



University of Navarra

Anselmo Rubiralta Center for Globalization and Strategy

Notes on Globalization and Strategy

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Strategic Alliances

Internationalization and technological change have led to an increase in alliances, but they are not always successful. Each company must adequately assess its requirements and carefully manage the relationship with its partner.

Faced with current competitive pressures, companies are turning more and more to alliances, to acquire new capabilities, defend their position and grow.

Challenged by an evermore uncertain future, the capability to cooperate with other companies may be what differentiates us from our competitors.

Faced with internationalization, the speed of technological change, industry consolidation and the constant entry of new competitors into their markets, small companies find it hard to survive. They need to defend their position by acquiring new capabilities, but at the same time they need to grow by making the best of the opportunities available to them. These pressures mean that they increasingly turn to strategic alliances in order to use their resources and capabilities more effectively, either because they do not have certain resources or because they are seeking access to the ones they may need in the future.

Alliances are not risk-free. The difficulties a partnership of two or more partners poses, such as strategic and cultural differences, lead to considerable instability and a high rate of failure, sometimes as high as 50 percent. This is why a thorough analysis must be carried out - both of how suitable this option is, and what the potential partners' level of compatibility might be - before any decision is made on whether to

embark on an alliance. In order to achieve our objectives, we must establish the alliance bearing in mind partners' requirements and potential problems. Management must communicate its backing to the alliance clearly, and monitor changes which may affect its nature and objectives carefully.

We must not wait until the company's survival makes it necessary before forming a strategic alliance. Training, which can be used to confront progressively complex strategic alliances, is preferable. With an evermore uncertain future, this capability may be what differentiates us from our competitors. A company learns to cooperate by co-operating, and tomorrow might be too late. Many companies wonder whether they can afford to embark on a strategic alliance, but the question they should be asking themselves is whether they can afford not to.

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The need for local contact and an understanding of local contexts remains high. Bringing together all the various elements of a solution locally is difficult.

The growing importance of information, knowledge, and services drives industries to rely on products that require standardized interfaces and communication protocols.

A Globalization-Framed Scenario

Globalization plays a key role in alliance formation, and it also influences their success. Through an alliance, globalization brings together much differentiated contexts. The author defines these contexts and the current forces driving alliances.

Strategic alliances remain in vogue. There are obviously many reasons for alliances, and specific strategies behind the creation of each one. Yet as one analyzes patterns in alliance formation, four trends stand out. These four forces, all largely stemming from one facet or another of globalization, combine to drive the creation of alliances:

1. **Markets and competitive fields become wider and more demanding at the same time.**

Globalization of markets of supply chain, and increasingly of innovation of knowledge creation, is a well-known trend. Today's entrepreneurs and business developers think of global opportunities and distributed resources from day one. Markets are not only wider in geographical scope; they are also characterized by more demanding customers. Customers call for solutions, and for the co-creation of experience with their suppliers. Despite all the progress of internet-based market reach, the need for local contact and an understanding of local contexts remains high. Bringing together all the various elements of a solution locally is difficult.

2. **Companies are increasingly focused and specialized.**

Hence they can create and supply only a narrower and narrower element of the total solution. Various forces have driven this growing specialization, from the currency of core competence thinking to the relentless pressure of financial markets and selective use of resources. The liberalization and globalization of financial markets have indirectly driven their move. It now extends beyond contract manufacturing and business process outsourcing.

3. **Competitive speed and agility are at a premium.**

Beyond the obvious accelerated communication and transportation, and the standardization of interfaces globally (from shipping containers to internet addresses), the growing importance of information,

knowledge, and services drives an increasing number of industries to rely on products that require standardized interfaces and common communication protocols. These industries have increasing returns to adoption: the value to an individual user of the service they provide depends on how many other customers use the same service. The fast deployment of global solutions and the early build up of market share are key; in these industries the famous "winner takes all" economies apply. The largest global alliance, Visa International, with its 10,000 partners, is the epitome of this phenomenon.

