

# RECENT TRENDS IN GLOBAL BUSINESS AND THE ASIAN CRISIS: Cooperation vs Competition

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*Pesatnya perkembangan ekonomi dunia yang diikuti dengan semakin meningkatnya ketergantungan di sektor ekonomi dan meningkatnya taraf hidup ternyata berpengaruh besar terhadap iklim persaingan global. Perubahan-perubahan tersebut mau tidak mau memaksa perusahaan-perusahaan untuk meningkatkan daya saing dengan terus berusaha mengembangkan dan mencari terobosan-terobosan baru di bidang bisnis. Ini terlihat dari semakin banyaknya perusahaan-perusahaan di Eropa, Amerika dan Asia yang menggabungkan diri dalam berbagai bentuk aliansi strategis baik dalam bentuk merger maupun akuisisi. Dewasa ini, aliansi strategis cenderung lebih banyak diminati dan terasa lebih efisien daripada sekadar meningkatkan efisiensi untuk berkompetisi.*

*Tulisan ini akan melihat latar belakang dan motivasi yang mendorong perusahaan menggalang kerjasama (aliansi) dan sekaligus melihat dampak krisis Asia terhadap strategi kerjasama perusahaan di kawasan tersebut. Lebih lanjut tulisan ini juga akan mengkaji sebab-sebab terjadinya krisis di Indonesia, sampai sejauh mana perusahaan-perusahaan asing maupun lokal terpengaruh situasi ini dan solusi alternatif yang dapat ditempuh dalam menghadapi krisis tersebut. Sebagai penutup, akan dipaparkan pula kunci sukses dalam menggalang strategi kerjasama.*

**Keywords:** Asia; Indonesia; crisis; alliancy strategies; management; meger; acquisition; airways

## Introduction

At no time in modern economic history have countries been more economically interdependent, have greater opportunities for international trade existed, or has the potential for increased demand existed. Yesterday's competitive market battles were fought in Western Europe, Japan and the United States, today's competitive battles have extended to Asia, Eastern Europe and

Latin America as these emerging markets open up to trade. More and more of the world's people, from the richest to the poorest, are now participating in world wealth through global trade. Bonded together by satellite communications and global companies, consumers in every corner of the world are demanding an ever expanding variety of goods. The world wide economic growth and rising standards of living in almost all parts of

the world have led to an increasingly competitive market place. This heightened competition has forced companies from all over the world to find new ways to build and maintain their competitive strength. As a result the level and intensity of competition has changed (Cateora and Ghauri, 1998).

Since Adam Smith's basic work on competition in which he argued that efficiency is best achieved by free competition with independent businesses competing head on with each other, it has been believed in firms having clear boundaries and autonomous businesses. These firms protect their autonomy and scope and deal with other firms purely through formal and legal contracts, clearly specifying the rights and obligations of the parties. This has been the essence of free-market economies, where firms are independent entities each working for themselves. So much so, that a traditional firm is further divided into "business units" in which the managers are working fairly independently and are responsible for profits and losses made in their respective units. These managers are working for their own units and quite often compete with other units of the same company, as well as other companies in their line of business (Machlup, 1962; Badaracco, 1991).

In recent years however, cooperative rather than competitive strategies are considered a more effective way of achieving efficiencies. Increasingly firms are looking for cooperation rather than competition to achieve competitive advantage. This has blurred the boundaries of firms (Rich and Gumpert, 1988; Kay, 1991). Referring to this new development, some scholars state that these firms resemble primitive forms of life in which it is difficult to distinguish each entity (Janger, 1980; Rich and Gumpert,

1988). But there are a multitude of complex relationships between a firm and its environment, which includes relationships with other firms. Cooperative strategies are thus becoming more and more common in an effort to achieve competitive gains.

