

Asian Issues Management Paper

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Managing Partners, Alliances and Networks

This Asian Issues Management (AIM) Paper is based on one-on-one interviews conducted by Chris Nailer with IMA clients, and discussion at IMA Asia's Asia CEO Forum sessions in Melbourne, Sydney, and Singapore on Oct 30, Oct 31, and Dec 10 (2007) respectively.

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MANAGING PARTNERS, ALLIANCES & NETWORKS

Why partnering in Asia remains important, and how to deal with it

An Asian Issues Management report by Christopher Nailer

Synopsis

Just when you thought you could go wholly-owned in Asia, new approaches to the supply chain create a whole new range of partnering arrangements.

The old local partnerships – Joint Ventures (JVs) and subsidiaries with local equity shares – are waning as MNCs with Asian subsidiaries seek to maximise their equity stakes and control. The new kind of local partnering offers a capital-efficient way to conduct research, enter new and uncertain markets, reduce costs, and tap local knowledge.

This Asian Issues Management paper looks at managing partners, alliances and networks as part of the management strategy for multinational operations in Asia.

Definitions

For our purposes, ‘partnerships and alliances’ means ongoing working arrangements with other companies, with no equity connection between the parties. We discuss a couple of instances of joint ventures but the emphasis is on non-equity based relationships. ‘Network’ refers to cases when a company has multiple arrangements of this kind with different parties who also interact directly with each other.

MNCs seek 100% equity

Years ago, local regulations in many parts of Asia required multinational corporations (MNCs) to operate with local partners. Many companies entered Asia this way. But things have changed. Most countries have liberalised trade and foreign investment regulations, and 100% foreign equity is increasingly the norm. MNCs have mostly shed their old joint ventures and seek ownership and control of their Asian subsidiaries.

... but non-equity partnering booms

Meanwhile, innovations in IT and telecommunications have made it easier to coordinate activities amongst parties that are not joined by common ownership. And corporate rethinking of what is ‘core’ and what is ‘non-core’ has led to a boom in flexible supply chains and outsourcing.

Case studies of eight MNCs

This paper summarises key findings from eight in-depth case studies undertaken by IMA Asia in September and October 2007. The case studies include six organisations headquartered in the US, one from Europe and one from Australia. Each has over ten years of operating history across the Asia Pacific region. The organisations cover a number of different sectors: manufacturing; financial services; software; consumer-branded foods; food ingredients; professional services.

The interviews asked senior executives to discuss:

- How are MNCs using partnerships, alliances and networks in Asia?
- How are these arrangements changing and what’s driving the changes?
- What makes these arrangements work? What skills does the executive team need to manage them effectively?
- What does the future hold for partnership, alliance and network strategies in Asia?

... plus
discussion at
Asia CEO Forum

Draft findings were presented to groups of regional heads who attended Asia CEO forum meetings in Sydney and Melbourne in October 2007 and Singapore in December 2007. Their input to the discussion has also been incorporated into this paper.

The partnership paradox: retreating from joint ventures, advancing into partnering agreements

100% equity:
pursuit of
certainty &
control

The 'partnership paradox' goes like this: with very few exceptions, no-one is a great fan of joint ventures any more. There seems to be a strong preference for clarity, certainty and control. MNCs are getting out of joint ventures in Asia and taking control wherever possible. 100% equity seems to be the new benchmark.

"We have had lots of joint ventures. We went headlong into China in our own version of the 'Mr China' syndrome. We've now acquired 100% ownership wherever that is possible "

Heavy-industrial components

"Previously we had a number of joint ventures around the region. We moved to dismantle these and have now taken a controlling interest or 100% equity. There are very few left where we don't have a controlling interest now."

Consumer branded foods

Yet partnering is
increasingly
useful

Meanwhile, other factors have come into play to boost partnerships and alliances that do not involve equity stakes:

... for capital
efficiency

- Corporate performance is measured by some version of Return on Capital Employed; and partnerships are one way of keeping the denominator of that ratio low. Capital-efficient, 'asset-lite' operations often involve partnerships.

... outsourcing
non-core
functions

- Corporate redefinitions of 'core' and 'non-core' have led companies to outsource many 'non-core' activities, making them increasingly dependent on ongoing partnering relationships with suppliers and service providers. The refocusing of value activities seems to require more, not less engagement with partner firms.

... and local
knowledge

- Asia – and particularly China – has become core to international strategy. This is where the future growth is to be achieved. That is partly driving the shift towards wholly-owned operations. But rapid growth is risky and many companies still lack the depth of local knowledge needed to expand quickly. MNCs may still need partners to facilitate the kind of rapid growth corporate is looking for.

Is partnering
transitional?

So are partnerships and alliances simply a transitional mechanism – a way of lowering the risk of market entry – to be replaced by wholly-owned operations as soon as the regulations allow, or as soon as the company has developed sufficient local knowledge to operate on its own?

Or permanent
new way of
business?

Or are partnerships, alliances and networks now a permanent feature of a new way of doing business? Are they perhaps the key to flexible, efficient, fast-growing, asset-lite operations – the reality of how business is done everywhere these days?

... especially in
Asia?

Are they perhaps even more important in Asia than elsewhere because of the fragmented state of markets and the complexity of business operations. We explore these questions in this paper.

How are MNCs using partnerships, alliances and networks in Asia?

The main uses for non-equity partnering:

- Marketing, sales and distribution
- Research and new product development
- Manufacturing, sourcing and supply
- Knowledge-sharing networks
- Project consortium partnerships

Legally-required partnerships decline

... while need-based partnerships grow

There seem to be two broad kinds of partnerships and alliances in Asia: (1) a traditional kind of partnership where host countries required MNCs to work with local partners, or where the company decided to work with partners as an entry strategy; and (2) a newer kind of partnership driven by the corporate need for lower costs, for speed and flexibility, and for the effective pooling of knowledge. The first kind seems to be on the decline. The second kind seems to be increasing in importance to Asian operations and elsewhere.