4. **Companies use their resources sparingly.**

They do so under pressure from globalization of markets for goods and of financial markets, and to an extent, the growing globalization of labor markets (via offshoring and mall migration). What would have been routine investment decisions a decade or two ago, now trigger a search for collaboration.

Globalization plays a key role not just in driving alliance formation, but also in influencing their success. The evolution of an alliance results in good part from the interaction between the contexts created around them by the partners to the alliance. The partners themselves belong to different contexts, and through an alliance globalization brings into osmosis very differentiated and hitherto separate contexts. In leading alliances driven by globalization, executives have to be aware of the importance of these differences between contexts, and the consequences they may have on the success of their undertakings.

What are these contexts? Basically, consider five:

1. **The strategic context:** From a strategic standpoint the alliance is the temporary overlap of two, or several depending on the number of partners in the alliance, strategic contexts

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brought by the partners. Different national origins imprint on organizations different ways to strategize, depending on geography, history and culture. Companies from different origins carry these differences into how they approach alliances. Differences in national economic systems, company business systems, executive development and selection processes, all heavily contextual, come to play.

2. **The industry context:** Companies in the same industry, but from different origins, operate in very different industry contexts, in particular on issues related to regulation, public policy, tacit rules of competition, and the nature and structure of social networks among their leaders and employees. This, in turn, leads them to different tacit assumptions on competition and collaboration. Unrecognized, such differences make collaboration across industry contexts hazardous.

3. **The knowledge context:** Companies differ in the knowledge bases they use, and the success of an alliance is often based on exploiting such differences. But the price of such collaboration is the need to bring together into joint play, through the alliance, knowledge bases of very types, for instance more or less tacit, more or less discrete or embedded, more or less universal or locally-bound. There too,

the more global the alliance, the greater the likelihood that knowledge bases of a different nature will have to be combined. Not carefully considered and taken into account, these differences usually scuttle any alliance where knowledge sharing has a role to play.

4. **The organizational context:** As we know from a long tradition of cross cultural management research, assumptions about the nature and working of organizations differ deeply between countries, and also between the cultures given companies build over time. Interacting across organizational contexts shaped by different cultures can be arduous and compromise the success of any alliance.

5. **The personal context:** The success of an alliance hinges on people from different origins working together and collaborating closely and wholeheartedly, without reservations and qualms. Therefore, having the alliance in the mind and in the heart is more important in driving success than the abstraction of the alliance between individuals.

Globalization brings together partners who differ increasingly on these five contextual dimensions. Recognizing, understanding, and addressing these differences are the keys to successful alliance leadership in globalization.

Due to increased specialization, companies can create and supply only a narrower and narrower element of the total solution.

What would have been routine investment decisions a decade or two ago, now trigger a search for collaboration.

Genuine commitment to the alliance is more critical for its success than an abstract idea about the alliance itself.

Keys to Success in an Alliance

50 percent of alliances result in failure. They are not easy to manage and co-operation between the parties is not guaranteed. These proposals will help you minimize risks both in the formation and the development of your alliance.

Strategic alliances (SAs) lead to difficulties derived from co-existence between two companies with different strategies, organizations, cultures and operating methods. The importance of these difficulties is reflected in their high failure rate – about 50 percent. The Anselmo Rubiralta Center for Globalization and Strategy has offered to analyze the SA management process to help companies reduce risks. The result is a series of recommendations which cover every stage of the SA's life cycle.

Is an SA the Best Alternative?

The SA is not the only option companies have for confronting current competitive pressures. They can also bring together the resources they need by subcontracting them in the market, developing them within the organization or taking over a company which already has them. It is essential to assess all options before making a decision. The criteria to be taken into account are economic efficiency

Other options include subcontracting, internal development and takeovers. An SA is the best option only if it is the most profitable alternative and if it leads to greater competitive advantage.



