of the European partner and its willingness to share knowledge were sufficient and met the requirements. The diversification opportunity considered by the Saudi partner was into breeding birds. Therefore, one diversification decision was made at the product level (back-integration).

6.3.2.7. Decoration and Building Material Company

Knowledge Transfer Processes

More than 95% of the Saudi partner's business is with foreign companies, from normal importing to exclusive franchising from foreign partners. This led the Saudi partner to have a clear intention to learn and transfer knowledge from its African partner. This intention gradually increased after realising that the African partner had

important knowledge. In this case, the Saudi partner was focused on the commercial sector and the alliance was in manufacturing. In this alliance, the Saudi partner entered the stages of learning how to make a product, how to make it with high quality and how to utilize factory time and the labour force. However, the ability of the Saudi partner to transfer knowledge to the Saudi context was not sufficient, even with total commitment by the top management in terms of human and financial resources. In order to benefit, the Saudi partner had to recruit competent staff to work in this alliance. The Saudi partner respondent stated:

"Yes, we had the intention and firm determination to learn from the foreign partner and gain the highest amount of knowledge, and of course the desire increased when the relationship with the foreign partner went deeper." (Operation Manager)

"It was somewhat suitable in terms of qualifications, but honestly in terms of the number of qualified people to carry out the process of learning from the partner the preparation was less than required, because of the company's interests in the main line of the company, which is commercial and how to develop it, but honestly we tried hard and with all the capabilities to have a successful learning process in proportion to the possibilities available."(Operations Manager)

The Saudi partner communicated with the African partner at both the formal and informal levels, such as through meetings, site visits and daily communication. The knowledge which was transferred was in manufacturing field. For example, it ranged from expanding to working iron and metal. During the knowledge transfer process, starting from recognizing the importance of the partner's knowledge to the actual transfer, the Saudi partner focused on the particular field of building materials. The Saudi partner respondent stated:

"The formation of metals, which is included in the installation of the Gibson Board is "known" and if you track the relationship between the stabilizers and iron of a Gibson Board between the leash, all are linked to one relationship – building and decorative materials in the final stage – and they all are one area." (Operations Manager)

The African partner was not highly cooperative at the level that facilitated knowledge sharing and it was in some cases protective. Even with similar conditions such as a common language and close geographical distance, the Saudi partner struggled during the knowledge transfer. The Saudi partner respondent stated:

"For the foreign partner and as is universally recognized, knowledge transfer and learning have limits and red lines. So the foreign partner will protect its knowledge and practical rights in order to protect its source of livelihood and the permanence of its work. In fact, each time, with the partner in this process we have been insistent on learning. What the foreign partner is trying to protect in terms of scientific and practical knowledge is the basis for its success and superiority, and here is the beginning of the right time and place to transfer knowledge." (Operations Manager)

Organizational Learning

The findings showed that the alliance with the foreign partner guided the Saudi partner to change its focus from commerce to manufacturing, which generated a discovery of new diversification opportunities, for example opportunities in wire-making, metalwork and metal extension. In addition, the alliance supported the required knowledge regarding how to diversify in the wire-making industry. The Saudi partner stated:

"Of course, we were not manufacturers at the beginning. The beginning of our entry with this foreign strategic partner took us from the commercial side to the industrial side. This added something new to our experience." (Operations Manager)

"The knowledge we have taken from our partner has helped us, first in identifying diversification opportunities such as in metal and wire-formation." (Operations Manager)

Diversification Decision - Diversified

As a result of the learning from the African partner, the Saudi partner made at least one diversification decision. This decision was at the product level and related to the current products for which the Saudi partner was an agent or franchisee. The Saudi partner respondent stated:

"Entering this area, we have gone through the process of metal forming. Metal formation is basically how we think about the subject of metal formation. Entering the industry was an inevitable result of the alliance that you were in with this foreign partner that added knowledge to us. Knowledge leads you to enter a wide door and this wide door is waiting for someone who has a passion for searching for the subject of the industry. Let me enter all industry, every business you work in, trade is in the end in manufactured products." (Operations Manager)

"Yes, wire forming-, metal forming and metal extension, three kinds." (Operations Manager)

Summary

The Saudi partner had an intention to learn from the African partner. Even with a high commitment of resources, the ability of the Saudi partner was not quite sufficient for learning and knowledge transfer. In addition, the African partner's willingness had a certain limit and became a hindrance to knowledge transfer in some cases. The Saudi partner considered a diversification opportunity into forming metal. Therefore, the diversification decision was made at the product level and related to the current business.

6.3.3. Cross-Case Analysis

By comparing the similarities and differences across the seven companies, this study focuses on two constructs (absorptive capacity and diversification decisions) from the perspective of the Saudi partners. For each construct, a specific approach is adopted depending on the effects of knowledge transfer.

6.3.3.1. A Typology: Six Categories

The seven cases show three possibilities for each of the two constructs (absorptive capacity and diversification decisions) and so six categories (see Fig. 10). These are categories of how the Saudi partner transferred knowledge during an international strategic alliance with a foreign partner and how it utilized this knowledge in the diversification decision. Table 35 summarizes the absorptive capacity category.

Absorptive Capacity	Weak	Moderate	Strong
	Non- Diversified	Planning to Diversify	Diversified
	Diversification Decision		

Figure 10 Six Statuses of the Absorptive Capacity and Diversification Decision.

6.3.3.2. Absorptive Capacity

For the absorptive capacity construct, the seven cases show that intention, ability to learn and knowledge transfer can influence organizational learning, which then affects the diversification decision. Therefore, there are three possibilities, depending on intention and ability (See Table 35 for summary and Table 36 for companies).

One possibility is a weak absorptive capacity, which is demonstrated by the construction company. There are similarities in this category that both partners were in the service sector and the foreign partner was from Asia. In this case, there was not any preparation before the strategic alliance stage and it started suddenly, which heavily impacted the learning process and took a long time after the establishment of the alliance.

Therefore, the partners first took time to get to know each other, try to build and gain mutual trust which might extend throughout the learning or else prevent it. The weak intention started the alliance with an unsystematic approach to learning, which included an unavailability of the necessary resources such as human, infrastructure and financial ones and tools to measure the development of knowledge and ability to integrate it with existing knowledge. The company in this category tended to accept the alliance because it was in an urgent situation and the alliance was a way for the firm to survive and look for a better situation. In this urgent situation, government support could persuade the high-level management to engage in an international alliance in order to receive support. In this situation, the Saudi partner could understand that the international strategic alliance was the optimal option.

The second possibility where absorptive capacity is moderate is shown in the case of the construction, decoration and building material and poultry companies. The foreign partners were from Asia, Africa and Europe and all of them were in the same sector: manufacturing. The alliance forms are different, ranging between equity-based and non-equity-based.

Absorptive Capacity	Intention	Ability
Weak	• No prior intention to engage in a strategic alliance	• No prior preparation • During the alliance, limited preparation took place
Moderate	• A prior intention to engage in a strategic alliance and to learn from the foreign partner existed	• Prior preparation with limited resources
Strong	• The intention existed to engage in a strategic alliance and to learn from the foreign partner • All the objectives of the alliance were shared with the employees involved	• Prior preparation with sufficient resources

Table 35 Absorptive Capacity Categories

In addition, the alliance duration varied from five years to greater than 20 years. In these cases, there was prior preparation (i.e. partner selection), intention and ability to learn from a foreign partner with commitment by top management. With a clear intention, the Saudi partners tended to strengthen their ability to learn in order to recognize the partner's knowledge and transfer it. They gradually increased their capacities to become suitable for knowledge transfer. As a result, they engaged

quickly through formal and informal communication in the process of learning and transfer. The knowledge transferred from the foreign partner ranged between managerial and manufacturing. It was important in the Saudi context and was later integrated with existing knowledge. However, in some cases, the ability of the Saudi partner was not quite adequate, which might be due to some factors (i.e. human and technical) which needed time to become effective in the learning and transferring processes. The companies in the moderate category were not in an urgent situation to engage in an alliance but they were looking for an opportunity to learn and develop which was not available within the boundaries of the company.

The other possibility, of absorptive capacity being strong, is demonstrated by the Food, Pharmaceutical, and Mechanical Electrical and Electronics companies. The foreign partners were from Europe and Asia and they were in the same sector: manufacturing. The majority of the alliance forms were non-equity-based and the duration of the alliances ranged between less than five years to greater than twenty years. The companies had strong absorptive capacities, including both intention and ability. They started the processes of learning and knowledge transfer professionally by selecting the right partner to match their requirements. The Saudi partners then prepared themselves for the alliance stage (i.e. a clear desire for learning, qualified employees, rewards and adequate technology). During the alliance, the Saudi partners changed some ways of working with the partner, such as communication, in order to maximize their benefits. The type of knowledge gained from the foreign partners was various. Two of the knowledge-seekers focused mainly on technology while the others concentrated on production methods. The companies in the strong absorptive capacity category, like the companies in the previous category, engaged in an international alliance to exploit an opportunity for learning and development which

was only available outside the boundaries of the company. In addition, the Saudi partners considered the strategic alliance to be a source of tacit knowledge, which is an important part of the future strategic decision.

Absorptive Capacity		
Weak	Moderate	Strong
Construction	Construction	Food
	Decoration & Building Material	Pharmaceutical
	Poultry	Mechanical Electrical & Electronics

Table 36 Summary of Absorptive Capacity among the Companies.

6.3.3.3. Diversification Decision

The seven cases show that knowledge transfer from an international strategic alliance can impact a diversification decision through organizational learning. There are three diversification decision possibilities (See Table 37 for summary).

The first possibility is non-diversification, which is demonstrated by the construction company. In this case, the Saudi partner did not have a plan to engage in an alliance with the foreign partner but during the alliance knowledge transfer took place. The knowledge transferred was related to the current business. Even if this knowledge was new and important to the Saudi partner, no diversification decision was made. This may be due to the current strategy, which focused on a particular line, and the young age of the company. In addition, it may have lacked the necessary resources (i.e. human and financial) for this strategic decision.

The second possibility is planning to diversify in the next three years, which is demonstrated by the food company. The Saudi partner chose to select a foreign partner on the basis of its criteria. Therefore, the Saudi partner was ready for the alliance stage, including there being a clear intention to learn among those involved and strong ability. During the alliance, the Saudi partner received knowledge related

to production and assembly. As a result, the decision to diversify within three years was made. The reason for deciding to diversify in the near future may be due to the incompletion of the knowledge transfer (the alliance is still working), the knowledge transferred needs time to become beneficial (to integrate it with existing knowledge) or waiting to meet the requirements for diversification such as (human and financial) resources and preparation. In addition, the diversification may be unrelated to current products which means more time is need to consider this new strategic direction (managerial requirements).

Diversification Decision		
Non- Diversified	Planning to Diversify	Diversified
Construction	Food	Pharmaceutical
		Construction
		Mechanical Electrical & Electronics
		Poultry
		Decoration & Building Material

Table 37 Summary of Diversification Decisions among the Companies

The other possibility is that the diversification decision is made at both the related and unrelated levels, which is demonstrated in the cases of the pharmaceutical, construction, mechanical electrical and electronics, poultry and decoration and building material companies. These companies have some things in common: moderate and strong absorptive capacities, foreign partners in the manufacturing sector and the majority of the alliances are non-equity-based. In addition, most of the foreign partners were from Europe. The companies in this category received knowledge which was related to their businesses and on the basis of this knowledge the diversification decision was made. There are some differences in the type of diversification decision. While three Saudi partners considered related diversification, the others opted for unrelated diversification.

6.4. Discussion

Knowledge transfer and learning from foreign partner firms are considered the main objectives of international strategic alliances. Knowledge transfer counts as a double-loop process because both absorptive capacity and disseminative capacity affect the process. Occasionally, the processes of transferring and learning do not go as planned and this can be for many reasons. The purpose of this study has been to advance our understanding of the role of absorptive capacity, disseminative capacity and organizational learning in diversification decisions. In particular, it has sought to understand why the absorptive capacity of a host country partner had a limited affect on organizational learning in the previous study. In addition, it has aimed to understand why disseminative capacity has a stronger impact on organizational learning than absorptive capacity from the perspective of Saudi partner. Finally, it has investigated how this learning has driven the host country partner's subsequent diversification decision. In this chapter, empirical evidence has been found supporting the validity of the model and it has implications for theory, research and practice. Finally, the chapter will discuss the limitations of the study and avenues for future research.

Theoretically, this study fills a gap by testing and providing empirical support for the theoretical model, which links the source of knowledge (an international strategic alliance) and the application of the knowledge (a diversification decision). The model assumes that a higher level of acquisition and internalization from a foreign MNE partner will lead the host country partner firm to engage in diversification. The study tested the model with data obtained from seven cases in Saudi Arabia. The overall results support the finding that disseminative capacity through organizational learning

has a stronger and more significant influence than absorptive capacity on the host country partner's subsequent diversification decision.

Regarding absorptive capacity, there is a relationship between the absorptive capacity of the knowledge-seeker, the degree of awareness of diversification opportunities and the means to pursue diversification opportunities, as was initially proposed. Hence, in these cases, absorptive capacity had an impact on the subsequent diversification decisions by the Saudi partners. The impact varied among the categories of absorptive capacity and may be due to the level of absorptive capacity. This result explains the first study's results, where no impact of absorptive capacity on organizational learning was found and is also consistent with previous studies of alliances and knowledge transfer which find an importance of absorptive capacity in knowledge transfer and learning from a foreign partner (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002). However, it contradicts Minbaeva et al. (2003, 2014), particularly regarding the direct effect of each aspect of the capacity.

As expected in Chapter 5, there are several reasons for the above results that can be classified under the absorptive capacity category. First, in the weak absorptive capacity category, there was no prior intention to engage in a strategic alliance and the idea of the alliance came from a government agency. At that time, foreign partners were not allowed to work in Saudi Arabia unless they had a Saudi partner. The absence of intention to form an alliance is reflected in the ability of the Saudi partner to learn from the foreign partner, which was low and did not meet the requirements for knowledge transfer such as qualified employees, infrastructure (i.e. technology) and a reward system. During the alliance, limited preparation took place to strengthen

the ability and overall the knowledge transferred could not lead to a subsequent diversification decision.

Second, in the moderate absorptive capacity category, the Saudi partner had a prior intention to engage in a strategic alliance and learn from the foreign partner. This intention is reflected in the ability of the Saudi partner but it worked in the alliance with only limited resources available. Issues in this category include a limited number of qualified employees, language and culture distance between the partners. In contrast with the weak absorptive capacity category, the Saudi partner benefited from the knowledge transfer and learning in the alliance and therefore made at least one diversification decision. One explanation for the result for moderate absorptive capacity is that disseminative capacity may have more effect on the diversification decision, as was evident in two cases.

The last category is a strong absorptive capacity. In this category, the Saudi partner had the intention to engage in a strategic alliance and learn from the foreign partner. In addition, all the objectives of the alliance were shared with the employees involved. The foreign partner was chosen on the basis of the knowledge needed and expertise in the domain. These efforts influenced the preparation to strengthen the ability of the Saudi partners with sufficient resources from the stage of establishment of the alliance. Therefore, absorptive capacity through organizational learning had an impact on the subsequent diversification decisions in three cases. Fig.11. presents the interplay between absorptive capacity categories and diversification decisions.