Marketing, sales and distribution

Requires local networks and know-how

In the past, market regulations required foreign companies to work through local intermediaries. Though it's no longer true in most countries, many still prefer to work through local partners. In many cases, the operation is simply too small to support wholly-owned marketing infrastructure. In others, local contacts, knowledge, or infrastructure are important. Sometimes market access is controlled by powerful incumbent players.

"Japan is tough for non-locals. Similarly Malaysia, Indonesia are very difficult for someone like us to set up in and do business by ourselves. Also there is the problem of market scale. We'll set up our own operations when the business is big enough."

Fast moving consumer goods

"The main 'partnerships and alliances' are sales and distribution, where we don't have our own operations for retailing. This is mainly in the smaller Asian markets. Distributors in those markets have a high level of responsibility for sales, marketing and retail distribution."

Fast moving consumer goods

"Like most consumer companies, we don't have critical mass to set up our own distribution networks, so our local distribution is handled by local distributors and sub-distributors."

Consumer branded foods

Unique approach for each market

Companies don't necessarily use the same approach across the region. They may tailor their partnering strategy to individual markets, depending on its characteristics.

"Sales side: In Asia we have a strong reliance on partners, selling through indirect channels. In Japan our business operates exclusively through partners – mainly the big OEMs – the big IT companies. In Korea and China we work mostly through partners. In Korea, it's the chaebol; they each have purchasing groups in-house that on-sell our product to affiliated group companies. In China, we work with partners because of the difficulties of cash collection when dealing direct. In the other markets it's more of a mix. For instance, in Australia, we sell 80% direct, 20% through channel partners. Elsewhere there's a range

of different proportions.”

Software and services

Increasingly, however, the motivation for partnering seems to be driven by the need to access local knowledge, local relationships, in order to embed the business more deeply into the local market.

... driving desire for local knowledge & local relationships

“Partners provide customer distribution, access, a distribution base into the financial services business... Increasingly this business is being commoditised, so it’s important that we bring something that adds value. They provide local market understanding, an understanding of the consumer. Also they have the relationship with regulators.”

Financial services

“The direction of these partnerships has been towards the customer. The focus is on gaining access to distribution, not on back-office processing. Our Malaysian JV is aimed at buying into the distribution network. Our Malaysian partner is the largest provider of these financial services in Malaysia... So it was a good logical fit for us.”

Financial services

Research and New Product Development

Sharing costs

Some companies collaborate on research, and to develop new products. In certain sectors, partnerships and alliances have long been used to share costs and risks.

“With the Japanese partners we do a lot of joint development, where we reciprocate with components into each others’ products. There’s also a lot of shared research, some of which never makes it into the market. All shared research is covered by cross-licensing agreements and we have never had a single problem with disagreements over ownership of IP.”

Automotive components

“We have had ‘guest engineers’ work in each others’ plants, especially around new product designs and releases. We had a Japanese engineer work with us in Germany on components for a Japanese car maker in the UK. We also sent one of our German engineers to work directly with the car maker in Japan.”

Automotive components

In service businesses, though most of the key innovations still come from the developed markets – the US and Europe – companies increasingly adapt products for local markets. This in turn leads to the development of a localised R&D capability.

“Generally, development is done in the US. We have development centres in Asia but they are all in-house operations. Some of our acquired companies had R&D relationships with partners in India. We tend to complete any current contracts and then either buy them out or bring the development work in-house. That said, in our wholly-owned operations, we do a lot of development work in India, some also in China. These are the big centres outside the USA. We have smaller specialised centres in Australia and Singapore also.”

Software and services

“We provide the product ideas – in the form of principles. We show them what our approach is and then we work with them to develop a version that will work locally. We bring specific skills that are in short supply.”

Financial services

Manufacturing, sourcing and supply

Flexible, capital-efficient market entry through manufacturing contracts

A couple of decades ago, setting up local manufacture with a partner firm was the only way MNCs could gain access to some Asian markets. These days, MNCs can source product from contractual partners, thus building a modest-scale local presence without the cost of a wholly-owned operation.

At market entry, initial volumes may be small, and demand in untapped Asian markets difficult to estimate. The sourcing partner provides a flexible, capital-efficient approach to new market entry. This enables the MNC to put a toe in the water without a major commitment of capital.

Lower cost manufacture

Another opportunity is lower-cost manufacture, either because of inherently lower costs in the Asian country, or because it offers an opportunity to share an existing production facility rather than building a new one.

“Primarily manufacturing driven. Initially this was because of the need to manufacture locally to get market access, but now that issue has all but disappeared; you don’t need local manufacturing to get access any more. Now these things are decided more on a rational economic basis.”

Telecommunications infrastructure and equipment

“The focus of these partnerships is sourcing and supply chain entirely. Our partnership arrangements are more driven by circumstance than by planning. The principal driver is the need for low cost.”

Heavy-industrial components

“It’s supply-side mainly – co-packing and distribution. In India we have our own operations, with strong sales and marketing and administration. But the products made there need substantial capital investment. So we’ve gone with a contract packer who has existing infrastructure.”

Consumer branded foods

“If you have two companies about equal in size, you can always use each others’ strengths to overcome your own weaknesses. In technology, in strategy, in development, you can save each other a lot of money by jointly using existing facilities.”

Automotive components

Knowledge-sharing networks

Sharing knowledge with Asian partners

Professional service firms illustrate the use of one of the newer forms of collaboration – the knowledge-sharing network. These firms are often internally structured as partnerships in the first place – partly because knowledge is the key asset in the business. They provide a useful example of how partnering can be applied in cross-border growth.

Moving toward regional & global structures...

“Like many of our competitors we have a partnership structure. In the past, each practice was a separate national entity, with a separate P&L, franchised to operate under a common brand name. A

federation of national practices operating under the umbrella of a global firm. We adopted this structure to balance the interests of client service and risk management. However, consultancies like ourselves are now tending to shift towards more of a regional and global structure, which will change the way our firms interact with each other.”