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Main Reasons for Setting Up an SA

To reduce costs and achieve economies of scale
In sectors in which fixed costs are high, companies need to have sufficient volume, which they can use to be competitive.

To gain access to new markets
When companies wish to enter a new market, they lack the basic knowledge of customers, relationships and infrastructure necessary for achieving satisfactory distribution of their products.

To gain access to new technologies
When the company has to confront a major technological challenge and it does not have the time or the financial resources to do so on its own.

To block competitors
Occasionally, companies can prevent competitors from growing by forming an alliance with a third key player.

To develop new capabilities
Confronting competitive challenges may require certain capabilities that the company lacks and can learn from its partner.

To reduce risks
Some projects require a considerable investment and a high level of risk, which could put the company's overall financial health at risk.

To meet government requirements
This has lost relevance compared to other objectives.

Source: Ariño, Á. "Strategic Alliances: An Option to Enable Corporate Growth," Technical Note DGN-648-E, November 2005, last edited 2/2/2006, IESE.

Although the partners in an SA need each other, their objectives may sometimes be incompatible; this is likely to generate conflict.

and the competitive advantage which can be created. If the SA is conceived as a medium for cashing in on resources already owned by the company, it will only be worth creating it if the sum of all production and transaction costs – searching for a new supplier, formalizing the agreement, checking that commitments have been met – is lower than in the other three alternatives individually. Falling back on the market increases transaction costs, but can be used to achieve economies of scale that will reduce production costs. Internalizing activities, on the contrary, can reduce transaction costs but increase those for production if the internal volume cannot be used to achieve economies of scale. If what you are looking for is access to resources or capabilities the company does not have, the resulting combination with its own resources will have to bring about greater competitive advantage. You will also have to assess the option of whether the

future partner can become a competitor if it is capable of imitating the company's resources and capacities.

Choosing the Right Partner

If you conclude that an SA is the best option available, the next stage is to decide who the partner will be. Selecting a partner means finding out the level of compatibility in terms of the tasks to be carried out, and the partner's ability to cooperate. The first consideration when analyzing a potential partner is to see whether it has a good strategic fit with your company, in other words, whether the objectives of both parties are compatible. This does not mean that the partner should have the same objectives, but that both sets can be achieved without causing conflicts. In the context of an SA, companies need each other, but may, at the same time, maintain a "hidden agenda" of

Criteria for Choosing a Partner

Criteria related to tasks (strategic fit)	<ul style="list-style-type: none"> • Compatibility of objectives • Complementarity of resources and capabilities • Operational compatibility
Criteria related to cooperation (organizational fit)	<ul style="list-style-type: none"> • Trust and compatibility between supervisory boards • Cultural compatibility • Previous relationships with the candidate

Source: Ariño, Á. and Otegui M., "Managing Strategic Alliances: A Process Framework," Technical Note DGN-646-E, December 2004, IESE.

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Types of Strategic Alliances

Classification criterion	Type of SA	Description
Value chain stage	Horizontal	Partners in the same stage
	Vertical	Partners in a different stage
Nature of the resources supplied	Critical mass	Resources of a similar nature
	Complementary	Resources of a different nature
Partners' goal	Exploitation	Improving specific results
	Exploration	Learning and/or searching for opportunities in new areas

Source: Ariño, Á. and Otegui M., "Managing Strategic Alliances: A Process Framework," Technical Note DGN-646-E, December 2004, IESE.

objectives that is incompatible with the alliance, and therefore, likely to generate conflict and failure. One of the partners may develop competitive objectives which damage the other party, such as using the SA to obtain information and become its competitor. Likewise, an SA's objectives may vary over time, and we must therefore anticipate different future scenarios and analyze their impact on the SA and on the company itself.

Another question is whether the potential partner has the resources and capabilities necessary to play its role within the SA and whether it will have the skills to do this correctly. Operative compatibility is also fundamental. Using incompatible technologies, for example, could make a joint task more difficult and further increase the SA's costs to the point that it is no longer viable, as happened to the largest European stock markets when they tried to join forces a few years ago.