For disseminative capacity, on the other hand, five of the Saudi cases are in the strong category, one in the moderate category and one in the weak category. The relationship between ability to share knowledge and organizational learning is positive and has an

impact on the subsequent diversification decisions. This result is consistent with Chapter 5 and the related literature in that the ability of the knowledge holder has a strong positive effect on knowledge transfer (Minbaeva and Michailova 2004; Mu et al., 2010; Tallman and Chacar, 2011; Schulze et al. 2014). In addition, willingness was strong and positive in all cases which is consistent with Teo and Bhattacherjee (2014) and Minbaeva et al. (2018) except in two cases and that seem to be in line with (Minbaeva and Michailova 2004; Szulanski; 1996; Simonin 1999a, 1999b). The foreign partners were helpful and in some cases were fighting to share knowledge with the Saudi partners. One explanation might be that agreement in the alliance stated directly and clearly this kind of cooperation which was helpful in the knowledge transfer process.

There is an explanation for the moderate and weak disseminative capacity cases. The situation in the weak case is that cultural issues on the foreign partner side such as the speed of decision-making, moving money from the partner's country and strikes influenced the knowledge transfer. However, the Saudi partner benefited from the Chinese partner and entered the commercial sector and became an agent for a Chinese product in Saudi Arabia.

In the moderate case, the way the alliance worked might be the cause of this result. The partners agreed on that management and marketing controlled by the Saudi partner and the manufacturing by the foreign partner. Therefore, from the beginning the Saudi partner prevented itself from gaining any administrative or marketing knowledge. In addition, the Saudi partner was working on the commercial side and focussed on the transfer of manufacturing knowledge. This led the foreign partner to become more protective in some cases. However, the Saudi partner benefited and

pursued an opportunity in the manufacturing sector. Fig.12. shows the interaction between disseminative capacity categories and diversification decisions.

In terms of diversification, this study contributes to the literature by advancing diversification theory through an understanding of the relationship between strategic alliances and the diversification decision. The results are consistent with previous literature that suggests knowledge transfer and learning from foreign partner are the key source for decisions in the future (Cohen and Levinthal, 1990; Brockmann and Anthony, 1998; Zahra and George, 2002; Jiang and Li,2008; De Clercq et al., 2012; Liu, 2012; Hoskisson et al., 2015; Casillas et al., 2015; Andreou et al., 2016) and particularly learning for a major diversification decision from firms who are themselves much more diversified both in terms of geographical markets and product markets (e.g., Pennings et al., 1994). The impact of disseminative capacity on diversification decisions through organizational learning was evidently more than that of absorptive capacity. However, this study has demonstrated that the two capacities both contributed to diversification decisions, which is different to the study in Chapter 5, where only disseminative capacity impacted diversification decisions. One explanation is the size of the sample. In the first study there were 55 cases while in the second there were seven cases and five of the seven diversified.

In terms of moderator variables, the three variables nature of knowledge, resource commitment, and intensive communication have generated additional insights into the nature of the relationship between absorptive and disseminative capacities on one hand and organizational learning on the other hand. First, the nature of knowledge was an important variable that moderates the knowledge transfer and learning processes in the alliance. Saudi partners were looking to tacit knowledge that can be obtained in order to be effective in future diversification decision. In the cases where

high levels of interactions (depends on the structure of alliance) occurred, tacit knowledge was transferred and that similar to results in previous literature (Kogut, 1988; Nonaka and Takeuchi 1995; Mowery et al. 1996; Das and Teng, 2000). In addition, the type of products (emergency used) sometimes supported the Saudi partners to acquire tacit knowledge which leads foreign partners to facilitate the acquisition in this case. Second, the resources commitment from the top management among Saudi firms in terms of human resources and other assets was high which then facilitated the exchange process in most cases and that confirmed previous studies' findings in the significant and positive effect of resources commitment on learning from an alliance (Lane and Beamish, 1990; Browning et al. 1995; Simonin, 2004; Muthusamy and White, 2005; Ainuddin et al., 2007; Farrell et al., 2011). Third, intensive communication through formal and informal methods was evident between Saudi and foreign partners. I highlight the important roles of intensive communications and the differences between the processes in relation to the types of knowledge and communication. The results indicated to a high intensive communication through meetings, training and visits. Also, social interaction through daily conversations took a place among Saudi and foreign partners which may due to the form of alliances (four out of seven cases in this study were equity-based alliances). I found that intensive communication was crucial for Saudi partners in knowledge transfer and learning processes within an international strategic alliance (Nonaka and Takeuchi, 1995; Lyles and Salk, 1996; Anh et al., 2006; Prochno, 2003; Williams (2011) and has impacted later the outcomes which is diversification decision.

The current model is original. It provides an explanation of the diversification decision states from the perspective of the local partner. First, it shows how host

country partners obtain the tacit knowledge required for a diversification decision. Second, the model covers the acquisition and utilization processes in one study. Finally, the model has been tested using quantitative and qualitative approaches and the results are robust, which contributes to the debate on the relationship between international strategic alliances, knowledge transfer and future strategic decision-making in host country partners around the world.

Figure 11 Absorptive Capacity and Diversification Decision Cases.

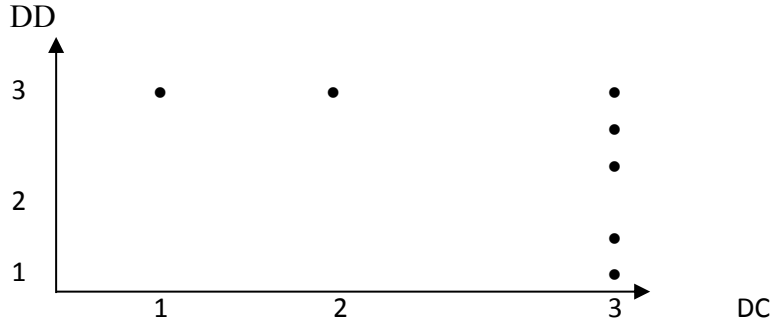

Figure 12 Disseminative Capacity and Diversification Decision Cases.

This study has important practical implications for senior managers and any employee who is involved in learning and knowledge transfer processes. The findings can help practitioners to better understand the joint role of absorptive and disseminative capacities in organizational learning, and then in a diversification decision or any future strategic decision. As a result, more awareness and preparation by the knowledge-seeker and knowledges- holder to improve its absorptive and disseminative capacity should take place.

All studies have limitations and this study is no exception. First, the research has focused on learning and knowledge transfer in the exclusive context of foreign MNEs in Saudi Arabia. Therefore, the results may not be valid more broadly. Second, the interviews were the main instrument for data collection and they were interpreted by the researcher. Hence, the results may have been influenced by researcher subjectivity. Third, the sample was small and the majority of the cases were diversified. Therefore, more cases from different diversification decision states will provide more insights into the phenomenon. Fourth, the study used a cross-sectional approach to data collection. Thus, no claims of causality can be validated. Finally, the diversification decision was studied on the basis of 'snap-shots' of the learning and knowledge transfer process and how this may have impacted the subsequent decision.

To ascertain a full understanding of the impact of learning and knowledge transfer on future strategic decisions, further research should aim to explore in depth the following questions which the findings of this study have raised. In diversification decisions, what is the chronological perspective for each diversification decision states, since learning and knowledge need time to be transferred and integrated with existing knowledge? What are the requirements for each state? In addition, to have deeper analysis, this study has focussed on the relationship between strategic alliances and diversification decisions from the perspectives of Saudi partners. Future research can explore this relationship through dyadic data analysis, with both partners participating in the study.

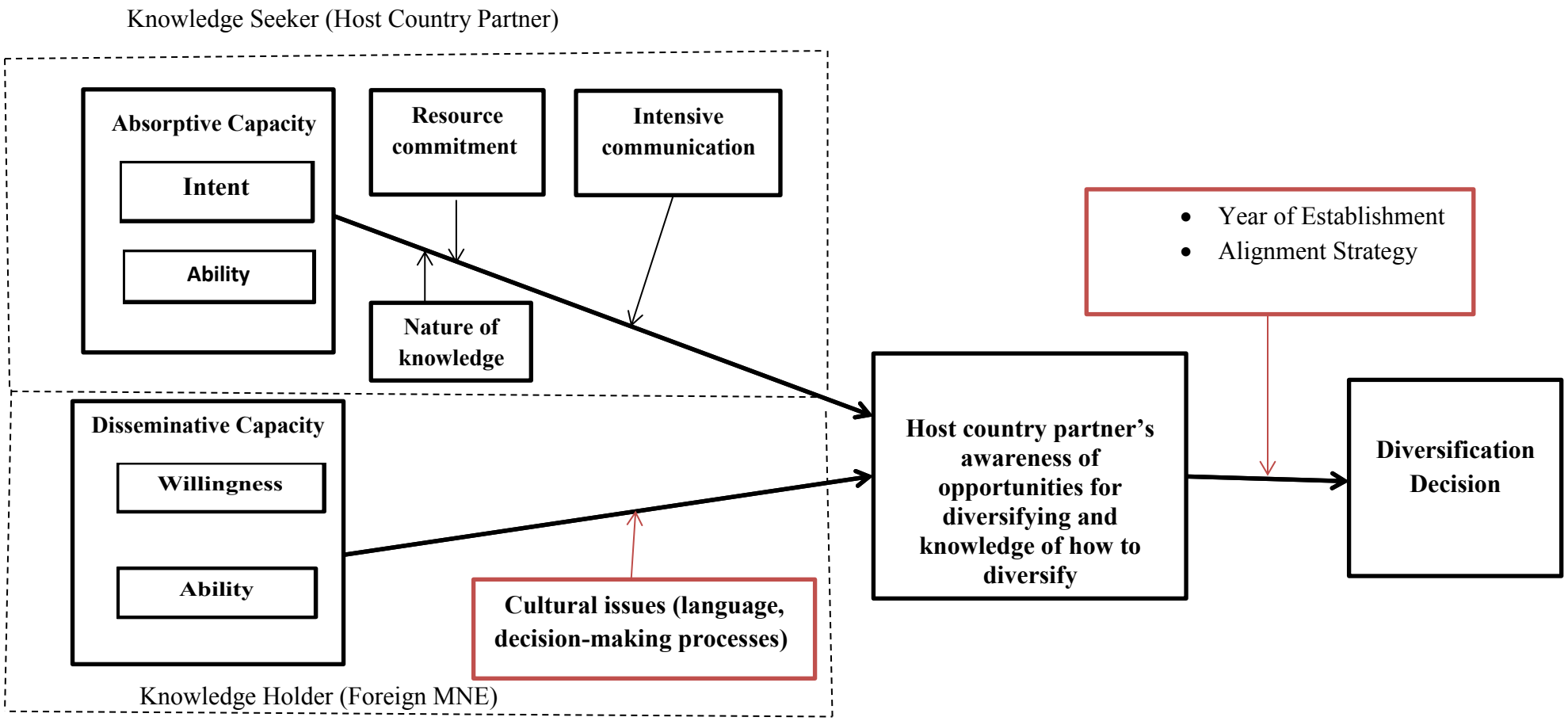

Figure 13 Revised Model

Chapter 7: Diversification Decisions from a Chronological Perspective

The findings in Chapter 6 explain in-depth the unexpected result related to the role of absorptive capacity in the learning and knowledge transfer processes from foreign partners which contradicts the previous work in Chapter 5. Based on Chapter 6, absorptive and disseminative capacities have different levels ranging from weak, medium to strong. These levels determine the partners' contributions to the alliance in terms of learning and sharing knowledge. The results lead to explore in-depth an important aspect that is the temporal nature of the phenomenon (from knowledge transfer and learning inside the alliance until the application of new knowledge) through the qualitative approach which was not captured in the survey. Thus, the aim of this chapter is to study the dependent variable (diversification decision) from a new perspective. In this perspective, the strategic decision is analysed in terms of its chronological structure – how events take place over time – in order to measure the impact of learning from a foreign partner in international strategic alliances. By studying the decision from a chronological perspective, this study highlights a fundamental point: the consequences of the learning from the partner in the long term (Williams and van Eerde, 2017). It provides new insight into how events are structured during an alliance by getting inside the alliance phase itself to inform our understanding of the reality of learning from an international strategic alliance (Williams and Durst, 2019). The study advances our understanding regarding decision-making in the Saudi context by arguing that strategic decisions are results of the learning process between partners. This study examines the chronological structure of the diversification decision by identifying an optimal case (i.e. one that

you can track through all three states) that supports the claim of the study (learning and knowledge transfer from a foreign partner impact a subsequent diversification decision). This particular study contributes to the existing knowledge on strategic alliances and diversification by investigating in-depth the relationship between them and how the impact occurs over time. The impact of learning from a foreign partner takes the Saudi partner through three diversification states: (1) non-diversified, (2) planning to diversify, and (3) diversified. All these are studied in terms of the chronological structure. The use of a qualitative approach is justified because it is suitable for explorative research which investigates 'how' questions (Yin, 2009). The study is carried out using a case study. The research questions include, but are not limited to, the following:

7.1. Research Questions

Main Question

How does learning through international strategic alliances with foreign multinational enterprises (MNEs) impact diversification decisions among firms in a non-diversified economy such as Saudi Arabia?

Sub-questions

A

1- How does absorptive capacity influence organizational learning?

2- How does disseminative capacity influence organizational learning?

3- What roles do resource commitment, intensive communication and the nature of knowledge play in the process of learning and knowledge transfer?

B

1-What is the chronological structure through which Saudi partners need to move between diversification decision states?

2-What are the characteristics of the knowledge system across the states of a diversification decision over time?

7.2. Research Design

7.2.1. Data Collection

The main tool for data collection is interviews. They are supplemented by secondary sources for a specific purpose (i.e. surveys and company websites – see Table 38). Semi-structured interviews are used because these allow flexibility and improvisation and this gives the researcher time for planning and preparation of the questions (May, 2001). The types of questions used in the interviews were open and closed and each has advantages as was stated in Chapter 6.

The fieldwork was conducted in 2017- 2018 in Saudi Arabia. The survey took place first and then the researcher travelled to Saudi Arabia to conduct two face-to-face semi-structured interviews and follow up communications. The criteria for choosing the case company were as follows. The Saudi company engaged in an international strategic alliance in the period of interest from 2005 to 2015, organizational learning took place and then, as a result, a diversification decision was made (all states of the dependent variable are represented in the case). That means successful outcomes reflected in knowledge transfer and learning and led to diversification decision. In addition, this case reflected the impact of learning on a diversification decision in a short period and it was obvious to track the decision based on chronological structure. Finally, this case is a family business and represents a developing industry in Saudi markets that can lead to new insights on how this industry benefits in the long term from foreign partners. With the above criteria, I used the questionnaire list as the basis for case selection. After analyzing the cases from the list, I identified a case that meets the criteria. The aim of the study was to discover how learning from a foreign partner

affects subsequent diversification decision within Saudi firms from a chronological structure perspective. Hence, the case provides an ideal ground to assess the chronological structure of the diversification decision.

The respondent was chosen based on his role and contributions to the company as a middle management team member and also as an expert in the field. He was chosen due to his practical experiences and involvement in the international strategic alliance particularly the knowledge transfer and learning processes. Later, he was engaged in the process of formulating a diversification decision based on the learning from the foreign partner. In addition, the interviewee has worked with a foreign partner for at least three years. The identified participant provided a breadth and depth of data that are essential for analysis and answer research questions (Curtis et al., 2000).

