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Cross-border alliances are poised to become a building block of the global network economy. A look at the top executives around the world illustrates the increasing importance of a global and collaborative mindset. No one player can master everything. Therefore, more and more cross-border alliances take place. In recent years, there has been a dramatic proliferation of these arrangements. Everyone seems to trumpet their value, although businesses have long blurred the boundaries between competition and cooperation.

The reasons for these ventures are not always easy to understand, but cross-border alliances are an increasingly popular reaction to competitive forces in the business environment. They have gained momentum as the best way to access the capabilities of other companies, as well as the best ways of dealing with fragmented and deregulated markets. Deregulation is changing the ground rules for competition, growth opportunities are taking place outside traditional customer networks, and the competitive environment demands relentless attention to cost reduction and profitable growth. Companies are unable to meet challenges and address opportunities sufficiently through internal actions alone. A vice president of Nokia who participated in the survey (described below) said, "We don't view cross-border alliances as one-off situations but as an essential way of doing business."

Because of the increasing need for cross-border alliances, executives in the USA, Europe and Asia have ranked cross-border alliances as a top agenda item for the years to come. But a healthy dose of skepticism underlies the trend. While CEOs publicly extol the virtues of global partnering, they privately express confusion as to their efficacy. Is it easier to run a 100 percent owned company? Of course it is. Many companies have avoided cross-border alliances because of the inherent difficulties in successfully negotiating, managing and exploiting them to achieve a company's strategic objective. History has shown that companies have a hard time sustaining intimate, longer-term relations. Pride and ownership make companies want to be the best at everything, to do everything themselves. Company pride gets in the way. Many executives still adhere to the traditional competitive model of the corporation where cooperation is regarded with skepticism.

So how does a company make its way through the cross-border alliance jungle? This article addresses several issues facing companies considering or managing cross-border alliances. Given the inherent cultural, economic, and political difficulties associated with cross-border alliances, designing and managing any cross-border alliance is an extremely challenging task. Overcoming these issues in cross-border alliances has proven to be even more difficult and, given the increasing importance of foreign markets and competitors, more critical to a company's success.

This summarizes the reasons for the increasing number of alliances taking place and identifies a number of issues facing the CEO and his management team in deciding whether

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to establish cross-border alliances and how to manage them. My research indicates that some simple guidelines can improve the success rate of a cross-border alliance.

What are cross-border alliances?

Cross-border alliances can be legally defined and therefore readily counted. Their number has surged since the mid-1990s, a trend particularly evident among U.S., European and Asian companies. According to Booz-Allen & Hamilton, more than 20,000 cross-border alliances were formed between 1996 and 2003.

Almost all companies surveyed agreed that cross-border alliances would grow in importance to their business. Most cross-border alliances are concentrated in relatively few industries – those typified by high entry costs, globalization, scale economies, and rapidly changing technologies – and span all elements of the value chain with particular emphasis on joint development activities.

Given the range and scope of cross-border activity and an equivalent range and scope of themes in cross-border alliances, it is not surprising to see that the result is a complex patchwork of cross-border alliances, with emphasis on short- and long-term issues. As this occurs, the industry structure and the rational behavior of major players within the industry structure is also undergoing major change.

Cross-border alliances are international agreements on collaboration between two or more independent companies who exploit a tangible or intangible asset. They consist primarily of joint ventures and cooperative business arrangements involving shared risk, cost, or reward without full ownership and with a significant degree of exclusivity. Supplier contracts are the loosest form of cross-border alliance. Management or technology contracts are often a "stepping stone" to further investment, and joint ventures are a more significant commitment of both tangible and intangible resources. My study focused on cross-border joint ventures.

Cross-border alliances are only one of three options executives can use to achieve corporate goals and objectives in the face of changing market conditions. They are formed when they yield benefits that cannot be achieved in-house or through outright acquisition or merger. They have been used by managements to:

- Secure economies of scale in the R&D and manufacturing functions to offset the higher cost and risk of bringing new products to the market without losing the identity or independence of the company in the market place.
- Reduce the cost and time required to establish major positions in new geographic markets compared with the cost of direct investment or acquisition.
- Eliminate difficulties in successfully consummating mergers of equals that are complementary and where two managements can agree on a common vision and plan, particularly given the poor experience of cross-border mergers in the 1980s and 1990s.
- Participate in some of the more rapidly growing markets where involvement of a local partner is either required (e.g. joint ventures in parts of Asia and South-America) or desirable.