Cooperation-related selection criteria help to find out whether the relationship will work out as the SA evolves, in other words, whether the organizations fit together. Some of the organizational attributes which must be constantly analyzed are: the level of chemistry and trust between management teams, compatibility of the partner's corporate and/or national culture and the existence of previous relationships with the same partner. Preventing potential conflicts in the future saves a lot of time and energy.

Paying Attention to the Design of the SA

Planning the SA entails deciding what type of alliance will be created, the financial incentives to be used, how decisions will be made and what the composition of the management team will

be. It is absolutely essential to pay special attention to the design of the alliance to prevent any future conflicts. Errors are costly and are usually detected when it is already too late.

There are different types of SA, ranging from the purely contractual to those which include an exchange of partners' shares or participation in the capital stock of a joint venture. Because of the high risk presented by a joint venture, it is only advisable in the following cases: when the SA is possible with few partners; when this requires investing in specific assets; and when there is a significant need for co-ordination between the partners.

The agreement must make it quite clear who is going to gain what from the SA. In so doing, complaints and incorrect interpretations will be avoided. For the same reason, the decision-making process must specify, from the outset: who will be responsible for making certain decisions and in what situations, and how often the two parties will meet over the period of time the agreement is in place. Lack of communication between the parties is one of the most difficult obstacles to overcome in an SA. The more complex the contract is, the less space there is for opportunistic behavior if unforeseen circumstances arise. Also, it is more expensive. It is therefore necessary to strike a balance between the costs of negotiating, monitoring and fulfilling a complex agreement, on the one hand, and keeping any potential for opportunistic behavior to a minimum on the other.

The parties need to ensure that the agreement strikes a balance between rigidity and flexibility. Formal agreements provide a reference frame-

It is essential to pay attention to the design of the alliance to prevent any future conflicts. Errors are costly and are usually detected when it is already too late.

A balance must be reached between limiting the costs of negotiation, control and fulfillment of a complex agreement, and keeping opportunistic behavior to a minimum.



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It is always better to look for solutions internally as soon as possible, as accumulating conflicts can bring the SA to a premature end.

work around which the SA operates. The contract must include clauses which cover the SA's control mechanisms, such as reports, auditing, provisions for confidentiality, termination, and provisions for arbitration and litigation. But it is informal, day-to-day communications that keep the SA together. They reinforce personal commitment and trust and encourage access to personal information and contacts, as well as the development of informal networks which managers can use to carry out tasks at different levels within the organization. Once the agreement has been signed, they can concentrate on managing the SA. Following the agreement strictly does not, however, guarantee a happy ending. Governing structures must be flexible enough to adapt to new circumstances which will affect the relationship.

Finally, we need to think about the management team. Will it be made up of the partner companies' employees or will we take on new employees? What is really important is to attract good professionals and to transmit to all members of the organization how important the SA is.

Maintaining the Relationship With the Partner

Trust between partners is a key element of the SA because it guarantees cooperation. This is why, once the relationship has begun, one of the objectives must be to create an atmosphere of trust. It can begin with activities which do not require too high a commitment in terms of resources. Not taking advantage of a partner in

situations in which it would be possible to do so helps prevent deterioration of the relationship, and means that the partners become more tolerant of minor detours from the planned route.

The SA should be a learning opportunity for both parties. It is important for companies to show their partners that they have nothing to hide in their behavior and intentions, and are prepared to receive anything they have to offer. Interaction between the parties must be as free-flowing as possible. When resolving conflicts, being prudent and trying to reach a consensus is always a good course of action. Arbitration by third parties should be the last resort. It is always better to find solutions internally and not to postpone them, as accumulating conflicts may bring the SA to a premature end.