The participant was contacted through several channels, including email, which was required for the questionnaire, and via the researcher's personal network. The participant was a functional head (business line manager) and had 8 years of work experience. The respondent authorized the tape-recording of his interviews to make sure that no information was missing. The estimated time for each interview was 40 minutes. However, the actual interviews lasted between 20 and 30 minutes due to the respondent cooperating well. One interview was conducted in Arabic and the other one was in English. After the first interview, the information was transcribed word for word in Arabic so that it could be verified at any time. The transcript was then translated into English. The second interview was transcribed word for word in English. Tables 39 describe the interviewee profile and the characteristics of the Saudi company under study.

Methods	Description of data collection	Time frame
Questionnaire	Survey results about the impact of international strategic alliances on diversification decisions in a non-diversified economy (Saudi case).	April 2018
Interview	Two interviews with a functional head (business line manager) in a Saudi company.	August - December 2018
Website	History, news, the project and partners	April-May 2019

Table 38 Data Collection Method

7.2.2. Data Analysis

The transcripts of the qualitative interviews were analysed thematically using Nvivo 11. The coding processes for the events or facts in the international strategic alliance with a foreign partner were conducted into first and second-order categories and then were further coded into aggregate themes. Then, the scope, definitions and titles of each of the themes based on the related literature and the data were generated. Table 40 shows the definition of each theme, while Table 41 presents the themes, codes and sample extracts.

After the themes were generated, I went to analyze the relationships between the themes. In the first part of the analysis, within-case analysis technique of pattern-matching was conducted detailing the case (Eisenhardt, 1989; Yin, 2009) which then leads to an increase the internal validity (Riege, 2003). Second, the chronological structure of the diversification decision was analyzed to improve our understanding of the decision states (e.g. non-diversified, planning to diversify and diversified) in terms of knowledge dynamic in pre and during the international alliance cycle. The focus here was on chronological perspective through an in-depth investigation of how the impact of strategic alliances across the states of a diversification decision occurs over time.

Job Title	Alliance Experience	Alliance Form	Country of Foreign Partner	Alliance Duration	Saudi Permanent Staff	Saudi Annual Sales	Foreign Sector	Saudi Sector	CD*
Functional Head	More than once	Non-Equity-based	United States	Greater than 20 years	Between 50 and less than 499	Between SR501 and less than SR999 million	Manufacturing	Services	3.25

Table 39 Characteristics of the Case Company

*Cultural distance

Theme	Definition
Knowledge transfer processes	The physical process between the knowledge seeker (absorptive capacity involving intent and ability) and knowledge holder (disseminative capacity including willingness and ability) in an international strategic alliance that may affect by moderator variables such as resource commitment, intensive communication and nature of knowledge.
Organizational learning	The change of behaviour of Saudi firm that is related to the knowledge of opportunities to diversify and how to diversify which allows the Saudi firm to engage in its own diversification decisions.
Diversification decisions	Tracking the results of knowledge transfer and learning from the foreign partner that leads the Saudi partner for a transition among the diversification decision states (non-diversified, planning to diversify or diversified) through a chronological perspective.

Table 40 Definitions of the Themes

The researcher used various data sources including interviews and questionnaires for mixed-method –triangulation-, especially when problematic, for comparison between partners through the characteristics of firms or incomplete information was obtained from certain interviewees. The data collected from the interviews and questionnaires were linked together because the respondent and the interviewee were from the same company. The reason behind this was to explore the initial (studies one and two) and revised (in the current study) models and track all the states of the diversification decision. Also, I reviewed the company's website for history, news, projects and partners of Saudi firms which provided more important and depth information in the analysis. For example, the type of projects that gave a sense of how the products are important in some cases such as hospitals and defense which led the foreign partner to increase the knowledge transfer to avoid critical problems.

With the use of semi-structured interviews, two issues may arise. The first is reliability. In order to overcome this issue, the researcher understood the interview

components such as themes, companies and the interviewee and provided the respondent with required information about the topic and the list of interview themes. The second issue is bias. The researcher limited this concern by working on the analysis of the transcripts with an objective perspective (Morse et al., 2002).

7.3. Findings

This section first presents the main finding and an overview of the Saudi partner. Then, it describes the knowledge transfer process theme –absorptive capacity, disseminative capacity, and moderator variables. Specifically, how learning and knowledge transfer from an international strategic alliance took place from the perspectives of the knowledge-seeker and knowledge-holder including the impact of moderators. Next, the role of organizational learning theme in a diversification decision in the Saudi context is discussed. Finally, the chronological structure of the diversification decision is presented as it goes through the (1) non-diversified, (2) planning to diversify, and (3) diversified states.

7.3.1. Overview

The Saudi company was founded in Riyadh in 1950. The Saudi partner is made up of six businesses working in the fields of water and wastewater; power systems; system solutions; logistics solutions; heavy machinery and parts; and maintenance, repair and operations. Its customers are well-respected brands in the Saudi market (i.e. Saudi Arabian Airlines, Sabic, Almarai, Saudi Aramco, the National Water Company and Madan). Examples of the Saudi partner's projects include wastewater treatment plant, water transmission system and a complete drive-in racking solution. The company has more relationships with international companies.

Theme	Code	Sub-code	Example
Knowledge transfer processes	Absorptive capacity	Intent	"We realized at that time that we needed to look to a different partner that has a more extensive range and together with this partner we could actually achieve the strategic objective of having a major market share in the generator market in Saudi Arabia"
		Ability	"When they evaluate partners, they want a partner that has not only the financial capabilities to manage such products in Saudi Arabia but also a company that has enough infrastructure and set-up to properly serve the products in the market, including manpower, engineering capabilities and a service center. All these factors are key for success which it is a match"
	Disseminative capacity	Willingness	"No obstacles, praise to God, it became cooperation between partners and everything went smoothly"
		Ability	"Of course, it was in their best interest to make sure that we are well trained and well prepared because the more independent we are the fewer headaches we will give them and the better we will serve the products in the market"
	Moderator variables	Resource commitment	"There were several parties, there was teamwork working on the subject and of course there was participation, including the president of the group, CEOs and the presidents and the teams. We all work as a team and each one performs his task, of course"
		Intensive communication	"We have many different communication channels going on at any time"
		Nature of knowledge	"Advanced technology, a new engine, a new microcontroller, they have specifications and special features of the product that do not exist in others. These things we focus on"
Organizational learning	Awareness of opportunities		"It's different when a new partner comes. Usually his product range is different, sometimes covering things you do not cover before"
	How to diversify		"Of course, sure, when we entered a new line we learned something new, how it works, how the sea works"
Diversification decisions	Chronological perspective	Non-diversified	"We met in December 2013 to discuss and set the strategy and the action plans, while in parallel the management was working on finalizing the agreement. So it went together in parallel"
		Planning to diversify	"We signed the agreement in January 2014 and we already had a plan ready for motion and implementation"
		Diversified	"We only had industrial generators but when we were with the American partner we had two"

Table 41 Themes and Codes from the Thematic Analysis

7.3.2. Main Finding

In the current study, the results consistent with previous studies and indicated to a strong absorptive capacity of Saudi partner that led to transfer a significant knowledge and reflected in learning (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002). In addition, the findings suggest that the foreign partner was willing to share and transfer knowledge which may due to the agreement or the nature of products. These results confirmed the previous literature in the disseminative capacity -willingness and ability- of the knowledge holder impact on knowledge transfer (Minbaeva and Michailova 2004; Mu et al., 2010; Tallman and Chacar, 2011; Minbaeva et al., 2018; Schulze et al. 2014; Teo and Bhattacherjee, 2014). Subsequently, the transferred knowledge -tacit and explicit- was valuable and important for the Saudi firm to engage in its own diversification decision which consider as a result of international strategic alliance (Cohen and Levinthal, 1990; Brockmann and Anthony, 1998; Zahra and George, 2002; Jiang and Li,2008; De Clercq et al., 2012; Liu, 2012; Hoskisson et al., 2015; Casillas et al., 2015; Andreou et al., 2016). The main purpose of the study is the chronological perspective of diversification decision – how events take place over time – which was tracked to measure the impact of learning from a foreign partner in international strategic alliances. This perspective provides new insight into how events are structured during the alliance between Saudi and the American partner and highlights the consequences of the learning in long term and how this learning occurs inside the alliance phase (Williams and van Eerde, 2017; Williams and Durst, 2019) in the Saudi context. Based on our results, it is not necessary for each firm to pass through all three states- non-diversified, planning to diversify and diversified- of diversification decision, the borders of each state may be flexible, and the speed of

knowledge transfer and learning depend on both partners' capabilities and that highlights by the emerging theme which is the evaluation by each partner pre alliance.

7.3.3. Within-Case Analysis

7.3.3.1. Knowledge Transfer Processes

The findings show that the Saudi partner had an intention to learn from the foreign partner before the alliance started and made preparations to do this. The aim was to extend its product portfolio. It first looked for a foreign partner that met its criteria (expert in the field, experience in the application of new products, and matches in strategy). During the period of looking for a foreign partner, it conducted several meetings with potential partners to discuss both partners' strategies. Then, after a long process (a year and a half) it selected an American partner which is an expert in the field. The alliance was established in January 2014 and they are still working together in the power industry. The Saudi partner respondent stated:

"We realized at that time that we needed to look to a different partner that has a more extensive range and together with this partner we could actually achieve the strategic objective of having a major market share in the generator market in Saudi Arabia." (Power Business Line Manager)

"So, we decided that we needed to look for another partner company that is well-known globally in the power generation market. We started our search and we realized that American Power Systems, which is one of the three top brands globally in the generator market, was looking for a new partner in Saudi Arabia as well. So, it was aligned with our objectives of finding a stronger partner with a wider product portfolio and more solutions" (Power Business Line Manager)

"When we look for a partner we always try a search. Let's see a better partner, and now with a new vision of Saudi Arabia as a group we always look for a partner that can transfer technology to the Kingdom." (Power Business Line Manager)

The ability (manpower, financial and infrastructure) of the Saudi partner was sufficient for the learning and knowledge transfer processes. This was assessed by the American partner prior to the alliance. It was also important for the American partner

to make sure that the Saudi partner was capable of working with it in this alliance. Moreover, there was a commitment from the top management of the Saudi partner to strengthen its ability in several ways, such as by taking on qualified employees and providing training courses. Sometimes the English language became a hindrance, but this was only in certain cases such as regarding engineering terms and it was solved immediately through translation. The Saudi partner respondent stated:

"When they evaluate partners, they want a partner that has not only the financial capabilities to manage such products in Saudi Arabia but also a company that has enough infrastructure and set-up to properly serve the products in the market, including manpower, engineering capabilities and a service centre. All these factors are key for success which it is matched." (Power Business Line Manager)

"Of course, it is for the benefit of the company that young people are educated and with a degree of knowledge in order to be able to represent the product in an excellent way." (Power Business Line Manager)

"Sometimes language became a hindrance for some people. So, we worked on translation to make sure that the information arrived and was explained in Arabic. It was a simple problem for most people because for all engineers studying in respectable universities at least the basic terms are understandable." (Power Business Line Manager)

Communication with the American partner took place and was intensive at the formal and informal levels. The formal communication methods used included meetings, face-to-face visits, training courses and an e-learning platform. During the alliance, the Saudi partner relied more on formal channels for learning and knowledge transfer. In the processes of learning and knowledge transfer, different levels of management were involved, from the top management to technical teams (technical, sales and maintenance) and each team had its task in the processes. The Saudi partner set a work plan for 12 months and part of this plan involved the transfer of information and training. This plan was carried out at several levels, from that of the simple sales engineer to that of product specialists at different levels of training. All needed to pass

an e-learning test on the platform related to the subject. There was training in servicing and sales. Everyone in the alliance did training according to their job, and for the basic knowledge everyone had to do an assessment (e-learning). If they passed, they got a certificate. In addition, communication was two-way, which means both partners were exchanging information. The Saudi partner was responsible for the Saudi market, such as investigating competitors, pricing, technical differences and models. The respondent stated:

"We have many different communication channels going on at any time." (Power Business Line Manager)

"Knowledge transfer is not the same as the creation of a relationship. Knowledge transfer comes through training visits through a training programme, through the e-learning programmes. These were formal training." (Power Business Line Manager)

"The work begins officially and then we have a lunch, dinner and activities and meetings on distribution channels and the launch of new products. It has become a friendly relationship. It is impossible to be at work all the time, this is what is said, usually having personal relationships to run the work" (Power Business Line Manager)

"There were several parties, there was teamwork working on the subject and of course there was participation, including the president of the group, CEOs and the presidents and the teams. We all work as a team and each one performs his task, of course. The participation was from all parties so we could achieve the partnership." (Power Business Line Manager)

"We connected all the departments that are related to each other, starting with sales and marketing, spare parts and even the supply chain and finance because we are talking about a major partnership that involves more than a million dollars a year." (Power Business Line Manager)

"The market situation, updates, all the challenges that we face, the competition and how they are behaving and changing their products, price levels, new models introduced by different competitors, all of that." (Power Business Line Manager)

Most of the knowledge which was transferred to the Saudi partner was purely technical, administrative and marketing. Examples of this knowledge include engine technology, specifications and special features of the American partner's products,

pricing methods and size. The knowledge transferred tended to be more explicit than implicit. This may be due to the nature of the product, which is technical and required more documented knowledge than know-how. However, know-how also had a place in the transfer process, particularly on the technical side. The Saudi partner went through stages in the knowledge transfer process, from the application of the generator base to marine applications. The respondent stated:

"Advanced technology, a new engine, a new microcontroller, they have specifications and special features of the product that do not exist in others. These things we focus on. On the one hand, they have a different pricing method and size. These things are usually focussed on when we move from one brand to another. When we started with them we had a brand, moved from one brand to another but there was knowledge transfer and turning from one brand to another." (Power Business Line Manager)

"All of it is documented, we are an engineering producer. There is an operation manual, a technical data sheet, software selection and white papers. In these you have a lot of technical knowledge, all of which is documented and updated in the literature. You work on it and learn from it." (Power Business Line Manager)

"Yes, this is something we are very careful about and it is very important to us. We are provided with enough solid information about the product. We usually make sure that the contract agreement includes that the manufacturer is responsible for providing all the required information and technical data sheets related to the product and solutions and to keep us updated with any changes that will be occurring in the product, and also we have the liability and obligation as the supplier in the market to inform the manufacturer of any change in the standing building code or specification set in the country." (Power Business Line Manager)

The American partner was willing and cooperative during the learning and knowledge transfer and also had the ability to accelerate the process to disseminate its knowledge. In addition, the nature of the product influenced the relationship, making it more open and cooperative. The product could be employed in hospitals or defence systems, which meant the Saudi partner needed important information for back-up purposes in an emergency situation. Moreover, the strong desire of the American

partner to enter and work in the Saudi market facilitated cooperation. The respondent stated:

"No obstacles, praise to God, it became cooperation between partners and everything went smoothly." (Power Business Line Manager)

"Of course, it was in their best interest to make sure that we are well trained and well prepared because the more independent we are the fewer headaches we will give them and the better we will serve the products in the market. And for a technical product that is critical because we work with an emergency backup generator. We have a critical load of hospitals, defence and security, a very critical load that is connected to this generator." (Power Business Line Manager)

7.3.3.2. Organizational Learning

Our results indicate to that the international strategic alliance with the American partner led the Saudi partner to consider a new diversification opportunity (a marine generator, See Appendix C) which was related to the current product portfolio. The concept was close to the base generator which the Saudi partner already had but there were some differences in the environment, engineering and the sales cycle. The Saudi partner realized how expanding was possible and at the same time it could make a profit. In addition, the required knowledge on how to diversify in the marine line of business was obtained by the Saudi partner, from technical details to providing after-sales service. The respondent stated:

"The basis of the partnership is to expand our product portfolio with the same business, but we serve larger sectors." (Power Business Line Manager)

"Of course, sure, when we entered a new line we learned something new, how it works, how the sea works." (Power Business Line Manager)

"It's different when a new partner comes. Usually his product range is different, sometimes covering things you do not cover before." (Power Business Line Manager)

7.3.3.3. Diversification Decision - Diversified

As a result of the learning and knowledge transfer from the alliance with the American partner, the Saudi partner made at least one diversification decision. This

diversification was at the product level and related to the current product portfolio. The respondent stated:

"We only had industrial generators but when we were with the American partner we had two." (Power Business Line Manager)

"It is still a generator but different applications and different characteristics, cooling system, different engineering, different everything. We decided because we were able to expand our knowledge, and serve a wider market." (Power Business Line Manager)

"A new application which is not available, of course, it's not the same thing. A boat moves. It is not the same as a base generator." (Power Business Line Manager)

7.3.3.4. Summary

In the case of this international strategic alliance, the Saudi partner had an intention to learn and transfer knowledge from the American partner and the focus was on technological, administrative and marketing knowledge. In addition, the ability of the Saudi partner was sufficient and met the criteria for learning and knowledge transfer. The American partner was fully cooperative and willing to share knowledge and also had the ability to transfer knowledge. The Saudi partner considered the new diversification opportunity and obtained the required knowledge of how to utilize the opportunity. Therefore, the diversification decision was made at the product level and related to the current product portfolio.

