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ABSTRACT

International strategic alliances are established by two or more companies as synergistic relationships to achieve a common goal where both parties benefit. The evolving global market has focused renewed interest on these alliances as an important tool in penetrating new markets. No country has achieved as much success as Japan in forging such alliances throughout the world. Japanese companies provide many companies in the European Community with necessary marketing, design, and production expertise, rather than with pure capital. Examples include the British automobile company Rover and a large computer company, ICL. The worldwide electronics industry has especially been involved in such alliances, as manufacturers realize that they will have to form partnerships both to tame chaotic markets and to share the increasing cost and complexity of product development. Toshiba, for example, has utilized partnerships, technology licensing agreements, and ambitious joint ventures to strengthen its own capabilities in manufacturing and in developing innovative technological breakthroughs. Toshiba constructs its alliances so that the roles and rights of each partner are clearly identified from the outset. Japanese companies are truly in the forefront in crafting cost-efficient, highly effective, harmonious international strategic alliances, and serve as a model for business concerns in other countries. (JDD)

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HOW TO MAKE INTERNATIONAL STRATEGIC ALLIANCES WORK: ONE MORE BUSINESS LESSON FROM THE JAPANESE

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An international strategic alliance is a business relationship established by two or more companies which desire to cooperate out of mutual need and to share risk in a common objective. They exist in many industries and are particularly common in automobiles, aircraft, aircraft engines, robotics, consumer electronics, semiconductors and pharmaceuticals. An international strategic alliance implies each of the following: (1) that there is a common objective; (2) that one partner's weakness is offset by the strength of the other; (3) that reaching the objective alone would be too costly, take too much time, or be too risky; and (4) that together their respective strengths make possible what would otherwise be unattainable. In summary, a strategic alliance is a synergistic relationship established to achieve a common goal where both parties benefit. (Business Week, February 10, 1992, pp. 103-107)

International strategic alliances are not new to businesses. However, the reasons for the cooperation have changed, and the ever evolving global market has focused renewed interest on these alliances as an important tool in penetrating new markets. From the 1950s through the 1970s, most international strategic alliances were formed because of political risk and/or legal requirements for entry into certain markets. In many countries, particularly those in Latin America, foreign countries created strategic alliances with local firms as a means of minimizing political risk (for example, expropriation or political harassment). A local partner could help a foreign company acquire the right type of political clout to enter the local market. Another reason for an international political alliance was that many countries required local ownership as a prerequisite for doing business in the country. For instance, in Mexico, it was not until 1988 that a foreign company could invest in Mexico without a Mexican partner which typically had to own at least fifty-one percent of the enterprise. (Cateora, pp. 314-315).

To be competitive in global markets, a company must meet or exceed new standards for quality and new levels of technology. There is an increasing change of pace for product development and profitability. Cost-efficient, technologically advanced products are being offered by competitors and demanded in established markets as well as in markets developing from formerly communistic economies. There are marketing opportunities in abundance throughout the world, but in order to benefit, a firm must be current in new technology, have the ability to keep abreast of technological change, have distribution systems to capitalize on global demand, have cost-effective manufacturing, and have capital to build new systems as necessary. (Lewis, pp. 10-14)

International strategic alliances are now considered to be critical to many organizations which are genuinely interested in full participation in the contemporary global market. As companies throughout the world continue to discover the great rewards and opportunities of the world marketplace, they must craft strategies that will help them succeed in such ventures, and not stumble over the barriers and environmental threats often lurking behind the promise of greater profits, better cash-flow positions, and larger global market share. No country has achieved as much success as Japan in forging such alliances throughout the world. This paper will examine how the Japanese have accomplished this enviable commercial feat.

Toshiba, however, is not the only Japanese company currently involved in international strategic alliances throughout the world. Many other Japanese businesses are forming strong partnerships, and in particular, are revitalizing weak companies in Europe. Where the Japanese once had large cash reserves to invest anywhere in the world, they now provide many companies in the European Community with necessary marketing, design, and production expertise, rather than with pure capital. The best examples of Japanese led-comebacks are in Great Britain. In the mid-1980s, Britain had one surviving automobile company, Rover, and one remaining computer company, ICL. Neither of these companies had a strong image either domestically or abroad. People would joke that ICL was an acronym for "It Can't Last," which applied to both the company and its product offerings. Rover automobiles were generally referred to by the initials "BL" for the former owner of their brand, British Leyland. The British public more frequently mused that BL" meant "Bloody Lousy."

