Becoming a Triad power: the new global corporation

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Das internationale Beratungsunternehmen McKinsey hat sich zur Aufgabe gestellt, in enger Zusammenarbeit mit der Führung von Klienten-Unternehmen praxisnahe Lösungen für aktuelle Top-Management-Probleme zu entwickeln und einzuführen. Ziel ist dabei die nachhaltige Verbesserung und Leistungsfähigkeit der beratenen Unternehmen und Organisationen. McKinsey wurde 1925 in den USA gegründet; derzeit beraten 38 McKinsey-Büros in 19 Ländern private und öffentliche Organisationen in allen Fragen der Unternehmensführung. In Deutschland, Österreich und der Schweiz arbeitet McKinsey seit 1964 mit heute ca. 200 Beratern und etwa ebensovielen Mitarbeitern in Stabs- und administrativen Funktionen. Jedes McKinsey-Büro ist eng mit den Merkmalen und spezifischen Management-Problemen seiner Region vertraut, nutzt dabei aber den weltweiten Erfahrungsschatz des Gesamtunternehmens.
Bei der naturgemäß vorhandenen Heterogenität der Klientenorganisationen und Beratungsthemen sieht McKinsey, vor allem für Großunternehmen in Nordamerika, West-Europa und Japan eine Reihe von wesentlichen Herausforderungen, deren Bewältigung entscheidend für den langfristigen Unternehmenserfolg sein wird: Die Sicherung der Innovationskraft durch leistungsfähiges Technologie-Management, die Globalisierung wichtiger Märkte, die Bildung von internationalen Kooperationen und strategischen Partnerschaften, neue Formen der Organisation und Unternehmensführung, Entwicklung und Motivation von Führungskräften und Mitarbeitern, sowie die politische und gesellschaftliche Verantwortung der Unternehmen. Der Autor des folgenden Artikels, Dr. Kenichi Ohmae, geht auf eines dieser Themen in seinem 1984 erschienenen Buch »Triad Power« (herausgegeben durch The Free Press) mit der zentralen These ein, daß international operierende Unternehmen den Schlüsselmärkten Europa, USA und Japan — ungeachtet der Entfernung vom Sitz der Unternehmen — gleiche Aufmerksamkeit widmen müssen. Dieser Artikel ist dem zitierten Buch entnommen, welches 1985 unter dem Titel »Macht der Triade« im Gabler-Verlag erschienen ist.

Three major markets — the »Triad of Japan, Europe and the United States — are emerging as the most important stategic battlefield for any company operating on a global scale. The author pinpoints four trends — increasing capital intensity, soaring R&D costs, converging worldwide consumer tastes and intensifying protectionism — which together make it imperitive for a company to have an inside presence in all three Triad regions. He looks at the steps some companies have already taken toward becoming a Triad power.

Three great market regions — Japan, Europe and the United States — dominate the world of multinational business today. The combined gross national products of Japan and the United States now account for 30 percent of the free world's total. Add in the GNP of the four biggest Western European nations — the United Kingdom, West Germany, France and Italy — and the figure reaches 45 percent. Customers in the Japan-Europe-US Triad buy over 85 percent of all computers and consumer electronics products. Japan, the United States and West Germany alone comprise 70 percent of the global market for numerically controlled machine tools.

The Triad countries all have similar problems: mature economies, escalating social costs, aging populations, a growing scarcity of skilled jobs, dynamic technologies and escalating R&D costs. Triad markets, too, are increasingly similar. Capital equipment until recently reflected its country of origin. Now the best-selling factory machines have become almost identical not only in apearance but in the skills required to operate them. There are 600 million consumers in the Triad with converging needs and preferences. Gucci bags, Sony Walkmans and McDonald's golden arches are seen on the streets of Tokyo, London, Paris and New York. Companies like Seiko, Sony, Canon, Matsushita, Casio and Honda are now routinely developing products for a world market, with minor modifications depending on local tastes.

All this has far-reaching consequences for multinational business. Quite simply, global enterprises organized for doing business in the 1960s are out of date.

Following World War II, American multinational enjoyed a virtually insurmountable technological and competitive edge and could straddle Latin America, Asia and Europe. From 1945 to 1965 some 2,800 US businesses had stakes in 10,000 direct investments abroad, aimed in most cases at exploiting a technological advantage (IBM, Texas Instruments, Xerox), a unique product (Gillette, Kellogg), or a leading position in US industry (General Motors, International Telephone & Telegraph). Most of these subsidiaries were clones, so to speak, of the parent organization, each with its miniature versions of corporate headquarters.

