

INTERFIRM LINKAGES : THE EUROPEAN EXPERIENCE

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INTRODUCTION

Interfirm linkages, ranging in type (cooperation agreements, equity investments, joint ventures, mergers and acquisitions, etc.) and intensity, have become increasingly common in the last twenty years around the world. Beyond a portfolio of products (a concept dear to strategic analysts), today the portfolio of linkages determines to a large extent a firm's developmental directions, competitiveness and financial performance. These "blurred" groupings (Davis and Meyer, 1998) – or fuzzy sets -, have undeniably flourished within the context of globalization and the spread of new information and communication technologies. There are other specific factors which have led to the abundance of interfirm linkages within Europe which should be considered as well (Urban and Vendemini, 1992).

Not only is Europe a *de facto* pole of the "Triad" (USA, EU, Japan) but also an institutional ensemble with a political will and instruments for economic integration. Strategic alliances as well as mergers/acquisitions constitute both a vector for and indicator of this integration, much in the same way as the exchange of goods or foreign direct investments. Europe is then, a constructed reality by public authorities (countries and acting between supranational and subsidiary principles) and other economic actors: companies, financial institutions, research laboratories, labor forces, consumers.

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Is this European ensemble then united and homogenous? Of course not: cultures remain varied, each marked by history and diverse social philosophies. The strategic role (in economic terms) of the government has been, since the industrial revolution, completely different in Great Britain, France, Germany and Italy. For example, the “social” market economy is extolled in Germany while this concept is practically unknown in other European Union countries. From this perspective, it is easy to understand the lasting importance of domestic, or *intra-national*, cooperation agreements.

Perhaps paradoxically, the reality of European diversity (on the one hand a source of richness and on the other of conflict and weakness) explains the increasing number of agreements between companies on the *European level*. Europe is, in fact, a space that allows companies to acquire both a critical mass for research and production and a powerful negotiating position.

But the European fiber, or the rationale of European development, is clearly not shared by all of the socioeconomic actors, notably by companies with specific commercial or technological constraints, and these vary by sector. Once the world becomes a “global village,” the company loses its national identity. Why should the “borderless” company be concerned specifically with one or another “local” reality? The increase in number, and especially in the value of agreements between European companies and the *rest of the world* illustrates this growing ambiguity. The “mechanistic,” materialist and financial perspective on the economy tend to dominate in today’s climate, benefiting from the propulsive power of the United States. The importance of the European tradition of ethics and political philosophy (which goes back to Aristotle) has weakened along with modern evolution (Amartya, 1991). Europe thus feels the need to recapture a certain lost direction; nonetheless, Europe is following the dominant model of making financial value the highest priority. Along with money comes the implementation of technical standards/practices, such as accounting, management, etc. that little by little are standardizing the global world. European companies are following the trail blazed in the larger global market and are developing operations in collaboration with industrial groups in the *rest of the world*. Mercantilism in the tradition of Colbert or Bismark (i.e., capitalism *à la française* or following the German model) is being abandoned. European enterprises now need more than ever to adapt to change by developing new competencies, new areas of activity, new targeted specialization, and complementarities of information and

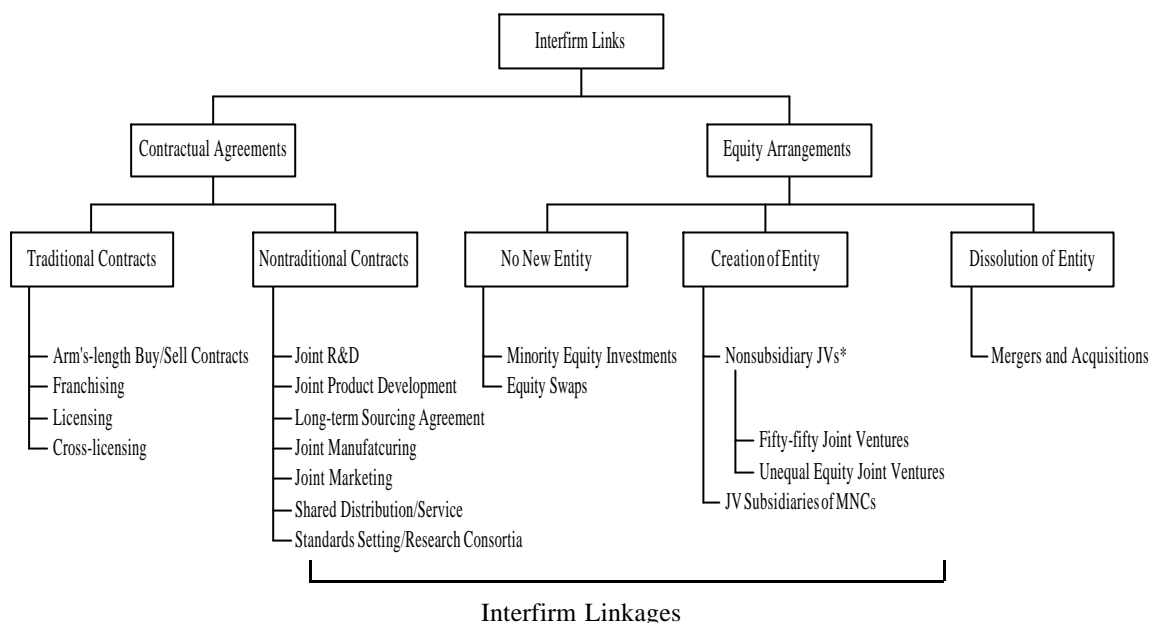
knowledge networks. In reality, we are not only seeing linkages intended to facilitate short-term adaptation by playing on the flexibility provided by joining several enterprises (Tarondeau, 1999), but more importantly, we now see anticipation and innovation initiatives within converging, competitive arenas. In the long run, the factors of performance and competitiveness lie with strategic proximity as well as industrial and technological complementarity – and the way these are organized by participating companies. Numerous are the linkages developed with the goal of producing new knowledge and organizational routines (thus acquiring new competencies) in an attempt to “control” the future (Hamel and Prahalad, 1994).

The phenomenon of interfirm linkages, and more specifically their now commonplace nature, should be studied (and then interpreted) from at least two points of view: that of the concept’s definition and that of its observation (or access to information).

Interfirm linkages take a wide variety of forms of cooperation between firms, ranging from purely contractual agreements to the total integration of participating companies. Illustration 1 shows the diversity of these links.

The typology suggested by Yoshino and Rangan (1995) divides linkages into two primary categories: formal contractual agreements and those that involve an investment of capital, either in the collaborating firm or in a new jointly created firm. The analytical chart proposed identifies five types of linkages: the contractual agreement, the acquisition of a minority equity investment, a joint venture, acquisition and merger.

Illustration 1: Range of Interfirm Links



Adapted from Yoshino, M.Y. and Rangan, U.S. (1995), *Strategic Alliances: An Entrepreneurial Approach to Globalization*, Boston/Massachusetts, Harvard Business School Press, p.8.

The contractual agreement is a flexible type of collaboration. The relationship can include one or several elements of the value chain. The *acquisition of a minority interest*, in the capital of another player may accompany a collaborative initiative, but it may also be intended to plan for a future acquisition. The *joint venture* establishes strong links between the players and is subject to the control of its parent companies. *Acquisition*, which includes any acquisition of a controlling interest or of a 100% stake in the equity of another company, is an irreversible maneuver. Following such an action, the acquiring company exercises control over the acquired entity. Finally, in the case of *merger*, two or more companies join their assets to form a single company.

