

**"EURO—JAPANESE COOPERATION
IN INFORMATION TECHNOLOGY"**

by

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Euro-Japanese Cooperation in Information Technology

An analysis of 45 cooperative agreements between European and Japanese firms shows that most of these are limited in size and scope. Only a handful of agreements can be called "strategic alliances".

There are many more agreements providing the Japanese firms with access to the European market than vice versa, allowing them to expand their global reach. Few European executives, however, feel threatened as they consider software and systems integration the key factors for market success.

Underlying explicit, implicit and managerial asymmetries contribute to the instability of Euro-Japanese partnerships which are imbedded in the uncertainties of a tense trade relationship between the European Community and Japan.

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EUROPEAN-JAPANESE COOPERATION IN
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I BACKGROUND AND FRAMEWORK

1. Agreement and objective

At the end of September 1987, the author was entrusted by the Japanese Government, represented by the Japanese Delegation to the OECD, to carry out a study of the "European-Japanese Cooperation in Information Technology". The project attempts to collect data on industrial cooperation between Japanese and European firms and to analyse this data with regard to the benefits expected to be derived from, or already brought to the partners and their countries of origin.

The study's objective is to contribute to the better understanding of the workings and the constraints of international cooperation in a field which is of utmost importance to both Japan and Europe. It should also give an up-to-date description and analysis of the dynamics of European-Japanese cooperation in information technology which are rapidly developing, and as such difficult to follow by outsiders.

This article represents a condensed version of a report submitted in February 1989.

2. Definitions and methodology

According to our definition, information technology consists of the computer and office automation, the electronic component and the communication sectors, and comprises of the development, production and marketing of related products and services.

Consumer electronics, as well as factory automation, although technologically closely linked to the IT-sector, are excluded, as is the application of information technology for military purposes.

Data collection has been done based on a search through material available in both academic and journalistic publications on the topic. It has been supplemented by various interviews with a number of company representatives and government officials both in Europe and Japan.

Since official statements and press reports do not necessarily disclose the real feeling and intentions of the parties concerned, interviews with company and government officials were seen as important and have, in general, revealed information not publicly available, and of great relevance.

During the period from September 87 to January 89, the author has been in direct or indirect contact with almost all major players in Europe and Japan in the field of information technology.

II. INTERNATIONAL COOPERATION

1. Changes in international business: the stage

Up to a few years ago, discussions in the field of international business mainly focussed on the multi- or transnational companies. With these firms competing either among each other on a global scale, or with regional and local firms in limited areas, there was concern about their growing power in particular vis-à-vis national governments. These political bodies felt restricted in their sphere of influence by sovereignty, while multinational firms could move their resources easily across borders.

Within the very large firms, issues of fostering innovation and entrepreneurship, while keeping control and internal coherence, dominate the agenda of top management. Cooperative agreements were seen as second best solutions, often required by governments, especially in developing countries.

This has recently changed. Even very large and diversified companies realise that in cooperating with other firms, risks can be minimised, costs reduced, new markets or segments entered, or, in more general terms, revenues can be enhanced. Medium-sized and small firms are following their lead. Negotiated cooperative agreements across borders have thus grown almost explosively over the last decade both in number and importance. Today the leading global firms in several industries find themselves involved in a number of coalitions with different partners, and consider themselves members of an ever-changing network of international relationships.

Cooperative agreements are not limited to the classical joint venture in which two or more partners invest equity to achieve a common goal in a separate legal entity. Cooperative agreements comprise all efforts of independent partners to work with each other over a long period. It therefore includes everything beyond spot transactions i.e. buying and selling without further commitment, and up to mergers and acquisitions, where independent firms evolve into unified organisations. Joint research projects, OEM arrangements and distribution agreements thereby fall into this category.

A clear distinction between cooperative agreements and "deals" for short-term gain does not exist as it depends on the willingness of the partners to actually work together. A similar argument can be used regarding the importance of such agreements for the partners. There is an obvious difference between a long-term supplier-buyer relationship for nuts and bolts or paperclips, and an alliance which influences the overall competitiveness of one or all of the partners involved. Such latter agreements are referred to as strategic alliances and are the focus of this report.

Since cooperative agreements are not bound to any legal form, cover a wide variety of projects, and often do not identify the real intent of the partners, reliable statistics do not and cannot exist.

Moreover, there is a problem of definitions. For the Japanese, "cooperation", especially in the context of "industrial cooperation", also includes 100% foreign-owned investment, seemingly because it links the

economies of different nations*. In this report we do not follow this wider definition.

Since, in many cases, the partners in a cooperative agreement are in the same business, competition and cooperation exist side by side. This competitive cooperation makes the management of joint efforts extremely difficult. To succeed in a joint undertaking, the partners need to share knowledge. At the same time, they have to protect their knowledge in order not to jeopardize their competitive position.

Graph 1 shows competition and cooperation as alternative modes in business. If, however, the only objective of the individual firm is to win over other firms, then cooperation is only a derivative of competition and, as such, limited.

Graph 1

	Business	Government
Competition	Improve quality/ service Increase scale Lower costs etc	Sponsor national R&D Protectionism
Cooperation	Joint research Joint manufacturing Joint marketing	

2. Developments in information technology: the game

Information technology is one of the three core technologies having a significant impact on the world until the end of this millenium (the other two being biotechnology and new material science).

Military applications make information technology a key strategic resource for governments which also represent major customers for the industry and, at the same time, set the rules through a number of regulations, particularly in the area of communications.

The industry has produced some very large firms such as IBM in computers, and AT&T and NTT in communications, but also many innovative firms which rose from garage-type operations into sizable companies within a very short space of time. All of them are facing a rapid rate of change, decreasing product life cycles, rising R&D expenses, a proliferation of converging technologies, products and services, and increasing globalisation of their businesses.

* L. Turner "Industrial Collaboration with Japan", Euro-Asia Business Review, July 1987, p. 11-26.

These factors, one may argue, make international cooperation among the players not only an option, but a must. From the point of view of the industry we would see the following reasons for going into cooperative agreements,*

1. Risk reduction
 - Failure in R&D
 - Being too slow/too late
2. Economies of scale/rationalisation
 - Production in country with comparative advantage
 - Lower costs from higher volume
 - Concentration on key products/services
3. Fostering technological competences
 - Technological synergies
 - Specialisation and complementation
 - (horizontal cooperation)
 - Subcontracting (vertical integration)
 - Access to public research
4. Overcoming and building market barriers
 - Utilizing complementary marketing networks
 - Offering complete product ranges/systems
 - Overcoming investment/trade/procurement barriers
 - Co-opting potential competitors.