Many of today's leading world enterprises are still structured along traditional lines. Yet the world around them has changed dramatically. Consider:

- Siting production facilities in low-labor-cost locations — the »global enterprise« model — is still the fashion. Yet the economic advantages of doing so are likely to be short-lived. Most competitive Japanese companies, for instance, are today pulling out of Southeast Asia and investing in capital-intensive robots and machines.
- A strategy favored by American MNCs has been to develop a proprietary technology and exploit it first domestically and then abroad. Today, they don't have time to leisurely market new and probably much more expensive technological developments; many competitors possess comparable technological skills, making it almost impossible to sustain a technological monopoly; and the global diffusion of new technology has become a matter of months, not years.
- In the Triad markets, a new breed of consumers is emerging, similar in education, income, life style and aspirations. These 600 million customers exhibit the same basic demand patterns and can be treated for marketing purposes as a single species. They all want the best products at the best price, regardless of origin.
- At the same time, protectionist pressures

in each of the OECD countries are mounting, and economic nationalism is fueling a global trend toward bloc economies.

These interrelated forces have momentous implications.

Capital-intensive operations

Automation, robots, machining centers and numerical controls have vastly increased productivity in the past decade. They have halved the labor content of traditional assembly operations, facilitated quick changeovers in manufacturing processes and made possible greater flexibility in plant siting. Microprocessors have swiftly driven down the cost of computer power. Computer-aided design and manufacturing (CAD/CAM) are begetting a manufacturing revolution.

The competitive repercussions of this shift from labor to capital in production are already evident in the automobile industry. To produce over 13 million vehicles a year, the entire Japanese automobile industry (automakers, component suppliers and automobile contractors) employs only 670,000 people — slightly fewer than the global workforce of the single largest US automaker.

During the past decade, Toyota, while increasing its output 3½ times — to 3,3 million units a year — has, by reducing production man-hours, managed to maintain its workforce at about 45,000. The productivity of Toyota's rival Nissan is likewise about twice that of its global competitors. These companies have changed the traditionally labor-intensive auto industry into a capital-intensive business.

The story is the same in electronics. During the past five years, the workforce required to assemble a given consumer electronics product has been halved, and direct labor costs have been driven down to an average 5 percent of total costs. Likewise, the semiconductor industry has become a fixed-cost, capital-intensive game, as opposed to the variable-cost, »learning«-intensive business of only five years ago.

The trend is even more prevalent in continuous processing industries like chemicals, textiles and steel, where automated control systems enhance productivity and competitiveness. In two of Japan-s leading steel mills, Nippon Steel and Nippon Kokan KK, the labor tab hovers around 10 percent of total costs.

This shift from labor to capital intensity shatters the mirage of low-cost labor in developing countries. Companies used to locate their operations in low-labor-cost countries so as to bring down variable costs. Third World labor costs still average only a third of those in developed nations — but when direct labor content accounts for less than 10 percent of total manufacturing costs, the costs of transport and insurance can more than offset the advantages of cheap labor. For example, the typical cost of transporting a color television set from Southeast Asia to California, including duties and insurance, is 13 percent of free on board (FOB), totally outweighing the 10 percent savings in labor cost.

Changed economics

Typically, therefore, the economic tradeoff will favor siting a production facility either where the product will be sold or where important component parts are available. The same logic applies in industries where product life cycles are short: constant changes in molds, jigs, tools and components make production locations remote from the core engineering group very inconvenient. Together with the lack of qualified workers and local managers, these factors have reduced the attractiveness of siting production facilities in developing countries. The Japanese chip-makers have been the latest to learn at first hand what the color television (CTV) and textile industries discovered earlier: cheap, inexperienced labor must be trained and, once trained and experienced, does not stay cheap very long.

Managers in automated industries who fail to recognize the implications of this shift from labor to capital will find their profit margins severely squeezed. Automated operations are better equipped to fight inflation, since the ratio of labor cost to total manufacturing is bound to increase when sales are declining or wages rising. Automated operations also resist recession. Highly automated Japanese facilities such as Yamazaki (machine tools) and Fujitsu Fanuc (numerical controls) are said to break even at 10 percent of capacity. Other manufacturers like Toyota claim that they can operate at 70 percent and still not lose money.