Only capital investments over a set monetary value are required to register with governmental authorities. So the phenomenon of interfirm linkages is difficult to comprehend in its entirety, particularly since its growth in recent years. While official statistics only reflect a part of the real situation, the economic and specialized press provide us with a relatively complete overview of the operations which occur. Using this information, a few organizations have performed an exhaustive analysis of one or several publications (Braxton Associates, Horack

Adler & Associates and Morris, 1995; Hergert and Morris, 1987; Ghemawat, Porter and Rawlinson, 1986). These surveys contribute to a better understanding of the cooperation agreements which exist, but they do not take into account merger-acquisition operations, nor do they include the most recent data. To fill this deficit of information, the CESAG (Center for Applied and Theoretical Research in Business Administration at Robert Schuman University, Strasbourg) has established a data base of information relating European interfirm linkages. The period of observation extends from 1993 (corresponding to the realization of the single European Market) to 1998. Data has been obtained from an exhaustive review of the daily information bulletin "Europe" (edited by a private agency affiliated with the European Community) which carefully relates the strategic maneuvers of European companies. In all, 6,996 linkages have been identified (across all sectors). The nature of the information gathered is presented in table 1.

The nationality of the actors is defined by the location of the group's headquarters, since this is where the major decisions regarding a collaborative agreement are made. *The sector of activity* of the agreement is registered according to the statistical nomenclature of economic activities within the European Community ("Nace 2"). Finally, the *legal classification* of the agreement is surveyed according to the work of Yoshino and Rangan (1995).

To study linkage strategies put into place by European companies, we first consider their principal characteristics (section 1). We then explore the dynamics of the phenomenon (section 2).

Section 1: Primary Characteristics of Interfirm Linkages

Interfirm linkages now constitute a global economic phenomenon: impacting everyone regardless of country of origin or economic sector. These linkages take place under a variety of legal configurations which correspond to stronger or weaker forms of integration and which reflect diverse strategic or operational approaches.

Table 1: Contents of the CESAG Data Base

YEAR OF THE ALLIANCE :	1993, 1994, 1995, 1996, 1997, 1998
NATIONALITY OF THE ACTORS :	Domestic alliances European Union Central and Eastern Europe North America Asia-Pacific Rest of the world
SECTOR OF ACTIVITY :	Nace 2 Code (Statistical nomenclature of the economic activities in the European Union)
LEGAL FORM OF THE ALLIANCE :	Contractual agreement Acquisition of minority interest Joint venture Acquisition-Merger

Source: CESAG, Strasbourg, 1999

1.1. Geographic Layout: Going Global

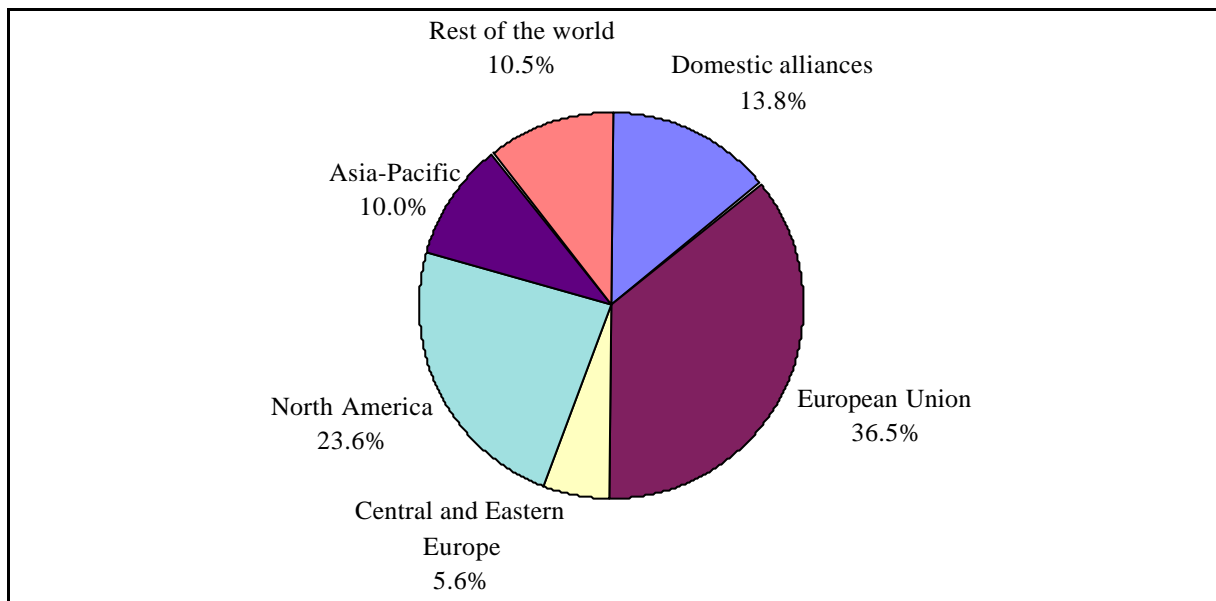
Figure 2 presents the geographic repartition of linkages developed during the period 1993-1998. It shows that European companies most often linked with European counterparts; in 36.5% of the agreements, the partner is located in another European country. Domestic alliances, involving players from the same country, represent 13.8% of the agreements signed. The interest expressed by European firms for linkages with partners in Central and Eastern Europe¹ is limited: only 5.6% of the agreements involve a partner from one of these countries. On the other hand, linkages developed with North American companies are numerous and represent, in all, 23.6% of the agreements. 10% of the agreements involve companies in Asia-Pacific countries, and 10.5% of the agreements were signed with players from other countries.

The geographic distribution of the agreements reflects the fact that the European enterprises have to a large extent integrated the concept of economic globalization and European integration into their strategies for development. While the companies show a preference for alliances within Europe, they are also allying themselves with other poles of the Triad, demonstrating desire on the part of companies to diversify their portfolios of partners. The

¹ Bulgaria, CEI, Hungary, Poland, Czech Republic, Romania, Slovakia, Ukraine, Slovenia, Uzbekistan, Turkey, Estonia, Croatia, Azerbaijan.

size of the North American and Asian markets probably explains the interest in European firms for developing linkages in these geographic zones. The importance of the markets might explain why few agreements were signed in the countries of Central and Eastern Europe, despite the geographic and cultural proximity of these countries.

Illustration 2: Geographic distribution of linkages developed by European enterprises from 1993-1998 (n=6,613)



Source: CESAG, Strasbourg, 1999

During the 1990's, the choice of alliances has appeared to be dictated by the trend toward globalization. While European companies have demonstrated a preference for linkages with their European homologues in order to offer mutual reinforcement, they are also seeking to build links with North American and Asian firms in order to ensure their international expansion.