This is evident from the increasing number of alliances taking place in the business sector. The number of joint ventures and alliances in Europe increased tenfold over the period 1980 - 1985. This figure increased even more drastically after 1988 - 1989 when the "Europe 1992" discussion gave momentum to a new wave of activities aimed towards regionalism, such as NAFTA, APEC and ASEAN. Cooperation in some industries has become an essential means to survive in increasingly globalized economies. Some industrial sectors such as the services industries including banks, airlines and telecommunications; manufacturers of electronic equipment, electrical components, computer peripherals, and software; the automobile industry; and even universities and schools are most active in these cooperative strategies. Thus, throughout the 1980s and 1990s, we have witnessed a rapid growth in co-operative, rather than the traditional competitive, ways of doing business. This trend is becoming more and more apparent among firms of all sizes and all industries. Co-operative strategies encompass a range of inter-firm agreements through which two or more firms exchange or share resources and capabilities. These arrangements range from informal occasional links to contacts so close that one can hardly see that the organizations involved are indeed separate. In extreme cases, these alliances take the form of mergers and acquisitions. The degree of alliance determines the intensity of the inter-dependence between the organizations involved. It is understood that if a

partner could do the job alone, he would probably not agree to share ownership and control of his own activities with others. In other words, for this type of relationship there has to be mutual benefit. The parties would ideally have complementary resources and there are benefits to be achieved by pooling these resources. On the other hand, each party to a collaborative agreement loses its right to dictate its own future, becoming dependent on the activities and decisions of the other parties to the relationship.

The term "strategic alliance" has only recently achieved common understanding to describe collaborative arrangements. In fact, until the mid 1980s the term joint venture was used to cover almost all types of inter-firm collaborations (Badarocco, 1991). Forging joint ventures (JVs) to achieve complementary resources is not a new phenomena. For example, for multinationals (MNEs) from developed countries JVs are very attractive as they can overcome uncertainties and share risks with a local partner who is familiar with and able to handle these uncertainties in emerging markets. This is apparent from the number of joint ventures between Western firms and firms/organizations from Asia and Eastern Europe. However, the failure rate of JVs is very high (Berg and Friedman, 1980; Simiar, 1983; Killing, 1983; Beamish, 1985; Hyder and Ghauri, 1990; and Nooteboom, 1993). In spite of this, the number of alliances and joint ventures in international business relationships is increasing. Asian companies are particularly in need of such alliances with Western firms. The recent Asian crisis, deregulation of several industries, and liberalization of capital flow between countries are some of the reasons underlying this need. The number of JVs signed between Western enterprises and those of

former Eastern bloc and Asian countries have increased tremendously. In 1994 alone, 30,187 JV agreements were signed between firms from Western Europe and firms/organizations from former Eastern bloc (Blodgett, 1992; Buckley and Ghauri, 1994; Ghauri, 1995).

The parties involved are, however, facing great problems in handling these relationships and inter-organizational inter-dependencies. At present some evidence is available as to why two or more firms start a JV or another form of alliance, and why firms use this type of arrangement as an entry strategy into foreign countries. Some evidence also exists as to why JVs and alliances fail: while the relations are cooperative, interests diverge and conflicts can easily arise (Cavusgil and Ghauri, 1990). This paper addresses the following questions:

1. What are the reasons and motives of companies for entering into collaborative agreements?
2. What are the advantages and disadvantages of cooperative competition?
3. What are the trends in Asia and how has the recent Asian crisis affected these cooperative strategies?
4. What are the factors that influence the success/failure of these relationships?

The literature on alliances, joint ventures and organisational inter-dependence describes the conflicts which arise, but in most cases does not explain or analyse how the parties can avoid and/or solve these conflicts (see for example Wright, 1979; Simiar, 1983, Hyder and Ghauri, 1990; Bleek and Ernst, 1993). Some studies recommend measures to be taken prior to formation of an alliance or a joint venture, e.g., at the negotiation stage (Cavusgil and Ghauri, 1990; Ghauri and Usunier, 1996).

## Why Cooperative Strategies?

There are several reasons why firms strive for cooperative strategies. According to some scholars, local government pressure, local facilities and spreading of risks are major reasons for international alliances and joint ventures (Tomlinson, 1970; Janger, 1980).