Obviously, the reasons for cooperation are manifold and overlapping. As the market demands increasingly complete solutions to computing/communications problems, competitors find it increasingly difficult to be both horizontally (with a broad product/service range) and vertically (from R&D to marketing worldwide, from key components to application software) integrated.

In order to connect computers with each other, communication systems and equipment are needed. In order to function, communication systems need computing power to facilitate switching. Both sectors rely on electronic components such as semiconductors and microprocessors as major accelerators in their development. The underlying convergence of technologies leads to a convergence of products which in turn leads to a convergence of those companies who aspire to offering "information technology solutions" rather than products and services of limited value. Further growth of the large firms may be one answer to this trend; mergers or acquisitions are other solutions. Cooperation within the industry is an alternative for the information technology industry.

3. Europe, Japan and the USA: the players

All competitors, even international ones, are shaped and influenced in their strategies by their home country. No firm can yet claim to be truly global and thus to be independent from a national culture or national government.

* F. J. Contractor and P. Lorange, "Why Should Firms Cooperate? The Strategy and Economic Basis for Cooperative Ventures," in: Cooperative Strategies in International Business, Lexington Books, p. 3-28, 1988.

The major European firms in information technology have long enjoyed government protection and preferential treatment for procurement purchasing. This has produced national champions which suffer in the broader international arena from the fragmented market in Europe, and thus the lack of economies of scale. The over-regulation in some countries has slowed down innovation, which in turn has led the companies to lobby against too rapid technological changes from which their faster competitors could benefit. However, strength in some niche markets and in software has remained and a revival of the industry is in the making in line with the European Commission's programme for Europe 1992.

Japan's leading firms were not known internationally when their European and US competitors were already globally represented in the fifties and sixties. Their entry came along with the change of the industry from electro-mechanical technologies to electronics. As such they are "latecomers" in the establishment, admired for their achievements, especially in production technology, and feared for their growth momentum and determination. Fostered by an industrial policy which called for consensus, collaboration, and at the same time competition, the new rules of inter-firm cooperation are not new to them. Particularly vertical integration is carried out through a sophisticated, cooperative subcontracting system, in contrast with European and American firms who rely primarily on their own resources.

This wealth of experience in managing relationships is exclusively derived from the Japanese environment and internationally transferable only to a limited extent. Even after several years of experience abroad, the Japanese firms still cannot match the expertise of their foreign competitors in dealing with the international business environment*. The track record of Japanese firms in computers and telecommunications (in contrast with mass-produced components) is also less impressive. While this may be due to protectionistic policies in telecommunications, in the computer field the underestimation of software led some years ago to some of the very few Japanese international market failures, especially in personal computers.

A similar cooperative spirit among firms or between firms and the government cannot be found in the USA, except in the defense area. This important segment has provided the US firms with massive research funds and contracts. Otherwise competition is tough, resulting in high performance fluctuations of firms over time, and quick changes in market shares among competitors. Winning and losing seems to be close to one another in the US, as are high profit and high losses. Mergers, acquisitions, bankruptcies, meteoric rises - all these are the consequences of a generally volatile market in which customer loyalty is less known than in Japan or Europe.

While the economic power of the USA has relatively declined over the last two to three decades, this may not necessarily apply to the information technology sector. The largest and the most profitable IT companies are still American companies, who are market leaders in the US and in many other countries, where they successfully compete with national champions. Only Japan represents an exception, but even here IBM achieved sales of more than Y1 trillion in 1987 and a profit of Y170 billion.

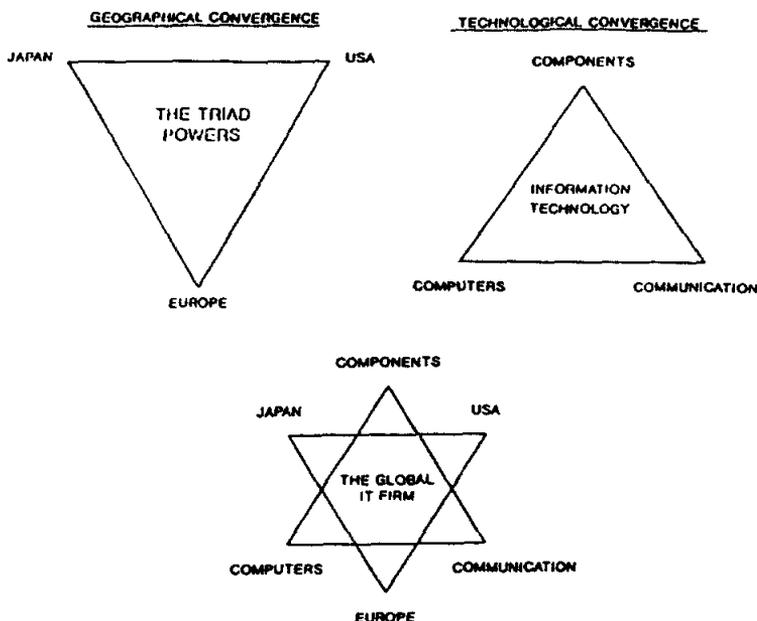
* K. Ohmae, "Companies without countries", McKinsey Quarterly, 3, 1987

Their heavy investments abroad and their local manufacturing in many countries make them rely less on exports from the USA. Thus, the judgement of the strength of the American IT sector from trade statistics alone may be misleading.

Undeniable, however, is the decline of the US' competitiveness in mass-produced components which has led to some degree of dependence on Japanese supplies even in defense-related industries. The controversial semiconductor pact between Japan and the USA demonstrates the complexities of international government agreements.

Together, Europe, Japan and the USA form the "Triad Powers" in which the bulk of purchasing power of the world is accumulated. While competition is increasingly global in industries such as information technology, the closest competitors are still perceived as coming from the same country/area. This means that American firms consider other American firms as their main rivals, European firms other European firms, and Japanese firms see other Japanese firms as their most serious competitors. In order to succeed against one another globally, competitors have to be strongly represented, not only on their "hometurf", but also in the other parts of the triad*. Should the resources for this undertaking not be sufficient, alliances with other firms from other parts of the triad are a viable option. This explains why cooperative agreements are not only concluded with partners close-by, although geographical proximity and cultural similarity may facilitate communication and thus increase the probability for success. The change from local or regional competition to a global scenario in the information technology industry could be called "geographical convergence of the market". It leads probably more to market-driven cooperations, while technological convergence leads primarily to technology-driven cooperations.