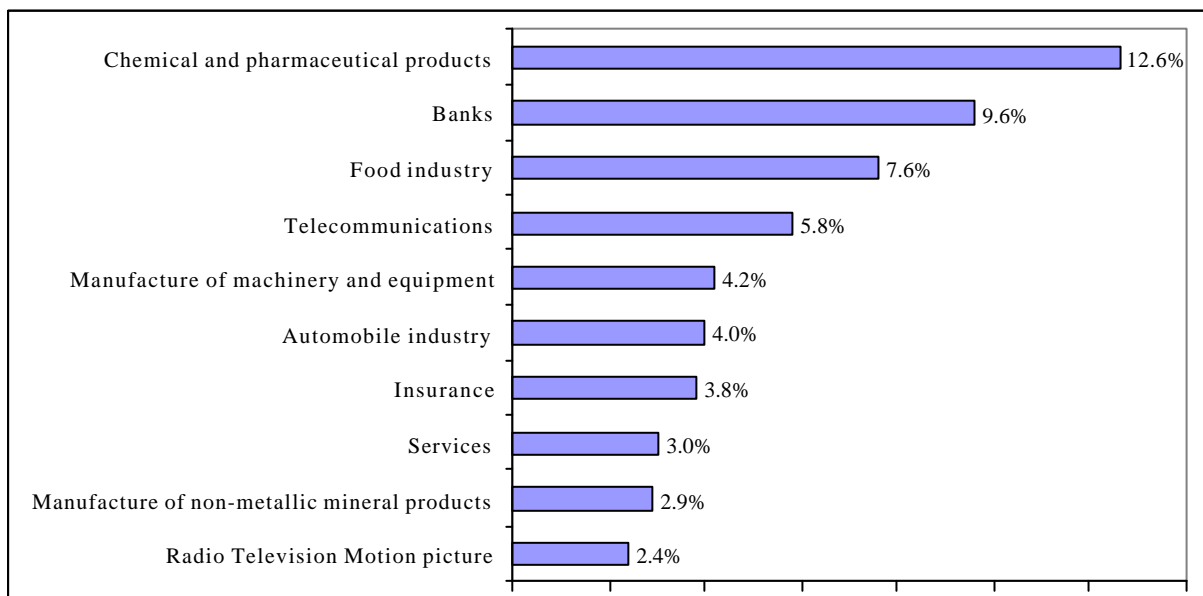
1.2. Distribution Among Sectors: Constant Reconfigurations

During the 1970's and 1980's, interfirm linkages essentially concerned the manufacturing sectors. The beginning of the 1990's marks the rapid development of alliances in the service industries (Braxton Associates, Horack Adler & Associates and Morris, 1995). Within the European Union, the implementation of the single market, leading to the free circulation of goods and capital, reinforced the level of competition within the tertiary sectors. In more traditional industries, globalization has triggered a real race for size. Finally, we should note

the impact of deregulation of sectors such as telecommunications. Illustration 3 shows the ten most active sectors in terms of interfirm linkages.

The distribution of sectors in interfirm linkages reveals a dominance in agreements in the traditional manufacturing sector and in the service sectors. The ten most active sectors, represented below, include, in all, 55.9% of the agreements. The most active manufacturing sectors have a global reach and contribute also significantly to global commerce (Globus, 1999b). The chemical/pharmaceutical sectors are first, a phenomenon which can be explained by the importance of technological investment which calls for an effort to engage in complementary research and cost sharing. In the area of services, the free circulation of services and capital as well as measures of deregulation have undeniably stimulated linkages. Linkages between banks and insurance companies can be interpreted as a response to the deregulation of financial activities within Europe, which has dramatically modified the competitive environment of the financial players (Mayrhofer and Roth, 1999).

Illustration 3: The Ten Most Active Sectors for Interfirm Linkages from 1993-1998 (n=3,915)



Source: CESAG, Strasbourg, 1999

The nomenclature used for the sectors of activity for this analysis (“Nace 2”) is aggregated, but we mention the content of each sector using some examples:

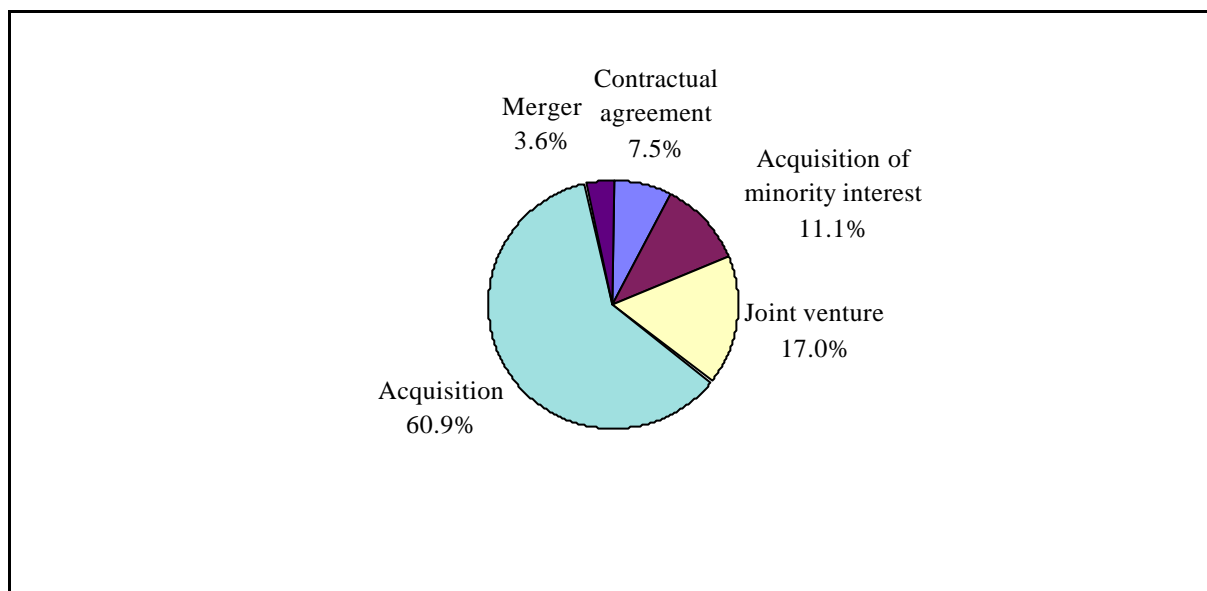
- *Food industry*: this relatively homogeneous sector includes all of the industries related to human alimentation (meat, fish, produce, dairy, beverages, etc.) as well as activities related to animal alimentation.
- *Chemical-Pharmaceutical*: basic and specialized chemical activities are regrouped with pharmaceutical and cosmetic industries. We also include in this sector activities relating to the fabrication of artificial and synthetic fibers.
- *Fabrication of mineral and metal products*: this sector is relatively vast because it combines all activities of production and transformation of mineral-based products (glass, ceramics, cement, plaster, stone, etc.)
- *Fabrication of machines and equipment*: this sector is doubtless the most heterogeneous. It includes in fact all activities relating to the production of machines and equipment for industry and agriculture as well as the fabrication of arms and munitions. The production of domestic appliances is also part of this sector.
- *Automobile industry*: this sector includes all activities on the chain of production of automobiles (for individuals and for transport) including both the primary builders and their parts suppliers.
- *Post and Telecommunications*: the sector includes essentially all telecommunications activities (telephone, EDI, etc.)
- *Banks*: this sector includes all financial intermediation activities (monetary intermediation, leasing, credit supply, portfolio management, etc.)
- *Insurance*: here we find all insurance-related activities (life insurance, property and casualty, capitalization, retirement funds, etc.)
- *Services*: this category also includes a wide variety of activities which all relate to the concept of services provided primarily to companies (legal, accounting, consulting, auditing and financial analysis, publicity, personnel recruiting and training, etc.)

1.3. Legal Classification: Risk Management Strategies

Engagement and involvement on the part of the players varies according to the type of link. If *cooperation agreements* and *minority equity investments* represent only a tentative commitment, *merger-acquisitions* correspond to a more strongly determined affirmation. In the case of cooperative alliances, the engagement of the partners is not definitive and the length of the cooperation is often of a determined period; these links can be qualified as *weak* (or *transitory*) links. By contrast, the merger-acquisitions are irreversible maneuvers that

imply a loss of independence for at least one of the players; these represent a *strong* link between companies. The *joint venture* falls in the middle. Illustration 4 shows the distribution of linkages according to legal classification.