Professional consultancy services

They often grow by merging with partnerships in other locations, gradually forming themselves into multinational knowledge-sharing networks. The merger allows the local firm to operate under a global brand-name, as well as allowing the global firm – often with a US or European home base – to offer a comprehensive portfolio of services to its MNC clients in Asia.

“The partner firms deliver the whole line of business - sales, engagement management, service delivery.”

Professional consultancy services

A two-way flow between local and global

In these firms there is a push-pull of global-local interactions around the sharing of knowledge and the development of new client services and methodologies. This two-way flow of professional services, client relationships and operating knowledge may be a useful model for international knowledge-flow and joint product/service development.

“The methodologies are developed globally and rolled out locally and we enforce practice standards – for example in audit, in engagement management, in new products. These are all developed at the centre. They are then rolled out through the region and cascade down to country level. There is some product development done at country level that then gets developed and rolled out globally. For example one particular practice may have a lot of experience with managing major infrastructure projects. That is pushed up globally and made into a methodology and then rolled back out. This is a continuous process. Another area is sustainability and climate change, where there is a lot of work being done. One country practice with in-depth expertise took the lead and developed that globally.”

Professional consultancy services

Project consortium partnerships

Engineering partnerships

Engineering firms and suppliers of equipment and materials almost always work in partnership with others. The projects are often high-risk from a financing point of view. They last for a number of years and require inputs from many specialist providers. Complex relationships are created amongst multiple foreign and local parties working together. And while these partnerships are only intended to last for the duration of the project, they give rise to close working relationships amongst the participating firms, who may then team up again later on other projects.

“We started up our own China manufacturing operation last year with a premium product at a higher cost than local competitors. (Our products are independently tested and certified.) Due to the higher quality of our product and service we’ve been very successful with sales to foreign facilities in China and to foreign joint ventures with local Chinese partners. We worked in a project consortium with an international airline, a Chinese airline, another Australian partner and many other local and international partners on the construction of facilities at a major Chinese airport. And although we face competition from local manufacturers who price way below us, the quality of the

product which delivers overall savings to the project and word-of-mouth from these projects is working in our favour.”

Building materials and fittings

But is partnering really all that different?

Lastly, a caution: partnering is not a panacea. Managing a partnering process can be just as complex as managing in-house processes, as the example below illustrates:

“We’ve done a little bit of outsourcing already. For instance, when we have run into capacity problems, we’ve outsourced simpler tasks in China in an opportunistic way from time to time, when we’re overloaded. But very much ad-hoc, not in any strategic way – not in any kind of strategic alliance. If we were to outsource on a regular basis our suppliers would be wanting certainty for their asset utilisation, a long term 3-5 year contract, base-load volume guarantee and so on... And once you’ve committed yourself to all that, what’s the point of outsourcing? You’re binding yourself up to all the same problems as if you’re doing it in-house.”

Telecommunications infrastructure and equipment

How are these arrangements changing and what’s driving the changes?

The main trends:

- A continuing preference for full ownership and control
- Cost-efficiencies drive increased outsourcing
- Global customers demanding standardisation and quality control
- Partnering for talent rather than only for cost-savings
- Recruiting local managers for local knowledge

Contradictory mindsets about local partnering

Two contradictory shifts seem to be indicated by the interviews. On the one hand, companies are dissolving the older kinds of partnerships – the legislated joint ventures and distribution agreements with locally nominated representatives. Wherever possible, companies are taking greater control.

On the other hand, the perennial search for lower costs, the rigorous redefinition of ‘core’ and ‘non-core’ activities are leading these same companies into new partnerships of a different kind. So there are two different mindsets: one says, ‘partnerships are messy; they involve lots of unnecessary complications and we get rid of them as soon as we can,’ and the other says ‘these flexible arrangements deliver substantial benefits to our business and they are here to stay.’

A preference for control drives MNCs to 100% ownership

Partnerships: necessary (transitory) evil?

Most of the MNC executives we interviewed see partnerships and alliances as a transitional device – a necessary evil – in line with the first of the two mindsets. Though many firms have found partnerships to be an effective means of low-cost market entry or low-cost sourcing, the end-goal of most MNCs is to take control of their Asian operations as soon as they can.

“The overall goal is probably to gain more control. JVs and franchisees were used as we entered new markets, to put a presence in new markets. We establish a presence, gain a foothold, then as we gain scale, confidence, knowledge in the market, our approach is to

gain more control.”

Consumer branded foods

“...restructuring in China to take greater ownership.”

Telecommunications infrastructure and equipment

“We tend to develop the market via distributors, then we set up subsidiaries and develop and work with the distributors as partners. Sometimes we buy partners out and make them into subsidiaries. But there is no corporate hostility to partnerships; we have no problem working with partners indefinitely. We'll do whatever is best for the market.”

Software and services

Increasing equity Sometimes MNC executives see increased control as important for achieving their growth goals, where partners might not be providing enough drive.

... allows MNCs to drive growth

“There's been a natural evolution of our business in Asia. We started with joint ventures – mostly 50:50. As we grew and gained confidence, we took control. We were unhappy with the way local partners were managing them. Locals had administrative responsibility; we had one expatriate to oversee operations... This was not enough. We needed more people to grow the business.”

Consumer branded foods

... and strengthen their position

“We go in at the maximum equity allowed, then increase our equity when the regulations change... We go in, we provide value-add based on our experience in the industry, help the local partner to develop better reserving, better performance, and then increase our equity... This is driven by our expansion plan. Developing a stronger positioning in the market. There's no strategic changes. The main drive is to execute the strategy we set out to. Get in first, assist the regulators, demonstrate value-add, then increase the equity when we are able to.”

Financial services

Ownership seen to protect IP

Ownership and control is often preferred when the company has Intellectual Property (IP) that it wants to protect, because of the generally weaker IP protection regimes in much of Asia.

“Strategic intention is to do most manufacturing in-house, especially where IP is involved. But if no IP is involved and the equipment is generally available, then we go with co-packers. In the Philippines, for instance, we have dedicated contract packers for one brand. The market is not big enough to have our own plant and co-packing is also cheaper than importing the product from the US or from India, where we have our own plants.”