Once in place, however, cross-border alliances are frequently difficult to manage and have their own costs. Few of them have been used as vehicles to pursue multiple opportunities and even fewer could be considered a complete success on the scale needed to make a fundamental impact on the development of the company. In particular, links with a partner can create inflexibility, coordination difficulties and risk of competitive conflict.

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The complex management challenges are higher in collaborative ventures that involve division of activities in the value chain and issues of division of markets and decision responsibilities. Managing cooperative ventures is a process to be learned by trial and error. It requires mutual adaptation to each other's business cultures (especially among direct competitors) and the need to live with reduced autonomy. Cross-border joint ventures are especially difficult to manage and organize. They represent the highest level of interaction, shared commitment, and administrative complexity among the forms of cooperative agreements.

Research

The author conducted 106 face-to-face interviews and 86 telephone interviews in 2003 in Europe, North-America, and Asia-Pacific among chief executives and top managers from 89 global companies. The project covered large cross-border alliances.

The study includes the views of senior executives of public companies (Unilever, Siemens, Akzo Nobel, Toyota, United Airlines, Royal Dutch Shell, GM, Ford, Motorola, Toshiba, Sony, Porsche, Daimler Chrysler, Nokia, Allianz, Telefonica, Fortis, Fiat, Nestlé, AXA, Carrefour, Ahold, Philips, Ericsson, ABB, and Novartis) as well as state-owned enterprises (especially in the energy sector), subsidiaries (of big global firms) and private (family) companies. The author interviewed 48 people in Europe, 27 in North America and 25 in Asia Pacific.

By industry the breakdown was:

- Heavy, light and chemical industry: 24
- !CT (incl. telecom): 15
- Financial services: 19
- Business services: 11
- Consumer goods: 16
- Other: 15

By interviewees' titles:

- CEO: 18
- Owner: 4
- President: 9
- Chairman: 8
- CFO: 3
- COO: 6
- Vice president: 12
- Board director: 18
- Non-executive director: 3
- Senior vice-president: 5
- Executive vice president: 6
- Director of strategic planning: 1
- Other: 7

Of those interviewed, 75 percent believed cross-border alliances were the best form of corporate combination for access to new customers and broader product ranges without the disruption of cross-border mergers. Most said that any future combinations would be with another partner from within the same industry. Almost 80 percent of interviewees said they believed future opportunities for corporate combinations lay in crossing geographical boundaries.

Rather than pursuing such combinations as a reactive strategy to defend positions, companies are acting for offensive reasons: 55 percent said they were improving their positions through cross-border alliances; 28 percent cited changes in the competitive landscape; and 11 percent mentioned regulatory forces.

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Forms of cross-border alliances

The form of a cross-border alliance often follows directly from the objective. For combining complementary resources, cross-border joint ventures are most often used, especially for new market entries and new business start-ups. For acquiring technology, either a joint venture or direct parent interaction can work, often in combination with a technology licensing agreement. For managing industry rivalry, parent-to-parent cooperation is typically best for developing technical or industry standards. For improving vertical linkages, non-equity arrangements such as long-term contracts are usually best because of the conflicts inherent between suppliers and customers. There are exceptions, but the need for an equity relationship should be challenged in any vertical relationship.

If cross-border alliances are viewed as temporary, the venture form is probably the least desirable form of a cross-border alliance: it is least flexible and requires a substantial effort in ongoing management. Contractual forms of alliances with built-in notion of temporaries are often preferable.

Separate ventures or parent-to-parent collaboration?

One of the most important decisions is whether to establish a separate equity venture or to establish a direct parent-to-parent alliance. Cross-border ventures are appropriate when:

it is possible to establish a stand-alone business with dedicated resources provided by all parents. A high degree of integration of specific parent resources is required to achieve goals and it is desirable to create loyalty to a new business distinct from the parents because their interests might other wise prevent the success of a collaboration. Toshiba and Motorola, for example, created a semiconductor manufacturing alliance, even though the two parents compete in downstream product areas).