But this shift from labor- to capital-intensive production has a further consequence. To achieve the economies of scale needed to defray the heavy initial investment and the outlays for continuing production process innovation, deep and immediate market penetration becomes necessary. In the semiconductor and machine tool industries, even domestic markets as large as Japan or the United States have proved too small to support global-class automated plants.

At the same time, to keep product lines attuned to the demands of the market and to be responsive to competitive challenges, it is more vital than ever to be close to the customer. Constant product innovation and strongly entrenched distribution channels to reach prime markets may be key success factors. Once a product becomes, in effect, a commodity that can be made by numerous competitors, and cost-reduction, opportunities are roughly the same for all participants, a superior distribution capability that enables a company to sell large volumes of nondifferentiated products at the lowest cost to the end user becomes the key to survival.

Costs of development

The interaction between scientific disciplines, between industries, and between industries and services is blurring existing economic power patterns. So rapid has the pace of technological innovation and its commercialization become in the high-tech industries that a technological advantage can be eroded virutally overnight.

Five vanguard hig-technology industries (electronics, data processing, telecommunications, fine chemicals and pharmaceuticals), accounting today for just over 6 percent of GNP in the OECD nations, contributed no less than 16 percent of their economic growth between 1975 and 1980. The same hig-technology group averaged 1.49 times the sales growth, 2.8 times the labor productivity growth, and 2.75 times the profit growth of six medium-technolo-

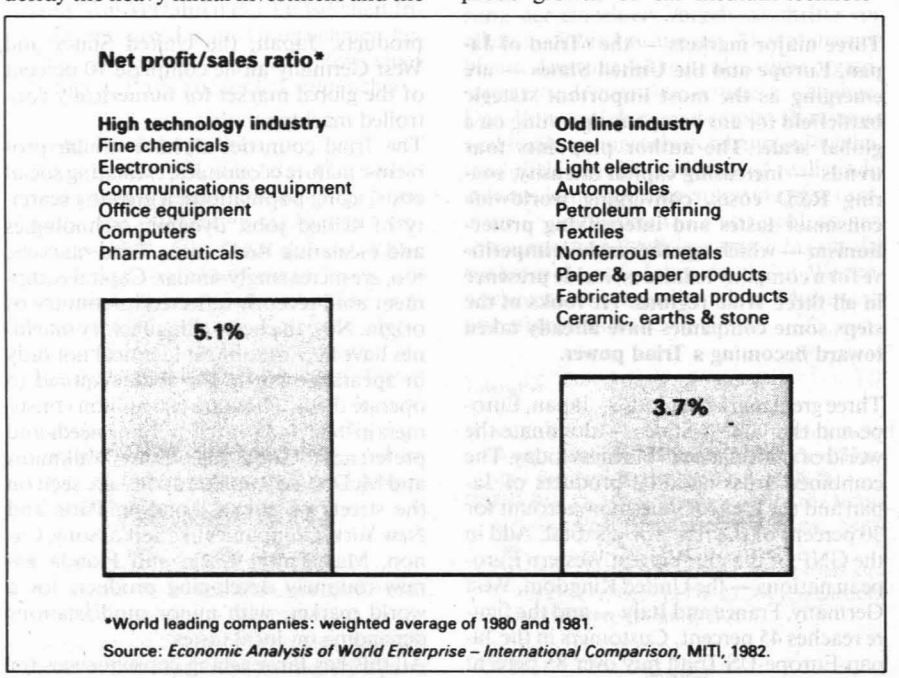


Exhibit I: High profits from high technology

gy-industries — iron and steel, automobiles, organic chemicals, textiles, nonferrous metals, and pulp and paper. As can be seen from Exhibit I, which compares the two groups in terms of the net profit on sales, it has become very difficult to make money in old-line industries that have become »engineered commodities.«

As Exhibit II suggests, the industries critical to wealth generation in the 1980s are all concentrated in Japan, Europe and the United States. More than 80 percent of global production and consumption, and 85 percent of patent registrations, are also taking place in the Triad.

As the costs of developing and commercializing new technologies keep rising, companies are moving in three directions to gain the benefits of integration and cross-fertilization: (1) downstream, to control the interface with the customer, (2) upstream, to acquire new technlogies or protect sources of expensive raw materials, and (3) horizontally, to share complementary technologies with the object of creating or exploiting new market opportunities.