Graph 2



Firms which have taken into account both trends and become globally spread and technologically integrated firms at the same time, do not yet exist. Through cooperations, some major players move into the direction of becoming global IT alliances such as Olivetti-AT&T-Toshiba and Bull-Honeywell-NEC.

* K. Ohmae, "Triad Power", New York, 1985

III. EURO-JAPANESE COOPERATIVE VENTURES

1. Characteristics of the Agreements

Our research has identified 45 cooperative agreements between Japanese and European information technology firms which have been active or newly concluded over the last 3 to 4 years. They span the range from licensing to OEM deals to joint ventures and involve all of the major Japanese and European companies. They are multi-product and international in scope, or local and uni-product, and are transacted on a pan-company basis or only on behalf of a single division.

- Sectors

Cooperative activity is most pronounced in the components, computers and, to a lesser extent, the telecommunications sectors. There are a scattering of agreements involving the major automobile producers in the robotics and factory automation area, and a few examples of agreements with software producers, although neither of these two sectors are a focal point of cooperative activity at present.

- Products

Agreements have concentrated on mainframe computers, integrated circuits and facsimile machines.

It is interesting to note that the focal product areas are the ones in which Japanese companies have achieved a strong degree of competitiveness, if not superiority, in the marketplace. This applies to a lesser degree to mainframe computers, although the Japanese strength in computer hardware cannot be denied. Agreements involving these products are frequently marketing or OEM agreements which help the Japanese firms sell their products in Europe and/or allow European producers to complete their product line(s).

Some cooperative agreements span two or three sectors and are created to develop or market a hybrid product. A hybrid product would be one which combines the technologies from two separate sectors, such as telecommunications and components.

- Companies

Ventures between two small or even two medium-sized companies are rare, perhaps because of the limited international outlook and experience of those firms. The majority of agreements of any importance have been concluded between the largest and most important producers in the industry. The second most prevalent grouping is between a major world competitor and a small/medium-sized national company which is specialized in a certain skill area or product, and has gained a degree of recognition in those areas.

- Size

Looked at as a whole, the vast majority of Euro-Japanese cooperative agreements are rather small in scale, with low volumes or covering one

national market, and/or are limited to a single product or product group. There are very few attempts being made either to cooperate globally or to develop complementary product strategies which avoid head to head competition between the two partners in various world markets. The NEC/Bull arrangement, a potentially global collaboration, may develop into one of the few exceptions.

- Scope

Many cooperative ventures start out as short term purchasing or marketing agreements whose life-span is eventually determined by the quality of the relationship over time, as well as by external factors which make it more or less desirable for two companies to continue to cooperate. A straight forward licensing agreement, such as that between ICL and Fujitsu in 1981, can set the stage for a longer term relationship which is fairly extensive and mutually advantageous for both.

One factor adversely influencing the continuity of many cooperative agreements is the fact that most accords involve a single product or product group. The present pace of technological change is resulting in rapid product obsolescence. Once the technology or the product is obsolete, then the "raison d'être" of the cooperation can be brought into question. A new agreement on a new range of products must be negotiated which may or may not include a technology which the two companies wish to share.

2. Categories

Viewed as a whole, the cooperative ventures which this study has identified fall into one of four categories. First, there are those agreements which concern the Japanese marketplace and involve joint development, production, marketing or distribution in or for that market. Second, there are similar agreements in or for Europe. Third, cooperations are listed which deal with transfer technology, and, lastly, there are those agreements which are broad-based, potentially global in scope and/or cooperative on a corporate-wide basis.

a. Agreements for Japan

<u>Japanese</u>	<u>European</u>
Y-E Data	Olivetti
Matsushita	Philips
Kyocera	Philips
Toppan Printing	Philips
Fuji	Siemens
Canon	Siemens
Marubeni	Siemens
NMB Semi-conductors	Thorn EMI/INMOS
Mitsui	ESS
Denki Kagaku Kogyo	Air Liquide
Sanyo	Acorn
Mitsui	Sinclair Research

There are twelve cooperative agreements that fall into this category. European firms enter such agreements with Japanese firms with one of two

objectives in mind: either, the accord is considered to be an easy way to break into the reputedly difficult Japanese market, or the company intends to actively profit from Japanese manufacturing expertise and efficiency.

In the first case, by tying up with a well established Japanese company, a European firm can benefit from the existing contacts and sales support of their Japanese partner, and avoid the large investment required for the establishment of an independent operation. The importance of long-lasting buyer-seller relationships in Japan cements the European firm to the Japanese partner and makes any strategic or structural changes of this kind very difficult.

The Japanese firm enters these kind of cooperative ventures and benefits from them as it is able to offer its customers a greater variety of products and perhaps a different technology than that which is presently available on the market. Such an arrangement may also permit marketing expenses to be spread over a larger range of products.

In the event that two companies decide to pursue a cooperative venture in Japan over the long term, then this accord can form the basis for a broader and technologically cooperative relationship. Such has been the case of Philips and Matsushita. The Matsushita/Philips accord is one of the oldest agreements which is still very active and two-way cooperative.

A second type of cooperative agreement, for manufacturing in Japan, takes advantage of Japan's recently acquired manufacturing expertise, due to very large economies of scale and high productivity in production processes which require a large number of manufacturing steps. Both of these criteria apply to memory chips and consumer electronics.

As a rule, products produced to order in Japan for European firms do not find their way into the Japanese market, but are exported and incorporated into the European companies' final products. The border line between such agreements and OEM-sales of Japanese products by European firms in the European market is fine. OEM agreements mainly cover standardized products sold by the Japanese partner in other markets.

b. Agreements for Europe

<u>Japanese</u>	<u>European</u>
Seiko	Olivetti
Kyocera	Olivetti
Hitachi	Olivetti
Hitachi	BASF
Hitachi	Comparex
Sony	Logitek
Canon	Ferranti
Canon	Plessey
Canon	Siemens
Toshiba	Siemens
Toshiba	Telic-Alcatel
Toshiba	Rhone Poulenc
NEC	GEC/Marooni
Fujitsu	Swedish Telecom Admin.
Aster Intl.	Micro Peripherals
Matsushita	Quick-Rotan
Matsushita	Nixdorf
OKI Electric	SGS-Thomson

In one way, the same rationale which is used to explain Euro-Japanese cooperative ventures in Japan can be used to explain Euro-Japanese ventures in Europe. For the Japanese firms, they represent a less expensive, faster and easier way of entering the European market. There are, however, many more agreements for the European market, and for every agreement being signed for Japan, there are two being signed for Europe.