Consumer branded foods

“Working with a few qualified parts suppliers and then manufacturing ourselves is the only way to protect our IP... There is almost no distinctive IP in our products. The American institute that develops standards for our industry has mandated all of the specifications for just about every unit that can be used in the industry. There's no differentiation in the design of units. So quality of manufacture comes to be the only variable.”

Heavy-industrial components

Knee-jerk control moves can be counter-productive

In some cases, corporate restructuring or the appointment of a new CEO changes the corporate mindset, bringing sweeping changes to pre-existing relationships. And the changes can set the company back if they are not carefully managed.

“In 2001 there was a fundamental change in the corporate structure from a pyramid to a matrix. This caused a lot of confusion; suddenly there were multiple reporting lines; people didn’t understand the new structure. I retired from active duty.... My successor was then confronted by the change to the matrix structure... The changes in management structure and philosophy came at a cost. By 2001 we already had a number of investments in China. They had all paid big dividends... We shifted the regional management to Singapore, and began running the company in the ‘German’ way; our Chinese ventures began to lose money... Because of the demand for control, HQ decided to buy out our minority partners in China, who still had a remaining small stake in the business. You know in China you don’t really have control, even with 80% of the equity... Through that the company lost a lot of local knowledge... The company also fired some of the top Chinese employees and replaced them with German expats. And now they are struggling. They are investing heavily without any prospect of returns in the foreseeable future. It’s the end of ‘long-leash’ management. They now prefer ‘short-leash’ management.”

Automotive components

Sometimes, a joint venture that was entered into as part of an initial foray into the market has failed to deliver, leaving the company boxed into a relationship that is not performing, that may even be harming its brand image. In most cases, the MNC seeks to replace it with a wholly-owned subsidiary if possible.

Failing joint ventures not always replaced

But not always: In one of our case studies the company dissolved a joint venture and set up a purely contractual arrangement in its place. In this case it seems a contractual relationship provided better than the previous equity relationship had done.

“One change has taken place in Japan. Our retail JV was losing money. We shut the business down, sold the assets and moved to a licensee arrangement. There is no equity relationship any more.”

Fast moving consumer goods

And sometimes, changes in home-country laws have pushed MNCs down the path of greater control. The Sarbanes-Oxley Act in 2002 introduced tougher accountability standards for US listed companies and their subsidiaries and in some cases, companies had to either take more direct control over their partners or cut their ties.

Cost pressures drive ‘non-core’ outsourcing

Cost efficiencies drive outsourcing

However, while MNCs might prefer to have direct control, fundamental shifts in the economics of industries worldwide – particularly manufacturing economies – have forced many MNCs in the opposite direction. The geographic cost shift – the shift of industrial activities to Asia – has thus forced some US and European MNCs to consider things they would not have considered otherwise: (1) Relocating production out of the home country to lower cost locations – often into Asia; and (2) Partnering/ contracting-out in order to do so.

“What’s driving the changes? Cost. Low-cost country sourcing. The

key thing is reliable quality, delivered on-time, to contractual cost.”

Heavy-industrial components

“Foundries are central to our business because it’s mostly metal casting. It’s a process that is very expensive and most western foundries are going out of business. The world’s ‘blacksmiths’ are now in either India or China, where low cost and low price prevail.”

Heavy-industrial components

And discussing these changes brings with it a great deal of internal soul-searching as companies review: ‘What kind of a company are we?’

**Zero-asset
manufacturing**

“We have a think-tank exploring outsourcing of manufacture. There’s a very strong thought process, increasingly people subscribing to the notion of ‘zero-asset manufacturing’ – outsourcing to third parties. The debate is going strong. Frankly, I’m uneasy with that approach. I would like to see us retain control of manufacturing and assets. Not having control of manufacturing could be risky in our business.”

Telecommunications infrastructure and equipment

**Outsourcing &
identifying non-
core activities**

For many companies, adjusting to the major cost shifts has triggered at least one cycle of corporate restructuring and in the process, they have arrived at a new understanding of what their competitive strengths are. This has often led them to distinguish more clearly between ‘core’ and ‘non-core’ activities. And that process often results in a decision to outsource more of the non-core activities.

“Our official strategy as from HQ is that we will focus on the things we do best and contract out the other parts of the process.”

Heavy-industrial components

“Outsourcing is OK for simple, specialised items like injection moulding, for example if we own the tool. This kind of thing can be done. It works less well with specialised products.”

Telecommunications infrastructure and equipment

Professional service firms are mirroring many of the changes taking place amongst their clients and are tending to restructure their practices along regional and global lines, so as to deliver more consistent service at lower cost.

“These days we’re aiming for more of a regional and global approach. One of the drivers for this is increased efficiency – setting up shared service centres and back-offices serving the region from a centre of expertise, rather than replicating the expertise in each practice.”

Professional consultancy services

Global customers demand standardisation and consistency

**Customers want
consistent
quality**

A globalised customer base is also another important factor driving MNCs to seek more control. They need to ensure that the products and services delivered in different locations meet a consistent quality standard, whether by owning the provider or by laying down requirements and monitoring them.

“The demands of clients are forcing us to look at our own structures and operating models. They want seamless, global, high quality service – whether in India or in China or in the UK – with a consistent approach.”

Professional consultancy services

“Our products go into a globalised industry... At the corporate level our company tends to be high on standardisation... We’ve imposed processes and controls on suppliers.”

Heavy-industrial components

“Our Indian alliance has changed as our own company has changed. We’re getting more supply chain discipline, introducing process audits, tighter commercial / technical process, making it more professional, more structured. Also our certification of new suppliers is more rigorous.”

Heavy-industrial components

Partnering to tap the talent pool and ramp up regional R&D

**From cost & risk
... to knowledge
& talent**

R&D and product development account for a high proportion of the average cost of production and the knowledge content of products is an increasingly important aspect of how firms compete worldwide. Some of the newer forms of partnership are governed less by considerations of cost and risk and more by the need to access knowledge and talent.

Asia’s technical institutes and universities produce large numbers of well-trained graduates and MNCs are tapping into this massive pool of technical talent and setting up R&D partnerships in Asia.