Illustration 4: Legal Forms of Linkages undertaken by European Enterprises from 1993-1998 (n=6,861)

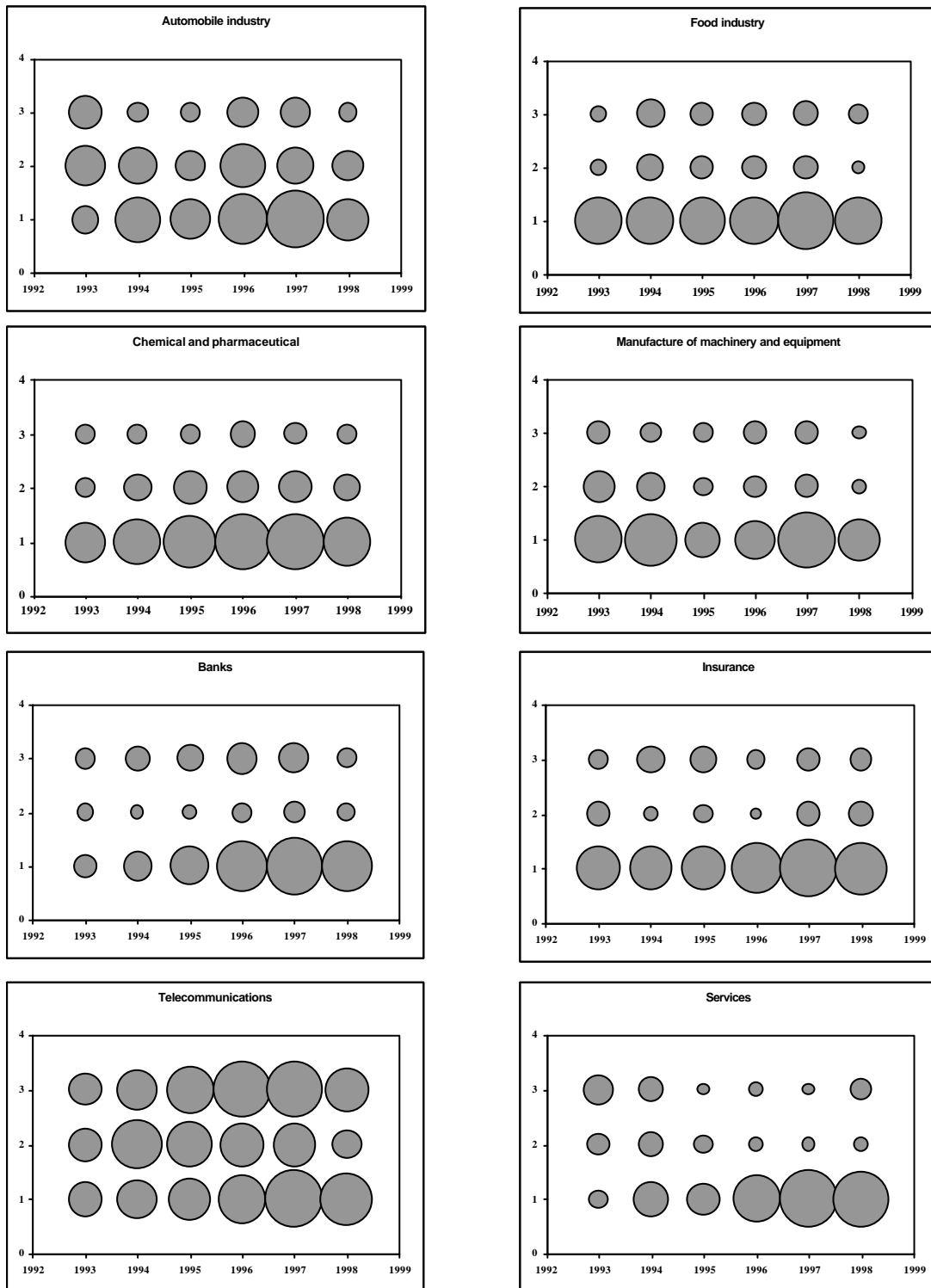


Source: CESAG, Strasbourg, 1999

The commitment from European enterprises appears strong, since the large majority of linkages involve an investment of capital (92.6%). With 60.9%, acquisition is the dominant legal form. Joint ventures represent 17.0% of the agreements and acquisitions of minority interest 11.1%. Only 7.5% of the agreements are simply contractual formalities. Finally, it is important to point out the marginal nature of mergers (3.6%). The predominance of acquisitions shows the structural effect of the linkages: this type of arrangement leads to a substantial reduction in the number of actors. As S. Urban and S. Vendemini (1992) point out, *the opening of the borders in Europe leads to more competition, but with fewer competitors.*

It is interesting to note that the legal classification of linkage varies according to the sector of activity, and more precisely with the degree of maturity and the contextual environment (institutions, privatization, extent to which markets are open, etc.). These distinctions are presented in further detail in illustration 5.

Illustration 5: Legal Configuration by Activity Sector



Légende : The Y-axis represents the legal form of the linkage : 1 = *strong forms* (mergers-acquisitions), 2 = *joint venture*, 3 = *weak or transitory forms* (contractual agreement, acquisition of minority interest). The size of the circle is proportional to the number of alliances counted for the corresponding legal form of the linkage.

Source: CESAG, Strasbourg, 1999.

Examining the evolutions from the perspective of activity sector confirms the predominance of *strong* linkages. But this assessment must be qualified when you look at the dynamics of the evolution of the legal forms of linkage. In fact, technological, commercial or regulatory constraints vary by activity sector and have evolved differently over the course of the last two decades. The variability of these constraints explains to a large extent the differing evolution of forms of engagement selected by the partner companies. But the diversity of conditions proper to each sector has had an impact on choice relating to strategic alliances.

The traditional manufacturing industries of the European economy are today “global” sectors with an important share of worldwide trade (food products, machines and equipment). In these mature sectors, we see a reduction in the number of players, amplified as markets become more global. As growing competitive pressures having pushed prices costs down, the reduction of profit margins has led the companies to reduce their costs.

This rationalization of expenses is often translated by a race for critical size, to achieve economies of scale (basic chemical production, for example). At the same time, the explosion of costs relating to research and development favors complementary research efforts and cost sharing; witness the relative importance of joint ventures in the automobile and pharmaceutical industries or in the sector of specialized chemical production. Illustration 5 clearly shows the trends observed in these important European industries.

The realization of the single market in Europe and progressive deregulation in certain sectors (banking, insurance, telecommunications) have reinforced competition within the service industries in Europe leading to waves of restructuring. Increasing numbers of mergers-acquisitions in the banking and insurance sectors characterize the end of the exploratory period, leading the large European groups to set their sites more globally (cf. illustration 5).

Services provided to enterprises constitute a sector that is growing rapidly thanks to a better understanding of the advantages of outsourcing. The supply is made up of a large number of small, very specialized companies. And the creation of a larger portfolio of competencies supports merger-acquisition activities.