First of all, this is due to the fact that the Japanese are more substantially committed to the European market than the Europeans to the Japanese market.

Secondly, the fragmented European market remains a difficult one to conquer for outsiders facing established and strong national firms which enjoy government support. A cooperative agreement with such a firm can overcome barriers and convert a potential member of the anti-Japanese lobby into a Japanese supporter. This applies not only to marketing ventures, but also to assembly/manufacturing operations which have encountered increasing criticism for appearing to be disguised imports and have been labeled "screwdriver" plants.

Lastly, when examining European based cooperative ventures, one finds that European companies enter such agreements hoping to have access to Japanese technology or to their high quality products. This is generally not the reason given by Japanese firms for entering a cooperative venture either in Europe or in Japan. The Japanese, who have greater respect for and interest in American technology, enter a cooperative agreement in Europe quite simply to have access to the European market. For the Europeans, a production plant in France for the manufacture of the

newest model of facsimile machines brings with it not only the promise of higher sales and profits, but also that of technology transfers.

There are basically three types of accords presently being reached between Japanese and European firms in Europe. The first is a marketing or distribution agreement, the second is a manufacturing or licensing agreement, and the third is an OEM deal. For the most part, they are all initially rather small in scope and have limited specified time frames, unless they are already part of an overall relationship which has been established between two firms.

As most of the Japanese already have established networks in Europe, marketing and distribution agreements with other European firms are either small - thus not addressed by this report - or are concentrated on only one or two national markets.

The second group, manufacturing and licensing agreements, is on the rise in a response to stiffer local-content regulations. They involve manufacturing or manufacturing together with distribution. The Rhone-Poulenc/Toshiba arrangement is an illustrative example. It is in the form of a joint venture for the production of Toshiba's plain paper copiers in France and for the sale of that and related office automation equipment into France.

Such an agreement evidences little true cooperative activity between the two firms and is, rather, a way for Toshiba to avoid protectionist policies and comply with local content regulations.

The third group, OEM agreements, allows for the incorporation of Japanese products into European companies' product lines and for these products' eventual sale in Europe. Such agreements can cover a whole product or any one of a number of components of that product. As such, the borderline between a company with which one has an OEM agreement and with which one has a supplier agreement is rather thin. Even if products of that nature are modified for the European partners, it is the marketing side of the added-value chain which is important for the OEM-agreement and not so much the origin of the product.

All of the OEM agreements in our list involve computers or computer peripherals or some parts thereof. In the case of Olivetti/Kyocera, OEM sales cover small-sized computers; BASF/Hitachi, high-end memory tape units, and Hitachi/Comparex, mainframes. The present popularity of OEM agreements within the computer sector is not all that surprising, as it is a sector in which completed product lines are rapidly gaining importance. A mainframe producer cannot easily provide, over night, a complete range of related products and thus buys what it needs from other, often foreign, producers, in order to keep clients and to maximize use of its sales and distribution network.

The publicly announced OEM deals are probably only a portion of the total number of agreements reached between Japanese and European firms. In an industry which feels increasing pressure for technological renewal and advancement, the supply of "standard" products may not merit the word

"cooperation", even if contracts cover extended periods or represent a major reason for the purchasing company's competitiveness. There are also companies which are not anxious to admit that a certain portion of one of their major product lines is actually being produced by another company, either for reasons of company image or national pride.

While initially OEM agreements may have met short-term objectives, they also have the potential for serving as a basis for the continuation or expansion of the firms' relationship over the long term. With a successful OEM agreement in place, there is little motivation for either party to duplicate the efforts of the alliance partner; both firms are free to explore and expand operations in other areas. In turn, a success relationship fosters its own expansion and can lead partners to cooperate in not just one or two, but in many aspects over time.

c. Technology Transfer

<u>Japanese</u>	<u>European</u>
Toshiba	Siemens
Toshiba	Alstom
Fuji Electric	Thomson
Hitachi	Lucas Ind.
Mitsui	Intelligent Terminals

Apart from joint development projects, technology can be shared by transferring it from one firm to another. Contrary to cooperative agreements which are largely long-term, this process normally takes place during a limited span of time. The partnership between firms is, thus, transient in nature, except if the transfer of technology is part of a broader cooperative agreement called strategic alliance (see below).

The basis for the transfer is the sale of technology. As this can normally not be done by handing over blueprints, it requires the cooperation of scientists and engineers from both partners in joint meetings and training sessions, joint setting up of facilities and launching of test runs etc. During these undertakings, the actual flow of know-how takes place.

Technology transfer agreements are not always reported, appear in no trade or investment statistics, and rarely attract as much attention as the agreement between Toshiba and Siemens in the megabit chip. Most of those listed above represent the flow of technology from Japan to Europe such as in the field of transistor modules from Fuji Electronics to Thomson, and deal with production rather than product technology. The agreement between the British company Intelligent Terminals and Mitsui is an exception as it comprises of the transfer of software technology for structuring artificial intelligence systems from Europe to Japan.

d. Strategic Alliances

<u>Japanese</u>	<u>European</u>
Canon	Olivetti
Toshiba	Olivetti
Fujitsu	ICL
Fujitsu	Telefonica
Fujitsu/Fuji	Siemens
NEC	Bull

This group of agreements represents the core of broad-based accords which are truly cooperative and longterm in nature and approach. They involve the active participation of both companies in some step of the development/production/sales process and most often a sharing of technological information. The accords are negotiated and supported by the very top management levels of the companies and can encompass the activities of several divisions. The strategy behind the accords is a long term one with at least some emphasis on the global coordination of operations and markets.

The possibilities for the integration of the two companies' technologies often leads to a decision to develop a new group of products based on the expertise which the two firms have in the technologies involved. However, such forms of cooperation do not exclude the simultaneous pursuit of other activities such as OEM or licensing arrangements. In a well-developed relationship, the two companies are likely to have a number of joint development projects, involving two or more divisions, in addition to a series of supply and/or licensing agreements.