“We are now tapping into the talent pool in the region for R&D. We have set up a small R&D capability in Shanghai. This was supported by lots of research that said the number of graduate researchers and PhDs coming out of Western countries will be insufficient. If we’re not tapping into areas where there’s enough graduate output then we’re not really competing for the talent. So it’s an R&D capability, tapping into the talent in the region for regional product. This is not a substitute for our main R&D effort in Europe or the US. But in 20-25 years, could this be the research base for the world? Maybe.”

Telecommunications infrastructure and equipment

“The big changes have been on the development side. India has grown steadily to be a bigger proportion of our total worldwide development effort and has probably now reached a maximum level for practical purposes. The China development centres have grown very rapidly. This is part of a risk balancing exercise between India and other locations in Asia-Pacific. While we will not grow India so much, we will grow the smaller centres in Philippines, Vietnam and especially China.”

Software and services

**Full ownership +
local managers:
the ideal
arrangement?**

Local management talent may deliver the best of both worlds

However, wholly foreign ownership does not mean wholly foreign management. In fact, it often means quite the reverse. MNCs that are serious about their competitive position in Asia seem to be building businesses that are wholly foreign-owned but powered by a substantial cohort of highly skilled, locally engaged managers. We could almost extend the term ‘partnership’ to describe the relationship between the MNC and its locally-hired Asian managers, since the quality of that relationship also has a huge impact on its success.

“From our perspective there is a strong bias towards wholly-owned these days. There needs to be a very strong case to consider anything less than full ownership. Now ‘ownership’ doesn’t

necessarily mean in the traditional sense with lots of expats transplanted. We would have full ownership but with solid local management and employees. We're very confident these days in managing in that way. Wholly-owned but resourcing it with local talent. There might be 6-12 months with expat oversight and then hand over to local management. The maturity of 'wholly owned and locally managed' might be the way to go."

Telecommunications infrastructure and equipment

What makes partnerships and alliances work?

The hard work of making these arrangements work requires:

- Picking compatible partners to start with
- A win-win business model so the partner is also committed
- Clear guidelines, procedures, and quality standards and monitoring compliance
- Developing and maintaining a trusting relationship
- Avoiding dependence on single individuals on either side
- Having culturally competent people at the interface
- Ensuring frequent face-to-face meetings

Learning from the past

The case studies provide many useful lessons. What is interesting is that these lessons are mostly not new. In interviewing executives for this study, there was often a note of frustration with the amount of sheer hard work involved in managing non-equity relationships. The key message here is that partnerships and alliances are not going to go away; in fact, collaborative outsourcing and knowledge-sharing networks are going to be even more important in the future. So it's time we learned the lessons that have been out there for some time.

Successful MNCs invest the time to select partners that have the requisite knowledge and a compatible approach to developing the business. They train them, invest in them and build the relationships over time, and then monitor how they are performing.

"With the luxury brands, pick the right partners – ones with luxury brands understanding so they know that they can't do stupid things. Always protect the luxury image."

Consumer branded foods

"With other categories, it's a bit more difficult. The underlying relationship, together with control, quality auditing, training."

Consumer branded foods

Building win-win relationships

Effective partnerships require a genuine sharing of benefits. Too often companies seem to enter into partnerships and alliances only thinking of their own priorities. The relationship will only work as long as both parties are getting something out of it.

"We introduced a new product that will add 10% to their revenue line. We've helped them to redefine and reshape their lines of business. We've worked with them across 4-5 business streams. We've worked on the Steering Committees... So because of that value-add, they are willing to sell down their equity and allow us to increase our share of the venture."

"We sit down around the table and try to work out a) What are we

trying to do here? b) How do we know when we're doing it properly?
c) How do we go about making it happen? And Mr Customer, you
share some of the responsibility too. We try to focus on the joint goal."

Heavy-industrial components

It is important to make sure that the partnership is delivering what it is supposed to in terms of quality and schedules. Where one party has contracted with another to supply certain items to a certain standard, it is important to monitor those standards consistently.

"We control quality procedures, hazard procedures, we have manuals, documents to make sure we don't have a risk in our brand... We have very strong procedures and infrastructure for quality. There are more quality people in the region than supply chain people. We are always visiting our partners regularly. It's all about brand protection and lowering risk."

Consumer branded foods

"With contract packing, we have disengaged a number of times, in India, in China. In quality, manufacturing, technology, environment, people, they have to follow proper processes and procedures. If they don't follow the processes we require, we'll disengage."

Consumer branded foods

But getting beyond the pragmatic business deliverables also seems to be an important part of partnership success. It takes time to build a respectful, trusting relationship. Senior people on both sides must buy into the relationship and have a personal commitment to seeing it work. This is of particular importance in Asia, where seniority, personal relationships and reputation carry a lot of weight.

"Alliances stand and fall with the people who signed the agreement. If one of those people is suddenly not there, it can completely change things."

Automotive components

"How do we build stronger relationships? Strong, trusting, respectful relationships? You say what you are going to do. Then you do it. That builds up trust. Then they are more open, treat you as more of an equal. The relationship is then based on trust between equals."

Financial services

"Long relationship. Travelling regularly to Japan 5-6 times a year. We established a relationship of mutual trust that didn't need legals any more. We had a legal agreement, which we sighed and then put away in the bottom drawer. And that trust was ultimately transferred to our German parents as well. But the Japanese wanted me to stay on the board of the JVs even after I retired."

Automotive components

Tricky to maintain trust as personnel change

Even after a climate of trust has been built, that does not mean things can rest there. Over time, other personnel who were not involved at the outset begin to work with the partnership, and if they have not been thoroughly briefed on why it exists and what it does, distrust can easily creep back in.

... and trickier still when the partner is a competitor

Ambiguity is always present; sometimes your partner competes with you in other product lines. Key personnel may need to be ready to defend the partnership against skeptics internally.