Others believe that local companies attracted by foreign capital, technology, management and marketing know-how, seek alliance and joint venture partners (Abdul, 1979; Ahn, 1980; Buckley and Ghauri, 1993). In general, the reason for forming an alliance or a joint venture is to gain complementary resources from one other; and an important characteristic of resource exchange is its dynamic nature. It is argued that partners contributions are not a static bundle of skills or resources. These are subject to change and are dynamic in nature (Biven and Lovell, 1966; Killing, 1983; Connolly, 1984; Harrigan, 1986). In spite of all these studies on international alliances and joint venture fields they lack a strong theoretical core and a framework that effectively integrates past research and serves as a springboard for launching a new, in-depth research agenda, as well as providing some guidelines for the effective management of these alliances.

Besides these concerns at firm and strategy level, there are a number of other developments in global business environment forcing these alliances. *First*, the growing importance of internationalization with ever increasing competition creates a need for teaming up. *Second*, the more companies internationalize the more they realize that "all business is local", creating a need for local partners to handle local environments and cultural differences. This encourages cross-border alliances and joint

ventures. *Third*, the changing nature of competition, rapid technological development, increasing standards of living across the world, and increased R & D costs are some of the factors forcing companies to cooperate rather than compete. *Fourth*, the emergence of many new competitors in traditional businesses is forcing existing companies to develop and nurture strong relationships and networks to create barriers of entry to new competition. *Finally*, a shift on the emphasis from product to competence is forcing companies to go out and look for new and complementary knowledge and competence. As a result, while in 1970s and 1980s we witnessed product and technology driven alliances, in 1990s we see more and more knowledge, competence, and market driven alliances (Badarocco, 1991; Lorange and Roos, 1992).

Today, most worldwide cross-country mergers and acquisitions is taking place between companies in Europe and North America. Recent mergers between Union Bank and Bank Suisse, Citicorp Bank and Travelers Group Insurance (CitiGroup) creating the world's largest financial services company worth US\$ 70 billion, and between Bank of America and Nations Bank (creating the largest bank in America and the second largest merger, worth more than US\$ 60 billion) are good examples. It is a common belief that on a global scale Asian companies do not address the fundamental gap between themselves and their foreign competitors based on skills and competition. Our intention is not to present mergers or alliances as the universal medicine for Asian managers. Before making any decisions concerning mergers or alliances, they should first understand the dynamics of global competition in their industry and relate their competitive position and its viability in that particular in-

dustry on a global scale. Only then should they consider the possibility of a merger or alliance, as different industries have different structures and globalization levels, and display diverse behaviours.

Companies must analyze whether the nature of their competition and their business is global, regional, or local, and how this would influence the attractiveness of a particular merger or alliance. In global business an alliance with a partner from another region/market is most useful for improving skills gaining access to new know-how or markets, and for reaping the benefits of some economies of scale and efficiency. In regional business, an alliance with a regional (e.g. within ASEAN, in the case of an Indonesian company) partner is preferable, especially for companies that have a multiple country presence. In this case, mergers and alliances can provide access to superior skills and economies of scale. In local businesses however, the companies should try to dominate their home market through mergers and alliances. In such cases, the companies should develop a strong position to guard against foreign competition.

### **Advantages and Disadvantages of Cooperative Strategies**

There are several advantages of cooperative strategies. While competition should in fact be encouraging innovations and efficiencies, most industries (especially in Asia) have realized that severe head-to-head competition exhausts them financially and managerially, and has a negative impact on their innovative capabilities. Economies of scale, efficient use of each others' resources, quick market entry into new markets, and leap frogging over some stages of product life cycles are some of the widely discussed and established benefits of cooperation.