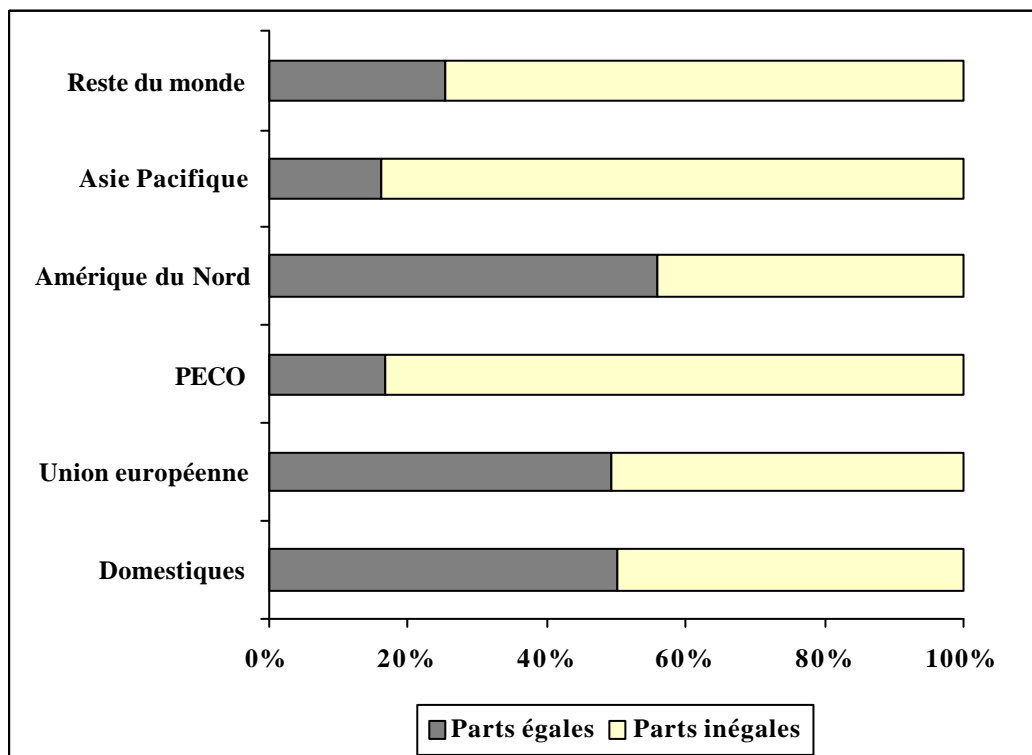
The telecommunications networks are less and less dominated by large national groups. The development of digital technology, price reduction and the growing need to communicate and exchange information are at the origin of very large growth in the sector. But this revolution

is fairly recent. As users become more diverse and demanding, companies are pushed to diversify their portfolios of partners by multiplying the types of agreements they undertake: acquisitions (integration and enlargement of the supply), joint ventures (partnership with information enterprises) and contractual agreements (commercial partnerships, network enlargement).

These few examples are only a partial representation of the complexity and diversity of the economic realities that govern the choices in terms of type of interfirm linkages sought in the different sectors of activity. But the individual description of the specific situations is more than can be addressed within this chapter.

An entity's legal and financial control is also determined by ownership and distribution of social capital. The data that follows concerns joint ventures from this viewpoint. We observe first of all that European companies hold a majority control of common capital in zones which are high risk or far-away (and therefore less well known) or because of lack of local capital; on the other hand, in zones which are geographically or culturally close, a preoccupation for control of capital is less strong and is more balanced: cf. illustration 6.

Illustration 6: The Distribution of Capital in Joint Ventures by Geographical Zone (% of total) from 1993-1998 (n=754)



Source: CESAG Strasbourg, 1999

1.4.1. Underlying Strategic and Operational Schemes: From Congeniality to Force

These schemes can be approached at different levels since each decision is influenced by two series of trends: on the one hand, we have the *bottom-up* pressures, which take into consideration the preoccupations of the players at the base of an organization; on the other hand, we have the *top-down*, pressures which express the desires of the organizational leaders or top management. These pressures exist whether the organizations are public (national or European agencies, for example) or private (companies, groups, etc.).

1.4.1 Logical Foundations

On the macro-economic level, it is understandable that even in the case of a free economy, which stimulates and gives a sense of responsibility, the governmental authorities cannot be completely disinterested in entrepreneurial dynamics since they affect overall growth and employment. In fact, in modern history, governments have always paid attention to this factor, whether to stimulate a competitive international dynamic or to gain power or influence (Perroux, 1954, 1961, 1969, 1973, 1982; Urban, 1998), or to ensure a minimum level of self-sufficiency in strategic areas of defense or communications. Terms have been coined to illustrate these preoccupations: policies of “national champion,” alliances for aid (with Russia, for example), alliances for prospective development (such as China or Brazil), etc. On a European level, “Euro-strategies” have been implemented, imposed by broader competition or by a more sophisticated demand, or by the necessary diversification of managerial competencies (Urban and Vendemini, 1992; Jacquemin and Pench, 1997; Economic Advisory Committee, 1997).

At the micro-economic level, four deep-reaching trends explain the importance of interfirm linkages during the last two decades:

- The dynamic of change in a global environment calling for rapid adaptation and an anticipation of new trends, and therefore internal restructuring;
- Competition in the area of know-how, obliging companies to join with their homologues to optimize areas of competence (technological, commercial, etc.) and resources, and/or to develop new joint competencies;

- The need to reduce research and development, production, and marketing costs and to share the risks and costs linked to the development of new products;
- The ambivalent balance between outsourcing certain functions in order to refocus activities on a core business and the development of new activities in order to maintain control over the entire production process.

1.4.2. Strategic Expression

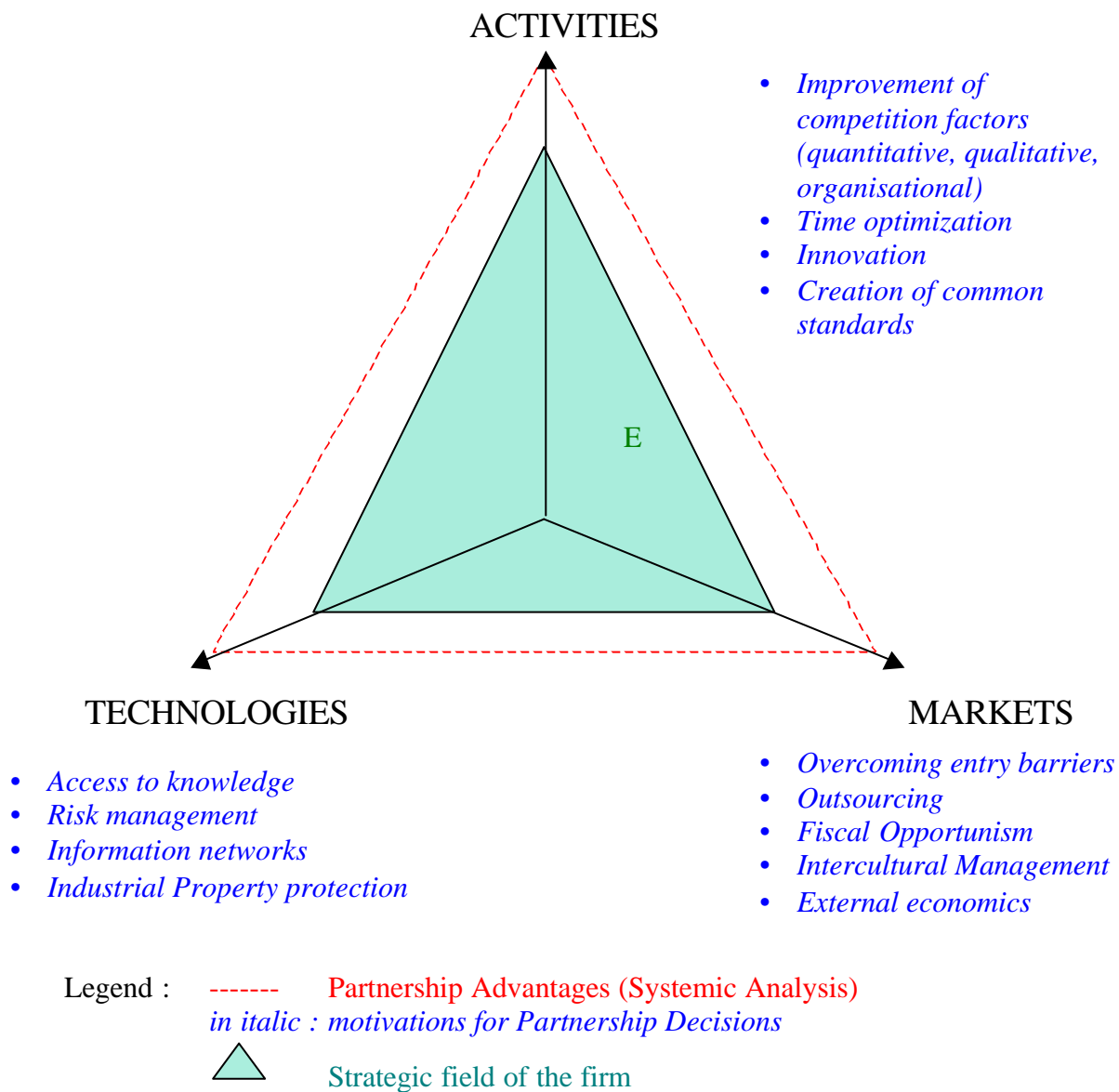
In terms of strategic content, the underlying logic of interfirm linkages can be located along three axes (see illustration 7): Activities, Technologies, Markets, each of these support the creation of value, relative to their capacity for adaptation and the expectations of the individual firm (or group of firms).