“Mutual trust translated and cascaded through the company, despite the occasional hiccups with people saying, ‘Why do we have to work with a competitor?’ Especially the sales side of our company worried that the relationship could be used (by the Japanese) as a springboard into Europe. And of course the Japanese side worried that we would use it to enter Japan.”

Automotive components

Corporate-to-corporate contact

There needs to be more than one experienced contact person. The partnership needs to be a multilayered corporate-to-corporate commitment.

“It’s not just our Head of Risk. Our Regional head has overall responsibility for the relationship and the capability transfer program and is well respected and close to our partners. He and I are both on the board. I’ve had many years experience working with partners in the region myself. There’s a mid-level finance person as project manager. We take a cooperative rather than a coercive approach. It takes lots of effort. But they see the value in this style of involvement.”

Financial services

Complexity of building relationships in Asia...

The key people involved in managing the partnerships need interpersonal skills of a very high order – again, because of the personal nature of business relationships in Asia.

“It’s the quality, integrity, the character of the person running the show that makes a difference – this is an intangible quality. It’s about trust. There needs to be honesty and dialogue. There needs to be trust that you’ll say it straight, and this philosophy needs to be shared throughout the organisation. Sometimes it’s a case of saying: ‘Yes, we messed up; we’ll fix it.’ Sometimes it has to be ‘No, sorry, can’t be done.’ Sometimes its ‘OK, let’s see how we can work together on this.’”

Heavy-industrial components

“In any capability transfer it’s 80% about style and only 20% about content. Our Regional head has an excellent style about him for working with the partners. It’s a very cooperative/collaborative approach. Ownership of the process stays with the local partners. We are there as advisors, as technical experts only. The next step has to be taken by the local management team. We work to empower our partners, keeping the accountability with them. This approach may take longer but once they take on board a new process, it sticks.”

Financial services

The ‘right people’

Having the right people involved is vital. Sometimes cultural barriers or a desire to preserve proper etiquette can divert important operational information. If this kind of miscommunication is allowed to accumulate, one or other party can begin to feel that they are being hoodwinked, and then the trust evaporates very quickly. Having culturally competent people involved can prevent this.

“There’s no doubt having the right people makes a big difference. Our operations manager is Indian. We sent him over to India to sort out a problem with a supplier there. He managed to get right through to the real story, the honest story, and sort it out.”

Heavy-industrial components

Relationships need ongoing

Finally, partnerships take commitment, time and sustained effort. Companies that sell via channel partners may have a dedicated team charged with

management ensuring that relationships are working well.

“We have a specialist ‘Alliance and Channels Group’ who concentrate on partner relationships. There is quite a significant investment of people in this group. They do not have specific transaction targets; their goal is the development of the relationships. But they are measured on the overall performance of the business. Direct sales are managed by the in-house sales team.”

Software and services

“It comes from demonstrating the real value that we add. As partners, they have a high regard for us because we deliver what we say we will. There’s a capability transfer process where we introduce new approaches to underwriting and actuarial, new risk management frameworks. For example, our regional Head of Risk spends a lot of time working with the local partners, is willing to fly down there; was involved in interviewing new people joining the company there; reviews the reserving against local business.”

Financial services

“The biggest danger is complacency. To avoid this, you need regular face-to-face contact. You need to be always honest and open, even about the not so nice things. If you are prepared to bare your soul and say, ‘I really have a problem with this,’ they will come and help you. And then they’ll tell you when they have problems also.”

Automotive components

What skills does the executive team need to manage partnerships effectively?

A multi-skilled executive team is needed to manage partnerships:

- Intimate knowledge of the business
- Good technical skills
- Ability to work across borders in possibly dangerous places
- Able to persuade rather than command
- People skills

Need for a multi-skilled team

The executives managing partnerships and alliances in Asia need more than to be highly knowledgeable about the business. They need to have high-level people skills, cross-cultural skills, and be comfortable operating on their own in the field, sometimes under difficult conditions and without a lot of corporate back-up. Only a few MNCs have in-house programs that actively develop partner management skills. For others, there is a risk that corporate ambivalence towards partnerships may lead them to undervalue the tough lessons they learned from managing those earlier joint ventures.

Intimate knowledge of the business itself is vital to ensure that the business objectives are kept in focus and that the partnership is achieving its purpose.

“Good business skills, intimate product skills... They need to be shrewd business people.”

Fast moving consumer goods

“The individuals in the Alliance and Channels group come from a variety of backgrounds. Some have experience in direct selling; some are specialists in a particular industry. The skills in managing alliances are different to those in selling, but there is quite a bit of

overlap.”

Software and services

... with strong technical knowledge

Technical knowledge is especially important in supply relationships, to enable accurate judgments to be made about the capabilities of partners.

“Sourcing (as in finding sources of supply), qualification and negotiation skills, engineering common sense to understand what you are finding when you look into these companies... Working with independent suppliers can sometimes require a bit of lateral thinking.”

Heavy-industrial components

... able to work across borders

People skills, intercultural skills and the ability to work across borders are also essential. And some of the partnerships may be in risky places – particularly sales and distribution channel relationships.

“People skills, cultural sensitivity, patience, recognition of cultural differences, ability to adapt, polite conduct – all the soft issues. Nothing else matters.”

Telecommunications infrastructure and equipment

“Very good human skills to work across a high number of cultures and countries. Brave also – some of the stories from Egypt, South America, Gaza Strip....!”

Fast moving consumer goods

“Ability to work across borders; Appreciation of other cultures, environments, countries.”

Professional consultancy services

Persuasiveness and tolerance for ambiguity

But most importantly, the key executives need to have a high tolerance for ambiguity and be able to lead using persuasion and influencing skills in place of command and control. This is probably the most challenging area for MNC executives because they are accountable to corporate HQ for results but they don't have control over the means of achieving them.

Some of the frustration that executives experience with partnerships and alliances comes from this uncertainty, and from the amount of time and energy necessary to brief and educate and influence and persuade people in the partner firms about what needs to be done and how.