The first two moves are obvious. As global competition intensifies, the management of fixed costs, particularly in R&D and distribution, becomes critical for creating wealth. The fixed cost of R&D, especially the cost of developing breakthrough technologies, is becoming so high that their global potential must be quickly exploited to the fullest. But this demands the ability to penetrate deeply into all critical markets.

Few corporations — apart, possibly, from the IBMs, Xeroxes and Kodaks of this world — command a distribution network capable of establishing a share of foreign markets comparable to their established domestic positions. For example, Toyota and Nissan, with domestic market shares of 38 percent and 28 percent respectively, hava a combined share of only 5 percent of the European Community (EC) and 12 percent of the US markets. Even Sony has only an 8 percent market share in the US consumer television market, as against a 19 percent share at home.

A natural strategic move, therefore, is to concentrate on strengthening R&D and domestic distribution. Once a corporation develops a unique technology, it can cross-license it to foreign counterparts in the other two regions of the Triad. Beside achieving high penetration and reducing marketing risks in difficult foreign markets, it can thereby gain attractive new technologies in return to be exploited in its own home markets. Such cross-licensing typically doubles or triples the potential of a technology, and maximizes the contribution to the fixed costs of domestic distribution through the handling of products and technologies of foreign origin.

Cooperative initiatives

The third type of crossover is horizontal. In today's high-technology industries, no single company can control all the critical

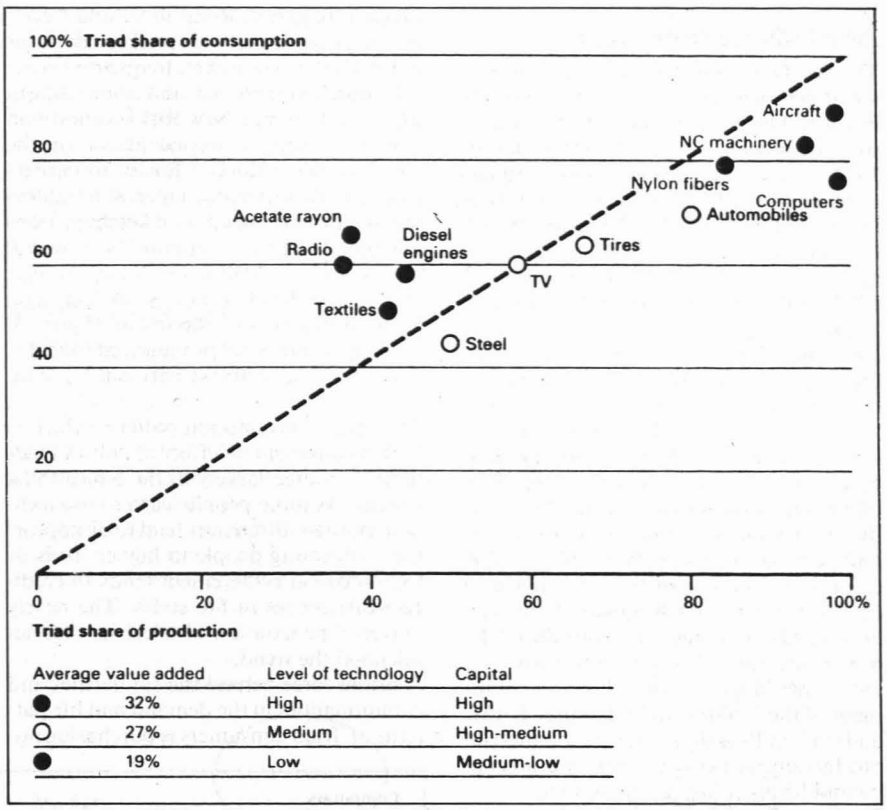


Exhibit II: Triad shares of free-world production and consumption

technological elements, ranging from memory microchips, image sensors and LASER emitters to modems, optical transmission devices and the time division multiplex technique for the simultaneous transmission of voice and data over the sample phone line. As a result, any company that wants to compete in office automation, robotics, or consumer electronics markets must concentrate on a few critical internal R&D projects and develop a supersensitive control-tower function to constantly scan and monitor externally available technologies. In order to avoid the risk of losing out totally in a new game, a corporation may very well cross-fertilize with a complementary company, domestic or foreign, across a wide spectrum of the business system, from procurement, design and manufacturing to sales and services.