Some studies have analyzed different types of alliances and drawn conclusions about which types of alliance are relatively advantageous. According to resource based theory, competitive advantage can be realized through a firm's own existing resources and core competencies, an assessment of their profit potential, and the selection of strategies based upon the opportunities it creates (Grant, 1991; Faulkner, 1995). This theory suggests that a firm should not invest in a relationship that is not related to its own core competencies. It holds that alliances and strategies based upon existing core competencies could lead to sustainable advantages.

The key to organizational survival is the ability to acquire and maintain resources. The relationship between the firm and its environment is of utmost importance in this process. Thus, the only way firms can gain competitive advantage is by cooperating with key parts of its environment through strategic alliances. It is these key parts of the environment that can provide the firm with crucial resources complementary to its own. The intensity of alliances depends upon the critical nature of the resources the parties can exchange with each other. This will also dictate the extent of inter-dependencies between the firms. Alliances that are strategic should be competence/resource driven and should enhance the competitive advantage of the parties involved (Faulkner, 1995).

Among the disadvantages, the most crucial is considered to be the giving up of autonomy over one's own strategic resources. The greater the extent of cooperation, the more one has to sacrifice autonomy and control over resources. The alliance or partner becomes a co-owner of crucial resources and there is a risk that the other partner may use the resource or knowledge attained through the coopera-

tion in a non-cooperative manner, or outside the scope of this relationship. Moreover, the resource can now only be used jointly and not by one partner, even if that party was the original owner of that resource. This is particularly problematic if the resource in question is the core of a firm's technological know-how. In a market-oriented alliance, there is a risk that a firm might provide access to its market at the expense of its own market share. Although the alliances are established to create mutual inter-dependencies, the disadvantages arise from changes in the strategic priorities and conditions for one or both partners which make the relationship less important (Lorange and Roos, 1992). Thus, it must be stressed that the parties involved should contribute complementary resources, so that the partners can benefit from each other.

The purpose of the alliances is to create competitive advantage for the partners against other competitors, but it is rather difficult to keep the focus on external competition. This can lead to internal problems concerning what is in joint interest and what is in the interest of one or other of the parties. Who is responsible for what? And who will benefit from what? Whose clients are the new customers? It may be that more energy is focussed on these internal issues than on external competition.

Another disadvantage is that parties can very easily expect too much from the alliance, since there are multiple interests that work with and against each other. The executives involved have their own ambitions and expectations, the firms involved have their own, and the relationship or an alliance may have different joint ambitions and expectations. The executives are thus torn between all these, sometimes conflicting, interests. The time and re-

sources they should have been spending on combating external competition and achieving competitive advantage is now spent on these tussles. They are always afraid of being over dependent on the other firm or its executives.

Besides these disadvantages, a number of complexities render alliances vulnerable. For instance, task complexity—whether the alliance is for a specific task (e.g. marketing, R & D, and so forth) or is an overall alliance; alliance complexity—the number of partners involved and the sharing of each other's crucial resources, and of decision making; and finally, the cultural fit of the organisations involved, particularly in case of Asian companies in alliance with Western companies. Different firms, depending upon their size, location, management style and so on, have different cultures. It is very difficult to comprehend one another's cultures and even more difficult to force one company's culture on the other (Hofstede, 1991).

## The Asian Crisis

To understand what happened in Asia during 1997, we have to look at the underlying factors that caused the crisis. Although most of Western analysts believe that it was caused by poor management practices on the part of local governments, such as inadequate bank supervision, it should not ignore the role played by Asian companies (Fortune, 1998). Over recent years Asian companies have performed rather badly, or in other words, were not competitive enough. According to one analysis, in one particular year Western multinationals operating in the same market had returns of 25 percent to 35 percent, while the local companies delivered only 5 percent to 8 percent. In the age of free movement of capital, it is understandable

that the capital ran out on these companies. This means that it is the efficiency of the market (the corporate efficiency) that attracts capital. Free capital movement means that the return on capital has to be competitive at global level, and not just local or regional level.