The dividing line between true strategic alliances and other agreements seems to be determined by the willingness of firms to cooperate in new technologies and, in some cases, on a multi-national basis. Under a number of different cooperative agreements, a company may be willing to share with another a technology which is known and already produced by a variety of companies; however, this same firm may not be willing to share, or cooperate in the development of, a brand new, highly competitive technology unless such a cooperation is part of a strategic alliance relationship. Similarly, a firm may have a joint operation with another for a particular national market, be it the Japanese, Malaysian or Norwegian; yet, these same two firms may never consider cooperating on a global basis and their operations may never pass the borders of a single country, unless the firms are strategic alliance partners.

Most of the companies listed above have important agreements with more than one company. This is not unusual and largely the norm. Corporate management takes the decision to enter into cooperative agreements as an alternative to or complementary mode of expanding the operations on its own. In implementing such a strategy, it may cooperate with one other firm in various fields, but it may also tie up with a number of different firms in different fields at the same time. Often we witness a major strategic alliance between two firms being accompanied by a host of other, less important, cooperative agreements with other firms. However, some

firms such as Olivetti, Fujitsu and Canon have been able to develop major alliances with a deep level of cooperation simultaneously with several partners.

Canon is a good case in point. Canon is in the process of securing its position in global markets and in a broad range of technologies. It has chosen to do so by entering into a number of strategic alliances with firms which have a level of expertise in areas where Canon is weak. By combining Canon's own strengths in the photocopying area of the office automation sector together with European and American companies' expertise in other areas of the same sector, Canon hopes to eventually carve a place for itself in the highly integrated office automation market of the future. At the same time, these alliances are providing Canon special access to national markets where import regulations are formidable or risk to be formidable in the near future. The company is thus using strategic alliances and cooperative ventures as one way of assuring the firm's future growth and expansion.

3. Quantitative Analysis

All of the agreements discussed above represent for the participating firm the contribution of one or many resources at the firm's disposal. The type of contribution made to the agreement is, simultaneously, a reflection of its partners wants and needs, and of its own expertise in a certain skill area or its comparative advantages from being from a certain nation or having successfully penetrated a certain market. With this in mind, we have classified all of the agreements according to the contribution each party is making to the cooperation. We have chosen as contributions technology, manufacturing (or the product itself), and marketing or distribution capabilities. Where none of these resources are supplied or exchanged, financial compensation is paid in lieu and listed separately. Each number in Chart I below represents a contribution by the partners in one area. Multifaceted relationships have more than one mark. For example, in the Kyocera/Philips agreement, both firms are contributing technological knowledge (one mark in the Tech/Tech box), the firms are jointly manufacturing the product (a second mark in Manu./Manu. box), but the products are only being sold in Japan by Kyocera, thus a third mark in the Japanese Dist., Marketing/European Financial Compensation box.

The strategic alliances identified in Part III. 2.d., all fall in the middle of Chart I with predominantly joint technological development, joint manufacturing and joint marketing or distribution (box 1, 6, 11).

The large number of agreements which involve joint technological development or exchange is noteworthy. While the majority fall under the umbrella of a strategic alliance, the remaining are agreements between Japanese and Europeans to jointly develop a particular technology or product. There are more than a few of these types of agreements. This supports the general hypothesis that the exchange of technological information is a major motivation for cooperative agreements.

QUANTITATIVE ANALYSIS

Contribution of Partners to Cooperation

European Companies	Technology	Production/ Manufacturing	Marketing/ Distribution	Financial Compensation
Japanese Companies				
Technology	(1) 16	(2)	(3)	(4) 3
Production/ Manufacturing	(5) 1	(6) 12	(7) 15	(8) 1
Marketing/ Distribution	(9)	(10) 7	(11) 9	(12) 1
Financial Compensation	(13) 3	(14)	(15) 1	(16)

The relatively small number of agreements for the Japanese market (box 10), in which the Europeans provide the products or the manufacturing expertise and the Japanese the marketing or distribution expertise, can in part be explained by the fact that a number of such agreements are structured as joint ventures, and thus, in our chart, they appear under joint production and joint distribution/sales. Otherwise, we can comment that the rationale for their creation lies in the closed nature of the Japanese market which makes it more interesting for a European firm to enter this market under the auspices of a marketing/distribution agreement with a Japanese firm.

Having said that, it must be pointed out that there are many agreements which combine only European marketing capabilities and Japanese manufacturing expertise (box 7); their number far outweighs the number of cooperative technological exchange agreements (those not covered by a strategic alliance). They are principally the OEM or OEM-type arrangements discussed in Part III. 2.b., above. Their relative abundance in comparison with similar OEM or distribution accords for the Japanese market, is certainly a distortion. The Japanese, finding it difficult to sell directly into Europe, have entered into cooperative marketing/distribution/OEM agreements which are at least for the time being more effective, and more favorably viewed by government authorities than their own European based sales networks. On the chart, when we take away the multiple markings for some of the strategic alliances, the resulting distortion in favour of box 7 - Japanese manufacturing and European marketing - is even more pronounced. This has been done in Chart II.

Principal Contribution of Partners to Cooperation

European Companies	Technology	Production/ Manufacturing	Marketing/ Distribution	Financial Compensation
Japanese Companies				
	(1)	(2)	(3)	(4)
Technology	6		1	5
	(5)	(6)	(7)	(8)
Production/ Manufacturing	1	6	15	
	(9)	(10)	(11)	(12)
Marketing/ Distribution		6	5	1
	(13)	(14)	(15)	(16)
Financial Compensation	3			

All in all, these charts support the comments made in III. 2. above. There are four basic groups of agreements: those relying on European marketing expertise and Japanese manufacturing expertise, mostly for the European market; those designed to allow Europeans to sell in the Japanese market; those through which technology is transferred; and those agreements which are part of a strategic alliance agreement. The two first groups of agreements are entered into in order to profit from another firm's expertise in a certain skill area or market. They are particularly valuable when the skill area or market is one which would require considerable investment to master and which would not necessarily generate the desired return to the inexperienced firm. In other words, the cooperative agreement serves as a convenient expedient in the normal course of business affairs. Transfer of technology agreements are of transient nature.

Strategic alliances are different. Those which we have identified in this report, in contrast to OEM, marketing, manufacturing or licensing agreements, cover the full range of joint technological development, joint manufacturing and joint marketing and distribution. More importantly, they are the result of a deliberate policy of the participating firm of growth or globalization through strategic alliances. Of all of the agreements discussed in this paper, it is this last group of Euro-Japanese agreements that truly merits the name of strategic alliance. They are broad-based and technologically cooperative. They are at least potentially global and they are longterm.