Direct parent-to-parent collaboration (often including licensing or long-term contractual agreements) is appropriate when assets or resources are best kept in separate parent organizations. Parent interests are competitive so that close parent control is required, and

success cannot be measured in terms of performance measures that apply to stand-alone businesses (for instance, the main purpose is to learn).

Issues in cross-border alliances

As companies move away from the concept that the majority of key activities can be managed through operating units that are 100 per cent owned, managing the enterprise inevitably become more difficult for the chief executive and his management team. Most cross-border alliance failures stem from strategic flaws. While many companies announce "strategic alliances", many lack "alliance strategies." An effective cross-border alliance strategy is the result of asking three important questions.

1. Why form a cross-border alliance? Do we need to collaborate to compete?

According to the survey, cross-border alliances are appropriate for four broad purposes (many cross-border alliances involve multiple objectives):

1. *To combine partner resources to develop new businesses or reduce investment.* Typical examples include new business start-ups with parents contributing specific complementary capabilities that constitute the basis for a new business. For instance, ten leading drug companies, including Smith Kline Beecham, created a $ 45 million joint research consortium to study variations in human DNA. Airbus was a joint venture between French, German, British and Spanish manufacturers that eventually became a single company. Each national partner has specialized in one bit of aircraft manufacturing. The French became experts in aircraft electronics and cockpit design, the British became world leaders in wing manufacturing, the Germans concentrated on making fuselages and the Spaniards focused on aircraft tails.

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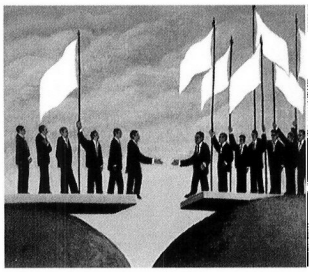

2. *To eliminate risks.* During the past few years, Renault, General Motors and DaimlerChrysler have bought stakes in Nissan, Fuji Heavy Industries (which makes Subaru brand cars), and Mitsubishi Motors, respectively. The idea is that a stake in a Japanese carmaker, with a network of factories and dealerships in Asia, is a less risky way to expand into the world's fastest-growing automotive market than a full merger.
   Pilkington, the UK glass manufacturer, has joint ventures with Saint-Gobain of France, one of its fiercest rivals, in Brazil. The two companies take turns to build glass-making plants. Each side manages its own plants but they share the profits. Building a glass plant is hugely expensive. Through their cross-border joint ventures, they reduce the risk of having too much capacity for the local market.
3. *To learn.* Learning may entail improving skills through working with a partner or gaining access to countries. Turner Broadcasting, which is part of Time Warner, has completed a deal with Philips, a Dutch electronics company, where Philips will get the right to name a new sports arena that TBS is building in Atlanta. But TBS's main motive is to find out more about European consumers and about the digital communications hardware that is Philips's stock-in-trade. British Rover improved its manufacturing through the Honda alliance. GM learned about quality control, work teams, flexible assembly lines from Suzuki and from Nummi (i.e. the GM/Toyota global alliance), then transferred these capabilities to Saturn. Mazda has helped Ford improve its emissions testing – critically important as global regulations tighten. Ford has also gained access to Japanese manufacturing practices, including kaizen (constant improvement). Having watched several of its peers make expensive mistakes trying to buy stores or go it alone, Britain's Tesco wanted to penetrate South Korean markets without making the same mistakes. It formed an alliance with Samsung and began many joint ventures in the 1990s with foreign firms because they couldn't do a cross-border acquisition.
4. *To change the name of the competitive game.* To manage industry rivalry, Star Alliance, which includes Lufthansa and United Airlines, began as a series of loose arrangements to share codes and direct passengers to partners' flights; now it is beginning to look more like a quasi-merger, with shared executive lounges and pooled maintenance facilities.