It is clear that every autonomous company or industrial group must combat each of the problems mentioned, but interfirm linkages allow for the acceleration or deepening of a solution (at least in principal - the application of agreements can, of course, lead to a variety of surprises).

Section 2: The Dynamics of Linkages: Strategy for Adapting or Anticipating?

In a context where environmental changes are accelerating and multiplying (Hafsi and Demers, 1997), the ability to adapt and anticipate conditions to a large extent how competitive a firm is. Adaptation refers to an organization's capacity to respond to change; anticipation relates to a prospective vision or to an ability to predict future needs and trends (Baumard, 1996; Hamel and Prahalad, 1994). What is the primary rationale of these linkages? Are companies developing alliances in order to adapt to new conditions in the environment or are they, on the contrary, anticipating future events?

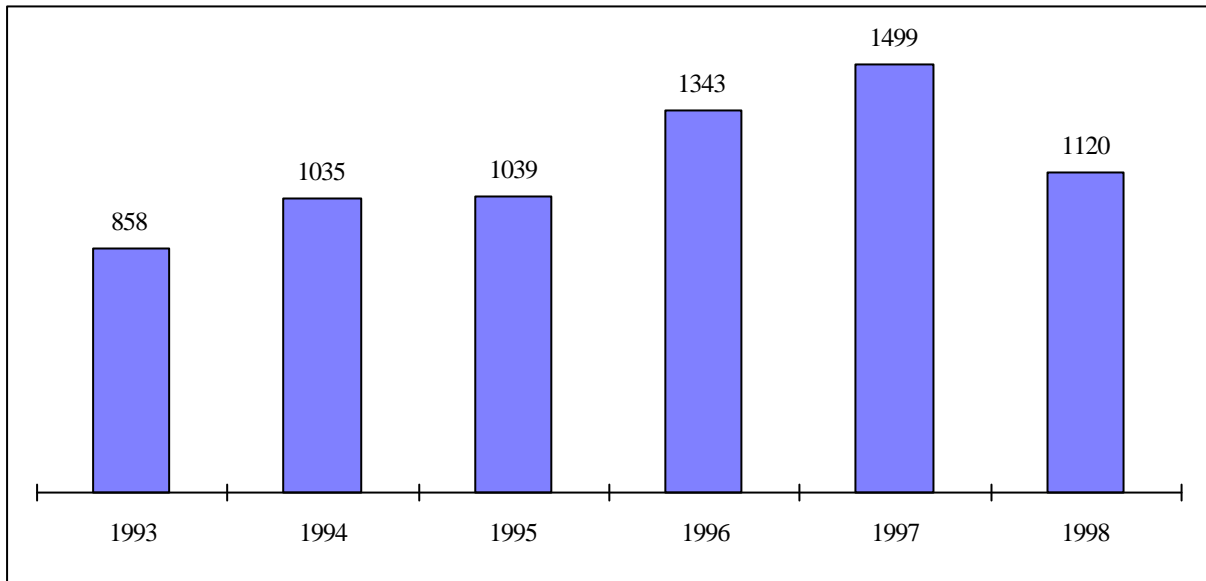
Illustration 7: Axes of a Development Policy Coordinated Among Several Actors



2.1. The Evolution of Linkages (1993-1998)

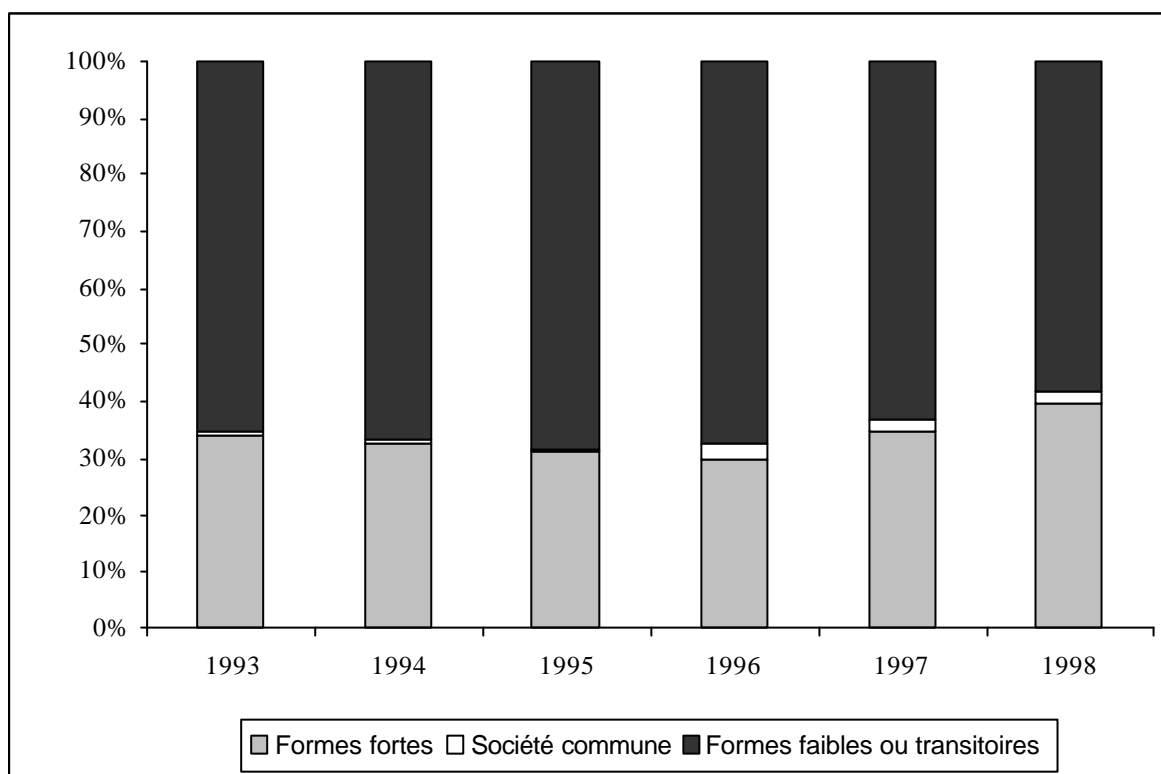
If, during the 1980's, interfirm linkages saw a growing development, the beginning of the 1990's marked a relative stabilization, or even a decrease, in agreements (Braxton Associates, Horack Adler & Associates and Morris, 1995; Mertens-Santamaria, 1997). Illustration 8 shows the evolution in the number of agreements undertaken by European companies between 1993 and 1998.