IV. EXPERIENCES AND PERCEPTIONS

1. International Agreements: A Comparison

a. Statistical Indications

By examining available statistics on cooperative agreements we can see that there are largely fewer cooperative agreements between European and Japanese firms than between either of these two parties and the Americans. Information from FOR, a data base of accords in information technology created by Montedison, shows that there were 81 agreements contracted between Japanese and European firms over the period 1982-86 versus 128 American/Japanese agreements and 253 EEC/US agreements. Similar surveys come to the same result*.

Moreover, while there is spectacular growth today in inter-European agreements and was an increase in such general agreements of more than 7 times between 1983 and 1986**, the growth in the number of Japanese/European accords is negligible. It is certain that the increase in inter-European agreements has been fueled by the EC programmes ESPRIT and RACE and by the approach of 1992 and the European union, yet, this does not necessarily explain the lack of cooperative venture activity between Europe and Japan. It cannot be attributed to a lack of interest in foreign partner ventures because the number of international cooperative accords as a whole has risen during this period and, in particular, the number of US-European agreements has risen from 32 ('83) to 49 ('86). Nor does the lack of growth appear to be the result of a public manifestation of anti-Japanese sentiment, along the lines of the "buy US" campaign in the United States.

The question therefore is, what motivates a company to enter into an agreement with one company rather than another. More specifically, why is it that Japanese and European firms more often choose to enter into agreements with an American firm rather than with a European or Japanese firm, respectively?

b. Partner Selection

Technological Expertise

In selecting a partner for a cooperative venture, firms have to identify the strengths of those who are potential candidates for an alliance. In terms of technological expertise, American companies' strength in innovation makes these firms attractive partners for cooperative alliances both to the Japanese and the Europeans.

* FOR, "Joint Ventures and Inter-Company Agreements: An Introduction to a Comparative Survey in High Technology Sectors," a paper presented at a conference in Lucca, Italy on Technical Cooperation and International Competitiveness, 1986. See also Reseau, Draft Report for the Industry Committee, OECD.

** Financial Times, "Keeping Europe on the IT Map", May 18, 1988.

The Japanese, for all their expertise in product perfection and in manufacturing, continue to lag in break-through technologies and are keen to link up with partners in the development of latest technology. Being large firms themselves, they suffer from well-established bureaucracies which slow them down in an industry which is fast moving and constantly changing. Smaller American firms, on the other hand, suffer from a lack of manufacturing and marketing resources, but provide an environment in which innovation flourishes.

A cooperative agreement between the two firms, if carefully managed, can plug the small firm into the large resources of the bigger partner and, thus, provide benefits for both. In such a case, the smaller firm becomes a "sub-innovator" similar to a subcontractor in other industries. European small firms are less prepared to take over such a role in a cooperation. They shy away from agreements with the Japanese and seem to be reluctant to share their technology with them.

Vice versa, the Japanese do not demonstrate enthusiasm for European technological know-how either and have not pursued agreements with small European firms. Present agreements with large European firms do not seem to have been contracted in order to access their technology but rather their marketing network.

As for the Europeans, they have recently become aware of their weaknesses in the R&D area and are striving to regain earlier strengths. Cooperative agreements with the Americans are seen as an excellent way of initiating this process as the technologies which are transferred can rapidly put them on an equal footing vis-a-vis the rest of the industry.

Nowhere documented, but well understood, is that the Europeans perceive the Japanese as being less willing to share information or resources with alliance partners than the Americans. The Japanese are takers or absorbers of information whereas the Americans are sharers or just plain talkative.

The Americans themselves are also anxious to gain access to new technologies and appear ready to try a number of sources. On an individual basis, European firms are often viable candidates for cooperative agreements, often because of their expertise in a particular area.

Recently, Americans' respect for Japanese technology has risen. The highly publicized "Japanese threat" in the US has probably served to fuel Americans' interest in the Japanese because it has focussed public attention on the extremely viable technological challenge that Japan is posing. This same Japanese challenge is little or less perceived by European firms operating in fragmented and more protected markets.

Manufacturing Expertise

The Japanese are today leading in manufacturing techniques and efficiency. For this reason, both the Americans and the Europeans are interested in learning more about Japanese manufacturing methods. The forming of cooperative agreements is one way of doing so - the Americans view such agreements as an excellent way of learning; the Europeans are more reluctant.

Instead, the Europeans are studying Japanese methods at arms' length. In the interim, the Europeans are "farming out" production to the Japanese in areas where European industry is uncompetitive. A strategic alliance for

the purpose of learning about Japanese manufacturing methods is perhaps a last alternative and not a very appealing one. The Europeans are not so hungry for manufacturing knowledge that they are willing to share either market access or technological knowledge in return.

The Americans view Japanese manufacturing expertise with much more probing interest. It represents the first time in decades that a nation has bypassed American technological superiority on a grand scale. Perhaps this fact alone explains the near obsessive interest which many Americans have in this topic today.

There are volumes and volumes of literature on the US market on the Japanese success story, examining their methods from every angle. In addition, there are Japan tours for manufacturing executives; exchange programmes whereby American firms receive Japanese employees, and Japanese firms welcome American employees; or consultancy projects such as in the steel industry through which Japanese manufacturing expertise is transferred to the United States.

Last, but by no means least, cooperative ventures and strategic alliances have been formed in line with the proverb "If you can't beat them, join them". Unable to out-manufacture the Japanese, the Americans are now joining with the Japanese in order to learn directly from them in a cooperative environment. The NUMMI-project of GM and Toyota is a good example of such venture. The Americans are most anxious to learn what the Japanese have to teach them and are willing to exchange technological experience or market access for that information.

Market Access

The third major reason for which a company chooses to enter into a cooperative agreement with another is to have access to new markets. These can consist of new market segments in an existing national market and/or of additional national markets, normally represented by the partner's home market or market strongholds. For the partner who receives products for sale in new markets, the agreement represents a horizontal integration in the sense that it enables it to offer a broader product line.

Both the Europeans and the Japanese are attracted by the American market. It is the world's largest borderless market and is homogenous in nature. There is also a perception that this market is in excellent economic health and will continue to grow for some years to come.