The rising investment that has helped Asian economies to develop was predicted on the assumption of ever-rising exports. This became valid for countries like Japan, South Korea and Taiwan but not for most other Asian economies. For example, in Indonesia, rising imports of consumer products such as fashion merchandise and electronics, widened the gap between exports and imports. The devaluation of Chinese Renminbi in 1994, and Japanese Yen in 1995 and 1997 were the other factors that redirected the capital flow and helped these two economies to export more. Meanwhile export growth in other Asian economies fell from 30 percent in early 1995 to zero in mid-1996. In an effort to develop their exports and capacity levels companies from these countries dramatically increased their short term bank loans. But continued stagnation in exports made the present crisis inevitable (Fortune (a), 1998). Due to a lack of regulatory laws, supervisory mechanisms, and an unforeseen imbalance in savings and consumption, the crisis got out of hand.

But of course the governments are not the only culprits. Both Thailand and Indonesia did not have a budget deficit: in fact, both recorded a budget surplus in 1996, but foreign borrowings were high, and the current account was in deficit. Moreover, a high portion of these borrowings were going towards financing consumption and property glut. In 1997 total foreign debts exceeded \$ 100 billion in Indonesia.

Indonesia is also special in its political outlook. Soeharto took over in 1965 following a coup against Indonesia's first and the only other President, Soekarno. Since 1968 Soeharto has embarked on his seventh term as Indonesia's President. Irrespective of his political dominance and charges about corruption, Indonesia's performance has been close to a miracle. The economy has grown on average above 6 percent a year since 1970, GDP per capita rose from US\$ 80 to US\$ 1300 (in 1997), and more than 70 million people were lifted above the poverty level (The Economist, 1997). In spite of these achievements, the present economic crisis, and the chaos within and collapse of a number of business sectors are partly to be blamed on political uncertainty.

The crisis was not truly unforeseen, but it has proved to be more intense that people could imagine. As early as in 1994, during the Mexican economic crisis, a number of scholars warned that some of the Asian economies were displaying the same symptoms. And in early months of 1997 following the Thai crisis, South Korea, Indonesia and Malaysia in particular were alerted. When the crisis struck, the two worst hit economies—South Korea and Indonesia—had to be saved by rescue packages of US\$ 57 billion and US\$ 43 billion respectively. As a result of the crisis, the Asian economies are wasting away: Indonesia's GDP which stood at US\$ 226 billion in 1996, is expected to fall to US\$ 51 billion in 1998, if exchange rates persist at early 1998 levels. The same goes for other Asian economies as shown in Table 1.

Although the exchange rates are undervalued and the relative purchasing power parity (PPP) gives a different picture because of non-tradable services such

Table 1. Asia's Shrinking Economies (GDP \$ billion)

Country	1996	1998	1998 (PPP*)
China	839	1063	4730
Hong Kong	154	188	190
Indonesia	226	51	1020
Malaysia	92	71	240
Philippines	84	68	240
South Korea	485	272	660
Singapore	94	92	90
Taiwan	272	269	450
Thailand	186	97	530
Total	2432	2172	8150

\* PPP = Purchasing Power Parity

Source: The Economist, February 7th, 1998, p.90.

as housing and transport, the Table 1 shows that after the crisis most Asian economies are severely undervalued.

What is becoming more apparent now is that after about one year of the crisis, the Western economies are feeling the crunch. Not only have Japanese, European and American banks faced heavy losses due to bad loans in Asia, other financial institutions are also facing big problems. For example, J. P. Morgan has been involved in litigation over non-payment on derivative contracts to the value of \$3.4 billion, only in South Korea. ABN-AMRO Bank 7 percent risk weighted assets, amounting to around \$ 13 billion are in the troubled Asian economies. The Japanese, German and American banks are even more heavily involved (The Financial Times, 1998).