When Circumstances Change

SAs are vulnerable to changes in the environment and in the partners' strategies or organizations, but also to changes caused by the SA itself. As the SA evolves, the partners may find out that the terms of the agreement do not suit their interests as they had anticipated, and, as a result, they may wish to modify it. But renegotiating an agreement is a costly business, so it is only advisable in certain situations. One such situation is when the structure of the SA – be it a joint venture or a simpler type of agreement – turns out not to have been the most suitable one and must be changed. Another case is

When resolving conflicts, it is necessary to be prudent and to try and reach a consensus. Arbitration from third parties should be the last resort.

Governance and Management Bodies in a Joint Venture

Board of Directors

- The Board members representing the various partners must hold a comparable position within their respective companies.
- It is very important to determine how confidential information may be used.

Egalitarian joint ventures (the partners share ownership 50%–50%)

The same number of seats on the Board of Directors may block decision-making. Some unblocking mechanisms include:

- The Chairman's casting vote.
- The casting vote of an independent advisor.

- Referral of the matter to a third party, either an expert or an arbiter.
- Referral of the matter to senior management in the partner companies.

Joint ventures with a majority shareholder

Minority shareholders should have contractual provisions, such as the right of veto on matters which are of special importance to them.

Management Committee

The management structure does not necessarily have to match the ownership structure. It is more efficient to assign Management Committee roles according to the experience and capabilities of each partner.

Source: Ariño, Á. "Strategic Alliances: An Option to Enable Corporate Growth," Technical Note DGN-648-E, November 2005, last edited 2/2/2006, IESE.

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when resources have been committed which cannot easily be utilized elsewhere. In this case, keeping the assets utilized justifies the costs of renegotiating the agreement.

Bringing the SA to an End

The SA may be wound up because it had been planned that way, or because the objectives for which it was created have now been fulfilled. But it can also be wound up because it has not been a success or has led to a multitude of problems. Whatever the circumstances, it is necessary to periodically reassess the suitability of maintaining it or bringing it to an end, preventing it to continue from sheer inertia. If the SA is no longer achieving the objectives for which it was created, or if its costs increase to the point that they outweigh profits, clearly the way out is to bring it to an end. In the first case, this may be due to changes in the environment (industry,

technology, political or economic situation), or to internal changes. A risk which affects complementary SAs – particularly those in which the partners provide different resources – is that one of the parties should absorb information or innovations from the other, in such a way that it becomes more profitable for that partner to continue on its own, therefore damaging the other partner.

Sometimes it is not easy for partners to reach an agreement on when and how to end the SA. It is therefore advisable to specify the circumstances in which the SA can be terminated in the agreement, including what actions constitute a serious enough breach to bring it to an end, as well as what will happen to the staff, assets, obligations assumed jointly, etc. They should also establish the mechanism to be used for winding up the alliance, especially where joint ventures are concerned.

It is advisable to specify the circumstances in which the SA can be terminated in the agreement, and the mechanism for doing so, as well as what will happen to the personnel, shares and responsibilities that were assumed jointly.

Hits and Misses

Making the right decisions depending on needs leads to success. Failing to prevent management problems or adapt to change generates insurmountable conflicts.

Banco Popular

In 1998, when evaluating the best way of dealing with its Spanish customers abroad, it examined three strategies: acquiring foreign banks, opening up overseas branches and seeking an international partner. Opening new markets was not one of its goals at the time, and it was not sure that creating branches would help it achieve its goals. Thus, it sought a partner and began its internationalization through a strategic alliance. Today it has numerous strategic alliances in multiple countries.

Toys"R"Us and Amazon

This strategic alliance, set up in 2000 to sell toys online, emerged from the need to rapidly gain access to strategic assets whose internal development had been slow. Amazon managed the virtual shop and took care of distribution, while Toys-R-Us was in charge of purchasing the toys. The relationship was organized as a contractual agreement. For a relationship like this, which is clearly specified and entails a single activity with few coordination needs, there is no need to create a joint venture with a board overseeing the collaboration. Nevertheless, the SA has recently been severed.