7.3.4. Chronological Structure of the Diversification Decision

The diversification decision in the current study can be categorized into three states based on the learning and knowledge transfer from the international strategic alliance. First, no diversification decision was made. Second, the Saudi partner was planning to make a major diversification decision in the next three years. Third, the Saudi partner made the diversification decision. These states are studied here from the perspective of the chronological structure of the diversification decision (i.e. how long each state

took). Next, each state is described from the perspective of the chronological structure.

In the first state (no diversification decision was made), the case shows that the Saudi partner was engaged in this alliance from January 2014 with the specific purpose of extending its current product portfolio. The need for a new product was realized by the Saudi partner and was based on market requirements. This can be considered the starting point for engaging in an international strategic alliance that can facilitate obtaining the required knowledge. Therefore, the Saudi partner had an obvious intention to diversify as a result of the learning and knowledge transfer in the alliance with the American partner and this intention was one of the crucial criteria for the partner selection. Therefore, from the perspective of the chronological structure of the diversification decision (how long the Saudi partner took to move from the non-diversified state to the second and third states) can be considered to have taken place before 2012 because the antecedent intention of diversification existed. The respondent stated:

"Part of the reason to move to an American partner is that they have to serve a different sector." (Power Business Line Manager)

In the second state, the Saudi partner is planning to diversify in three years. The knowledge-seeker sometimes cannot make the diversification decision during the alliance because of incompletion of the knowledge transfer (the alliance is still working) so considers the near future to be the right time for making this decision. In addition, this decision may not be appropriate to the company strategy (a strategic alignment between holding and sub-companies) or the requirements for building the strategic decision such as resources (human and financial) not being currently available or in the near future. Moreover, the diversification decision can be unrelated

to the current product portfolio and require internal restructuring or some permission from authorities. These are some of the reasons for not taking a diversification decision immediately during the alliance or after the end of the alliance.

In the current case, we can consider this state of the decision as being the period prior to the alliance with the American partner, which was 2012-2013, and the first year of the alliance, 2014. In this state the focus is on prior alliance activities such as partner selection and what happens during the alliance. It is heavily influenced by absorptive capacity, disseminative capacity and how the integration process between the new knowledge and existing knowledge works. This means that this state takes almost two years. From the perspective of the chronological structure of the diversification decision as proposed, this state should be a result of the alliance. However, in this case the beginning of the alliance can be considered to be in the partner selection phase. The reasons behind this are that the partner was selected in order to gain the required knowledge for a diversification decision in the future, the Saudi partner was confident that learning and knowledge transfer would take place in a short time based on its own capabilities and the partner's expertise, and that what actually happened in the international strategic alliance. The respondent stated:

"We met in December 2013 to discuss and set the strategy and the action plans, while in parallel the management was working on finalizing the agreement. So it went together in parallel. We signed the agreement in January 2014 and we already had a plan ready for motion and implementation." (Power Business Line Manager)

The third state is when the Saudi partner has made a diversification decision. In this case, it took the Saudi partner one year of alliance with the American partner to learn and transfer knowledge and then make the diversification decision (a marine generator). This period of time (one year) is considered a short time to transfer the

required knowledge in an international strategic alliance. According to Lyles and Salk (1996), to take organizational learning into account needs more than three years.

Explanations for this result can be the capabilities of the two partners, the nature of the product, the previous relationship between the two partners, or all of these. The Saudi partner was well-prepared for the alliance stage (absorptive capacity in both the dimensions of intent and ability). On the one hand, the intent was strong and clear among all the participants in the Saudi partner prior to the alliance and the ability was sufficient for learning and transferring. In addition, there was a high commitment from the top management of the Saudi partner to support the process of learning and transferring from the American partner. On the other hand, the American partner was willing and cooperative to share knowledge and support it with its strong ability and experience. The next point is the nature of the product. This product is quite important and it is used in hospitals and defence. Therefore, the American partner had to provide the Saudi partner with all the technical details in case there is an emergency fault or for regular maintenance. In addition, the nature of the customers required the Saudi partner to have all the answers about the product quality and efficiency. Moreover, the product was quite similar to the Saudi partner's product portfolio, the only difference being its application (base generator and marine generator) which means the similarities between the products led to accelerate the processes. Finally, the previous relationship between the Saudi partner and the American partner led to building trust, which positively impacted the learning process. All the above factors increased the learning and knowledge transfer process, which is reflected in a short period of time. The respondent stated:

"Yes, the marine product is quite unique. It is not in the market, not everybody in Saudi has a marine application. They are only selected customers." (Power Business Line Manager)

"So, if we are not well trained to select the right product for the right application and to properly service that product to ensure it functions, the reputation of the brand we represent will be ruined and they will probably face a lawsuit from one or two customers because it is a critical load. People could die if the generator fails in the hospital, for example, and the ICU unit stops working. So, it is critical in this line of business, it must have an authorized service provider dealer on the ground, capable of handling such a business." (Power Business Line Manager)

In summary, the perspective of the chronological structure of the diversification decision has given us three important points. First, it is not necessary for each company engaged in learning and knowledge transfer from an international strategic alliance to pass through all three states. This means some cases may jump from the first to the third or start from the second one. Second, the borders of each state may be flexible, especially the second state. In the current case, the intention to diversify and particularly the marine generator was clear since the search for a partner. Therefore, we can consider the beginning of the second state to be in the pre-alliance period. Third, what is slightly different from the result in Chapter 6, particularly in the themes emerging, is emphasis on the evaluation by each partner. The Saudi partner spent considerable time comparing potential partners and evaluating each one based on its strategic needs and the foreign partner's capabilities. Table 42 describes the states in the Saudi case under study. Table 43 shows each construct prior to and during the alliance.

7.3.5. Managerial Issues

Prior to and during the alliance, there were some managerial issues that arose. Both the Saudi and American partners addressed them with an action plan. First, both partners carried out the evaluation task prior to and during the alliance. The goal of

the prior (partner-selection) evaluation was to measure the capability of each partner, and the evaluation during the alliance measured the partner's contributions. The measurements were different between the Saudi and American partners due to differences in the knowledge transfer goal. Second, the English language became a hindrance in certain cases.

Date	Key event	State	Details
Prior to 2012	Opportunity for Diversification	1	An opportunity has been realized
2012- 2013	Searching for a partner	2	Based on specific criteria (expert, had a new application of products, and matching in strategy)
End of 2013	Several meetings with the American partner	2	The strategic alignment of both partners was established
January 2014	The agreement is signed and the alliance is working	2	The action plan for learning is implemented
January 2015	Diversification decision	3	Required knowledge is obtained

Table 42 Key Events in the Diversification Decision States: (1) non-diversified, (2) planning to diversify and (3) diversified

What the Saudi partner did to overcome this issue was immediate translation, particularly of engineering and technical terms. Third, the American partner required more intensive communication from the Saudi partner, particularly about the Saudi market (type of competitors, prices, models etc.), which the Saudi partner provided efficiently. Table 44 summaries these issues and the action plan.

7.4. Discussion

The purpose of this study was to advance our understanding of the roles of the knowledge-seeker (absorptive capacity) and the knowledge-holder (disseminative capacity) in diversification decisions from the perspective of the chronological structure. The empirical evidence found supports the validity of the claims and the implications have taken into account for theory, research and practice. Lastly, the limitations of the study and future research avenues will be discussed.

Construct	Prior to 2012 State=1	2012 State=2	2013 State=2	2014 State=2	2015 State=3
Absorptive capacity	✓	✓	✓	✓	✓
Disseminative capacity			✓	✓	✓
Organizational learning				✓	✓
Resource commitment by the Saudi partner			✓	✓	✓
Resource commitment by the American partner				✓	✓
Intensive communication by the Saudi partner				✓	✓
Intensive communication by the American partner				✓	✓
Diversification decision					✓
Emerging themes					
Evaluation by partners		✓	✓	✓	✓
Language issues				✓	
Strategic alignment				✓	✓

Table 43 Constructs within the Chronological Structure of the Diversification Decision

Issue	Action Plan
Evaluation of the ability of partners	By both partners during states 1 and 2
Language (engineering and technical terms) – Saudi partner	Immediate translation by Saudi partner
Intensive communication	Saudi partners responded effectively regarding information on the Saudi market (type of competitors, prices, models etc.).

Table 44 Managerial Issues

Theoretically, this study confirms the results from the first and second study which support the theoretical model that links international strategic alliances and diversification decisions. As assumed in the model, the higher the level of acquisition and dissemination capacities, the more the host country partner firm will engage in diversification. The model has been explored in depth for one case. The overall results support the view that through organizational learning both absorptive capacity and

disseminative capacity have strong and significant influences on the Saudi partner's subsequent diversification decision.

For absorptive capacity, the relationship between the absorptive capacity (intent and ability) of the Saudi partner and organizational learning (the degree of awareness of diversification opportunities and the means to pursue diversification opportunities) was strong and positive, as expected. All factors led to a strong impact of absorptive capacity, including appropriate criteria for partner selection, a common vision among the Saudi participants and sufficient resources. This result is in line with previous studies that argue for the importance of absorptive capacity in knowledge transfer and learning from a foreign partner (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002), and in some ways with Minbaeva et al. (2003, 2018).

On the disseminative capacity side (willingness and ability to share knowledge) the relationship with organizational learning was positive, which impacted the subsequent diversification decision. This result is confirmed the first and second studies and the related literature. Both the willingness and ability of the knowledge-holder have positive effects on knowledge transfer (Minbaeva and Michailova 2004; Mu et al., 2010; Tallman and Chacar, 2011; Schulze et al. 2014 -ability-; Teo and Bhattacherjee, 2014; Minbaeva et al., 2018 –willingness-).

The study contributes to the strategic management and international business literature by advancing diversification theory through, first, understanding of the relationship between strategic alliances and diversification decisions, and, second, understanding of the chronological structure of events leading up to diversification decisions based on the learning. The results indicate that a key source for a major decisions is the learning and knowledge transferred from a foreign partner which

enhance the quality of decision (Cohen and Levinthal, 1990; Brockmann and Anthony, 1998; Zahra and George, 2002; Jiang and Li,2008; De Clercq et al., 2012; Liu, 2012; Hoskisson et al., 2015; Casillas et al., 2015; Andreou et al., 2016) and in our case the learning from the American partner that much more diversified both in terms of geographical and product markets impact Saudi diversification decsion(e.g., Pennings et al., 1994). The case demonstrates the impact of both absorptive and disseminative capacities on a diversification decision through organizational learning. What is different from the first and second studies is that the focus here on the perspective of the chronological structure of the diversification decision. The states of the diversification decision can be either non-diversified, planning to diversify or diversified, and the transitions between them are influenced by the learning and knowledge transferred through the strategic alliance with a foreign partner. This study has defined the borders of each state and how the case moved between states over time. In addition, the intention of the Saudi partner for diversification prior to the engagement in the alliance influenced the transitions between decision states and shortened the learning and knowledge transfer processes.

The knowledge system in this strategic alliance changed over time. Prior to 2012, the opportunity for diversification was realized by the Saudi partner. In order to pursue this opportunity, the Saudi partner needed some important requirements and the key one was knowledge regarding awareness of opportunities for diversifying and knowledge of how to diversify. From this point, an international strategic alliance was considered the source of the required knowledge. At that time what was obvious was only that both the intent and ability dimensions of absorptive capacity were sufficient for learning and knowledge transfer. In 2012 and 2013 the process of searching for a partner based on specific criteria (an expert, experience in the new application of

products and a match in strategy) began. This process explored the second factor influencing knowledge transfer in an international strategic alliance: disseminative capacity (willingness and ability). During these years, the partners used different evaluations to measure how capable the other partner was of achieving the alliance objectives. In 2014, the alliance started officially and the partners demonstrated their capacities of absorbing and sharing knowledge. Within a year, the Saudi partner was able to obtain the required knowledge through a high resource commitment and intensive communication at both the formal and informal levels, which then resulted in a diversification decision.

The revised model (Figure 14) is original in many aspects. First, it links the source and the application of knowledge. Second, it provides an explanation for diversification decisions from two perspectives of the diversification decision-makers (as knowledge- seekers and the chronological structure). Third, the context of a non-diversified economy (Saudi Arabia) highlights the relationship between international strategic alliances and diversification. Fourth, the revised model is divided into two parts. The first part is operational: learning and knowledge transfer. The second part is strategic: building a strategic decision (diversification). In addition, the knowledge which helped the Saudi partner's awareness of opportunities for diversifying and knowledge of how to diversify was technological, marketing and administrative. Moreover, strategic alignment is a control variable in the relationship between organizational learning and diversification decisions. The model has been tested through mixed quantitative and qualitative approaches and from different perspectives. The results are robust, particularly in the second and third studies, and they contribute to the debate on the relationship between international strategic

alliances, knowledge transfer and future strategic decisions by host country partners around the world.

In terms of practical implications, practitioners both at the top and technical levels should share the objectives of an alliance among the participants in the pre-alliance period. This may lead to a better understanding of the role of absorptive capacity in organizational learning and any subsequent strategic decision. Thus, more awareness of the objectives and preparation by the knowledge seeker can result in beneficial learning and knowledge transfer. The findings suggest that formal and intensive communication between partners is associated with a high level of knowledge transfer and learning. Therefore, it may be even more beneficial to create and encourage contexts that support formal communication mechanisms.

This study is not without limitations. First, it focussed on the context of foreign MNEs in Saudi Arabia. Thus, the above results cannot be valid more broadly. Second, the study focussed on a successful case of learning and knowledge transfer from an international strategic alliance and the chronological structure of the diversification decision. In doing so, the study reveals diverse approaches to a successful outcome but may miss some important factors explaining why the host country partner was successful at learning and knowledge transfer and also how cases are different in the way they move among diversification decision states. These issues can be explored in the future.