2. How do we select a partner?

Each cross-border alliance requires different approaches to screening partners. The survey participants suggested "make-or-break" questions to ask about each partner. If any of the answers are "no", a cross-border alliance with this candidate should be avoided:

- Can the partner perform as required to make the venture a success?
- Can you agree with the partner on a clear objective for the alliance?
- Have you minimized (or can you manage) the risk of competitive overlaps and friction with the partner? Does your partner have any alliances with your competitors? How will you cope with that situation?
- Is the balance of contribution fair and in line with expectations, e.g. does the partner appear to be willing to contribute the resources and skills necessary to make the alliance a success?
- Does the partner have a positive track record for previous alliances?
- Does the partner agree with your vision of how the cross-border alliance might evolve?
- Will this cross-border alliance fit with your alliance network of the future?
- Are the business and "cultural" chemistry compatible?
- Have you compared this partner with other candidates in terms of potential value creation?

The name of the "company screening game" is applying knock-out factors. Lessons learned in applying knockout factors include:

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- keep the number of criteria manageable (i.e. five to seven criteria);
- link prioritization criteria to a company's alliance objectives;
- identify prioritization criteria that will allow discrimination among the potential candidates;
- apply prioritization criteria in order of increasing difficulty of measurement.

The partner screening process is an iterative and time-consuming process. Nevertheless, potential foreign partners should always be screened along three dimensions: their ability to meet a company's strategic objectives, their compatibility with the company and the likelihood of completing the deal.

3. What are the key factors for capturing value?

Having determined the best partner, a company's next challenge is to structure the cross-border alliance in a way that is most likely to lead to success. Winners in cross-border alliances follow common patterns in how they structure alliances. The structuring – especially the form, scope, ownership and financial arrangements, governance, and exit provisions – should be driven by the specific objectives. According to the majority of the interviewees, it is essential to:

- *Develop a business plan jointly with prospective partners to generate enthusiasm before negotiating thornier issues of management control, ownership, and financial contributions.* Rather than being a separate exercise, the alliance structure should be an end product of developing a detailed business plan. Make sure there is common ground to begin with and build synergies on paper between the companies. Top-level commitment is critical to overcoming tough negotiation hurdles as the deal reaches closure. Given that cross-border alliance negotiations can easily last for 5 to 12 months, with the possibility that partners fail to reach agreement, backup strategies (go-it-alone; other partners) should be pursued in parallel with alliance negotiations.
- *Build an alliance organization with strong conflict-management capabilities.* Building in conflict resolution capabilities is critical for managing early problems and enabling the cross-border alliance to evolve over time. In 2002, Ahold unraveled the cross-border alliance it had established with Capabro, a Spanish colleague. "It became apparent that the cross-ownership and cultural differences were depriving both companies of the flexibility to take fast management action in the consumer business in Spain," said Cees van der Hoeven, CEO of Ahold.

  Aim for 50/50 ownership whenever possible to ensure that both partners are fully committed. Of the 252 cross-border alliances in the study, 70 percent succeeded in realizing strategic and financial alliance objectives when ownership was equally divided, compared with only 35 percent of those with an uneven shareholding split. However, even where ownership is equally divided, one partner should be clearly responsible for ultimate management control. There were very few instances of a successful cross-border alliance where management control was shared evenly between the owners.

  Control should be channeled through a strong chief executive with considerable operating autonomy. Cross-border alliances should also have strong boards, able to insulate them from conflicts between their parents. Direct involvement by chief executives of the partner companies is of the utmost importance. They should be prepared to devote considerable time to ensuring that cooperation develops smoothly. That underlines one of this study's central findings – that cross-border alliances depend on the degree of commitment by the partners to make them work.
- *A cross-border alliance strategy should always include an explicit view on whether the goal is to buy or sell position in the alliance over the long term – or whether to create a truly independent business that will evolve separately for the parents.* Companies should decide at the outset whether they want to end up as the buyer or the seller of a partnership and shape their approach to structuring and managing it accordingly. Of the cross-border alliances studied, more than 80 percent were purchased by one partner while the rest were either sold to a third party or dissolved.

