

# Leveraging on International Strategic Alliances

## Introduction

Companies in developing and industrialising economies at some moment in time are confronted with the issue of how to position themselves with respect to the international economy and their agents, the multinational companies. This 'moment of truth' for a local company is dependent on several factors of which two play an important role:

- The type of pressures that exist to enter international competition. These are heavily dependent on the sector: some sectors are very country or region specific and the pressures to internationalise are limited. Production of Batik in Indonesia is such an example. Others like the electronics industry or the production of transport vehicles is by nature very international.
- The value of the company's own assets outside its home markets: are the competencies that the firm masters, applicable in other geographical regions, or the existence of the firm own assets which are unique and heavily sought after in other parts of the world. Companies that own important natural resources have clearly an advantage. The control that Petronas from Malaysia has built over the years over the distribution of gas in South East Asia has given them a clear competitive advantage, enabling them to become a regional player with international ambitions. But an example of the CP group in managing the fully integrated chain of chicken production is an example of capabilities that transcend the borders of Thailand.

Companies in the developed world have a portfolio of strategic options to implement an internationalisation strategy. They can expand on their own, decide to acquire another company, merge with existing competitors or enter a wide variety of strategic alliances.

Companies from developing countries have usually less choices because of shortages in resources. Yes, one thinks immediately of the shortage of financial resources, but I would argue that very often the shortage of managerial resources that are capable of handling international challenges is even more important. As a consequence the options to position one's self within the international economy are restricted. Very often local companies have to enter a strategic alliance of some kind (joint venture, technology transfer contracts, etc.) in order to take part in the international economy.

From a national point of view international strategic alliances are an important conduit and facilitator for foreign direct investment in the country (obviously not the only one). The competition for FDI is very high. As one will observe from Table 1, Sri Lanka has quite some way to go to attract FDI. Developing a capability to have

Country	FDI in 2001 in M US \$
China	38,000
Korea	9,000
Thailand	3,000
Indonesia	5,000
India	2,000
Singapore	6,000
Sri Lanka	171

success with strategic alliances can actually help in this international competition.

Alliances are not easy to manage. My experience is based on the observation of companies in South East and East Asia, of which many have relied heavily on overseas partner companies to learn about technology or to gain access to large sophisticated markets. But the experience of these companies has not always been very good. Recent studies on such partnerships for example in China indicate that the benefits of these partnerships and alliances are often difficult to realise for the local partner. Many local partners who did not have a strong position, lost their scarce management talent to higher pay-

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ing foreign companies as they shared their knowledge about their own markets with their foreign partners, who turned out to be predators. However, that does not mean that one should reject the idea of strategic alliances. The challenge is how to design and implement these alliances in such a way that the local company can get a reasonable benefit from the alliance. I use on purpose the term reasonable rather than optimal or maximal, because alliances will only succeed if both partners feel they get adequate returns out of the alliance. If the international partner feels he is taken for a ride, he will also do everything to blow up the relationship, with a maximum of benefits to him.

Leveraging strategic alliances successfully is dependent on doing one's homework in three areas:

- Understanding why one enters into a strategic alliance
- Having the right partner
- Managing the long term dynamics of the alliance

### Understanding the why of the alliance

The literature describes three types of alliances. The first one is where companies form *coalitions* in order to become a bigger and stronger player. While they may be useful and relevant to conquer together overseas markets for Sri Lankan companies, they fall out of the scope of what I want to discuss here: the use of partnerships with multinationals. The two other types are:

- *Co-specialisation alliances* where partners bring their complementary assets together in order to create competitive advantage. Many alliances in China combine the market access (and sometimes knowledge) of the Chinese partner with the technology and production capabilities of the overseas partner. In the Philippines, Vietnam or India we see a number of alliances where the local partner offers software development capacity and matches that with demand in the US or Europe.

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- *Learning alliances*, which give one of the partners access to the knowledge (in many cases technology) of the other partner. Many technology transfer agreements are of this nature. But some of these alliances go beyond the transfer of pure technology, and also aim at transferring managerial know-how. I know of one particular case where a company entered an alliance with Boeing in order to learn also about the project management capabilities of the principal.