The findings of this study raise some important questions to be explored in the future. For example, in knowledge transfer, how does the host country partner select its team for the alliance? In other words, on what basis (qualifications, experience, position etc.) is the operational and strategic team chosen in an international strategic alliance?

In addition, what are the roles of each team in the alliance, since the team is the essential factor which is likely to affect the process of learning and knowledge transfer? Moreover, to have a deeper analysis, the current study only focussed on two dimensions of absorptive capacity (intent and ability) and disseminative capacity (willingness and ability). Therefore, future research can explore whether there are more relevant dimensions of these capacities and the interaction between these dimensions, which can reveal the complexity of absorptive and disseminative capacity even further.

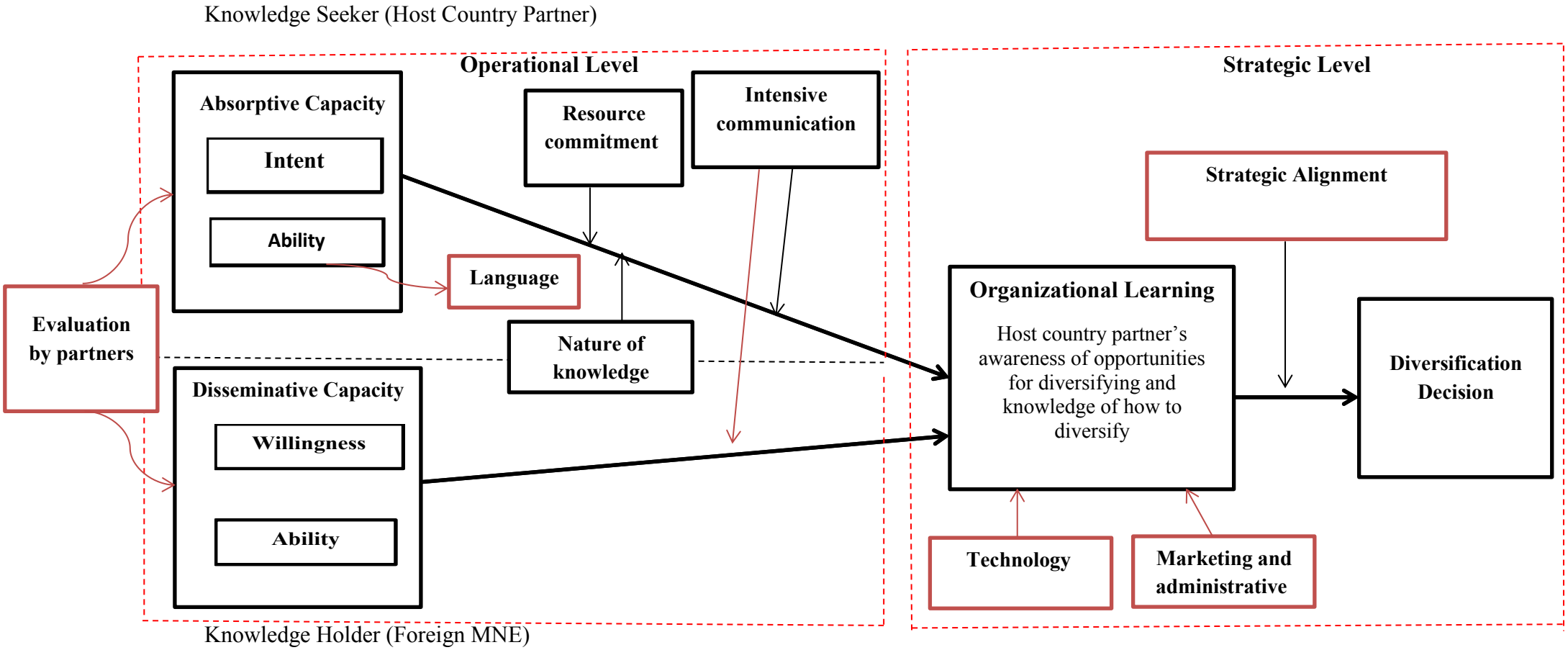

Figure 14 Revised Model

Chapter 8: Discussion

Firms form alliances to mitigate risks or to provide complementarity in resources that benefit them in the short or medium term (Parise and Casher, 2003). Empirical studies in the alliance literature have covered the emergence, management and survival of alliances (Wassmer, 2010) and the impact of learning on firms' performance (e.g. Hamel, 1991; Simonin, 1999b; Lane et al., 2001; Gulati et al., 2012; Liu, 2012; Jiang and Li, 2008). The utilization of learning from alliances has received less attention, particularly how firms in a non-diversified economy can benefit from strategic alliances with foreign MNEs in making subsequent diversification decisions.

The main focus of this thesis has been to advance our understanding of the impact of a strategic alliance on diversification, in particular how a host country partner in an international strategic alliance learns from a foreign MNE and how this learning will impact the host country partner's subsequent diversification decision. This chapter provides a discussion of the findings and implications. First, the major findings of each study will be summarized. Second, the implications of the findings for theory, management, policy will be presented to extend and develop the existing body of knowledge. Lastly, the study will discuss the limitations and avenues for future research.

8.1. Summary of Major Findings

This study has sought to gain insights into how learning and knowledge transfer impact a future strategic decision. The study began by investigating the influence of learning and knowledge transfer from a foreign partner in an international strategic alliance on a subsequent diversification decision by Saudi firms. Then, it examined

how both absorptive and disseminative capacities have different effects on organizational learning and a subsequent diversification decision. Finally, it analysed the diversification decision from the chronological perspective. The theis was based on a sample of 55, seven cases, and one case Saudi firms that engaged in international strategic alliances between 2005 and 2015. The data in the studies were obtained from the Saudi partners. The findings of the studies have been presented in the previous chapters and a summary of the main findings is presented below.

8.1.1. The Impact of International Strategic Alliances on Diversification Decisions

The results in Chapter 5 indicate a significant and positive impact of organizational learning on diversification decisions. On the one hand, there was a negative and non-significant relation between the absorptive capacity (intent and ability to learn from the foreign partner) of the Saudi partner and organizational learning. This result appears to contradict previous studies of absorptive capacity and organizational learning. On the other hand, the disseminative capacity (willingness and ability to share) of the foreign partners was positive and had a strong impact on organizational learning. The study also examined some moderators – i.e. resource commitment, intensive communication and the nature of the knowledge involved – to measure their impact on organizational learning. The study found that none of the moderators form Saudi side have any effect and they were mixed on the side of foreign partners. The significant finding is that when a firm engages in an international strategic alliance it increases its potential opportunity to enhance and enrich its knowledge base through accessing and acquiring knowledge from the partner. After this, the process of integrating the new knowledge with existing knowledge to make it available for application begins. Consequently, the new knowledge can contribute to a future

strategic decision such as on diversification. The chapter answered the following questions:

1- How does learning through international strategic alliances with foreign multinational enterprises (MNEs) impact diversification decisions among firms in a non-diversified economy such as Saudi Arabia?
2- How does absorptive capacity influence organizational learning?
3- How does disseminative capacity influence organizational learning?
4- What roles do resource commitment, intensive communication and the nature of the knowledge involved play in the process of learning and knowledge transfer?

8.1.2. The Impact of Absorptive and Disseminative Capacities on Organizational Learning

Chapter 6 aimed to answer these questions: Why was absorptive capacity negative and non-significant in Chapter 5? How did disseminative capacity strongly influence organizational learning? Chapter 6 particularly examined the processes of learning and knowledge transfer. It looked into the different impacts of these capacities on organizational learning from the Saudi firms' perspective. In addition, the chapter identified and distinguished between the levels of each capacity (low, medium and high).

Among the seven cases analysed, there were varying degrees of learning and knowledge transfer among the Saudi partners. In some cases they learned and received knowledge from the foreign partner with some difficulty, or at least had to expend substantial efforts. The results showed that the disseminative capacity (willingness and ability to share) of the foreign partners was positive and strong. This result is consistent with findings in the literature. The important point is that a considerable amount of tacit knowledge was gained, and that was required in the subsequent diversification decision. In order to acquire the foreign partner's knowledge, the Saudi firms used various strategies, mechanisms and tactics.

8.1.3. Diversification Decision from a Chronological Perspective

Chapter 7 identified an optimal case (i.e. one that could be tracked through all 3 states) which illustrates how learning and knowledge transfer from a foreign partner impact a subsequent diversification decision. The relationship between a strategic alliance and diversification was investigated in depth and explored how they influence each other over time. Specifically, Chapter 7 looked into three states of the diversification decision chronologically (i.e. how long each state took).

The results showed that the absorptive capacity of the Saudi partner was strong and the focus was on technological, administrative and marketing knowledge. They also showed that the American partner was cooperative and willing to share knowledge and had the ability to transfer it, which means that disseminative capacity strongly influences organizational learning. From the perspective of the chronological structure of the diversification decision, it is not necessary for every firm to pass through all three states. In addition, the borders of each state are flexible, especially those of the second state. The alliance led the Saudi partner to exploit a new diversification opportunity which was related to its current product portfolio. Chapter 7 answered these research questions: What is the chronological structure needed for a Saudi partner to move between diversification decision states? What are the characteristics of the knowledge system across the states over time?

Overall, the studies resulted in slightly different (nuanced) models, but were consistent in their fundamental logic.

8.2. Theoretical implications

This research was undertaken to make theoretical progress in the field of international business and strategic management and to identify the theoretical contributions of

knowledge transfer and learning. These contributions are presented below. The three studies that the thesis consists of are linked together to provide theoretical contributions as follows.

Context is somewhat important in international business and strategic management research. The present thesis has provided new insights into the context of Saudi Arabia, which are lacking in previous empirical studies and is different from Western one. The Saudi Arabian context has received little attention in the management literature compared to other countries in the same region (Dedoussis, 2004; Noer, et al., 2007; Alnatheer and Nelson, 2009; Almasaad, 2014). According to Toone (2012), the inflow of FDI to the Gulf States increased by 3800% between 2002 and 2008 which means that these developing countries have become key venues for international business. The thesis has contributed to the body of literature both by investigating the Saudi context and with the level of analysis. First, it provided an in-depth investigation into the phenomenon of strategic alliances and diversification, which are in some way related in terms of their antecedents, contexts and consequences. It applied existing theories of organizational learning and knowledge transfer to explain the phenomenon of diversification decisions. Second, it questioned the validity or utility of applying organizational learning and knowledge transfer theories to a level of analysis which defines who we are theorizing about. The higher levels of analysis in this thesis were those of the alliance, joint venture, market, industry, field, institution and nation, while the lower levels were those of the division, department, transaction, team and individual.

Existing theories have been tested and validated on Western and developed countries, which means that there is a need to test them in different settings that is different in some aspects such management style (decision-making, accountability and

leadership). The thesis has identified Saudi Arabia as a unique context to explain the phenomenon. Saudi Arabia is considered an attractive spot for foreign investors and multinational companies due its economic growth, access to natural resources, free taxes, geographical position between three continents and very good infrastructure. In addition, the economy of Saudi Arabia needs to diversify through private sector in order to achieve sustained growth and reduce dependency on oil. Saudi Arabia has been working for a transition to a knowledge economy through it Vision 2030, which involves many initiatives encompassing education, the economy and the quality of life. Therefore, the thesis has provided an interesting context in which to highlight the impact of learning and knowledge transfer from international strategic alliances on diversification decisions from the perspective of Saudi firms.

The findings contribute to the knowledge of absorptive capacity and disseminative capacity in the literature in several ways. First, the research is among the first attempts to combine and empirically examine the roles of the two capacities in the process of learning and knowledge transfer in an international strategic alliance using both quantitative and qualitative approaches. Second, this combination of approaches has highlighted the impact of each capacity on organizational learning and the diversification decision.

Chapter 5 found that absorptive capacity was not significant, which contrasts with the importance given to absorptive capacity in learning and knowledge transfer in previous studies (Easterby-Smith et al., 2008; Van Wijk et al., 2008; Cummings and Teng, 2003; Lane et al., 2001; Mowery et al., 2002) but is to some extent consist with Minbaeva et al. (2003, 2014). In addition, in Chapter 6 the effect of absorptive capacity varied while in Chapter 7 it was strong. In the relevant literature, a lack of sufficient absorptive capacity (on the part of the knowledge-seeker) is considered one

of the key explanations of ineffective knowledge acquisition (Anh et al., 2006; Lane and Lubatkin, 1998; Lane et al., 2001; Lucas, 2006; Mowery et al., 1996; Minbaeva et al., 2018). Possible explanations for weak absorptive capacity include no prior intention to engage in a strategic alliance and the idea of an alliance being imposed by a government agency. In addition, the requirements for learning and transferring knowledge from a foreign partner such as qualified employees, infrastructure (i.e. technology) and reward systems were sometimes lacking.

To see the complete picture of the process of learning and knowledge transfer, knowledge-holders should be taken into account (Martin and Salomon, 2003). According to Mu et al. (2010: 33) "Absorptive capacity and disseminative capacity either interactively or separately determine how knowledge flows or is transferred effectively and efficiently between members of intra-organization networks." The investigations in Chapters 5, 6 and 7 demonstrate a consistent and strong impact of the knowledge-sender's disseminative capacity on organizational learning in alliances with Saudi firms (Chini, 2004; Martinkenaitė-Pujanauskienė, 2015; Minbaeva et al., 2014; Oppat, 2008; Zhou et al., 2016; Minbaeva et al., 2018). The influence of disseminative capacity may be due to an agreement in the alliance directly stating the need for cooperation in the knowledge transfer process or the desire of the foreign partners to maintain their access to the Saudi market. This does not mean that all the knowledge-holders were perfect and there were no other determinants of learning. In fact, cultural issues, such as the speed of decision-making, moving money from the partner's country and strikes, influenced the knowledge transfer from the foreign partner, but, importantly, in the end the foreign partners were able to transfer the knowledge required by the Saudi partners. Therefore, the thesis has differentiated between absorptive and disseminative capacities in terms of their impacts on

organizational learning. The results help us to better understand how these capacities have differently influenced firms' knowledge acquisition in the Saudi context. These results will further enrich the existing literature on absorptive capacity and disseminative capacity with important details.

The current study makes a significant contribution to knowledge and understanding of the role of disseminative capacity in organizational learning within Saudi firms. To do this, it has highlighted the role of the knowledge-holder in learning and knowledge acquisition. Specifically, it has focussed on inter-firm knowledge transfer from foreign firms to Saudi partners. It has found that disseminative capacity, comprising willingness and ability to share, is beneficial for Saudi firms to understand new opportunities for diversifying. The results lend support to the view that the knowledge-holder is one of the key elements in the process of knowledge transfer (Szulanski, 1996; Minbaeva and Michailova, 2004; Schulze et al. 2014; Minbaeva et al., 2018). The results offer an insight into how a foreign partner's knowledge helps a Saudi partner by increasing its awareness of opportunities for diversifying and then giving it knowledge of how to diversify. Most of the foreign partners in the studies are experts in their fields so it is obvious how the transfer of required knowledge went smoothly. In addition, the relationship between disseminative capacity and organizational learning remained significant and strong across all the control variables (i.e. alliance form, alliance experience, alliance duration, annual sales, the continent of the foreign partner, number of permanent staff and sector). Thus, this thesis has made empirical contributions to the under-studied context of inter-firm knowledge transfer between foreign firms and host partners in emerging economies (Steensma, et al., 2008; Minbaeva et al., 2018) and has shown that disseminative capacity has a stronger influence on organizational learning than absorptive capacity.

