Strategic Alliances: Collaboration with Your Competitors--and Win

Collaboration is a strategic alliance typically between two firms with the goal of providing mutual benefit for each firm. Collaborating with your competitors is like a double-edged sword. Sharing between firms is a smart strategy as long as the relationship is give-and-take and is one that will benefit both parties without compromising each of the firm’s competitive position in the industry. Firms must be careful in what information is shared across this delicate communication trail.

To borrow a line from the Godfather, "keep your friends close, but your enemies closer". This article's discussion of competitive collaboration lends itself to the idea that learning and studying your enemy pays. Although are infinite possibilities arising from collaborations, be wary of the risk of sharing knowledge with the enemy when it is core to your firm's competitive competencies.

Types of competitive collaboration
1. Joint Ventures
2. Outsourcing agreements
3. Product Licensing
4. Cooperative research

The study of 15 mergers of three major types: four intra-European alliances, two European-Japanese alliances, and seven U.S.-Japanese alliances found that collaboration is something often used by successful businesses. Alliances between Asian companies and Western rivals seem to work against the Western partner.

Collaboration is competition in a different form. Companies have to enter collaborations knowing that competition still exists. They must have clear strategic objectives, and understand how their partners’ objectives will affect their success.

Harmony is not the most important measure of success. Most successful alliances do not always have win-win scenarios. As competitive competencies develop, conflict will arise between the partners over who has the right to the rewards of the partnership.

Cooperation has limits. Companies must defend against competitive compromise. Companies need to make sure that employees at all levels understand what corporate information is off limits to the partner. Compromising too much information can make you vulnerable to losing market share to your partner.

Learning from partners is paramount. Remember that Asian companies focus on learning, while Western companies want to demonstrate their superiority and leadership. This provides partners with knowledge that will benefit them in the long-term. You cannot make a Western company want to learn. Western companies have certain arrogance after decades of leadership that detracts from their ability to learn.

Why collaborate?
1. Gain technological advancement at a relatively low cost.

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2. Gain market access at a low cost.
3. Gain insights into the partner’s business practices and strategies.
4. Strengthen competitive advantages or core competencies.
5. Develop benchmarks through examination of the practices of the alliance firm.

Three situations can result in mutual collaboration is most successful:
1. The partners’ strategic goals converge while their competitive goals diverge.
2. The size and market power of both partners are modest compared with industry leaders.
3. Each partner believes it can learn from the other and at the same time limit access to proprietary skills.

Companies may think it devious to partner with a competitor to “steal” their secrets and use them to their advantage. However, forming a strategic alliance is usually beneficial to both parties, each contributing what they know and learning what they need to know from the other company to accomplish a goal that is not possible otherwise.

**Risks of collaboration**

**Competitive Collaboration can strengthen both companies against outsiders, however it has triggered unease about the long-term consequences.**

Western firms commonly exhibit a lack of strategic intent in collaborative efforts. Western firm’s primary goal is often cost reductions when entering into a collaborative agreements. The strategic intent problem is amplified by the fact that Western firms generally place little or no emphasis on learning from the alliance partner. It is believed that Western firms often seek “quick and easy” fixes to organizational problems when they enter into a collaborative situation. Western firms often take on the teacher role in a collaborative situation and are quick to demonstrate and explain aspects of their business strategies and competitive advantage. The contribution of a Western firm in a collaboration effort is often in the form of technology and is relatively easy for the alliance firm to transfer. In many instances, Western firms are less skilled at limiting unintended competency transfer than their Japanese counterparts. As a result:

1. A firm’s competitive position may weaken relative to the alliance firm through operations or strategic revelations.
2. Unintended competencies are transferred or compromised.
3. Dependence on the alliance firm often increases.
4. Employees “go native” while working on the alliance partner’s turf.

One partner does not always have to give up more than it gains to ensure the survival of an alliance. **There are certain conditions which mutual gain is possible**

1. The partners’ strategic goals converge while their competitive goals diverge. **This means that each partner allows continued prosperity on both sides of the shared business.**
2. The size and market power of both partners are modest compared with industry leaders. **This usually forces the partners to accept that they are mutually dependent upon each other. Long-term collaboration may be so critical to both that neither will risk antagonizing the other.**
3. Each partner believes it can learn from the other and at the same time limit access to proprietary skills. **Both partners need to believe that there is an equal chance for gain.**

**How to Build Secure Defenses**

Companies that benefit most from these alliances usually adhere to a set of principles.