Renault and Volvo

For their strategic alliance, they created a series of egalitarian operational committees that reproduced the structure of the alliance itself. Using different decision-making criteria (for instance, Renault engineers assessed the design and its repercussion on costs, while Volvo engineers focused on safety issues), conflicts were generated that the egalitarian structure itself made it difficult to resolve.

Coca-Cola and Nestlé

In 1991, both giants announced the creation of a joint venture to manufacture and distribute beverages based on Nescafé. However, in 1992 it shifted from Nescafé to Nestea, whose products were highly successful and began to cannibalize those of Coca-Cola. One year later, Nestlé announced that it had acquired Perrier, a possible replacement for Coca-Cola in some of the functions that it had previously performed in the joint venture. The changes in circumstances did not result in an adjustment of the joint venture, which rendered the relationship obsolete. Nevertheless, the alliance was revived ten years later.

IESE Research about Strategic Alliances

- Ariño, Á. and Reuer, J.J., "Strategic Alliances. Governance and Contracts", Palgrave, September 2006, www.palgrave.com
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A Matter of Trust

Mutual trust is essential for the success of strategic alliances. Managing it correctly will enable you to improve the quality of the relationship with your partner and minimize conflicts.

Compatibility between partners and careful design of the partnership are determining factors for the success of a strategic alliance. However, when preventing or riding out potential conflicts, trust is fundamental. To manage it such that the alliance is reinforced, the first thing to take into account is that cooperation does not come about automatically. The relationship between partners is a live entity which grows and develops. Therefore, the quality of the relationship – that is, the partners' disposition to base their relationship on mutual trust – will vary throughout the alliance's life cycle depending on the expectations and behavior of each of the partners.

Attention to Behavior

In the beginning, if your company has not had any previous links with the future partner, the reputation they have in the sector and will serve as indicators of their credibility. During the negotiation process, trust will rise and fall depending on the impression you get of their technical competency, organizational capabilities and ethical behavior. Initial trust is fragile, which means initial behavior tends to be cautious. A proactive attitude which pursues learning and understanding of the other will result in a better approach. Likewise, the tone of initial negotiations

will set the standard, which is why you should try and give a realistic impression of your company.

As the partnership advances, interactions with your partner will lead to the quality of the relationship developing positively or negatively. Initial expectations on the future behavior of your partner will change gradually as you observe their real behavior. Your company will not only change the expectations you had of your partner, but will also react as a consequence and change your behavior.

Try to observe not only your partner's behavior, but also your own. On one hand, all persons related to the activities of the alliance must be aware of its importance for the company. If they are not, they will pay less attention, the alliance will suffer and so will profits. One of the most important tasks of the management team is to communicate the reasons for the alliance and its importance within the organization. On the other hand, before taking any course of action which could be seen as damaging to the alliance, notify your partner in time and you will avoid unpleasant surprises. While the alliance exists, interactions with your partner are an opportunity to check how solid mutual trust is and to learn from experience.

Conflict Management

The more frequent and transparent exchanges with your partner are, the better the quality of the relationship will be. To prevent conflicts, it is important to maintain your reputation as an ethical company. Rumors about the alliance originating from third parties may adversely affect the quality of the relationship. If your partner sees your company's negotiations with third parties as a breach of trust, try and reassure them. In the event of a conflict, due either to internal disagreements or to occurrences of which the alliance is not aware – such as an economic crisis or other sudden changes in the environment – you must manage this from the outset to counteract it.

Optimizing the quality of the relationship requires a significant investment in time, effort and money. If you decide to do this, make sure the investment is worthwhile. If you maintain the level of trust, surpassing your partner's expectations, the relationship will be easier and the need to formalize the government of the alliance will be smaller, thus saving time and money. But you also have to decide when to replace trust with formal governance and control mechanisms.

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