The signposts of structural shifts on a cross-national basis are all there. Companies vying for a piece of the potentially lucrative computer and communications pie are coming from all directions. One example is the technological patent exchange between the two leviathans in telecommunications and computers, respectively — Japan's Nippon Telegraph and Telephone (NTT) and America's IBM. In Europe, America Telephone and Telegraph (AT&T) is invading IBM's turf with a computer, with help from Philips and Olivetti. American contenders in the Japanese office automation equipment market today include all the traditional and plug-compatible computer competitors, entrants form traditional »office equipment« makers (such as Xerox and Hewlett-Packard), a host of word-processor entrants led by Wang, and even a personal computer manufacturer or two.

Several of Japan's office automation leaders are arming themselves for the coming global battle for dominance through international alliances with competitors. Burroughs, which is trying to latch on to Hitachi's technological edge, is already packaging Fujitsu's highspeed facsimiles and is manufacturing Nippon Electric Company's (NEC's) optical character reading techniques under a royalty license. Toshiba's high-speed facsimiles are being distributed in the United States by Pitney Bowes and Telautograph, a subsidiary of the Arden Group, and by International Telephone and Telegraph (ITT) in Europe.

Even now, as the divergent Japanese contenders and giant European computer and communications firms, each with different core strengths and economic bases, mingle with the more precisely defined American entrants in the office automation fray, the entire structure of the industry is undergoing a major transition. Meanwhile, to build the volume needed to survive in what promises to be a hotly contested share war, most major global players are tapping markets outside the Triad. Japan is pushing its office automation products in Asia, while US and European manufacturers are vying for a beachhead in Latin America. And everyone is hastening to establish procurement agents in East Asia to buy crucial components and subassemblies such as keyboards, disk drives, cathode ray tubes and printers.

Accelerating time frames

The rapid rate of technological dispersal is a distinct and important phenomenon of its own. The basic research on the transistor, developed at Bell Laboratories in 1947, took over a decade. It was commercially introduced four years later, and another six years passed before it was incorporated into the computer. The integrated circuit, developed by Texas Instruments in 1958, took three years to become a viable product.

Now consider the accelerated time frame for major developments in the semiconductor during the past decade (Exhibit III). It took two years in the United States for the chip to move from 4K- to 16K-bit random access memory (RAM). Less than eight months later the Japanese caught up with the United States. It took two years for the United States to move from 16K to 32 K chips, less than three months for Japan to catch up. Then, in 1978, Japan's Fujitsu leapfrogged US suppliers and introduced the 64K microchip with a 3-month lead. In 1983, the Japanese started sample shipment of the 256K N-MOS dynamic RAM, and early in 1984 the started its commercial production. American firms are lagging behind by about a year on average.

The story is much the same in computers. In 1952, when IBM introduced its 701 model, it had four years' lead before competitors caught up. By 1980, when IBM introduced its powerful 308X model, it met competition head on. The rate of diffusion has become so fast that no one can hold a technological monopoly for long.

The strategic implications are threefold. First, technologically advanced companies cannot rest on their laurels. Second, challengers with me-too products may nevertheless have the clout to erode the leader's market share. Third, it costs so much to develop a technologically advanced and differentiated product that the producer must be able to sell to the entire world simultaneously in order to amortize the heavy front-end investment. Companies that choose to develop domestic markets first before going overseas may find themselves totally blocked out by well entrenched competitors set to invade their own home markets.

Universal users

Whether it produces capital equipment or consumer goods, a company that ignores the universal market potential of the Triad does so at ist peril. Not too long ago, capital equipment exhibited clear cultural distinctions: West German machines reflected that nation's penchant for craftsmanship, American equipment was often extravagant in its use of raw materials, and so on. Today, the best-selling factory machines have lost these distinguishing »art« elements. They have become alike in appearance and in the level of skills they require. Even more conspicuously, consumers in the Triad have become increasingly alike. In his dark blue suit, Regal shoes and Céline necktie, carrying a Casio pocket calculator in his Mark Cross wallet, frequenting a nearby *sushi* bar for lunch, and commuting in a Celica, the typical New York businessman would not draw a second glance on the streets of Düsseldorf or Tokyo. Youngsters in Denmark, Germany, Japan and California are all growing up with ketchup, jeans and guitars and worshipping the universal »now« gods — ABBA, Levi's and Arpège. Within the Triad countries, in fact, age-group differences — the so-called generation gap — are more pronounced than differences of taste across national boundaries.

