Joint Ventures

“Collaborate with Your Competitors – and Win”

A current shift in strategic perspective is due to many factors, such as rising R&D costs, growing complexity of industry structures, increasing needs for global scale economies, shortened product life cycles, growing capital needs, widening cost of production differentials and higher regulation, among others. The needs for human, technological and financial resources are beyond a company’s boundaries. Today’s corporation must pursue multiple sources of competitive advantage simultaneously: interdependent and integrated network organization and collaborative relationships with competitors, customers, suppliers, governmental organizations and international institutions. Today, strategic alliances reflect the strategic importance of cooperation. Three trends in modern alliances: strategic alliances are more and more between companies in industrialized countries, the focus tends to be on the development of new products and technologies rather than in distribution, and strategic alliances are designed for short duration. Before they used to be between large MNEs and smaller local partners in different countries and the MNE typically provided existing products. The local company provided market access and expertise.

Key motivations driving the formation of strategic alliances: technology exchange, global competition, industry convergence, scale economies, risk reduction and alliance as an alternative to merger.

Collaboration between competitors is in fashion as we can now see the spread of what we call **“competitive collaboration”** – joint ventures, outsourcing agreements, product licensing, cooperative research. A strategic alliance can strengthen both companies against outsiders even as it weakens one partner vis-à-vis the other. Cooperation becomes a low-cost route for new competitors to gain technology and market access as it takes too much money to develop new products and to penetrate new markets. Companies se competitive collaborations to enhance their internal skills and technologies, while they guard against transferring competitive advantages to ambitious partners.

- Collaboration is competition in a different form
- Harmony is not the best measure of success
- Cooperation has limits. Companies must defend against competitive compromise
- Learning from partners is paramount

Using an alliance with a competitor to acquire new technologies or skills is not devious. It reflects the commitment and capacity of each partner to absorb the skills of the other. But companies should make a great effort to learn and use these collaborative ventures to enhance their technology and product competences.

Western companies often enter alliances to avoid investments. They are more interested in reducing the costs and risks of entering new businesses or markets than in acquiring new skills. Partners must digest each other’s’ skills. When the commitment to learn is so one-sided, collaboration invariably leads to competitive compromise.

Some alliances are little more than sophisticated outsourcing arrangements.

As companies contribute with fewer and fewer distinctive skills, they must reveal more and more of their internal operations to keep the partners interested. When both partners are equally intent on internalizing each other’s skills, distrust and conflict may spoil the alliance and threaten its very survival. Alliances seem to run most smoothly when one partner is intent on learning and the other is intent on avoidance – in essence, when one partner is willing to grow dependent on the other. But running

smoothly is not the point, the point is for a company to emerge from an alliance more competitive than when it entered it.

There are certain conditions under which mutual gain is possible, at least for a time: the partners' strategic goals converge while their competitive goals diverge; the size and market power of both partners is modest compared with industry leaders; each partner believes it can learn from the other and at the same time limit access to proprietary skills.

For collaboration to succeed, each partner must contribute something distinctive: basic research, product development skills, manufacturing capacity, access to distribution. The challenge is to share enough skills to create advantage vis-à-vis companies outside the alliance while preventing a wholesale transfer of skills to the partner. Companies must carefully select what skills and technologies they pass to their partners. They must develop safeguards against unintended, informal transfers of information. The goal is to limit the transparency of their operations. Companies must take steps to **limit transparency**. One approach is to limit the scope of the formal agreement. It might cover a simple technology rather than an entire range of technologies, part of a product line rather than the entire line, distribution in a limited number of markets or for a limited period of time. The objective is to circumscribe the partner's opportunities to learn. Moreover, agreements should establish specific performance requirements. Many of the skills that migrate between companies are not covered in the formal terms of collaboration. Top management puts together strategic alliances and sets the legal parameters for exchange. But what actually gets traded is determined by day-to-day interactions of engineers, marketers and product developers. The most important deals may be struck four or five organizational levels below where the deal was signed. Here lurks the greatest risk of unintended transfers of important skills. Limiting unintended transfers at the operating level requires careful attention to the role of gatekeepers, the people who control what information flows to a partner, so that the company can monitor and control access to critical skills and technologies. However, limiting unintended transfers ultimately depends on employee loyalty and self-discipline. Controlling unintended transfers may require stricting access to facilities as well as to people.