“Persuasion, influencing skills. Patience; that's more of a quality than a skill. The ability to get things done in an environment that is sometimes quite dysfunctional. Knowing how to make things happen and not get caught up in the organisation – or at least, getting 80% of what you want done... The firms have highly political internal decision-making processes, all the senior people being owners.”

Professional consultancy services

“One of the challenges with this kind of structure is that the leaders have limited authority, although they do have influence. You need to manage with lots of persuasion. Local practices control most of the resources and often have their own P&Ls. The global centre creates methodologies, engagement management practices, sets the standard under which each firm operates. Below the global practice standards, individual firms have historically operated quite independently, although we are now starting to see this change.”

Professional consultancy services

Partners as colleagues; colleagues as clients

And although the partnering relationship may be governed by binding contractual terms, executives in the two firms relate to each other more like colleagues. Likewise, colleagues working across a network of affiliated firms build trust by treating each other as clients.

“In fact, when our consultants are working on assignments in other practices, we coach them to treat their colleagues as if they were clients – to invest the time in building relationships internally in the same way as you would with external clients.”

Professional consultancy services

Are partner firms in Asia becoming more capable?

Companies report a varied experience in improvements in capability. Technical companies find India and China becoming very capable very quickly. Service and consumer firms find increased competence primarily a result of training.

Partnerships: a varied outlook

The interactions between MNCs and local firms, together with the general development of Asian economies and their technical and educational infrastructure, are presumably creating more capable local firms. Theoretically, this should increase the potential for more sophisticated partnerships and alliances and more effective outcomes.

Technical sectors are progressing rapidly

In fact, the interviews suggest this varies. In high-tech areas, the local skills and capabilities are increasing rapidly. In services and basic products like foodstuffs, however, the local capacity for innovation seems more limited.

“Our first employees in China were virtually straight from the farm. Now the universities and high schools there are churning out good students every year.”

Automotive components

... and may soon be competitors

“Chinese and Indian companies are becoming multinationals; they’re coming into your back yard. So if you’re not competing in part of their market you have a huge problem. They are becoming truly multinational... Speed is essential. For example, we look at the Chinese telcos like Huawei... No-one can fault their equipment any more. You can’t afford to muck around. The speed with which Chinese and Indian players are developing their product is absolutely frightening. What was shoddy 6-12 months ago is now very comparable...”

Key learning: You’ve got to extend absolute respect to those companies. You have to treat them as equals.”

Telecommunications infrastructure and equipment

“Though we’re not exactly partners, we are considering sourcing capital equipment from China. Six months ago we would never have considered this.”

Telecommunications infrastructure and equipment

“Our Indian partners want to make the whole unit for us. Our Chinese JVs are already making them on the side. Over a five year period their ability to improve quality has been going through a learning curve.”

Heavy-industrial components

Client demand The following examples illustrate some of the more equivocal responses from companies in the services sector:

Driving service sector competence “The local skills are changing slowly, not dramatically. The ultimate test is when they develop up to higher skill levels and they no longer need what we can bring. The reality at present is that we still bring something that is needed.”

Financial services

“The way our firms work together is definitely improving, yes. That’s because of a combination of factors – leadership is putting in place specific initiatives, structures are being changed and this is driving new behaviour. But all of this is happening because our clients are demanding it. It’s about becoming more regional and global in orientation, delivering a seamless service to clients. We’re moving to reinforce that now with changes to the structure.”

Professional consultancy services

And the following examples, both from companies in the consumer foods sector, report very limited improvement in the skills and capabilities of local partner firms:

... and training is key in the consumer sector “In all cases I can think of, the improvement is a direct outcome of the training and supervision that we give them. In general, I’m not sure whether the overall standard is improving.”

Consumer branded foods

“The sophistication of the people we sell to is relatively low, and we’re not exactly huge, so probably no great improvement there. The people are developing; they are adding to what we are providing to them, but not significantly.”

Fast moving consumer goods

Are partners emerging as competitors? Is this a concern?

Technology and engineering companies are aware of partners as future competitors; it is less of a concern in services and the consumer sector.

As Asian partner firms become more capable, this raises another important question: to what extent are your partners emerging as potential or actual competitors? Some of the interviews show that competitive tensions are emerging in some partner relationships.

Building up a future competitor? “It’s important that the fellow who makes the castings for us doesn’t get into making complete units and compete with us. Our Indian castings supplier wants to make complete units, so he could become a competitor.”

Heavy-industrial components

“We consistently have to face the issue of how much we are teaching these guys and when does it become a competitive threat? How much is ‘enough’ to ensure your brand is being protected at all times?”

Consumer branded foods

Quality audits vs more heavy-handed control This tension then entails another dilemma: how much expertise do you transfer to your partners to get the quality of output you want? Do you simply audit and check quality according to a quality specification outlined in the contract? Or do you actively instruct, coach, add value to the partner firm’s

operations? Approaches to this vary. In industrial and technical sectors, the quality audit process seems to work. In these sectors the capabilities of partner firms are developing rapidly and MNCs seem to be concerned about the competitive threat.

“We’ve imposed processes and controls on suppliers. We haven’t sent in teams to help them get it right. We audit and quality check but don’t intervene in their operations.”

Heavy-industrial components

**Active approach
in services &
consumer
sectors**

In the services and consumer goods sectors, as we saw above, local partner firms are improving their capabilities more slowly, there is less immediate competitive threat, and so MNCs seem to adopt a more active coaching role.

“(Increasing our equity) comes from demonstrating the real value that we add. As partners, they have a high regard for us because we deliver what we say we will. There’s a capability transfer process where we introduce new approaches, new frameworks.”

Financial services

“Our people are sending ideas, new products, marketing and merchandising techniques. We know how to merchandise our products, how to position them in supermarkets, how to do promotions, pricing, media etc. We’re providing knowledge to distributors.”

Fast moving consumer goods

What does the future hold for partnership, alliance and network strategies in Asia?

The only common thread to the answers: Partnering in Asia is here to stay. Companies will do whatever works.