The Triad consumption pattern, which is both a cause and an effect of cultural patterns, is rooted largely in the educational system. As more people learn to use technology, their differences tend to disappear; thus, educating people to higher levels of technological achievement tends to eradicate differences in life styles. The nearly universal penetration of television has accelerated the trend.

A prime force behind the similarities and commonalities in the demand and life patterns of Triad consumers is purchasing power. In terms of per capita discretionary income, the purchasing power of Triad residents is more than 10 times that of dwelers in the less-developed countries (LDCs) and newly-industrialized countries (NICs). More than 94 percent of households in Triad countries have television sets, as compared to about 60 percent for the NICs and less than 20 percent for the LDCs. One-third of both Japanese and American consumers have a high-school education or better, as compared with 15 percent of the population in NICs, and even fewer in the LDCs. Their purchasing power, their educational level, and what they read and see unite the Triadians and distinguish them from the rest of the world.

Another factor making for uniform Triadian demand patterns is similarity of technological infrastructure. For example, over 50 percent of Triadian households have telephones, creating a hospitable environment for products like facsimile, telex and digital data transmission/processing equipment. High ratios of physicians to population stimulate the demand for pharmaceuticals and medical electronics. Well developed highway systems foster the rapid penetration of radial tires and sports cars

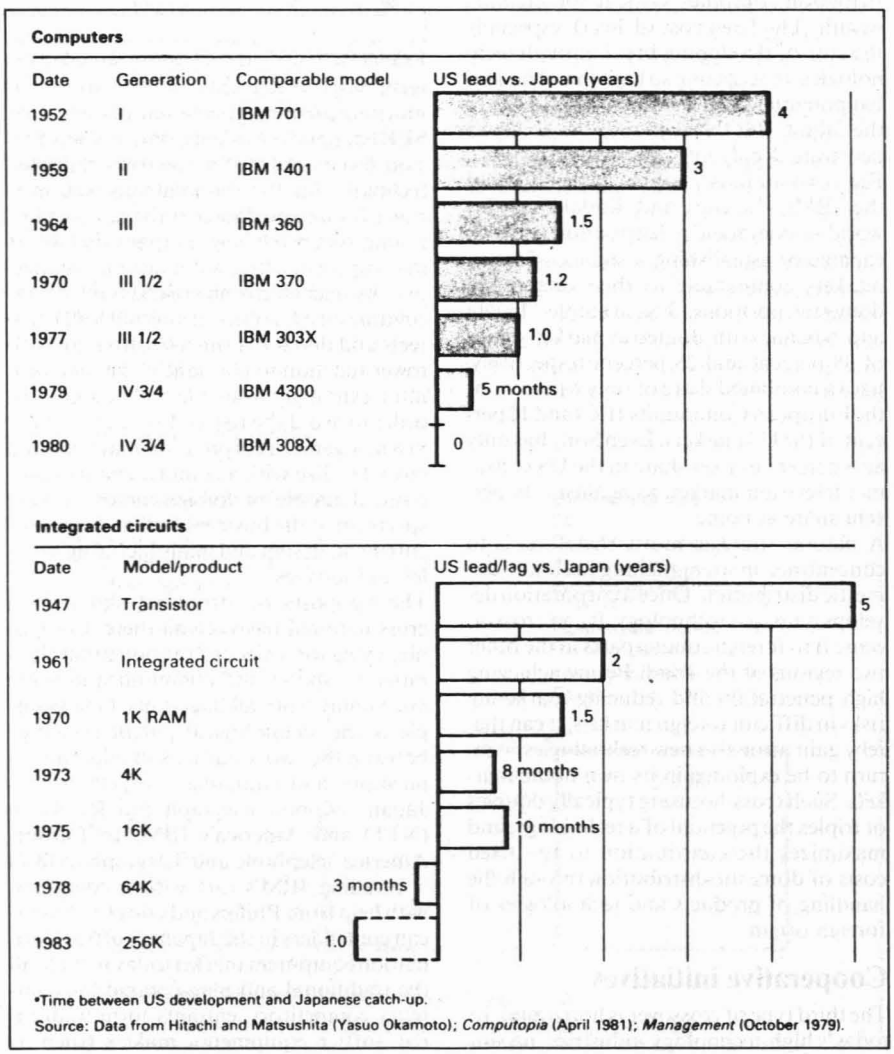


Exhibit III: Technological lead times* between Triad countries

— higher value-added products based on a higher level of technology.
Once these commonalities are recognized, universal products can be designed (Exhibit IV). The increasing commonality of life styles in Triad countries means that the company that comes up first with a universal product has the best chance of winning the global race for consumer acceptance. Companies like Seiko, Sony, Canon, Matsushita, Casio and Honda now routinely develop products against a global perspective. Their product designers spend as much as half their time abroad talking directly with their customers and dealers. When they return, they design and synthesize their global product based directly on their personal impressions.
This concentration of consumer and capital goods users within Japan, Europe and the United States is probably the primary trigger of global high-technology competition. The Triad is where the main action is.