In addition to the losses incurred by these financial institutions, a number of other sectors are also badly affected. Having introduced a new "Happy set" menu in February after the Rupiah plunged to around Rp 10,000 to the US dollar, from less than Rp 3,000 a few months earlier,

McDonald's is to close 13 of its 100 restaurants in Indonesia. Moreover, the Asian problem is causing problems in trade between Europe and America and trade between Japan and America. These three powers are encouraging each other to help out the Asian economies, as it is in their interest to improve the conditions in Asia. The G-7 meeting in February, the Euro-Asia summit in April, and IMF's repeated concessions to Indonesia are some examples of Western efforts to rescue Asia.

If we look at industry level, some of industries (such as banking in the case of Indonesia) have contributed to this crisis, while others have been hard hit. Take for example the airline industry. The world over, this industry operates at over-capacity and needs restructuring. The European and American airlines, for example, are merging or entering into alliances with one another. Experts believe that by the year 2000, some 50 percent of the European airlines will have disappeared. Some of the recent alliances in this industry are shown in Table 2.



Table 2. Recent Airline Alliances

✈ American/Canadian/JAL/British Airways/Qantas
✈ United/Lufthansa/Thai/SAS/Air Canada/Vairg/SAA
✈ Delta/Singapore/Swissair/Sabena/Air France
✈ NorthWest/KLM/Alitalia/UK Air

Asian airlines are not only faced by the same problem, their problem has been exacerbated by the economic crisis. In February 1998, a typical Cathay Pacific flight CX 719, between Hong Kong and Jakarta was operating almost empty, as was the Malaysian airways flight between Jakarta and Kuala Lumpur. For months, Garuda Indonesia left Boeing stranded with jets it had ordered but could not afford to pay for. It also stopped lease payments on six new Airbus A 330s, which are already in service. Korean Airlines has lost so much of its value that it is now worth less than three of its fleet of 45 747s. It has sold 5 jets to be able to pay interest on its loans. Malaysian Airline's debt has doubled and its net profit has fallen 83 percent. Thai Airlines has experienced a 40 percent drop in passenger numbers over the past six months. Prior to the crisis, the airline industry in Asia was considered the fastest growing market, with 8 percent annual growth. According to industry experts, Asia would account for half of all air travel by 2010. The crisis has exacerbated the situation as 50 percent of expenses such as fuel, aircraft, and maintenance are payable in dollars. Devaluation has more than doubled the bill for financing airplanes (The Economist(a), 1998).

The economic crisis was not the only factor affecting Asian airlines. Smog hovering over Asia for months during the

Table 3. Potential Financing Required for Fleet Investment in Asian Airlines due to Currency Depreciation

Airlines	Financing Required (US\$ million)
Thai Airways	900
Korean Air	900
Asiana Airlines	800
Garuda Indonesia	750
Philippine Airlines	700
Malaysian Airline System	600

Source: *The Economist*, January 17th 1998, p. 60

autumn of 1997, particularly in Malaysia and Indonesia, affected the tourist industry. European and American airlines were also impacted on as traffic between Asia and these areas—some 7 - 8 percent of total world air traffic—diminished. As a result a number of European airlines have withdrawn services to some of Asian cities, thus increasing capacity on other routes as planes cannot be allowed stand still. The most crucial issue for Asian airlines is however, to finance fleet investments, as shown by Table 3.

## What is to be Done?

For some countries such as; Thailand, South Korea and even Malaysia conditions have improved. Thailand, the first country to plunge into the crisis, is perhaps also the first one to get out of it. The Baht is rising and the stock exchange is recovering. But interest rates continue to cripple companies. Foreign investors have returned: ABN-AMRO purchased a stake in one of the important Thai banks and George Soros provided a US\$ 650 million package for Nokorn Thai Strip Mill., an ultra modern mill producing steel for export. Companies and banks are merging with each other to fight over capacity and to achieve efficiencies. One example of the measures taken by Thai government in agreement with the IMF, was that in December 1997, it announced that 56 finance companies would be closed down. Their assets, such as empty office blocks, valued at around \$ 20 billion were to be segregated into the good and the bad. The good assets were to be disposed of as soon as possible and the rest were to be sold off by the end of 1998.