Whether collaboration leads to competitive surrender or revitalization depends foremost on what employees believe the purpose of the alliance to be. To learn one must want to learn. Western companies won't realize the full benefits of competitive collaboration until they overcome an arrogance borne of decades of leadership, they must learn how to be more receptive. Learning begins at the top. Senior management must be committed to enhancing their companies' skills as well as to avoiding financial risk. But most learning takes place at the lower levels of an alliance. Operating employees not only represent the front lines in an effective defense but also play a vital role in acquiring knowledge. They must be well briefed on the partners' strengths and weaknesses and understand how acquiring particular skills will bolster their company's competitive position.

Collaboration doesn't always provide an opportunity to fully internalize a partner's skills. Yet just acquiring new and more precise **benchmarks** of a partner's performance can be of great value. A new benchmark can provoke a thorough review of internal performance levels and may spur a round of competitive innovation. The great advantage of competitive collaboration is that proximity makes benchmarking easier.

Competitive collaboration also provides a way of getting close enough to rivals to predict how they will behave when the alliance unravels or runs its course. By revealing a competitor's management orthodoxies, collaboration can increase the chances of success in future head-to-head battles. Knowledge acquired form a competitor-partner is only valuable after it is diffused through the organization.

Managers are too often obsessed with the ownership structure of the alliance. Companies that are confident on their ability to learn may even prefer some ambiguity on the alliance's legal structure. Ambiguity creates more potential to acquire new skills and technologies. The challenge for Western companies is not to write tighter legal agreements, but to become better learners.

Competitive renewals depends on building new process capabilities and winning new product and technology battles. Collaboration can be a low-cost strategy for doing both.

E-P-G Model

The Tortuous Evolution of the Multinational Corporation

Multinational firms tend to be regarded as more progressive, dynamic, geared to the future than provincial companies which avoid foreign frontiers and their attendant risks and opportunities. Two hypothesis seem to be forming in the minds of executives from international firms. The first is that the degree of multinationality of an enterprise is positively related to the firm's long-term viability. The "multinational" category makes sense for executives if it means a quality of decision making that will lead to survival, growth and profitability in our evolving world economy. The second is that this type of institution could make a valuable contribution to world order and conceivably exercise a constructive impact on the nation-state. The greater the degree of multinationality of a firm, the greater its total constructive impact will be on host and home nation-states as well as other institutions.

Defining the degree of multinationality is quite difficult. No single criteria of multinationality such as ownership or number of nationals overseas is sufficient and external and quantifiable measures such as percentage of investment overseas or the distribution of equity by nationality are useful but not enough. It is also necessary to give weight to the way executives think about doing business around the world. The orientation toward "foreign people, ideas, resources", in headquarters and subsidiaries, and in host and home environments.

There are three primary attitudes among international executives toward building a multinational enterprise:

- **Ethnocentric – Home Country Attitudes**

"We, the home nationals of X company, are superior to, more trustworthy and more reliable than any foreigners in headquarters or subsidiaries. We will be willing to build facilities in your country if you acknowledge our inherent superiority and accept our methods and conditions for doing the job."

"Let us manufacture the simple products overseas. Those foreign nationals are not yet ready or reliable. We should manufacture the complex products in our country and keep the secrets among our trusted home-country nationals."

In a firm where ethnocentric attitudes prevail the performance criteria for men and products are "home-made". These attitudes are revealed in the communication process where advice, counsel and directives flow directly from headquarters to the subsidiary bearing the message "this works at home, therefore, it must work in your country". Executives in both headquarters and affiliates express the national identity of the firm by associating the company with the nationality of the headquarters. Crucial to this ethnocentric attitude is the policy that men of the home nationality are recruited and trained for positions everywhere in the world.

The costs of ethnocentrism are ineffective planning because of lack of good feedback, the departure of the best men in the subsidiaries, fewer innovations and an inability to build a high caliber local organization as well as less flexible response to local changes.

- **Polycentric – Host Country Orientation**

"Let the Romans do their way. We don't really understand what's going on there, but we have to have confidence in them. As long as they earn profit, we want to remain in the background."