Neo-protectionism

Most Free World economies were in a severe slump in the early 1980s. High unemployment reduced purchasing power, leading to slowdowns in the automobile, consumer goods and construction industries, and in dependent businesses such as steel and component parts. These economic dislocations made it very difficult for national governments to resist political pressures for short-term remedies in the form of trade barriers. Some countries put up quotas and duties against all imports, others against imports of specific products coming from particular countries.
In consequence, if a company is not a recognized »insider« in a country important to its share growth, it may find the doors to that market tightly closed. The outsider's trade base is always fragile, whereas the insider's position is secure. For instance, Sony, which has a sizable plant in San Diego, escaped the quota and surcharge litigations and much of the ill-will directed against other Japanese color television producers during the uproar over Japanese color televisions in the United States.
Of course, governmental regulations and media headlines don't necessarily reflect the attitude of the public at large. The Japanese government may take a tough negotiating stance with the United States on beef and orange quotas, but that doesn't mean that Japanese consumers are any less keen to buy American oranges or beef. And, despite quotas, the American people clearly like Japanese color televisions and automobiles.
Quite simply, customers everywhere want the best product for the price from anywhere in the world. That is the reason behind the increase in transnational trade, and hence in trade friction and artificial obstacles to the transnational flow of goods. That is why it is so important for a global corporation-to-be to establish a *de facto* insider position.

Paradoxically, this fragmentation of developed markets is taking place (and seemingly even intensifying) at a time when the residents of the Triad are emerging as a nearly homogeneous buying group. To respond to these two contrary phenomena, pragmatic business strategists must simultaneously develop a Triad perspective and accelerate their companies' »insiderization« in key markets.

Triadic strategies

As we have seen, the Japan-Europe-US Triad is where the major markets are. It is where the competitive threat comes from. It is where new technologies will originate. And, as competition becomes keener, it is where preventive action against protectionism will be needed most. Thus, in order to take advantage of the Triad's markets and emerging technologies and to prepare for new competitors, every multinational corporation must seek to become a true insider in all three regions.