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The termination of an alliance is not a sign of failure – even if its life span has been short. A cross-border alliance is often a transitory structure. According to Cees van Lede, Akzo Nobel's CEO, "you always have to anticipate the end game; you have to plan ahead." If you are the likely seller, pre-negotiate exit terms in advance because your bargaining power will decrease over time. The desired position as buyer or seller must drive the alliance strategy.

It is difficult for the cross-border alliance to cover every eventuality. But the companies do need to agree in advance how they will end the relationship and divide the assets. They have to accept that they may one day be competitors rather than collaborators. Debate about the exit clause or prenuptial agreement is a valuable way to clarify corporate strategy for the business involved but typically it receive minimal attention from the negotiators. Exit provisions should be defined based on the desired position as buyer or seller. The exit clause should include a valuation formula or methodology and a clear definition of events that can trigger termination or acquisition.

When it is unclear which partner will be the buyer or seller (e.g. both want to buy), and when the future value is highly uncertain, a "shotgun auction", where either partner proposes a price at which the other partner can either buy or sell, may be appropriate. A similar approach is a "revolving auction" where either partner can offer to buy the other company's shares at a specific price. The other company can accept the offer or make a counter offer to purchase the partner's shares at a higher price.

- *Understand that many of the qualities required of alliance managers are quite different from those expected in their parent company.* Alliance managers have to be impartial, not fiercely committed to one company or brand. They must be able to tolerate different ways of doing things. The role of alliance managers requires great sensitivity. They have to be clear about the different objectives and the variances in culture.

  The managerial and people challenges thrown up by cross-border alliances are immense. At the heart of cross-border alliances is a willingness to dissolve boundaries, both between organizations and within people's minds. Knowing how to develop a cadre of employees, both (alliance) managers and specialists, capable of working in various complex yet temporary alignments will become a key source of competitive advantage.

Designing successful cross-border alliances

Five key principles for successful cross-border alliance design, and hence the challenges faced by any company entering a cross-border alliance, are as follows:

1. *Strategic objective.* The form of the alliance, the chosen partner, the agreed ownership structure and the scope of alliance activity must be designed to meet the strategic objectives of each partner.
2. *Mutual dependence.* The alliance must become a critical part of the overall strategy for each parent, such that the partners have the utmost incentive to provide the commitment and resources required to make the alliance successful.
3. *Alliance independence.* The alliance must be of substantial size and be given sufficient scope to allow it to reach the critical mass necessary to develop "a life of its own" and the ability to sustain itself without excessive reliance on the parents.

"To manage a cross-border alliance effectively requires an accommodation between apparently conflicting administrative requirements for unified, unambiguous direction and control, on the one hand, and for effective participation by all the partners, on the other hand."

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4. *Shared vision and rewards.* Mechanisms that allow and encourage partners to develop a common vision for the alliance and share in the rewards and benefits of working together, regardless of the success of a specific venture, should be in place.
5. *Barriers to exit.* Structural or operational barriers to exit that make it difficult or painful for any of the partners to walk away and establish an independent business also need to be in place.

Managing a cross-border alliance

To manage a cross-border alliance effectively requires an accommodation between apparently conflicting administrative requirements for unified, unambiguous direction and control, on the one hand, and for effective participation by all the partners, on the other hand. There is no simple structure or management approach that will accommodate all these needs. Each cross-border alliance will need a mix of formal and informal organizational and other managerial devices.

Depending on the type of cross-border alliance, the management challenge can be quite different. In the case of a to-be-formed global joint venture with a stand-alone organization, the classic issues of organization structure and "cultural fit" are the most critical. In the case of a cross-border alliance with little or no organizational integration between the partners, the critical issues often center around how to gain momentum and meet performance targets in the absence of a dedicated organization.

Regardless of the type of partnership, managing a cross-border alliance successfully means being able to resolve conflicts between the partners. Therefore, anticipating potential conflicts beforehand and making conflict resolution policies part of the final agreement is critical. Since an alliance has more owners, all major issues relative to parents must be resolved before the deal is signed. By contrast, in post-merger or post-acquisition management, the owner has the power to decide these items after the merger or acquisition.