The results of the studies in Chapters 5, 6 and 7 have highlighted a consistent impact of organizational learning on diversification decisions. Learning is one of the characteristics of a firm that determine how quickly it responds to environmental changes (Werner et al., 2015). Many Saudi firms recognize best practices to implement organizational learning after engagement in an international strategic alliance. This study has applied organizational learning to explain how Saudi firms make diversification decisions based on learning from foreign partners. Previous research has examined organizational learning processes separately, such as inter-firm linkage (Inkpen and Pien, 2006; Tsang et al., 2004) and intra-firm linkage (Hansen et al., 2005; Tsai, 2001). However, this thesis has examined both learning processes and measured the application of new knowledge.

Over the past decades, there has been scholarly interest in exploring diversification by identifying the effects of economic factors. However, such studies do not pay attention to the different methods of building this strategic decision. The literature suggests that organizational learning improves subsequent decision-making, including strategic, financial and operational decision-making (Haleblian et al 2006; Mayer et al., 2014; Andreou et al, 2016; Howard et al., 2016; Liu, 2018; Dahlender et al., 2016) which also result in gaining a competitive advantage accompanied by higher performance (Hitt et al., 2000; Andreou et al., 2016). Recently, Andreou et al., (2016) have called for the identification of factors which distinguish firms in the implementation of diversification strategies. They propose that organizational learning is one of the important factors. Their view is based on previous evidence which indicates a positive relationship between organizational learning and performance related to strategic decisions (Bergh and Lim, 2008; Andreou et al., 2016).

This thesis has illustrated how important organizational learning is for Saudi firms when building a strategic decision such as diversification. Tacit knowledge which a Saudi firm has acquired from its foreign partner becomes part of organizational knowledge after multiple processes. This knowledge then enhances the quality of subsequent strategic decisions (Brockmann and Anthony, 1998).

The findings here are significant since they contribute to the literature which identifies the antecedents of diversification decisions and they affirm the importance of organizational learning in explaining the diversification decision. The findings suggest that when firms learn and transfer knowledge from international strategic alliances, they diversify or plan for a major diversification in three years. Specifically, this study accentuates the idea that the learning that results from engaging in an international strategic alliance facilitates the process of decision-making and helps firms to minimise mistakes in subsequent diversification decisions. Moreover, one of the main motivations for Saudi firms to engage in an alliance with a foreign partner is learning and knowledge transfer. To utilize the knowledge (in a diversification decision), two approaches – exploitative and explorative – apply. If the diversification is related, then the approach is more likely to be exploitative. On the other hand, unrelated diversification by Saudi firms is considered an explorative strategy that is characterized by long time horizons, unpredictability, variation, risk-taking, experimentation, discovery and innovation (Hoang and Rothaermel, 2010; Rabbiosi et al., 2012). This finding provides a stimulus for considering how firms gain beneficial learning in the Saudi context.

Overall, the empirical findings add to the organizational learning and diversification literature (Hitt et al., 1994; Hitt et al., 1997; Tallman and Li, 1996; Qian, 2002; Riahi-Belkaoui and Picur, 1998; Andreou et al., 2016) as the results suggest that

organizational learning is an essential antecedent of a strategic decision (Howard et al., 2016; Khamseh et al., 2017).

The thesis also contributes to understanding of the causal mechanisms in the relationship between strategic alliances and diversification. By synthesizing multiple causal mechanisms, the results suggest how alliances and diversification interact with each other through mediating and moderating effects (Makadok et al., 2018). The findings in Chapter 5 indicate only a very small effect of size (less than 0.02) among the moderators on the Saudi side (i.e. intensive communication by the Saudi partner, the nature of the knowledge involved and resource commitment by the Saudi partner). After estimating the model several times and making modifications, the result remained the same. The final model obtained only has moderator effects on the knowledge-holder side. The study has considered the influence of both formal and informal intensive communication by the foreign partner in the Saudi context. Communication is essential in the Saudi context because it is considered a high context society. In a high context society, communication is important, while it less important in low context societies (Hennart and Zeng, 2002). Knowledge is transferred through direct communication in a high context society (Rice, 2003; Al-Hazmi, 2010). The results have shown that there is a level of communication at which both partners can benefit from each other and that beyond this level the relationship becomes negative. The thesis has further explored the impact of intensive communication based on the origins of the foreign partners and how language and other culture differences moderate the relationship between disseminative capacity and organizational learning. Formal communication has the strongest impact, which may be due to the form of the alliances in this study, with a greater proportion of equity-based ones (63.6%) than non-equity-based ones (29.1%). Theoretically, the

thesis gives empirical support to Lyles and Salk (1996), Anh et al. (2006) and Williams (2011) by proving that intensive communication through training and online platforms affects Saudi partners' learning processes.

The findings in Chapters 6 and 7 add more discussion of the two moderators that found support in Chapter 5. First, the results suggest that both the Saudi and foreign partners need to make a commitment at the highest level in terms of resources. These resources include human, financial, physical and technological ones. This result supports previous evidence that a reward system and reciprocal commitment between the partners have a significant and positive effect on learning from an alliance (Tsang, 2001; Simonin, 2004; Muthusamy and White, 2005; Ainuddin et al., 2007; Farrell et al., 2011).

Second, tacit knowledge is required and this is one of the main goals of forming an alliance. According to Norman (2004), firms that engage in an alliance will be likely to invest more to acquire worthwhile knowledge, which is often tacit. The intention of the Saudi partners regarding tacit knowledge varies. While some partners have the intention to acquire the foreign partner's tacit knowledge, others aim for co-specialization (Mowery et al., 2002; Zeng and Hennart, 2002). Previous literature shows a consistent result that tacit knowledge is more difficult to transfer (Dhanaraj et al., 2004; Kogut and Zander, 1993; Simonin, 1999a). Empirically, the results in this thesis suggest positive effects of both tacit and explicit knowledge acquired by Saudi firms. Foreign partners facilitate the acquisition of explicit knowledge but their efforts regarding tacit knowledge are different (Hau and Evangelista, 2007). Some of the cases investigated have supported the importance of acquiring tacit knowledge, especially of technological components which are required in important projects such as ones concerning hospitals and security. On the other hand, some foreign partners

tend to protect their tacit knowledge and only facilitate the transfer of explicit knowledge, which may be due to knowledge spillover, a competitive environment or the absence of a reward system. This is supported theoretically and even empirically by Inkpen (1998 a, b), Inkpen (2005), Wong et al. (2002) and Hau and Evangelista (2007).

Another theoretical contribution of this thesis has been made by studying the diversification decision processes over time. The results suggest that learning and knowledge transfer have a useful place in the field of research on decision-making, in particular concerning how learning and knowledge transfer impact decisions compared to the pre-alliance period. The decisions have been categorized into three states based on the time of learning and knowledge transfer from the foreign partner in an international strategic alliance. The states have been studied from the perspective of the chronological structure of the diversification decision (i.e. how long each state took). The knowledge system in a strategic alliance changes over time. The findings contribute to the literature in several ways. First, the results show how long it takes a Saudi firm to move from the acquisition of new knowledge to its application. In terms of time, firms are different in their learning processes, which may be due to their aims, capabilities and partner selection criteria. Some firms take several years to absorb knowledge and then reach the stage of using it, while others take months or a year to make the new knowledge available for application. The thesis has given support to studies (i.e. Lyles and Salk, 1996; Lane et al., 2001) that spotlight the impact of learning on firm performance in terms of time. The analysis supports work on decision-making by shedding light on the ongoing learning which takes place over the time of an alliance and its influence on subsequent decisions from a new perspective (Williams and Durst, 2019).

Second, the empirical results contribute to a better understanding that the borders of each state are not fixed, which means they are flexible and differ among firms. In one case the first state can be shortened and most time is spent in the second state, and *vice versa*. In addition, it is not necessary for all three states to occur during the diversification decision process. In some cases, learning and knowledge transfer are needed for the second and third states and so the beginning of the second state can be considered to be in the pre-alliance period.

Furthermore, the results reveal information about how Saudi firms conduct the decision process and assert that knowledge is an important component of decision-making. What is new in this thesis is a link between the knowledge management, knowledge transfer, organizational learning and strategic management literature that provides new insights into the impact of international strategic alliances on diversification decisions (See Figure 3). This thesis has also illustrated how important partner selection criteria are for alliance formation, particularly in the Saudi context. Although partner selection criteria are important in general, these criteria play another major role in learning and knowledge transfer from the time perspective. Using these criteria, the Saudi partner in Chapter 7 chose an optimal partner which could help it engage in real learning and knowledge transfer processes. As a result, the Saudi partner worked intensively before the alliance in order to maximize the benefits from learning in an international strategic alliance. This had a certain impact on the time needed to absorb and apply the new knowledge.

According to Mahadoh et al. (2018), theory consist of eight elements: (a) research questions, (b) a mode of theorizing – 'how,' (c) a level of analysis – 'who,' (d) a phenomenon – 'where,' (e) a causal mechanism – 'why,' (f) a set of constructs or variables – 'what,' (g) a set of boundary conditions – 'when,' and (h) outputs. The

contributions to theory may regard more than one of these elements. I believe that these contributions could be fundamental in the evolution of the strategic management and international business fields. Figure 15 shows the way the thesis makes contributions to the theory of organizational learning and knowledge in the Saudi context.

In summary, the thesis has examined how learning from an international strategic alliance impacts a subsequent diversification decision in Saudi firms. One of the main contributions of the thesis is its extension of the existing literature to a new context: Saudi Arabia. In addition, the findings contribute on absorptive capacity and disseminative capacity by highlighting the impact of each capacity on organizational learning. A major contribution of the thesis regards the consistent influence of organizational learning on diversification decisions. Finally, the thesis has also illustrated how the diversification decision takes place over time.

8.3. Managerial Implications

The present study suggests that learning and knowledge transfer in an international strategic alliance influence a subsequent strategic decision. Both partners exchange benefits during the alliance. While the foreign partner seeks market knowledge, the Saudi partner aims to access and acquire knowledge that supports it in expanding product lines or in developing and developed economies. Hence, understanding and managing the learning process in an alliance can enhance organizational knowledge. The results of this thesis provide a good opportunity to close the gap in our understanding at the practical level in the Saudi context.

Management teams in host country firms in non-diversified economies should consider and utilize the opportunity to learn from international alliance partners to

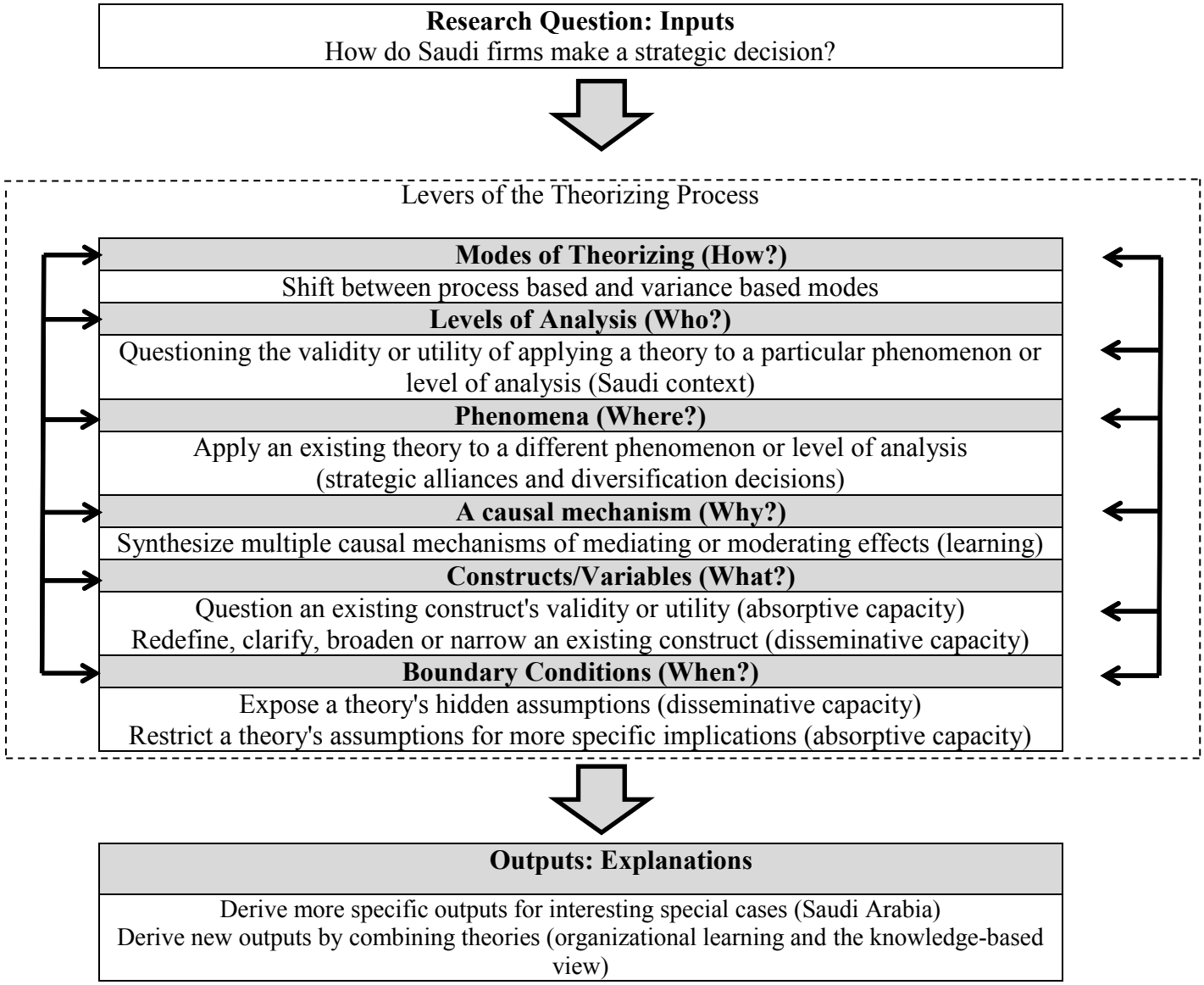

Figure 15 Contribution to Theory (using Makadok et al. 2018's framework)

formulate and evaluate knowledge on how to diversify in order to be competitive. Firms in non-diversified economies can lack the required knowledge (know-how and know-why) and this acts as an impediment to diversification. In order to seize opportunities for learning through strategic alliances, firms in non-diversified host countries should not only select foreign alliance partners based on criteria such as the degree of both strategic and organizational fit between the partners (Hamel et al., 1989; Wua et al., 2009), but also by considering how they might engage in the knowledge transfer process that may underpin their eventual diversification. To do

this, firms should assign to any important strategic alliance highly trained and talented staff who are able to influence the constellation of factors that will allow the firm to receive and internalize awareness of opportunities for diversification.

Managers should also pay attention to knowledge integration mechanisms. Only acquiring knowledge from partners is not sufficient to influence an outcome like a strategic decision. A lack of knowledge integration mechanisms is a major hindrance to utilizing the knowledge acquired (Teo and Bhattacherjee, 2014). Therefore, managers should ensure that there is an environment which facilitates the integration process, including the company's culture, competencies, skills and infrastructure.