Illustration 8: The Evolution in Number of Interfirm Linkages Undertaken by European Companies from 1993-1998 (n=6,894)



The numbers presented reveal that interfirm linkages increased in popularity between 1993 and 1997 before decreasing in 1998. But, we need to note that the value of the operations has considerably increased. Between 1991 and 1997, the value of merger-acquisitions even quadrupled (Globus, 1999a). Similarly, cooperative forms of linkages have deepened (Urban and Mayrhofer, 1999) and cover an increasingly broad field in the value chain (research and development, production, distribution, etc.). Since 1996, the stronger forms of linkage have been developing clearly to the detriment of the weaker forms: cf. illustration 9.

Illustration 9: The Evolution of Agreements Undertaken by European Companies by Form of Integration in % of Total per Year from 1993-1998 (n=6,613)



Source: CESAG, Strasbourg, 1999

2.2. Towards a Reconfiguration of Actors in Interfirm Linkages?

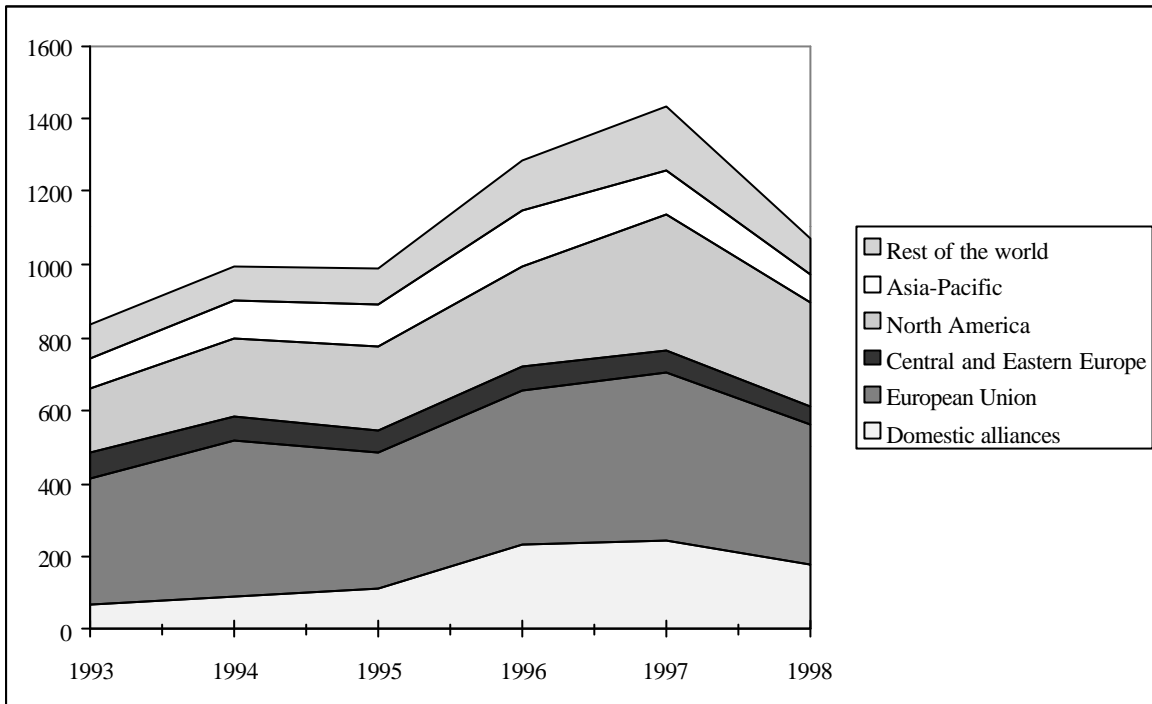
Table 2 and Illustration 10 show the evolution and the geographic repartition of the alliances undertaken.

Table 2: Geographic Dynamics of Linkages Undertaken by European Companies from 1993 to 1998 (n=6,613)

Nationality of the partner	1993	1994	1995	1996	1997	1998
Domestic alliances	64	90	112	231	242	176
European Union	350	427	372	420	459	384
Central and Eastern Europe	67	64	60	70	62	50
North America	176	215	230	276	371	290
Asia-Pacific	84	106	117	151	126	75
Rest of the world	97	93	98	136	174	98
TOTAL	838	995	989	1284	1434	1073

Source : CESAG, Strasbourg, 1999

Illustration 10: Geographic Dynamics of Linkages Undertaken by European Companies from 1993 to 1998 (n=6,613)



The spatial dynamics of the linkages reveals a relative stability in the European-based alliances. Europe is really becoming a unified entity (Urban and Mayrhofer, 1999). Moreover, we see that Europe is becoming more global little by little. The progression of linkages with North American partners confirms the figures recently presented for foreign direct investments (FDI): the FDIs effected by European companies in North America have, in fact, have seen a strong expansion in recent years (Les Notes Bleues de Bercy, Number 164, 1999).

Table 3 emphasizes the dynamics of interfirm linkages by sector. For each year of observation, the ten most active sectors are indicated.

The table shows that, while the five top sectors remain very active during the entire observation period, the repartition of sectors nonetheless fluctuates between 1993 and 1998. Thus, the weight of the agreements undertaken in the service industries tended to increase. This confirms that the figures recently presented by the United Nations: in 1991, 41% of the international merger-acquisitions were made in the tertiary sectors, yet these represent 59%

of the agreements in 1997 (Globus, 1999a). This trend seems to be accentuated since in 1998 two new tertiary sectors make the list: information technology and retail business.

In summary, observation of the evolution of geographic distribution and distribution by sector indicates a reconfiguration of the actors participating in interfirm linkages. The phenomenon extends now to a larger group of countries and sectors of activity. Furthermore, a recent study by the authors also indicates a growing participation of companies of more modest size (Urban and Mayrhofer, 1999).

Table 3: Dynamics by Sector of Linkages Undertaken by European Companies from 1993 to 1998

SECTOR	1993	1994	1995	1996	1997	1998
Chemical and pharmaceutical products	x	x	x	x	x	x
Banks	x	x	x	x	x	x
Food industry	x	x	x	x	x	x
Telecommunications	x	x	x	x	x	x
Manufacture of machinery and equipment	x	x	x	x	x	x
Automobile industry	x	x	x	x	x	
Insurance	x	x	x	x	x	x
Services		x			x	x
Manufacture of non-metallic mineral products	x	x	x	x		
Manufacture of basic metals		x			x	
Electricity, gas and water supply				x	x	
Radio Television and Motion picture	x			x		
Computer and related activities						x
Retail trade						x
Manufacture of railway, aircraft, spacecraft and ships	x					
Publishing, printing and reproduction of recorded media						x
Manufacture of pulp, paper and paper products			x			
Manufacture of electrical equipment			x			

2.3 Strategic Alliances and Value Migration

The creation of value is, ever more so, linked to know-how and to the integration of new technologies in the production of goods and services. This reality is seen in the growing contribution of intangible assets and of services in international trade as well as in FDIs. This observation is equally true for linkage operations.²

It appears that interfirm linkages aim to provide a technological *push* in several cases:

- In sectors which have reached maturity and are in need of rejuvenating, as mentioned in the proceeding paragraph;
- In sectors with intense capital needs and rapidly changing technology;
- In sectors seeing a particularly rapid globalization of their markets;
- In developing sectors where the actors need to impose new joint norms on the market in order to gain authority.