The Japanese firm, Fujitsu bought most of ICL in 1990. At the same time, Honda and Rover traded shares, with Honda acquiring 20 percent of Rover, and Rover obtaining 20 percent of Honda. The Japanese provided confidence for ICL and technology for Rover. The Japanese did not provide capital to either company, nor were major changes made in their respective management teams. Today, both Rover and ICL are doing well, and both companies credit Honda and Fujitsu, respectively, with their successes. Between January and August of 1992, overall European automobile sales dipped 16 percent. Yet, Rover's sales increased by 12.8 percent, making it the only European automaker to report an increase . Rover made a profit in 1993, its first in three years. With a 31 percent European market share, Rover has overtaken both Mercedes-Benz and Toyota, and is quickly closing the gap on BMW. ICL's overall financial picture is improving, and its profits will more than likeiy rise in 1994, despite the fact that Europe's recession seems reluctant to disappear. (Fortune, October 18, 1993).

Such non-capital investments from Japan have increased the resolve of a number of European companies to become in involved in risk-filled ventures. For example, Haomag, a Hannover-based joint venture between a German construction company and Komatsu of Japan, is moving swiftly to tap the fertile market of the former German Democratic Republic. Although most of Europe is blaming the European recession for the complex problems involved with the German reunification effort, the management at Komatsu looks upon the East German market as an opportunity for them that could not have been undertaken without the critically important assistance of a German partner. (Fortune, October 18, 1994)

Almost everyone in the worldwide electronics industry believes that this is the "Decade of the Strategic Alliance." As telecommunications, computers, consumer electronics, and media converge, the manufacturers of complementary and competitive technologies realize that they will have to form partnerships both to tame chaotic markets and to share the increasing cost and complexity of product development.

While others only talk about the emergence of high-tech alliances, Japan's Toshiba Corporation has been involved in such activities for years. Such alliances are now making Toshiba a unusually tough competitor in two ways: helping the company withstand a decidedly severe slowdown in the Japanese economy, and providing them with broad access to some of the most critical and most promising technologies of the digital age.

Third only to Hitachi and Matsushita in the Japanese electronics industry, Toshiba has made international strategic alliances the cornerstone of its strategic initiatives. Toshiba first became involved in international strategic alliances in the early 1900s when it contracted to make light bulb filaments for General Electric. Since that time, Toshiba has utilized partnerships, technology licensing agreements, and ambitious joint ventures to strengthen its own capabilities both in manufacturing and in developing innovative technological breakthroughs. Such activities have helped to make Toshiba one of the world''s foremost manufacturers of all things electric--from massive power plant equipment to refrigerators to the most elaborate memory chips.

Although Toshiba enjoys considerable manufacturing and innovative strengths, it cannot rely only on itself in the modern age of digital electronics. The computer, telecommunications, and consumer electronics industries are coming together around a few key technologies and compo s. Yet, these building blocks of high-speed microprocessors, memory chips and data-storage devices, flat-panel displays, and the software to create linkages among them, are far too costly for Toshiba to develop alone. Toshiba constructs its alliances so that the roles and rights of each partner are clearly identified from the outset. Each alliances includes the corporate equivalent of a pre-nuptial agreement, so that each side will fully understand what it is entitled to should the partnership not work out or succeed as initially planned and formulated. The monumental success that Toshiba enjoys in forming international strategic alliances with a multitude of other "blue-chip" companies is well documented in that there have been no failures, disruptions, or real disputes in any of its two dozen partnerships and joint ventures around the world. (Fortune, October 4, 1993)

Japanese companies are truly in the forefront today in crafting cost-efficient, highly effective, harmonious international strategic alliances. As business concerns in other countries begin to develop their own alliances in order to compete for their own shares of the global marketplace, they would do well to follow the example of the Japanese in their planning, implementation, and control of international strategic alliances.

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