The findings suggest that making a strategic decision is dependent on a firm's ability to learn and share knowledge among partners. Firms that are developing learning strategies will gain valuable and necessary knowledge compared to other firms that are not effective at learning. Practitioners, both at the top and technical levels, should share the objectives of an alliance among participants in the pre-alliance period and should assert the importance of learning throughout the lifetime of the alliance. In order to acquire partner knowledge, the intention to learn should be present at both the organizational and individual levels (Hau and Evangelista 2007). Managers must implement proper governance mechanisms and allow a certain level of inter-firm competition that matches the learning aims based on the intention and capability of both partners to maximize the benefits of organizational learning (Jiang and Li, 2008). This may lead to a better understanding of the role of absorptive capacity in organizational learning and any subsequent strategic decision. Therefore, more awareness of the objectives and governance mechanisms by the knowledge seeker can result in beneficial learning and knowledge transfer.

Furthermore, with the recent huge changes in the business environment in Saudi Arabia under Vision 2030, local partners need to strengthen their competitive advantage in order to remain in the business world. One of the new regulations allows foreign partners to invest in Saudi Arabia with 100% ownership. Therefore, the need to partner with local firms will decrease because access to the Saudi market is becoming easy and working alone as a foreign actor will be accompanied by low risks, which may lead to a view that Saudi partners are dispensable. In addition, there will be fewer incentives for partnerships in the future, including holiday taxes and low-interest loans. All of these points raise an important question: what are the benefits to foreign partners from engaging with Saudi partners? Therefore, Saudi firms should consider this and make dramatic changes to strengthen their capabilities, competencies and (technical, managerial, marketing and innovative) skills to become more attractive to foreign partners who wish to invest in Saudi Arabia and not just become intermediaries in Saudi projects. This will also decrease the dependency of Saudi partners on foreign partner knowledge and skills. This means Saudi firms could become direct rivals of foreign firms in the Saudi context.

The findings of the study provide a clear signal to Saudi firms about the need to recruit new Saudi employees with professional qualifications and to implement new programmes that develop the existing employees. Recruiting new Saudis may extend their stay in the firm compared to foreign workers, who can easily leave a firm for economic or social reasons after acquiring a return from their investment, which is experience. Such programmes should focus on the development of a personal career based on employee performance. For example, one of the critical issues that Saudi firms face in an alliance is the English language. English is an important channel for communicating both formally and informally with foreigners because it is a global

language. Some Saudi firms struggle to absorb the partner's knowledge, which may be due to misunderstandings. As a result, many opportunities can be missed because of language misunderstanding. This is an important insight for Saudi firms and it will have consequences in the coming years as more alliances with foreign partners are planned in Saudi Arabia to work on giant projects such as Neom, Qiddiya, Amaala and the Red Sea which will be implemented soon.

This thesis sheds light on how partners communicate during an alliance. The relationship between absorptive and disseminative capacities and organizational learning is moderated by intensive communication. This finding can help practitioners better understand why partners can move from benefiting from each other to having a negative relationship, as was shown in Figure 6. Formal and intensive communication between partners is associated with a high level of knowledge transfer and learning (Lyles and Salk, 1996; Prochno, 2003; Anh et al., 2006; Williams, 2011). Therefore, it may be even more beneficial to create and encourage contexts that support formal communication mechanisms. A possible explanation behind this result is that the foreign partner contributes to an alliance with a high quantity of knowledge (many details) which the Saudi partner has no ability to absorb or at least document. In addition, the Saudi partner may have no infrastructure to receive new knowledge. Hence, Saudi firms that engage in international strategic alliances and aim for learning and knowledge transfer should consider these points and focus on building strong communication skills in the alliance team and develop their infrastructure to increase the chances of successfully acquiring knowledge from the foreign partner. In addition, my findings suggest that knowledge transferred mostly through formal communication is explicit knowledge. Managers should create more opportunities for informal interactions to facilitate tacit knowledge transfer in addition to formal

communication (Murray and Peyrefitte, 2007; Zhao and Anand, 2009; Park et. al., 2012). This can create and encourage a suitable climate for the exchange of tacit knowledge.

The empirical evidence in this thesis will help managers to understand individual behaviour toward learning, knowledge transfer and knowledge sharing. This result was achieved by identifying employee behaviour and practices during alliances. Some Saudi firms declare that the main goal of the alliance is learning, while others decide during the alliance after they realize the importance of acquiring knowledge from the foreign partner. Therefore, firms can prepare employees' pre-alliance behaviour and orient them to adopting a learning approach in order to achieve their goal. One way to prepare employees for an alliance is through training. Firms should focus on training employees to build strong learning-oriented behaviour. Training will equip employees with the required skills and can also predict negative attitudes toward learning, which firms will then have time to find a suitable way to address. The findings can also help better understanding of the joint roles of absorptive and disseminative capacities in organizational learning, which then impacts a diversification decision or any future strategic decision. As a result, more awareness and preparation by both the knowledge-seeker and knowledge-holder are needed to improve their capacities.

In conclusion, the opportunity to learn from international alliance partners should be considered by managers in non-diversified economies in order to formulate diversification decisions. Practitioners should pay more attention to knowledge integration mechanisms after acquiring a partner's knowledge. Firms that develop learning strategies will benefit from a partner. Saudi partners should be aware of the changes in regulations brought by Vision 2030 which may affect their engagement in future international strategic alliances. Changes are required in the employment

system, including recruitment of professionally qualified staff and implementing career paths. Both the method and quantity of communication should be taken into account due to its influence on the type of knowledge transferred and its benefits. Training can help managers to understand and predict individual behaviour connected to learning, knowledge transfer and knowledge sharing.

8.4. Policy Implications

There is no doubt that Saudi Arabia can be recognized as an attractive place to do business, especially with the high rate of success of international strategic alliances (Almasaad, 2014). However, there is still much work to do and this should be analysed carefully to support Saudi government attempts to bring more foreign investors. The findings in this thesis provide important insights for policymakers in the Saudi context.

Part of the lack of intention and ability of Saudi firms to absorbing and transfer a partner's knowledge is because of how the foreign partner was selected. Some firms in this thesis did not have a choice because the decision-making was done by a combination of executives and government agencies. As a result, the outcomes of the international alliance were below expectations for the Saudi partners, and even for both partners in some cases. The Saudi partners missed opportunities to learn and transfer knowledge from the foreign partners and became more dependent, particularly in terms of technology. To establish a successful partnership, partner selection is the most significant step (Chen and Tseng, 2005; Elmuti and Kathawala, 2001). Saudi agencies such as policy-makers should think of techniques that ensure the foreign partner is selected using professional criteria. This is because sometimes these agencies' suggestions regarding partner selection can lead to more complicated

relationships which may result in a gap between the partners. This gap can decrease the fit between partners and make learning and knowledge transfer difficult. It is important to consider the degree of fit in any partnership at both the strategic and organizational levels (Hamel et al, 1989; Wua et al., 2009). This can be done before forming an alliance. Therefore, government agency suggestions regarding partner selection in some cases should be limited to the adoption of professional criteria such as checking the foreign partner's experience and the results of previous alliances. This procedure can also prevent Saudi partners from engaging with partners that are more protective and have low levels of willingness to share knowledge. These criteria should also apply to Saudi partners to ensure that both partners gain benefits from the alliance.

The new changes which allow foreign partners to access the Saudi market with 100% ownership could prevent the economy gaining the additional benefits which Saudi firms introduce. Some of these benefits are jobs, money movements within the Saudi economy and the overall impact on GDP. After the changes in the regulations, these benefits may be lost or decrease. Policymakers can mitigate such effects of these changes in certain ways. First, the role of SMEs with a foreign partner working in the Saudi context should be increased. This can be achieved through the supply chain or any other process that enriches the local content. For example, packaging and transportation can be assigned to Saudi SMEs which may strength their ability and enhance their experience. Second, the government could only allow a foreign partner to apply for government contracts (for which Saudi firms have priority) if it uses or develops local content. These can include raw materials, manpower and manufacturing. By doing this, local content can have a role in international business, which may create new demand for the Saudi market. The government may mitigate

the impact of allowing foreign partners to work locally without Saudi partners by implementing the above suggestions.

It is apparent that there is a serious need for information about the economy, particularly about foreign investors' activities in Saudi Arabia. These activities involve strategic alliances, mergers, acquisitions and MNEs. The information would help everyone in the relationship (government, investors, Saudi SMEs and researchers) with the direct benefits of information such as the number of alliances in Saudi Arabia, the duration of the alliances, the form of the alliances, alliance failures, the number of employees and capital etc. It could also give an indication of how business works in Saudi Arabia, which may increase transparency. Information could be supplied by firms themselves to government agencies, which after collecting and processing it make it available for publication. By providing this information, the Saudi economy may gain a great opportunity to increase FDI from around the world and at the same time retain the existing presence of foreign firms in the Saudi market. Saudi policymakers should consider a way to address the problem of missing or absent information and put forward policies that ensure the availability of all the required information.

In summary, instead of suggestions in the process of partner selection by some government agencies, the focus should be on the adoption of professional criteria which ensure that both partners enjoy a beneficial partnership. Policy-makers may mitigate the impact of allowing foreign partners to work locally without a Saudi partner by increasing the role of SMEs and enriching the local content by allowing the participation of foreign partners in government contracts. Addressing the problem of missing or absent information should be a priority to increase the opportunity of FDI in the Saudi economy from around the world.

8.5. Limitations of the Study

All studies have limitations and the present thesis is no exception. Although extensive research methods and rigorous analysis procedures have been used, the results should be interpreted based on the knowledge of the limitations which the research and researcher encountered. These are discussed below.

Firstly, the study has involved the employment of a cross-sectional design, which only provides a 'snap-shot' of the learning and knowledge transfer process and how it impacts a subsequent decision. By their nature, relationships of cause and effect, such as in the process of learning from a partner firm, take time to be noticed. As knowledge acquisition and utilization need time for the effects to be observed, a longitudinal design should be considered to bring out the interplay between the knowledge transfer dynamics and subsequent strategic decisions made by host partners.

Secondly, the research has focussed on learning and knowledge transfer exclusively in the context of foreign MNEs in Saudi Arabia between 2005 and 2015. This may lead to a possible loss of some respondents. This is clear from answers to the filter question. There was also no accurate database available to the researcher. In addition, at the time that the data was collected there was a huge restructuring of the economy which affected all companies in Saudi Arabia (some shut down and others were in the process of restructuring). In other words, the data collection time was a difficult time for businesses in Saudi Arabia. As a result, the sample is relatively small, which limits its generalizability. Therefore, care should be taken when drawing conclusions for other contexts. The strategy used does not allow the results to be generalized to a wider population, particularly in a non-diversified economy. Although the studies in

this thesis involved thorough pre-tests and a pilot study of the quantitative and qualitative methods, this limitation may impact the generalizability of the findings. However, some of the findings may be taken on board because they support the findings of previous studies.

Third, one could argue that a diversification decision is not like other simple decisions that are only based on learning from international alliance partners. The variables in the model provide a clear explanation of how diversification decisions captured in the data happened after engaging with international strategic alliance partners. However, some relevant variables which could have the potential to influence diversification decisions may not be captured in the model. These variables include the characteristics of the top management team, the institutional environment, the industry and competition. These variables will have critical roles to play, not only in the process of making a diversification decision but also in terms of how resources are utilized, and particularly knowledge. It was difficult to capture these in the present study due to time and financial restrictions. Hence, a conceptual extension to the current framework could examine these variables alongside other control variables and learn from partners in future work.

Finally, the current thesis depended on a single respondent from each international strategic alliance in Saudi Arabia. The thesis did not sample multiple respondents in each Saudi firm. Each of the observations in the data represents the opinion of a senior executive or functional head in a Saudi firm. The assumption here is that the respondents were aware of learning and knowledge transfer activities. Therefore, in order to overcome this limitation, multiple respondents from each firm are required. In addition, the thesis examined the impact of international strategic alliances on diversification decisions from the perspective of one party, namely the knowledge-

seeker – the Saudi partner. In other words, the knowledge-sharing did not assess from the perspective of the foreign partner. The thesis did not gather the opinions of each partner on the knowledge transfer and sharing and how these processes impact the subsequent diversification decision. The study has addressed a complex phenomenon that requires a special type of analyses to show how learning and knowledge transfer influence a future diversification decision. For a more in-depth analysis to explore the influence of the impact of learning and knowledge transfer, a dyadic data analysis with both partners participating in the study would be essential.

In summary, a longitudinal design could bring more insights into the dynamics of the phenomenon of knowledge acquisition and utilization. The sample in this study is relatively small and cannot be generalized except for some findings that support previous findings. In addition, diversification decisions could be influenced by other relevant variables which were not captured in the model. Multiple respondents from each firm would be important to understand all the aspects of the alliance. Both partners should participate in the study through dyadic data analysis.

8.6. Recommendations for Future Research

The main objective of this study was to examine the impact of learning and knowledge transfer from an international strategic alliance on a subsequent diversification decision by host partners. This section aims to provide some suggestions for future studies. The chapters above have unearthed opportunities and shed light on important topics relating to particular research questions in the international business and strategic management fields. These suggestions are presented below.

This thesis has only examined and empirically explored the role of strategic alliances in diversification decisions in the Saudi context in the light of the possible moderating effects of a constellation of variables that come into play in the operating phase of the alliance in the host country. Additional research exploring other dimensions of absorptive capacity and disseminative capacity or the interactions between these dimensions could be conducted in international strategic alliance settings, which may add valuable insight. Therefore, future research can explore whether these capacities have other more relevant dimensions, which would reveal the complexity of the capacities even further.

Furthermore, future research could develop the model presented in this thesis and include a new aspect such as the perspective of competition through questions related to the consequences if the partners are currently competitors or potential competitors. In addition, future empirical work could test and extend the model to various host country settings, including non-diversified economies, where the role of the firm and its knowledge acquisition and foreign investors' commitment to diversifying the economy takes on extra importance, especially among policymakers.

This study has only focused on the period 2005 to 2015, in which major restructuring in the Saudi economy took place. There is a great opportunity for further research to study the influence of Vision 2030 on forming international strategic alliances with foreign partners as sources of knowledge beyond Saudi firms' boundaries. The results of these future studies can help to measure the impact of the Vision on the process of gaining new knowledge in Saudi firms and how foreign partner preferences may change regarding entering the Saudi market.

The current study has only concentrated on foreign-Saudi international strategic alliances with a purely Saudi firm. A future study could incorporate another non-diversified economy into the investigation by adding a sample of Gulf State firms. Scholars from the Gulf States can participate with a Saudi in order to conduct a study that looks into the phenomena of learning and knowledge transfer from foreign partners in samples from each state at the same time.

The non-significance of absorptive capacity is rather surprising. However, non-significance of a linear relationship between absorptive capacity and organizational learning does not rule out effects of both dimensions of absorptive capacity. Therefore, future research should focus on impacts of absorptive capacity within Saudi firms. The findings should encourage more research on the role of absorptive capacity in all its dimensions.

The role of intensive communications in the alliance between partners should receive more attention in the international business and strategic management areas. In the present study, the level of intensive communication changes from a positive linear relationship to a negative one. Hence, future studies could investigate this change which affects knowledge acquisition by Saudi firms.

The findings in Chapter 7 paved the way for future research to advance our understanding of how a diversification decision is built, in particular on the basis of learning from partners and from a chronological perspective. Future studies should look into the relevant variables that may have a potential influence on diversification decisions (i.e. the characteristics of the top management team, the institutional environment, the industry and competition). These variables will provide a deeper understanding of diversification decisions, particularly in non-diversified economies.