**One view:
transition to
delegated,
decentralised
operations**

Finally, we asked MNC executives what they thought the future held for their partnering, alliance and network strategies in Asia. Are these arrangements truly just a transitional step on the path to full-scale ownership and control? Are they here to stay, a permanent feature of the Asian business operating environment? Or are they perhaps growing in importance as MNCs increasingly outsource non-core activities in the search for better flexibility, better integration within Asian markets, better financial performance? Generally, there is an expectation that JVs are a transitional step on the way to greater wholly-owned operations in the region, but that other partnering efforts might remain for the long term.

In some cases, the expected end result is a wholly locally managed effort, with no expats at all.

“We hope we can gear up our business across the region. Gradually over time, partners will need less direct input from us. If we’ve done our job there should be no expats in the regional operation; they will have less and less call for us – at least, less direct management. Our role will become more broad, more oversight / advisory, less managing / operational.”

Financial services

**Savings can
trump control
preferences**

However, sometimes the economics of the business indicate that it is more effective to work through local partners, and a degree of pragmatism overrides the corporate preference for direct ownership and control.

“More and more we will be going out to suppliers outside our own firm. More drive for volume, efficiency, standardisation... Our corporate philosophy is that we’d prefer to control all our suppliers. However, our Indian alliance has survived on the economics: the cost of bureaucracy, legals and administration if we were to try to buy it out and run it ourselves would just be too much, so we leave it as it is.”

Heavy-industrial components

“These established patterns have been in place for 15 years or so. We don’t anticipate making major changes. With the applications business, we’ll be going more direct and using partners less. But also, our partners will become more skilled in selling applications.”

Software and services

A flexible and pragmatic approach – whatever works

Some companies find that their present mixed pattern – with some wholly owned operations, some partnerships and alliances – is quite satisfactory for now. They plan to keep these arrangements in place for the time being, though they would review them if new developments emerged.

“Not much change. If and when we become larger, have larger sales going through, then we’ll put in our own operations. We’re actively looking for acquisitions within the region... Or if we did a global acquisition, for instance, a company with its own operations in many markets across the region, that would be a catalyst to major changes in how we operate in Asia.”

Fast moving consumer goods

“A pragmatic approach. There’s no overall pattern. Where we have marketing, sales, promotion – from the brand point of view – we will continue to increase our control. US and European companies are getting more confident of operating in Asia. Brands are becoming better known. Scale is getting there. So we take control of those businesses. Manufacturing, supply and distribution: these are driven by scale. Where there is scale, we will control it. Where there’s no scale, we will outsource it. It’s a very pragmatic decision.”

Consumer branded foods

With partnerships comes greater complexity

Meanwhile, some companies plan to do more outsourcing, more partnering in the future. They look to achieve sustained growth and greater efficiency, while also bringing costs and prices down to address increasingly capable local competition. For these companies, the world only gets more complex.

“A more structured approach to outsourcing. And before full outsourcing, the sourcing per-se of raw materials, subassemblies and so on. We’re doing too little of that. We’ll start looking for a Chinese or Indian substitute for raw plastic or what-not – commodity inputs that we’ll take to plants in Europe and the US, not only use in Asian region. Because everyone’s getting greater confidence in the capability of these emerging economies. People are no longer dismissive of ‘Made in China’. We’ll move in two directions at once: shift to 100% ownership of the core; and increased outsourcing of the peripheral activities. We have no sense of discomfort with that. With the kind of cost pressures facing us, we can’t afford to do this sequentially. We have to pull many levers simultaneously.”

Telecommunications infrastructure and equipment

“The Chinese are targeting the Indian market, and the Indians are welcoming Chinese suppliers. The price points in India are the lowest of anywhere, so you need Chinese price points to be able to compete

there. The only way to supply India is to make the product locally or to supply it out of China, spec-ed to the Indian requirements. We will fix this over the next five years. We are learning how to win in this competition. The answer is to become a regional player, to assimilate ourselves to what they are presenting to us... In five or ten years time we'll look like another China or India company."

Telecommunications infrastructure and equipment

Concluding thoughts

The interviews and case studies point us to the following conclusions:

- ⇒ Partnerships, alliances and networks continue to play an important role in the Asian regional operations of major MNCs. Even while MNCs are getting out of the traditional kinds of arrangements – joint ventures and market entry-stage partnerships, they are also entering into new forms of partnerships – outsourcing and knowledge-sharing networks – in order to compete more effectively.
- ⇒ Senior executives are ambivalent about partnerships and alliances. Generally, these are thought of as transitional arrangements, with the eventual goal being 100% equity and direct control. This mindset is reinforced by the difficult lessons learned in the earlier kinds of joint ventures and alliances, many of which did not deliver results. But in fact, the economics of many sectors have shifted so dramatically towards Asia and other low-cost locations that even the major players now have to source globally, and often through non-equity partnering arrangements.
- ⇒ High levels of control can now be achieved through contractual links. The development of ERP systems and intranets enables much closer coordination of the activities of complex partner networks than was possible before, so that the presence or absence of an equity relationship has less impact overall on the pattern of firm-to-firm interaction.
- ⇒ Interactions between MNCs and partner firms in Asia – over the past 20 years or so – have helped to develop the capabilities of local firms across the region. This, together with the steady development of Asia's own educational and technical infrastructure, is giving the region a steadily richer pool of organisations and individuals for MNCs to draw on. While it may not be universal, a more sophisticated pattern of interaction is emerging, with MNCs and their partner firms relating more as equals.
- ⇒ The rapid development of partner firm capabilities is bringing a competitive tension into the interactions between MNCs and their partners, especially in technical and industrial sectors. However, the example of the automotive industry illustrates that companies can work as partners successfully even when they compete across some product lines, providing they are clear about where their interests overlap.
- ⇒ Managing partner relationships requires patience, a tolerance for ambiguity and a high degree of skill in using influence and persuasion, in addition to all the requisite technical and business competence. Many executives express frustration about the complexity of partner interactions, the time and energy necessary to make them work. This may indicate that some MNCs are not doing enough to develop these competencies as part of the standard portfolio of skills needed by their international executives.
- ⇒ It seems that the newer forms of partnerships, alliances and networks are here to stay.