1. Collaboration is competition in a different form. Successful companies do not forget that there is a possibility for their partner to be out to harm them. They enter strategic alliances with clear strategic objectives, and in turn they understand how their partner’s objectives will affect them.
2. Harmony is not the most important measure of success. Occasional conflict may be the best evidence of mutual benefit.
3. Cooperation has limits. Companies must defend against competitive compromise. Successful companies inform their employees at all levels about what skills, technology, and information can be shared with their partner and what is off-limits. These companies also monitor what their partner requests and receives.

4. Learning from partners is paramount. Successful companies view each alliance as a window on their partner’s capabilities. They use these alliances to build skills in areas outside their formal agreement then diffuse these skills throughout their organization.

Alliances run smoothest when one partner is intent on learning and the other is intent on avoidance, or when one partner is willing to grow dependent on the other. Such positioning renders itself to the traditional methods of outsourcing, wherein a large firm gives a smaller firm the information necessary to produce a defined item for the parent firm. Examples of this include Siemens buying computers from Fujitsu, or Apple buying laser printer engines from Canon.

Japanese firms emerge from cooperation stronger than their Western counterpart because the focus on learning. NEC enters partnerships to learn about areas in which they lack competence. NEC is the only company in the world that is a leader in telecommunications, computers, and semiconductor markets. Western companies, by contrast, typically enter alliances to avoid short-term investment related to entering a new market or business. Western firms are less concerned about learning a new business or technology. Western firms seek a “comfortable” relationship, forgetting that the merger may not last. Japanese firms always see mergers as a way to improve themselves in areas where they are weak.

Mergers fail when distrust and conflict spoils the relationship. Japanese firms tend to collaborate for very different reasons than their Western counterparts. Western firms typically have a technology to transfer, whereas Asian companies most often have a competence, like manufacturing expertise. There have been very few mergers between Korean and Japanese firms, since both countries seek to improve their weaknesses without revealing much to the partner. An alliance in which one side avoids investment and the other side seeks to learn work out the best.

**Principles to adhere to for successful collaboration**

- Alliance should be a learning experience. Western firms tend not to expect to learn from Asian partners.
- The purpose and scope of an alliance must be understood by all employees in order to limit a partner’s access to competitive information. Asian companies protect proprietary information from being shared with a partner. Western firms seldom limit the scope of information to be passed to the partner due to lack of communications. Top management and lawyers put together cooperative agreements, but technology transfer takes place within the organization.
- Skill complexity determines how easily each partner can internalize new skills. Asian companies often contribute manufacturing skill to an alliance, which tends to be a non-transferable competence. Production skills often result from a complex web of employee training, integration with suppliers, statistical process controls, employee involvement, value engineering and design for manufacture. Western firms tend to contribute a discrete, standalone technology that is more easily learned and mastered by Asian partner.

The partners' strategic goals converge while their competitive goals diverge. By this, Chrysler and GM should never collaborate to build a truck or van, because both are strong players in that identical market. However, if Microsoft can become a stronger software firm through an alliance with a hardware firm, a partnership is reasonable.
• Size and market power of both are modest compared with industry leaders. For a smaller firm, it gets hard to leave the comfort of a large firm's nest, even after you could begin to fly on your own.

• Each partner believes it can learn from the other and at the same time limit access to proprietary skills. To be a leader in any endeavor, you must possess certain competitive advantages over competitors. I wouldn't go sharing!

In order for a strategic alliance and collaboration to be successful is for both parties to be able to transfer something distinctive to the other party: basic research, product development skills, manufacturing capacity, access to distribution.

To ensure that a strategic alliance does not work against your company:

• Limit the scope of the formal agreement to specific technologies. Cover a single technology as opposed to an entire range of technologies or limit coverage to specific markets for a limited amount of time.

• Establish specific performance requirements with incremental, incentive-based rewards for effective technology transfer. For example, an agreement between Motorola and Toshiba required Motorola to microprocessor technology incrementally as Toshiba achieved specific semiconductor market share targets in Japan for Motorola.

• Realize that information exchange is determined by day-to-day interactions of engineers, marketers and product developers. Limit unintended transfers by using "gatekeepers" to control contacts and information flows with a partner.

• Learn as much as possible about your partner's complex processes.

**Winning Through Collaboration**
Successful collaborations typically have a few common aspects.

1. The strategies of the alliance firms converge as their competitive objectives diverge.
2. In most successful collaborative situations the alliance firms are relatively small compared to the industry leaders.
3. Each alliance partner is generally confident in its ability to gain knowledge from the other, while at the same time defending against competitive compromise.

Remember that collaboration is competition in a different form; that harmony is not the most important measure of success; that cooperation must be limited to avoid against competitive compromise; and that learning from partners is paramount to success.