Making this distinction between types of alliances is not a purely academic exercise. Understanding the principal objective of the alliance has important management implications, of which I want to mention here four:

- It may sound obvious, but the exercise of determining clearly why one wants to enter an alliance may help in the description of who the ideal partner is: what should be the exact extent of the complementary assets? Or what is it that I want to learn from the partner. Too often I have seen alliances which were started for purely opportunistic reasons. I have worked recently with an East Asian producer of telecommunication equipment who was looking for help to start up a design and production facility in mobile phones. After a short screening of potential partners they went into an agreement with a highly performing but small design house in Europe that worked for some of the biggest suppliers in the world. They got access to some excellent technology. But very quickly the alliance became a failure because the Asian partner had insufficiently understood that its needs were not only in design, but also in the development of a production capability of mass-produced electronic consumer products, that the design boutique could not deliver.
- It also focuses attention on the management capabilities one needs to develop: setting up an organisation that sucks up as much learning as possible is very different from creating an organisation that lives in harmonious complementarity with the partner, while preserving and developing the value of the assets that made your partner interested in you.
- The process of value creation is very different for both partners in learning or co-specialisation alliances. In the first case one partner wants to sell to raise rev-

enues, the other wants to learn as much as possible in order to raise its own capabilities. The value creation is very different for both, and may actually be contradictory. In the second case the value creation is through the common creation of competitive value. While there may be some bickering about the respective contributions and rewards, both parties know that ultimately value will only be created if and when both partners align their interests.

- The time horizon for both types of alliances is quite different. A learning alliance is by definition up for regular re-evaluation and perhaps termination after a relatively short period of a few years. A co-specialisation alliance can be in place for a very long time, or at least as long as the market conditions do not change.

#### Finding the right partner

Partner analysis is a topic that has attracted a lot of scholarly attention and hundreds of publications have been dedicated to it. Most of it can be summarised in the statement that one needs to create fit along five dimensions:

- Is there sufficient *goal congruence* between the two partners: do the two partners see each other as the right ones? In many cases in developing countries in Asia I have seen how for local political (or other) reasons a foreign partner was forced to work with a local partner which he did not consider to be the right one. It is not difficult to imagine that in many of those cases the foreign partner drops the local one at the first occasion.
- Is the alliance of more or less *equal importance to both partners*? For the foreign partner the alliance may look like a small convenient venture, to be neglected as soon as there are troubles at home. For the local partner it may be the true breakthrough in its internationalisation process. If there are such differences in the importance that both parties attach to the alliance you can predict it is doomed (even if the local partner realises this difference and tries to manage it). — Don't expect the difference in importance attached to the alliance always to be in the direction that I have just indicated. I have seen East Asian companies going on a shopping spree of multiple and competing alliances, where the alliance was a genuine effort on the part of the foreign company to develop a strategy for the country concerned. Further these alliances went quickly astray.

- Is there a clear fit in competitive capabilities: this goes back to what I described earlier when I talked about the need to thoroughly analyse the purpose of the alliance and the capabilities one is looking for.

- Are the two organisations more or less aligned in terms of systems, procedures and organisational culture? I do realise that it is unrealistic to expect that the systems of a smaller local partner would be aligned with those of a professionally led multinational. But in those cases where fit is impossible one needs to create interfaces which handle the differences. I have seen recently a joint venture of an Indonesian company with a large US multinational go bust because the two parties could not agree on the appropriate reporting structures. There may also be some value in looking for partners that have the same size and organisational culture.

- Finally, is there a sufficiently good understanding of each other's national cultures, and of the differences that may create havoc in the collaboration? I do not want to go into the details of what the relevant parameters are of a national culture that affects the way one manages. But it is clear that differences in the perception of authority, importance attached to the individual action versus the work in groups, perception of power, distance or how external threats are perceived, play an important role in the success of an alliance. The message is not that collaboration between very different cultures is impossible. It is rather that one needs to pay more attention to the interfaces when cultural distance becomes bigger. I have seen successful joint ventures in Indonesia with American companies where Filipinos were hired to 'handle' the interactions with the American managers.

#### Managing the international alliances from the local partner's perspective

Based on my own observations and those of my colleagues I would like to offer eight prescriptions for the partner from a developing country (local partner) in an international alliance:

- Do not overestimate the partner's capabilities but carry out a cool and in depth analysis of their capabilities. Too often I have noticed that the local partner has an exaggerated trust (or hope) in what the international

partner can offer in terms of market access, management capacity or technology. The disillusion is all the bigger afterwards. Foreign partners do have a high level of capabilities (otherwise they would not be successful), but perhaps in other areas than you think or hoped for. I suggest that you put one of your high potentials who 'speaks the language' of your partner in a scouting role in order to study and document the partner's true capabilities.