Some of the same could be said for the Japanese market and, indeed, many foreign firms have entered into cooperative agreements in order to have access to the Japanese market. Yet, when compared with the American market, the Japanese market is less appealing to most Europeans, despite the fact that in terms of economic buying power, Japan is no longer behind the US and is ahead of many European countries in terms of GNP per capita. Part of this can be explained by the problems encountered by Western firms in the area of information technology in dealing with the Japanese language, and more specifically with the switch to the Japanese writing of Katakana and Hiragana and its final conversion into Kanji. This requires major efforts in software and hardware development and represents a formidable entry barrier surmountable only by fully committed firms.

The European market is attractive in size, but fragmented. In the information technology sector, the direct and indirect influence of national governments on purchasing decisions is strong, at least stronger than in the US. This requires a differentiated marketing strategy for each market, a difficult task for outsiders to master within a limited time. So far, Japanese subsidiaries in Europe have found it difficult to sell their own products under their own brand names, through their own distribution channels. Cooperative agreements have proven to offer a good solution to these structural barriers, particularly OEM agreements.

The Americans are also attracted by Europe, perhaps more so than the Japanese. They are looking to 1992 and the enhanced possibilities for American products in a standardized, unified European market. Markets in which American firms are not active today, can be accessed through already existing nationally based US subsidiaries.

2. Asymmetries in Partnerships

a. Competitive Cooperation

In part II.1. it was briefly stated that international cooperative agreements are often concluded between competitors, a fact which renders the successful negotiation and management of such competitive cooperations, for both or all partners, extremely difficult.

Observations of alliances between competitors have so far shown that the incongruity of objectives of the partners, differences in competences contributed to the partnership, and the diverse ability to learn from another are important factors leading to failure*. Failure in this respect is defined as the premature break-up of the partnership, and/or the emergence of one partner as a clear winner over the other.

From this, one can conclude that competitive cooperation should ideally be based on very similar objectives, competences, and learning abilities. Such a situation, however, does not and will not exist. Competitors operate in different environments, and, thus, have their own individual strategic logic. They have different historical backgrounds, different strengths and weaknesses, and different corporate cultures. Even if all these characteristics could be the same at the time of the initial agreement, they would change over time and move into different directions.

Differences are, as such, not problematic. In fact, if partners would contribute precisely the same resources and competences, the cooperation would, at best, produce scale effects. Synergies, on the other hand, require complementary competences which are therefore much more attractive as a starting point of a cooperation. It is only when differences are considerable and structural, i.e. not related to a passing phenomenon, that they threaten the success of a partnership. The threat may come from one partner benefitting more from the joint undertaking than the other, or from a shift of negotiation power from one partner to the other.

* Y. Doz, G. Hamel, C.K. Prahalad, "Strategic Partnerships: Success or Surrender? The Challenge of Competitive Collaborations", revised AIB Conference Paper, 1986/87.

Considerable and structural differences between partners which determine the outcome of a cooperative agreement we call asymmetries. Our research and discussions with executives in the IT-sector have shown the existence of a number of asymmetries between European and Japanese firms which are either explicit, implicit or based on different management systems.

b. Asymmetries

Explicit asymmetries

When partners in an alliance openly acknowledge that they are making a different kind of contribution to their undertakings or have a different status in the venture or different obligations, explicit asymmetries come into being. In the Euro-Japanese projects in the IT industry, such asymmetries are apparent when the Japanese partners are provided with access to the European market, while the European partner secures supplies from Japan on a long-term basis. Access to the Japanese market is seldom given or not demanded in exchange. The European partner benefits from cost savings or the broadening of its product range, while the Japanese partner expands its foreign markets without transferring manufacturing activities abroad. This enables it to accumulate manufacturing experience, a process which generally leads to lower production costs and a strengthening of the overall competitive position of the Japanese partner. The European partner, on the other hand, works on the last parts of the value-added chain, i.e. marketing and sales, and eventually on system integration for the specific product or product range. It is doubtful that this activity can fertilize other parts of the firm in such a way that the partner's overall competitive position is strengthened.

Even if such cross-fertilization is achieved, the long-term benefits for the European partner from selling Japanese equipment are questionable. If it is very successful in penetrating the market, the Japanese partner will sooner or later decide to go it alone and set up a distribution network based on the reputation gained with the help of the European partner. Such a development is neither new, surprising or unique to Europe or Japan. It touches on the very nature of distribution agreements between firms and does not merit the comparison with the Trojan horse so often depicted by Western politicians and writers.*

The more products that are sold under direct or indirect OEM agreements in such scenarios, the more feasible it becomes to switch to own marketing strategies under one's own name, and the less the Japanese producer depends on his European distributor. On the other hand, by gaining more manufacturing expertise, the Japanese partner will not only be able to reduce his cost and improve the quality, but it will be increasingly capable of developing related new products which attract the European partner to purchase even more from Japan. It will thus transfer more manufacturing activity to Japan and become even more dependent on the

* See for example: R.B. Reich and D.D. Mankin, "Joint ventures with Japan give away our future", Harvard Business Review, March/April 1986, p. 78-83.

also: Barrie G. James, "Trojan Horse: The Ultimate Japanese Challenge to Western Industry", Mercury Books, London 1989.

Japanese supplier. This ever-expanding asymmetry, called "an extended dance of death"* is inherent in all market based cooperative agreements aimed at the European market. It provides an in-built threat to the European partners in all of those alliances and, as such, a risk in the relationship between Europe and Japan.

K. Ohmae's concept of the "Triad Powers"** requires future global competitors to be present in Japan, Europe and the USA. In obtaining access to Europe and the US without getting access to the Japanese market even through alliances, European and American competitors are reduced to regional players, with the only global players being the Japanese. Such a development may not be inevitable. European firms, however, have not been successful in demanding reciprocity, a term now frequently used in trade talks and reflecting today's perceived need to obtain market access through political pressure rather than, or in addition to, negotiations at the firm level.

Implicit asymmetries

Implicit asymmetries are not written in cooperative agreements, but provide the motivation for the firms to associate. They are based on the firms' strategic intent or vision, and are rarely openly spelled out. Even if an interpretation appears to be easy, due to an obvious strategic intent, the existence of a "hidden agenda" cannot be ruled out. As interviews show, the purpose of strategic alliances is differently assessed by the partner firms concerned, and even by individual managers working together for either one or the other firm.

The explicit asymmetries of market access versus manufacturing expertise described above have lead to the assumption that Japanese partners use cooperative agreements as a way to expand and to reach global leadership, while European partners see them as a rescue anchor to stem decline.***

Such an interpretation seems justified since, in most markets, Japanese firms are fast growing latecomers who are taking market share from long-established moderately growing or stagnating European (or American) competitors. The example most frequently cited in this context is that of the alliance between British Leyland/Rover and Honda.