In Korea, the National Assembly passed 18 financial reform bills, including one establishing a new supervisory agency. As in Thailand, the commercial banks' bad loans (estimated at about US\$ 20 billion) were to be bought at a discount by an asset management corporation. Such reforms are reviving the confidence of foreign investors. On March 16, a group of 134 banks from 32 countries agreed to swap US\$ 22 billion in short term loans to South Korean banks for a large credit guaranteed by the government. In day to day life confidence is also returning. Department stores are full of customers as shopkeepers are removing signs declaring "IMF Sale", and hotels are packed with businessmen.

Foreign firms are buying parts of Korean companies as most foreign investors believe that President Kim Dae Jung is committed to reshaping the economy (Business Week, 1998).

In Indonesia, after much convincing by the leaders from Singapore, Malaysia, Brunei, Thailand, Germany, Japan and Australia, and a number of telephone calls with President Clinton, Suharto finally agreed to take the IMF medicine. However, he was able to re-negotiate the deal, forcing the IMF to water down its conditions on some of the monopolies and state subsidies. Besides the \$ 43 billion bailout, the IMF is about to announce a further \$ 3 billion in aid to Indonesia. In return, Indonesia has to boost interest rates, curtail growth in money supply, consolidate the banking sector to about 20 institutions (from about 200 at the time of the crisis), break up certain monopolies held by the President's family and friends, and work out a repayment plan for the \$ 74 billion debt that Indonesian companies owe to foreign banks. Things are already happening. On March 25, banks doubled the interest rate on one month time deposits to 67.5 percent, and Indonesia's plans for the proposed currency board have disappeared. If Indonesia keeps its side of the deal, and implementing reforms such as these, the US, German and Japanese may buy enough Rupiah to stabilise the exchange rate at around Rp 7000 to the dollar. Whatever the case, the best option for Indonesia is for the government to comply with the terms of the IMF deal.

At the company level however, the economy needs a real restructuring in most industries. While in some industries monopolies have to be broken, in others there are too many companies. The banking and airline industries, and some manufacturing sectors need to be restructured.

Companies will have to merge or find other forms of cooperation, such as alliances and joint ventures, not only with domestic firms but with foreign and especially ASEAN companies. Closing down factories is not a solution to the economic crisis. Rather, companies should review their capacity utilisation in line with changing conditions.

To this end, the government needs to subsidise small and medium sized companies, especially in the manufacturing sector, so that they can handle their loans and interest payments. This is very important to keeping the labour force in the factories and not on the roads demonstrating: instead of closing down the factories and firing workers, the factory owners should look at other options such as operating part-time or using only part of the capacity for some months. If factories simply shut their doors the resulting unemployment will lead to serious social problems. Moreover, the firms that shut down will have lost their market position and networks and once the situation normalizes, and they will not be able to regain their markets.

In this process of restructuring, some companies will have to disappear, either merging into other companies or entering new sectors. But the surviving companies will be stronger and far more competitive. In a way, the government and the businesses have now seen the loopholes in their market system and from this they should learn a lesson. If the lesson is learned and the loopholes eliminated, five years from now this crisis will be seen as "a blessing in disguise".

## Do Alliances Work?

The crisis in Asia will mean a number of industries have to be restructured:

some of these industries need to be consolidated because of over capacity, while others need to be open to new competition. New competition in these industries, such as the airline and banking industries and some manufacturing industries, coming from global competitors is creating new dramatic conditions which are difficult to manage by domestically-oriented companies. It is therefore necessary for companies to first understand their industry, its competition and structure and then, within that context, analyse their own competitive position. The choice of strategy for these firms will depend upon the results of this analysis (Wright, 1979).