The findings in Chapter 5 indicate that all the moderators should be eliminated from the side of the knowledge-seeker. No effect size was found in any of the moderators on the Saudi partner side, including resource commitment, the nature of the knowledge involved and intensive communication. Future studies should examine these moderators in order to detect their impact among both host and foreign partners at the same time.

Methodologically, future studies should consider a longitudinal design to investigate the reciprocal impacts of strategic alliances and diversification. Furthermore, obtaining data through a dyadic method with both partners (local and foreign) participating in the study could enrich the explanations of how these two strategic interventions interact. In addition, adopting a dyadic method may overcome criticism that could arise from only gathering data from one partner. Finally, multiple respondents from each partner are essential.

In conclusion, future research could explore other dimensions of absorptive capacity and disseminative capacity and interactions among them. Additional research could develop the model in this study from a competition perspective. Further research has an opportunity to measure the impact of Vision 2030 on forming international strategic alliances with foreign partners in the Saudi context. Other non-diversified economics (e.g. Gulf States) could be incorporated in future studies. Additional research should investigate the surprising non-significance of absorptive capacity in Saudi firms. In addition, this study has raised a question regarding a change in intensive communication which affects knowledge acquisition by Saudi firms. Furthermore, relevant variables which may have a potential influence on diversification decisions should be considered. Future research could examine moderators among host and foreign partners at the same time. Methodologically,

future studies should consider a longitudinal design, a dyadic method and multiple respondents from each partner to examine the relationship between strategic alliances and diversification.

8.7. Reflection

During the work on the current thesis, the researcher encountered many hindrances regarding necessary data. First, there were no accurate databases of businesses with foreign partners available from government agencies. Second, the time the data was collected is considered a period of huge restructuring in the Saudi economy when Vision 2030 was launched. In that period, some businesses were shutting down or restructuring in order to adapt the new regulations. Therefore, I would like to raise these issues in order to help researchers who are interested either in international strategic alliances or diversification in the Saudi context.

8.8. Conclusion

To conclude, strategic management and international business research are urged to advance their conceptualizations more empirically in new contexts, particularly in an area that has been less explored to date, including a relationship between two strategic fields, with a focus on context and methods. This thesis has attempted to examine the influence of learning and knowledge transfer from an international strategic alliance on subsequent diversification decisions in the Saudi context. In line with this, a framework developed to understand the dynamic relationship in the knowledge system between partners in the light of moderator and mediator effects.

This thesis has found an answer to the important question regarding how Saudi firms implement a diversification strategy in the Saudi economy: through learning and knowledge transfer from foreign partners in international strategic alliances. The

findings presented in the earlier chapters have some similarities and differences with the previous literature. All three studies confirmed that organizational learning from international strategic alliances positively and significantly influences a subsequent diversification decision in Saudi firms. Furthermore, disseminative capacity has a consistent impact on organizational learning and this was robust through the control variables. The interesting result that absorptive capacity was negative in the first study and Hypothesis 1 was not supported contradicts previous works on learning and knowledge transfer. However, in the second and third studies the result became positive and significant. The explorations in these studies provide further understanding of how the causal relationships between two strategic fields contribute to the body of knowledge and particularly demonstrate the impact of learning on strategic decisions as an outcome in the long run. Ultimately, the empirical findings will assist upcoming works on both theoretical and empirical development in alliance and diversification practice.

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Appendices

Appendix A: Questionnaire used in Study1

Durham University Business School,
Mill Hill Lane,
Durham,
The United Kingdom,
DH1 3LB

Research Survey on International Strategic Alliances and Diversification in Saudi Arabia

Dear Sir/Madam,

Thank you in advance for your assistance in this important research. I am currently undertaking doctoral research looking into the impact of learning from international strategic alliances on companies' diversification decisions. An "international strategic alliance" refers to a formal agreement between two or more foreign partners for the sharing of resources for mutual economic gain. A "Diversification decision" refers to the starting of new businesses or the expanding into new markets or products and services which may be related or unrelated to existing ones.

The specific purpose of this research is to investigate *how* international strategic alliances influence diversification within companies in Saudi Arabia. As a non-diversified economy due to its heavy reliance on oil revenue, Saudi Arabia offers an interesting context for our research. The research is important for Saudi Arabia as it aligns with Vision 2030, a policy that aims to diversify the economy towards a non-oil based economy.

Because of the nature of the information being sought, it will be helpful if the respondent has first-hand experience working for a Saudi Arabian company that has been involved in an international strategic alliance. The ideal person to fill in the question is someone who has been involved in managing the alliance and/or strategic decision making (e.g. Chief Executive Officer, Vice President, General Manager, or Head of Department).

It takes about 20 minutes to complete the questionnaire. Your answers will be used only for analytic and academic purposes and will be treated with complete confidentiality. In addition, the summarized results of the study will be made available to participants if requested.

If you have any questions or need further clarification please do not hesitate to contact me at faisal.alfehaid@durham.ac.uk

Thank you very much for your time and effort and I appreciate your valuable input.
Sincerely,

Faisal Alfehaid
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To comply with ethics standards, we ask you to confirm that you have read the introductory explanation and that you fill in this questionnaire voluntarily.

☐ I understand the purpose of the questionnaire, and I participate voluntarily.

Has your company been engaged in an international strategic alliance (such as a joint venture, or a licensing / franchising arrangement) at any time since 2005?

☐ Yes

☐ No

Instructions:

- When you complete this questionnaire, please consider one important international strategic alliance.
- In this section, you will see general questions about your company and your foreign partner. Please answer the questions by ticking (✓) in the appropriate box (please tick one box only) unless otherwise instructed.

General information

Name of your Company (Optional)

……

Your job title

☐ CEO ☐ Vice president ☐ General manager
☐ Department manager ☐ Project manager ☐ Other (please specify)……..…

Type of your Company

☐ Publicly-listed company ☐ Family business ☐ Government-owned corporation
☐ Other (please specify)……..… ……

Your Company's Sector

☐ Manufacturing ☐ Finance/Banking/Insurance ☐ Health/Medical ☐ Real Estate
☐ Retail/Trading ☐ Travel/Tourism/Hotel ☐ Transportation ☐ Energy
☐ Utilities ☐ Telecommunication Services ☐ Other (please specify)……..… ……

Number of Permanent Staff in Your Company

……..

Annual Sales (SR) of Your Company

……..

Name of the Foreign Partner (Optional)

……..

Country of Foreign Partner

……..

The Foreign Partner's Sector

☐ Manufacturing ☐ Finance/Banking/Insurance ☐ Health/Medical ☐ Real Estate
☐ Retail/Trading ☐ Travel/Tourism/Hotel ☐ Transportation ☐ Energy
☐ Utilities ☐ Telecommunication Services ☐ Other (please specify)…….… ……

Year of Establishment of the Alliance between your company and this Partner

……

Alliance Form

☐ Equity- based (please state the equity share in percentage ……..……%)

☐ Non-Equity- based such as franchising, licensing and distribution agreement (Please state the form of alliance ……..……)

Number of prior international strategic alliances that your company has engaged in

☐ None ☐ Once ☐ More than once

Number of Foreign Staff Located in Saudi Arabia as a Part of this Alliance

……..

Instructions:

- Please think about your company's engagement in the strategic alliance with the partner indicated above.
- For each statement below, select the response that best describes how much you agree or disagree.
- In the box after each statement, please write a number between 1 and 7 where 1 is" strongly disagree" and 7 is "strongly agree". Please try to use the full range of numbers on this scale (1 to 7). Remember that there are no right or wrong answers to these questions.
- Scale format

Strongly Disagree	Disagree	Partly Disagree	Neutral	Partly Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

When deciding to enter into this international alliance……

1. our company had a strong desire to learn about a particular process owned by our partner
2. our company had a strong desire to learn the partner's know-how
3. the learning agenda had been clearly defined and communicated for all personnel involved

We perceived that our company's……

4. knowledge base had similarity with our partner
5. approach was to be open and flexible
6. knowledge infrastructure had been effective

We perceived that our staff…

7. recognized the importance of our partner's knowledge

8. was well educated
9. had good learning capabilities
10. had the competence to absorb new knowledge
11. had a common vision to learn

We perceived that our partner ……

12. was willing to share their knowledge on business best practices
13. was willing to share their skills and expertise on business best practices
14. had applied their knowledge with us in several past projects
15. provided examples or additional explanations in order to convey their knowledge
16. was known to be an 'expert'
17. had a deep understanding of the knowledge domain

The knowledge conveyed by our partner…….

18. fully matched the set of knowledge we needed
19. was based on identified gaps in our own knowledge base
20. was always appropriate given the situation

During knowledge transfer our partner …….

21. shared relevant tacit knowledge, i.e., hardly describable skills and experiences
22. caused many misunderstandings
23. used many abbreviations which we did not understand
24. used many technical terms that we did not understand
25. coached us (i.e., by means of instructions, demonstrations of utilization, etc.)
26. provided immediate feedback

Our company committed to this alliance by…..

27. assigning highly trained and talented personnel
28. spending a lot of time and energy to maintain the alliance
29. devoting a lot of resources to support the seeking, diffusion, and sharing of information

We perceived that our partner committed to this alliance by …….

30. assigning highly trained and talented personnel
31. spending a lot of time and energy to maintain the alliance
32. devoting a lot of resources to support the seeking, diffusion, and sharing of information

We perceived that our company employees communicated in this alliance by …….

33. attending regular meetings
34. asking advice from the foreign partner in decision-making processes
35. engaging in daily communication with the staff of our partner
36. informal discussions to get information from our partner

We perceived that our partner's employees communicated in this alliance by …….

37. attending regular meetings
38. making frequent on-site visits
39. offering a lot of formal training programs such as seminars and lectures

40. daily communication with our company's employees
41. providing guidelines and procedures
42. informal discussions to share information

We perceived that our partner's……

43. technology/process know-how was easily codifiable (in blueprints, instructions, formulas, etc.)
44. technology/process know-how was more explicit than tacit
45. resources, skills, knowledge, and capabilities could be learned through observation
46. staff intentionally restricted the sharing of their know-how with our staff
47. staff were very protective of their know-how
48. staff asked for authorization by their hierarchy any time we needed new information

During the period of the alliance, our company learned……..

49. some new or important information from our foreign partner
50. some new critical capability or skill from the foreign partner
51. how to enhance our own existing capabilities/skills
52. new technological techniques/expertise from the foreign partner
53. new product development techniques/expertise from the foreign partner
54. new managerial techniques/expertise from the foreign partner
55. new manufacturing techniques/expertise from the foreign partner
56. new marketing techniques/expertise from the foreign partner

Please indicate up to a maximum of 5 of the most significant diversification decisions made by *your* company since the year when the international strategic alliance started (for the purposes of our study, these diversification decisions do not have to involve the alliance partner indicated above).

A. None (there were no diversification decisions)

B. There was at least one diversification decision (Please indicate a decision in the table below)

C. We have started planning for a major diversification at some point in the next 3 years

Diversification Decision – Brief Description	Type (related/unrelated)*	Year of decision
1.		
2.		
3.		
4.		
5.		

*Related diversification refers to expansion to new business areas involving similar skills, resources, technologies, and customers. Unrelated diversification refers to entering a new business area that has markedly dissimilar activities including skills, resources, technologies, and customers.

Comments

Would you be interested to receive a summary of the study results? ☐ Yes ☐ No

Would you be willing to discuss the results of the study? ☐ Yes ☐ No

If yes to either of the above questions, please provide your contact details below:

Name:

Company Name:

Email address:

Thank you very much for your assistance.

End of the questionnaire.

Appendix B: Interview Questions used in Study 2 and 3

Interview Schedule

Welcome and thank you for your participation in this study. My name is Faisal Alfehaid and I am currently undertaking doctoral research looking into the impact of learning and knowledge transfer from international strategic alliances on companies' diversification decisions in Saudi Arabia. Your responses will remain confidential and will be used only for the purposes of this study. Your participation in this interview is completely voluntary. If at any time you need to stop, take a break, or return a previous question, please let me know.

Estimated Time: 20-30 Minutes

1) What is the nature of international strategic alliance that your firm engaged in, in terms of the type of alliance, country of a foreign partner, and year of the establishment?

Now I would like to move on to Q2

2) Can we talk about your intention to engage in this alliance?

Time for Q3

3) What about your ability to acquire a partner's knowledge in terms of employees and infrastructure and the other requirements?

Let's turn next to Q4

4) How was the commitment of your firm including top management and employees in this alliance?

Let's turn next to Q5

5) During the process of knowledge transfer and learning from foreign, do you have procedures to measure your performance in learning and transferring?

Let's turn next to Q6

6) What was the nature of transferred knowledge? Was it explicit (documented and easy to transfer or implicit (difficult to transfer)?

Time for Q7

7) Can we talk about communications in this alliance regarding how intensive it was and the method (formal and informal)?

Now I would like to move on to Q8

8) Does this knowledge help you to discover new diversification opportunities? If so, do you acquire knowledge related to how to diversify?

Time for Q9

9) Has your firm made any significant diversification decisions since the year when the international strategic alliance started (Based on the learning from a foreign partner? If yes, please can you give us examples of this decision in terms of year of decision, types of diversification, and a brief description of it?

Let's turn next to Q10

10) What is the chronological structure to move between diversification decision states? *

Time for Q11

11) What are the characteristics of the knowledge system across the state's overtime? We mean your intention and ability also your partners' willingness and ability.*

*Questions of study three.

Let's turn next to 12

12) In general, how would you make a strategic decision such as diversification? Do you ask for external consultation or you rely on your top management to formulate the decision?

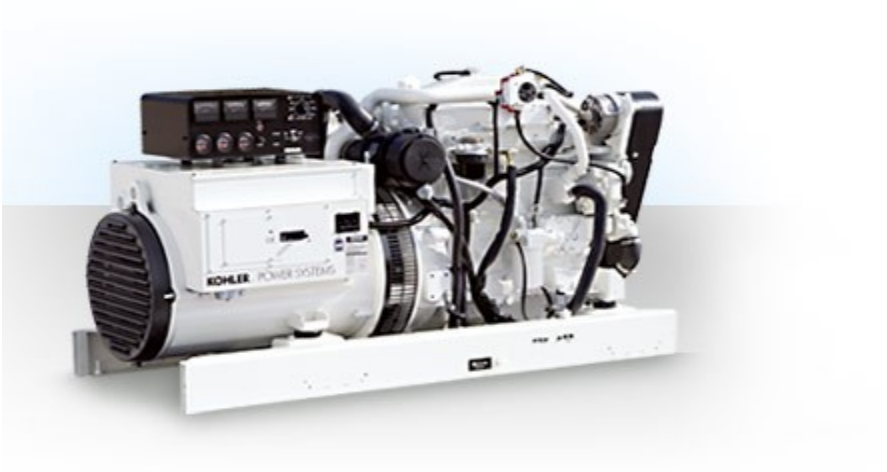
Before we conclude this interview, is there anything else you would like to share?

Thank you for your participation

Appendix C: Generator Comparison from Study 3

Type of generator	Usages	Power	Customers	Sales cycle
Based	Hospitals, airports, data centers, and water treatment plants	10kW to 4000 kW	Governments and companies	Medium
Marine	Ships, cruise, and boats	150 kW to 500 kW	Governments, companies, and public	Fast

Based generator



Marine generator