European executives in information technology, however, do not agree to the existence of such implicit asymmetry. While acknowledging the shift of key manufacturing activities to Japan and their own role as market access providers, they consider software and system integration the key to their customers and do not mind their Japanese partners producing the hardware. The apparent weakness of the Japanese firms, at least abroad, in software, and the increase of software expenses versus hardware in total IT-costs reassures them of not being "hollowed-out" by their Japanese partners. In arguing this way, they assume that the Japanese will not be able to overcome their software problems in the foreseeable future and thus, will not be able to erode their European customer base. Different business cultures and language difficulties are cited in support of this view.

* See again R.B. Reich and D.D. Mankin p. 85

** See part III.3

*** See again Y. Doz et al.

It is probably for this last reason that Europeans do not feel misused by their Japanese partners as proxies in the global battle with IBM. Such an allegation can easily be put forward by believers in the "Japan Inc." concept who can point out that all major European computer firms are tied to Japanese partners and face IBM as their most important competitor in their national markets. With an overall market share of 50% in Europe, IBM has no need to cooperate with European companies, either in the hardware, or in the software area. The European firms, on the other hand, believe in their marketing strength and their software competences. They look for partners in need of or depending on those strengths and providing other expertise such as in manufacturing. Following this logic, Euro-Japanese alliance should provide an ideal "strategic fit".

Two questions, however, remain for the future. One is the impact of the wider usage of standardized software systems such as UNIX on the industry which so far has extensively used firm specific software as a way of differentiation and as entry barriers for competitors into the territory of existing customers. Even a partial lowering of these entry barriers may re-emphasize the value of hardware as the most important competitive weapon. Secondly, the importance of chip technology for both the computer and the telecommunication sector must be considered with regard to the continuing trend towards higher integration, to the opportunities to transfer software onto chips, and to compensate software weaknesses with greater hardware power.

Managerial asymmetries

Managerial attitudes, systems or cultures are formed by the environment in which an organisation operates as well as by individuals or groups of individuals. They are implicit, and influence managers' decisions substantially, often unconsciously. If one looks at firms in groups such as the Japanese IT-firms and the European IT-firms, the influence of individuals can be neglected and the impact of national culture on managerial behaviour can be studied.

Much has been written on Japanese management, and despite many contradictions and exceptions to the rule, there is an acknowledgement of certain differences in managerial culture between Japan and the West, the latter often mistakenly identified as American management. A European managerial culture as such does not exist, as the behaviour of managers differs significantly from country to country, or at least between those from the Northern and the Latin countries.

The assessment of managerial asymmetries between Europe and Japan therefore cannot be very specific and must contain generalizations, but it may nevertheless provide us with valuable insights into the "inner workings" of Euro-Japanese strategic alliances.

One of the striking features of Japanese management is the role of information as a strategic resource. It puts emphasis on collecting diffusing and analyzing information systematically. Information in Japan is shared internally and is a property of the organization. Information in European firms is often obtained by chance, not diffused, and used to strengthen the position of the individual in the organization. Related to this is the inherent Japanese urge to learn continuously from others which has no equivalent, either in the US or in Europe.

Both aspects are vital for cooperative undertakings between European and Japanese firms. If in an alliance, new knowledge is emerging or existing knowledge made available to the partners, and only the Japanese side is interested in collecting and diffusing it, the benefit for this partner will invariably be much greater.

This process is aggravated by the fact that Japanese firms have not much hesitation to adapt foreign know-how while in European firms the "not invented here" syndrome often leads to the rejection of new ideas from the outside and, as a consequence, to unnecessary delays and/or development costs.

This asymmetry in fertilizing or leveraging other activities of the firms provides the partners in an alliance with very different benefits and can lead - over the life of a joint undertaking - to significant shifts in competitive position, even if the direct benefits from the alliance are equally divided between the partners.

The long-term approach to business is another characteristic of the Japanese firm, often contrasted with the short-term outlook of Western firms geared towards quarterly or yearly results. This is an area where European firms certainly differ from American ones, and are to some extent, more similar to their Japanese partners. Asymmetries exist nevertheless. Constant organizational learning in the Japanese firms combined with a strong strategic intent to expand globally have resulted in an endless process of new product developments, matched by the European partners neither in volume, depth nor speed. It is especially the latter aspect which seems to be important in the fast changing information technology sector which requires from competitors today economies of scale, of scope, and of speed.

c. Management and Perceptions

Marketing/manufacturing based strategic alliances between Europe and Japanese IT-firms show a greater degree of asymmetry mainly due to explicit arrangements. This would argue in favour of joint R&D based cooperative agreements.

These joint undertakings, however, tend to create more problems in defining common ground and destination than the other ones. New developments by definition lead into uncharted waters. The targeted output is difficult to specify, as is the required input of resources and time.

Projects of this nature are ambiguous, and require constant adjustment to meet the needs of the partners and the task, as well as to the changing environment. The Japanese are known to be able to cope well with uncertainty and to react with flexibility. Not all European firms have this capacity.

The management of alliances requires full attention and the will for constant bargaining and re-bargaining with one's partner. Under these circumstances, excellent managers are needed on both sides to steer the partnership through the complexities of inherent instability.

The outcome of a cooperative agreement may be judged by comparing costs and benefits, but can rarely be accurately measured due to the

multifaceted character of the projects. Perceptions of the outcome therefore vary from person to person, especially when taking into account the effects of organisational learning and the leveraging of benefits through the organisations of the respective partners. This is naturally a subjective process made more difficult by the fact that benefits may not only be perceived in absolute but also in relative terms, i.e. in comparing one's own benefits with those obtained by the partner*.

European managers interviewed somehow admit that their Japanese partners benefit more from cooperative ventures than their own firms. Reasons given are mostly emotional and range from accusations of unfair practices by their Japanese partners to the admittance of their own failure in managing these complex relationships. The latter perception is more frequently found among managers directly involved in partnerships with Japanese firms. The Japanese managers who were interviewed were less open in their judgement, but showed general disappointment and tended to belittle the competences of the European partners.

This provides a dangerous breeding ground for using outside pressures and unfair practices to strengthen the bargaining power within the partnership.

* Y. Doz and A. Shuen, "From Intent to Outcome: A Process Framework of Partnerships", INSEAD Working Paper, n° 88/46

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