

A Study about International Strategic Alliance: A Case Study in the Auto Industry

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Abstract: - An international strategic alliance is a difficult partnership, often creating complicated issues relating to technical decisions, management, and various cultural matters. The purpose of this research is to consider the condition of a successful international strategic alliance based on the experience of a Japan-U.S. company. The auto industry is currently experiencing a period of major changes. One such change is to the source of mobile power. Another big change relates to the rise of automakers in emergent countries. This paper attempts to show finished vehicle makers in the developing nations how established automakers operate successfully. This case study indicates that quality management is more important than economic scale in the strategic alliance between automakers. The purpose of a successful strategic alliance is to cancel the skill gap within the auto industry. Finished vehicle makers must learn to build organisational capability at the deep layer and embrace new vehicle technologies such as environmental technologies.

Key-Words: - International strategic alliance, Organisational capability, Deep-layer competitiveness, Auto industry, Case study

1. Introduction

The auto industry is currently experiencing a period of major changes, none bigger than the complete rethinking of mobile power. Concerns about environmental problems have created a demand for electric engines to replace the gasoline engine, which has been used for more than a hundred years.

Another major change is the rise of new automakers in countries with emergent economies. At one time, automakers in industrialised nations led the auto industry, while in emerging economies, the trust of supply and the production of parts were largely shared among different automakers. Today, however, a number of companies with the ability to produce cars as an independent brand are appearing in these countries. Furthermore, they are extending their exports to the global market because of superior price competitiveness.

As for mobile production, the structure of the product in automotive manufacturing is more complicated than textiles or household electrical appliances, and the standard for quality is high. Superior technology and experience are needed to cope with various manufacturing requirements including design characteristics, comfort, safety, fuel efficiency, and price. Furthermore, for new technical developments, such as the battery-powered car, a substantial amount of investment is required. Therefore, environmentally friendly production is very difficult to achieve within one company only, and mergers and acquisitions (M&A) is pushed forwards as a business model worldwide.

On the other hand, international strategic alliances present technical, management, and various cultural difficulties. Among mobile finished vehicle makers, many international strategic alliances have been attempted, but have often failed.

The purpose of this research is to consider the conditions under which an international strategic alliance can succeed, based on the experience of a joint Japan-U.S. company. The results of this research could be used to help the organisational practices of finished vehicle makers in developing nations.

2. Precedents in Survey Research

According to Porter (1986) and Bartlett and Ghoshal (1989), internationalisation is defined in contrast to

globalisation as follows. *Internationalisation* is the condition in which the activity stage is enlarged and spread from the originating country into foreign countries. *Globalisation*, on the other hand, is the state in which the interdependence of the economic administrative action advances on a global scale.

Strict globalisation is strategic. Companies that are globalised regard the world market as a single market, perform value-added activity intensively in one place, and enjoy economic effectiveness and economics of scale. However, it has become difficult to retain a competitive advantage simply by keeping resources centralised and developing a product internationally.

The purpose of globalisation is to develop value-added activity on a global scale and retain a competitive advantage. Thus, globalisation must include the following two elements. First, a supply of various ideas and financial resources must be obtained from all over the world so that the base of a company's innovation is strengthened. Second, R&D and production must be localised to meet the needs of local markets in many parts of the world.

According to conventional ways of thinking, a company's management resources or technology should be centred within its own country. This line of thinking, however, has made it difficult to build a global advantage. Local characteristics continue while technology is standardised internationally. Although a market is globalised, the local preference is decentralisation. Innovation based on local strength disperses throughout the world. Knowledge and competence become fluid globally. Companies must also consider the various kinds of regulation established in each country as well.

At this point, M&As are considered to create an advantage in global competition. Heller et al. (2005) advocate for the importance of "minimum optimal scale" in the auto industry. For an assembly line, around 200,000 units a year represent the minimum optimal scale, and the engine processing is almost double that. Furthermore, for a full-line automaker seeking to cover the entire car market, four or five platforms (a basic car type) represent the minimum optimal scale. In fact, the numbers of sales of a main car manufacturer competing on a global scale far exceeds one million units. Therefore, the purpose of an M&A cannot be justified only by economy of scale.

According to Heller et al. (2005), the indexes that measure the competitiveness of a production company are classified in at least three ways. The first is deep-layer competitiveness that is invisible to a customer (e.g., costs, quality, delivery, flexibility). The second is visual surface layer competitiveness (e.g., brand power, the price of the product). And the third is earning capacity as shown in financing indexes such as the various profit rates or stock prices.