Cross-border alliances often fail and rarely continue in force longer than seven years. Most are dissolved or acquired within seven years. Not all of these are failures: many cross-border alliances have sunset provisions or become attractive takeover candidates for one of the partners. Many satisfactory alliances are disbanded once they have outlived their purpose. However, many do fail, as judged by the interviewees (see box for a "top 10" of pitfalls).

A historical view of cross-border alliance success patterns shows that those formed between strong partners are the most likely to succeed, whereas those in which one or both of the partners is weak are much more likely to fail. Cross-border alliances are extremely unlikely to improve the situation of a weak company.

Top ten pitfalls, ranked by interviewees

1. No real consensus; failing to agree explicitly on objectives and vision.
2. An unrealistic outlook on market trends and synergy value embedded in an unrealistic or incomplete business plan.
3. Overlay complex alliance management and organization structure.
4. Unclear division of responsibilities between parents (i.e. lack of accountability).
5. Poor communication between partners embedded in cultural incompatibility.
6. Inflexibility of the alliance agreement, e.g. no capability to evolve.
7. Failing to develop the right amount of trust among partners (Trust in cross-border alliances often means different things to different people).
8. Overestimating the expected synergies significantly and underestimating required investments.
9. Insufficient resources dedicated to alliance management.
10. Emphasis on legal safeguards rather than cooperation.

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Measuring success

Defining what success means for both partners and for the cross-border alliance, and ensuring 100 percent clarity on and mutual understanding of the objectives upfront, constitute an important hurdle on the way towards a successful cross-border alliance. Falling short here will most likely result in unmet expectations and dismay for at least one of the partners.

Survey participants suggest that, in contrast to cross-border acquisitions, where much of the integration planning is often done after the deal, in cross-border alliances it is imperative to assess the synergies and create detailed plans for working together before a deal is signed, since neither partner will have full control thereafter. The parties must develop a joint perspective on market outlook and industry trends and establish an agreed-upon baseline against which different alliance options will be measured.

Clear performance targets have to be established for sales volumes, cost efficiency, intercompany prices, and other areas. Any significant deviation from targets could cause conflict between the partners because it might adversely affect either partner's income beyond his own control. However, the risk of conflict between partners is even larger without clear performance agreements up front.

A managerial compromise

The rapid growth of cross-border partnerships, from distribution agreements and collaborative research to equity partnerships, has been one of the most striking features of international business in the past decade. The top 1000 global firms now draw nearly 12 percent of their revenues from cross-border alliances, a fourfold increase since 1994, according to The Boston Consulting Group.

There is no doubt that cross-border alliances are not managerially the ideal solution. However, recognizing the increasing consolidation and globalization of major industries through the world, some form of cross-border alliance may become critical for many companies. But despite high aspirations and enthusiasm for the concept of cross-border alliances among stakeholders in business, there is little systematic understanding of how to structure, manage and organize them. Corporations that can successfully do so will gain a competitive edge.

Keywords:
Strategic alliances,
Globalization,
International business,
Asset valuation

Lessons from successful cross-border alliances

1. Appreciate that business and national cultures are different: international success increasingly comes in proportion to a company's willingness to accept differences.
2. Be prepared to recognize and react to factors beyond the direct control of your partner and always understand the advantage of the cross-border alliance to the partner.
3. Maintain strong executive sponsorship continuously.
4. Negotiate business logic before control issues: first identify the "pie" (e.g. synergies and opportunities), then allocate the "slices" (e.g. profit and ownership issues).
5. Commitment, courage and capability throughout the participating company's organizations are key to a successful cross-border alliance.
6. Communication oils the wheel of alliances and nothing is worse than to have two partners in the same bed with different dreams.
7. It pays to do your homework: dedicate resources and significant (senior) management time and carefully define meeting frequency at the outset.
8. Build in "go/no go" checkpoints to ensure that both sides are satisfied with ongoing developments and insist on frequent/full disclosure of progress toward key objectives.
9. Build in some quick wins and constantly review your alliance's viability.
10. High expectations are a common source of problems. Partners may overestimate the expected contributions of their partners. Each partner may also overestimate its own contribution.

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