Invest heavily in the interface and the governance of your alliance. I have already pointed out why the interface is important (culture and organisational alignment) but I would like to insist that you also need a very good conflict resolution approach. In some of the cases I looked at, I noticed that the international partner had a portfolio of alliances over the world and took some of these issues for granted. But for the local partner the alliance may be one of a few and he may have less experience in handling the conflicts that undoubtedly will arise. Above all do not underestimate the managerial resources needed to manage the interfaces and governance of the alliance.

Whatever the objective of the alliance, as a partner coming from a developing country one should always see the alliance as an opportunity to learn something. So even when it is a co-specialisation or coalition alliance you should think about setting up a learning structure. Learning structures always consists of three types of 'devices':

- Sensing devices or systems that pick up the knowledge throughout the whole range of activities that you carry out together: you may want to build in some slack in the organisation in order to provide time and resources in order to learn.
- 'Melding' devices or systems to bring together the knowledge that you pick up during different points in the alliance and which need to be put together to make sense out of it. Very often you need a mechanism that helps you to pull together that knowledge, a sort of magnet. Development of new products can be such a magnet.
- Mechanisms for quick diffusion of what you learn through your own organisation.

This learning may require some additional

slack and careful management. It adds to the overheads of the alliance, but can have a great return on alliance investment.

Scholars of Alliance Management have often described what they call the death valley spiral of alliances. This model, inspired by the experiences of many global alliances is based on the fact that surprises and unanticipated events or behaviour occur frequently during alliance implementation. Unless if properly prepared for these, managers from both sides often fall into the trap of blaming and (cultural) stereotyping, instead of coping with the stress and anxiety provoked by these surprises. A vicious spiral then develops in which communications are shut off, and the viability of the alliance is put into question. Preparation can do a lot to avoid this. But one particular aspect has drawn my attention in South East Asia. In many cases the alliance deal was closed by the two top management teams, who during the negotiations and the due diligence time got to know each other well and appreciated each other. After a few years the top management team from the local company (often part of the family) is still in place, but the situation on the other side has changed dramatically. Many times the top team from the other side consists of business unit managers, who move on to higher jobs or rotate in the company. A new team comes on board that not only does not know very well the team of the local partner, but very often wants to prove they 'can do better than the previous management'. They move in to renegotiate the deal and destroy a lot of the initial trust and understanding. That's usually a sure shot to get into the death valley spiral. It is best that the local team understands this phenomenon and is prepared to invest in relationship building every so many years.

Know what the core of your capabilities is and don't give that away. But be prepared to share a lot of information about all other aspects of the business. That can only create trust and will make you a preferred if not beloved partner.

I mentioned earlier on that alliances would be successful if the two parties feel that the value created through the alliance is fairly distributed. The value created in an alliance consists of the profits generated through sales of products and processes, increased revenue due to cost reduction or gains in market share, spill over effects on other products (for example due to shared brand image), but also the generation of intangible assets. Though nobody will expect that value on all these dimensions will be evenly distributed, or will be distributed at the same time, partners must have the feeling that over a reasonable time frame the value is evenly distributed. My advice has always been to try to calculate as thorough as possible (even for in-

tangible results) and report regularly about the mutual benefits. Of course if you are out there to take a ride with your partner you better create as much obscurity.

Communication in alliances is essential. Formal reporting is needed, relationships can be built, e-mail can be used, but in the end we need to learn to work in virtual teams. The essence of working in virtual teams is trust management. Video conferencing can help, but in the end face to face interaction will always be necessary. Timing and orchestrating/stage setting these interactions is of utmost importance. Keep also in mind that information between two parties does not flow in a long steady flow, but usually happens in big bursts. Again the stage setting of these bursts requires careful management.

Any alliance design requires upfront good thinking about how to disentangle yourself from these alliances, in case they do not work. I have observed that South East Asian companies often fail to think about this, or rather don't care too much about this, because they trust that the local judicial system will be too slow or too unreliable for the foreign partner to get involved with legal battles. But they often forget that a badly handled closure of an alliance has enormous impact on future attempts to go international. Therefore I always insist on good exit clauses with independent arbitration.

The overall conclusion of these eight points is that managing the alliances does not come without a cost. Build it into your budgets, and don't think that top management can do this on the side of all its other pre-occupations.

## Conclusion

What else can I say than (1) know why you want to enter an alliance, (2) chose your partner(s) well and (3) pay a lot of attention to the management of these alliances. Oh yes, there is one more thing: good luck!

## Suggested Readings

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