The question is, are strategic alliances, joint ventures or mergers the right way to achieve competitive advantage. And what can we learn from experiences elsewhere? Are strategic alliances working successfully? By this time we have an abundance of examples which can answer these questions. Almost all major corporations are involved, or have been involved, in mergers, acquisitions or strategic alliances. IBM alone has, in the last 10 years, joined in over 400 strategic alliances with various companies including its perpetual rival Apple. Big Blue, the computer chip producer, has recently teamed up with Siemens and Toshiba to develop a new (costly) generation of DRAM computer chips. ABB, Nobel Industries, Saab, AT and T, Telia, PTT Netherlands, GE, Merck, Time Warner, Matsushita and Fujitsu, Boeing and McDonald Douglas, Procter and Gamble and Philip Morris, and banks in most countries are some of the companies which have recently been involved in strategic alliances. A number of studies conclude that more than 51 percent of strategic alliances are successful for both partners and only 33 percent resulted in failure for both. The evidence also shows

that joint ventures between US companies and international partners have been growing by 27 percent annually since 1985 (Bleek and Ernst, 1993; Inkpen and Birkenshaw, 1994; and Faulkner, 1995),

## Success Factors

The making of successful alliances depends upon several factors. According to one opinion, cost cutting or saving cash alone is not enough to justify an alliance. The reason for entering into an alliance is to gain access to a new market, a special expertise, or competitive strength in a particular market. Both parties must have something to offer to each other.

The management of mergers, joint ventures and alliances is difficult not just because it is difficult to manage a bigger company, but because there are so many "fuzzy" areas, such as personal ambitions and relationships between managers from different firms. We have witnessed a number of successful mergers and alliances. For example, Astra and Merck, where the relationship started simply with US rights to its partner's new drugs - was later turned into the formation of a new corporation with an annual business of \$ 500 million and with Merck selling 50 percent of its shares to Astra. We have also seen some failures, for example the high powered merger between Glaxo Wellcome and Smith Kline Beecham (worth US\$ 40 billion, the biggest by that time) failed after just few weeks.

One success factor is the creation of some sort of equal partnership and a spirit of sustainable advantage for both partners. Acting as equals does not mean that it is otherwise not possible to trust one another, or that partners have no desire to share, but rather that each party respect the other. For example, Ford has bought 24

percent of Mazda and has formed a number of cooperative ventures as an equal. Mazda markets Ford products and smaller cars (e.g. Mercury Tracer) and Ford markets Mazda's light trucks as its Rangers. In other words, for the alliance to work efficiently, the companies should have a mentality of collaboration and not of acquisition and control.

An alliance between competitors and the economic value of the relationship is crucial. This is illustrated by the alliance between Microsoft and Apple. Although Apple is alleging in court that Microsoft Windows violates the rules of intellectual property and copyrights, the two companies have a successful alliance. Microsoft has even strengthened its alliance with Apple and supplies software applications for Macintosh computers, helping them to gain entrance to the business market.

The key to a successful relationship according to some scholars, is a common objective and open communication. These scholars also profess that a relationship starts slowly and takes years to establish. The most successful alliances are complementary, where one partner can provide what the other needs and utilises what the other can provide, and vice-versa. The alliance between NorthWest and KLM is a good example. NorthWest provided KLM access to US routes, and KLM provided NorthWest its European and Asian connections. According to these studies, 75 percent of alliances securing at least 2 markets succeeded, while the figure was only 43 percent in case of alliances that were focused on a single market (Bleek and Ernst, 1993; Geringer and Herbert, 1989).

One important issue is to be open to each other and to share not only the problem parts of your business but also your successful parts. The companies have to

open their books and let their networks talk to each other. If one company remains secretive, this does not encourage the other party to cooperate wholeheartedly.

In conclusion we might say that strategic alliances, joint ventures, mergers and acquisitions are not easy to handle or manage because the nature of relationship is laden with conflicting or competitive interests. No matter how well prepared and

structured, they are bound to get into trouble at some point. These troubles require greater flexibility and better communication. Studies have revealed that eventually a majority of these ventures prove to be successful for both partners. It has been also learned that depending upon the nature of industry, strategic alliances, mergers and acquisitions are necessary and are demanded by changing environments.

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