Beyond technological mastery, know-how and a pertinent business design (Sliwotzky, 1996) are fundamental for an organization's expansion and profitability. So learning of every kind (intellectual, operational, relational (Urban, 1999)) is a major objective (explicit or implicit) in interfirm linkages.

And the ability to learn needs to be organized. The advantage of implementing flexible structures, a network rather than a centralized structure of the "chateau" type, for example, is generally recommended (Butera, 1990; Barlett and Ghoshal, 1989; Baudry, 1995).

From this point of view, the diversity of European managerial cultures can be seen both as a handicap and as an asset; but, with influential consulting and auditing firms working to homogenize standards internationally, this diversity is decreasing.

² Beyond data from the CESAG data base presented above (1.1-3 and 2.1) we refer to the works of the European Commission published in *Panorama de l'Industrie Communautaire*, particularly 93, 101-108 and 94, 23-36, Luxembourg, Eurostat, as well as to the annual reports of the DG IV on competition politics (the most recent report, Number 27, concerns the year 1997), Brussels, EU

2.4. Towards “Co-opetition:”³ Trust or Treachery?

The term co-opetition calls up two antithetical concepts, that of competition and that of cooperation (or partnership, agreement). It is both war and peace, associated by a game theory, or precisely by the schematic representation of a “value network.” The value network situates the “players” in relation to one another and shows their interdependence. Etymologically, partners are parts of a set. In fact, we want to point out a paradoxical logic (Aliouat, 1996) in the development of enterprises, conceptualized by François Perroux in a premonitory fashion in 1960 with the original analysis of the bivalent relation between “competition-cooperation,” a persistent underlying economic factor. The principle itself of co-opetition is based on the idea that a common action, associating several players, allows for the creation of added value, profitability, time savings, productive and organizational flexibility, international influence, negotiating power, etc. which are stronger than that which could be gained from a solitary action. This generalized theory is not, however, evident in practice; in order to be led in a judicious manner, a collaboration calls for clear procedures, a common system and trust among the partners. Without these explicit guidelines, an adequate legal structure and trust, the sharing of resources, power and influence will in the end be illusive and value destructive. The traps and possible sources of conflict are numerous (Urban and Vendemini, 1992):

- Interfirm linkages may ruin the entrepreneurial and innovative dynamics of previous companies through poor reorganization of human resources.
- The assets and know-how previously attained risk being diluted or dilapidated in a “melting pot:” eliminating the creation of value.
- Savings (in terms of cost reduction) and new synergy have also increase costs relating to managing the complex organization: relations of cause and effect are blurred, there is a multiplication of relations between the different parts of the new system, leading to loss of time and money.
- Complementarity of competence imagined at the outset is sometimes poorly evaluated or proves unstable, leading to a zero sum game or even a loss of value.
- The reduced level of incertitude imagined *ex ante* proves in illusive in the end in many cases: competition is simply displaced, with competitive battles taking place on a larger

³ The term is from (Nalebuff. and Brandenburger, 1996).

scale (more competition with fewer competitors) and in more extreme conditions. For example, we can cite the case of the American group Alcan, which proposed buying Reynolds (in August 1999) in order to remain first in the world in aluminum, this in response to a plan for merger between Alcan (Canada), P echiney (France) and Algroup (Switzerland).

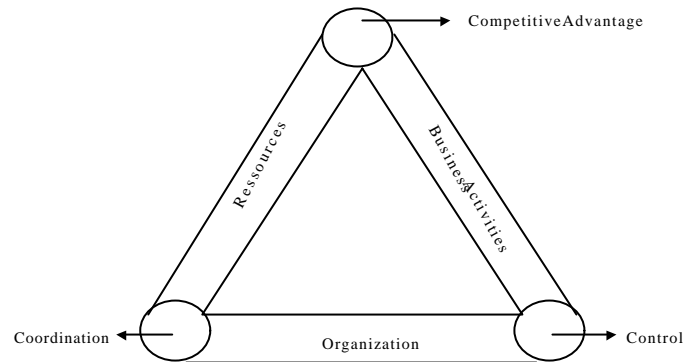
Both academic literature and more confidential studies done by consulting firms evaluate the failure rate at about 50% for interfirm linkages. But in each study, the samples are limited to a single sector, country, short time-frame or portfolio of clients. Despite this bias, the results are, nonetheless, severe. Given the investigative methods used (reports from participating companies, analysis of captive situations) the evaluation is approximative since failures are not likely to be revealed by the concerned actors. A larger field of investigation for future research would be that of the dynamic of agreements, or their evolution from the initial agreements. Until we have these systematic studies, we will have to be content with conjectures and suppositions. For now, the forward race of giants launched in a war among giants leaves the observer perplexed. The social sacrifices that figure into the cost of linkages are a subject for concern because they question the principle of social-democracy which Europe has, up to now, embraced.

CONCLUSION

In conclusion, we need to ask the following fundamental question: are interfirm linkages a means for adding value, relevant for companies as well as for society as a whole (considered as a global organization)? From two different perspectives, the answer is far from evident.

On the individual level of companies, David J. Collis and Cynthia A. Montgomery (among others) present an analysis in a case published in the Harvard Business Review (May-June 1998) in which they propose a sort of golden triangle.

Illustration 11: The Triangle of Corporate Strategy



Source: based on Collis and Montgomery, HBR, May-June 1998, p. 72.

From this outline we see that, in order to be effective, competitive advantages must be rigorously managed. It is precisely here that the partners (especially international partners), present many problems! Furthermore, it is not sure that the resources of a newly constituted group are multiplied and not merely an addition of the initial resources of the individual players. The progressive integration of “Eastern Europe” into “Western Europe” cruelly illustrated this point during the 1990’s (Gemünden and Ritter, 1998; Engelhard and Blei, 1998; Schliesser, 1998; Stewart, 1998).

On the societal level the response is equally ambiguous (Ricciardelli, 1998). What is sure on the other hand is that European companies have seen a real frenzy in linkages: cooperation agreements, alliances, mergers, acquisitions, and joint ventures are all in vogue.⁴ Without a doubt, Europe is on the move, and not only on the defensive!

⁴ Linkages among “stars” in 1999 are in fact most common during the past year: infrastructures (Vivendi RWE, Vivendi-US Filter), production and distribution of energy (Alstom-ABB, EDF-Louis Dreyfus, Scottish Power-Pacicorp), nuclear activities (Cogema- CEA- Siemens), arms manufacturing (GIAT Industries-Vickers-Alcatel-Thomson CSF), oil, chemical and pharmaceutical activities (Hoeschst Rhône Poulenc, Elf,-Total-Fina, Air Liquide-BOC, Zeneca -Astra, Sanofi -Synthélabo), automotive (Ford-Volvo, Renault-Nissan, Volvo-Scania), aeronautics (Dasa-Casa, British Aerospace-Marconi Electronic Systems, Aerospatiale-Matra), information technology and telecommunications (Vodafone-AirTouch, Olivetti-Telecom Italia, Alcatel-Xylan, GEC-Reltec, Deutsche Telekom-One Zone, Microsoft-Deutsche Telekom and Bertelsmann, Deutsche Telekom-France Telecom, Ericsson-Qualcomm, Siemens and Fujitsu), luxury industry (Pineau/Printemps/Redoute-Gucci), audiovisual (Vivendi-Pathé) and banking (Banco de Santander-Banco Central, San Paolo/IMI-Banca di Roma, Comit-Banca Intesa, BNP-Paribas, etc.).

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