Heller et al.'s (2005) evaluation of the competitiveness and earning capacity of car manufacturers that compete on a global scale found the following. Japanese-affiliated companies such as Toyota and Honda are very strong in the competitiveness at the deep layer (development, manufacturing technique). European companies are far less competitive at the deep layer, but their strategy is strong. Their strategic construction capability and visionary capability are particularly good.

According to Doz and Hamel (1998), three points support the logic in creating value through a strategic alliance.

- (1) Construction of a critical mass: Weaknesses are mitigated by partnering with a company offering complimentary services or with a potential competitor, and new business is created.
- (2) Entry to new markets: New value and opportunities are created by combining with another company's management resources, position within the industry, skills, and knowledge.
- (3) The cancellation of the skill gap: A company's competence is expanded by what it learns from a partner, and it internalises the result.

In the auto industry, it is thought that the most important purpose of an M&A is the increased quality of management rather than the increase in the economy of scale (capability reinforcement, strategic complementation, brand reinforcement). The expansion of organisational capability is more important than the increase in numbers. In other words, the company benefits most from a new capability to develop a product that satisfies customers, and a manufacturing technique that operates at low cost. Of the three ways to create value through strategic alliance, the cancellation of the skill gap represents a competitive advantage for a car manufacturer.

3. A Case Study

Japanese-affiliated companies tend to be competitive due to great deep-layer strength. For example, Toyota and Honda both exhibit deep layer competitiveness, and their surface competitiveness is comparatively strong. Thus, the profitability of both companies is high. On the other hand, while both Nissan and Mazda exhibit deep layer strength, they have had problems managing financing, design, and brand construction. Those companies saw decreased profits due to managerial errors in the 1990s, but their surface competitiveness was strengthened by cooperating with a European and an American automaker, respectively (Renault and Ford), and they improved their earning power.

As another example, Ford had the large market share in the North American market, but automotive tastes in that market were peculiar (a truck type accounted for more than 50% of sales). Because the truck type was big and had poor fuel efficiency, it did not meet the needs in markets outside of the U.S. The organisational capability of Ford was strong in producing a truck type, but their compact car development was weak. Therefore, the M&A was an important approach when Ford planned a strategy abroad. Ford was able to bridge their skill gap by cooperating with Mazda.

The strategic alliance between the two companies allowed them to share their knowledge in various fields (manufacturing technique, marketing, product joint development, the co-production in the JV factory, approach to financial management, and changes within personnel affairs) and both companies bridged the skill gap within 30 years due to their alliance. The positive effects of this alliance appear in the profit margins for both companies. Ford has achieved a particularly strong showing in Europe, an Asian region. For example, Ford and Mazda compact cars are produced jointly at a Ford factory in Spain. Compact car co-production in the JV production plant began in 2008 in Thailand and China as well. Furthermore, Ford announced plans to build a factory (150,000 unit production capacity) for the exclusive production of a Ford compact car in Chongqing City in China in September 2010. The learning exchange enabled by the alliance between Ford and Mazda was successful, and Ford could produce small cars in China, which is now the world's largest market.

The thirty-year alliance between Ford and Mazda bridged their respective skill gaps and achieved the purpose of the original alliance. The fact that 20% of the Mazda stocks that Ford held in 2010 were sold is proof that the alliance of both companies come to a natural end.

4. Discussion

Finally, we should consider future changes to the auto industry. In recent years, the demand for low-priced compact cars has increased rapidly in the Asian region and the demand for environmentally friendly cars (either hybrid or battery-powered car) continues in developed nations. It is very likely that demand will rise for these environmentally friendly cars in the growth markets (China, India) due to environmental problems, the remarkable rise of gas prices, and environmental concerns over rapid auto diffusion in emerging markets in the future. The emerging Chinese automakers (BYD, cherry) have accelerated the development of the battery car, and a coming reorganisation of the automotive industry seems inevitable.

Concerning the battery-operated car developed by automakers in emergent countries, it is unknown how successful it will be in terms of quality, performance, and safety. But, generally, the relations between the components in a battery-powered car are simpler than those that have a conventional internal combustion engine. A battery-powered car also adds a considerable degree of freedom in the design. Therefore, a battery-powered car advances the open modularisation to some extent.

However, in the mobile development and production of automobiles, complicated requirements such as appearance, interior decoration specifications, design, function, maneuverability, and safe performance must all be realised. A car is hard to become a simple system such as the Lego block-shaped product. Thus, the deep-layer competitiveness that Japanese-car manufacturers tend to exhibit is still necessary. Predicting what will happen in the auto industry is difficult, and various changes are possible. For finished vehicle makers in emergent countries understanding the organisational capability that build deep layer strength will be as important as understanding new technologies such as environmental technologies.

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