Polycentric firms are those which begin with the assumption that host-country cultures are different sand that foreigners are difficult to understand. Local people know what is best for them and the

subsidiaries in host countries should be as "local in identity" as possible. They assume since people are different in each country, standards for performance, incentives and training methods should be different. Local environment are given greater weight. In terms of complexity of the organization, it is varied and independent and each subsidiary is a distinct national entity. There is little communication to and from headquarters and among subsidiaries. No local manager can seriously aspire to a senior position at headquarters as people of local nationality are developed for key positions in their own country. One consequence (and perhaps cause) of polycentrism is a virulent ethnocentrism among the country managers.

Polycentrism costs are waste due to duplication, to decisions to make products for local use that could be universal, and to inefficient use of home-country experience. The risks include an excessive regard for local traditions and local growth at the expense of global growth. The main advantages are extensive exploitation of local markets, better sales since local management is often better informed, more local initiative for new products, more hos-government support, and good local managers with high morale.

- **Geocentric – A World Oriented Concept**

"Where in the world shall we raise money, build our plant, conduct R&D, get and launch new ideas to serve our present and future consumers?"

"We aim to be not just a good local company but the best local company in terms of the quality of management and the worldwide (not local) standards we establish in domestic and export production."

The third attitude which is beginning to emerge at an accelerating rate is geocentrism. Senior executives with this orientation do not equate superiority with nationality. They seek the best men, regardless of nationality, to solve the company's problems anywhere in the world. The ultimate goal of geocentrism is a worldwide approach in both headquarters and subsidiaries. The firm's subsidiaries are thus neither satellites nor independent city states, but part of a whole whose focus is on worldwide objectives as well as local objectives, each part making its unique contribution with its unique competence. This conception of geocentrism involves a collaborative effort between subsidiaries and headquarters to establish universal standards and permissible local variations, to make key allocation decisions. Furthermore, this attitude requires a reward and incentives system for subsidiary managers which motivates them to work for worldwide objectives, not just to defend country objectives. When it comes to communication, it goes both ways and between subsidiaries (heads of subsidiaries are part of the management teams). The geocentric personnel policy is based on the belief that we should bring in the best man in the world regardless of his nationality. His passport should not be the criteria for promotion.

- R&D often turns out to be more geocentric and less ethnocentric than finance. Financial managers are likely to see their decisions as ethnocentric. The marketing function is more polycentric.
- The tendency toward ethnocentrism in relations with subsidiaries in developing countries is marked. Polycentric attitudes develop in consumer goods division and ethnocentrism appears to be greater in industrial product divisions.

From the external environmental side, the growing world markets, he increase in availability of managerial and technological know-how in different countries, the global competition and international customers, advances in telecommunications, regional political and economic communities are positive factors, as is the host country's desire to increase its balance of payments surplus through the location of export-oriented subsidiaries of international firms within its borders. Also, top management's increasing desire to use human and material resources optimally, the observed lowering of morale after

decades of ethnocentric practices, the evidence of waste and duplication under polycentric thinking and the increased awareness and respect for good men other than the home nationality are positive factors endorsing the geocentric attitude. Moreover, payoffs of geocentric attitude are also a more powerful company thorough, a better quality of products and services, worldwide utilization of best resources, improvement of local company management, a greater sense of commitment worldwide and more profit. The obstacles stem largely from the rising political and economic nationalism in the world today, the management's inexperience in overseas markets, mutual distrust between home country people and foreign executives, the resistance to participation by foreigners in the power structure at headquarters, the increasing difficulty of getting good men to move abroad, nationalistic tendencies in staff and other communication difficulties of a cultural nature. Geocentrism cost are highly related with communication and travel expenses, educational costs at all levels, time spent in decision making because consensus seeking among more people is required, and an international headquarters bureaucracy.

The geocentric enterprise depends on having an adequate supply of men who are geocentrically oriented. But a geocentric career generates a lot of stress and major adjustments for families. The sacrifices are often great and can outweigh the rewards, at least in personal terms. Many executives find it difficult to learn new languages and overcome their cultural superiority complexes, national pride and discomfort with foreigners. Furthermore, international careers can be hazardous when ethnocentrism prevails at headquarters. Companies have not yet solved by any means the human costs of international mobility to executives and their families.