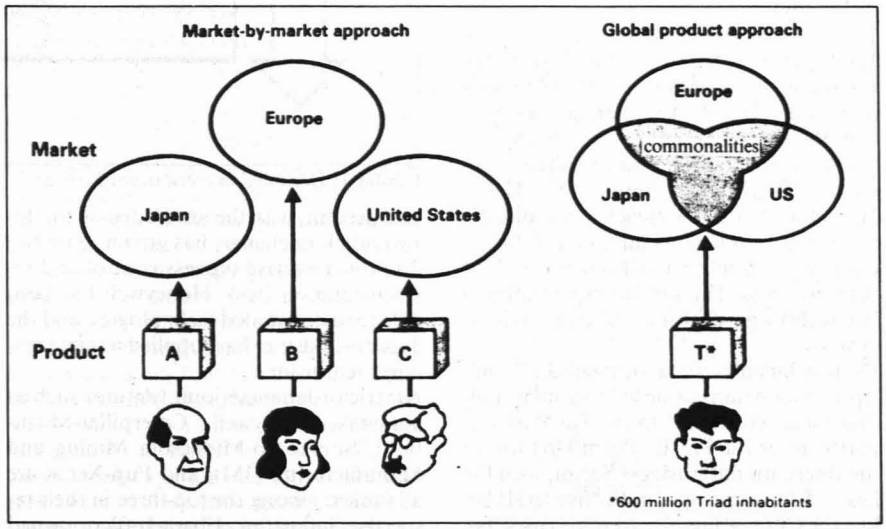


Exhibit IV: Setting strategies to capitalize an commonalities

An early presence in a new market provides clear advantages. When Tokyo Electric Company first introduced its electronic cash register and began to eat away at National Cash Register's (NCR's) market share in Japan, NCR's subsidiary operation in Japan was able to switch from electromechanical to electronic technology to stem the erosion before its domestic position was severely threatened. Xerox's preeminence in Japan helped it anticipate and respond to low-end technology being introduced by the Japanese plain paper copier manufacturers. Texas Instruments was able to produce 64K memory chips in Japan quickly, while other US companies were fighting off the intrusion of Japanese semiconductor houses in the United States. Each of these companies was able to adapt quickly to an emerging competitive situation by virtue of its insider position.
A company that can ensure it has equal penetration and exploitation capabilities in each of the Triad regions — and no blind spots — stands a good chance of becoming an effective Triad power. The first condition will ensure that it recovers its investment in unique and diversified products; the second, that it avoids surprises from foreign competitors, or from domestic competitors forming alliances with foreign companies. Failure to satisfy these two conditions allows a company to slip into a vicious cycle of decline: giving up its main market segments, concentrating on relatively peaceful niches, confining its activities to the domestic market, repeating the »cost reduction and removal of overhead« cycle, and ultimately losing its position as a major contender in the global marketplace.
The most significant advantage of becoming a Triad power, however, is not simply to stop this vicious cycle, but to pursue a positive and more offensive strategy. Knowing the basic desires of Triad consumers, the company can come up with an universal product. Or, having come up with a highly competitive basic product at home, it can tailor features and looks to local tastes. And it can market simultaneously to 600 million people.
With mighty salesforces in each of the three Triad regions, either their own or a partner's, companies can strike into the market in a relatively short time, preempting both local and other global competitors and realizing high returns on their initial investment. With this profit, they can reinvest in more sophisticated and complex facilities and/or R&D, redoubling their competitive muscle. Should any local company come up with a high-potential new product, the Triad power can swiftly copy it and preempt the local competitor's opportunities in the other two Triad markets. With the profit thus generated, it can then comfortably engage in a head-to-head battle with the originating company on its own turf. That company must generate funds to fight back, although its profits from domestic sales may be hardly enough to recover its development and launching costs.
The advantages of knowing the Triad cu-

stomers and competitors as a true insider are so clear that the issue is not whether a company should become a Triad power, but how.

The road to Triad power

Three vehicles can be used, alone or in combination, to become an effective Triad insider: wholly-owned subsidiaries, joint ventures, and consortia.

1. The wholly-owned subsidiary

This, the traditional MNC vehicle, needs no detailed discussion, but for successful implementation in the Triad context three points should be borne in mind: first, a »regional« rather than country-level structure should be established to share common resources; second, headquarters should play the role of strategic lubricator across key regions of the Triad rather than acting primarily as a controller; and finally, equal »citizenship« should be given to each of the Triad regions — and to any region outside the Triad where the company operates on a major scale (we could call this a »tetrahedral« model).

For example, the German chemical giant BASF, which recognized in 1981, preserves the regional grouping of its nonstrategic areas, but treats the key strategic countries completely separately. The heads of BASF's US, Japanese and Brazilian subsidiaries (Brazil is an important »Hinterland« for the company) each report directly to a member of the executive board. Tailormade policies are worked out for each of the three areas. This kind of organization is one realistic model for a multinational enterprise.

Despite Japan's critical strategic difference from other Asian countries, too many multinationals consign it to the Far East Department or the Pacific Basin Division of the International Business Sector, with the head of Japanese operations five levels below the CEO — literally, in some cases, below the level of a sales manager in Denver. Japanese companies make the same mistake when they send a deputy general manager form Production Planning to head up their US operations. This is the quickest way for a multinational corporation to undermine its prospects of succeeding as a Triad power.

2. The joint venture

Joint ventures are normally designed to take advantage of the strong functions of the partners and supplement their weak functions, be they management, research, or marketing. The recent announcement of a joint-venture plan in small business computers between Matsushita and IBM is a good example of resource sharing, with each company supplementing the other's functional strengths. This joint venture also testifies that even the biggest companies in two regions of the Triad cannot fight and win the electronics war single-handed. Yamatake-Honeywell, in which Honeywell owns 50 percent, the Yasuda group about

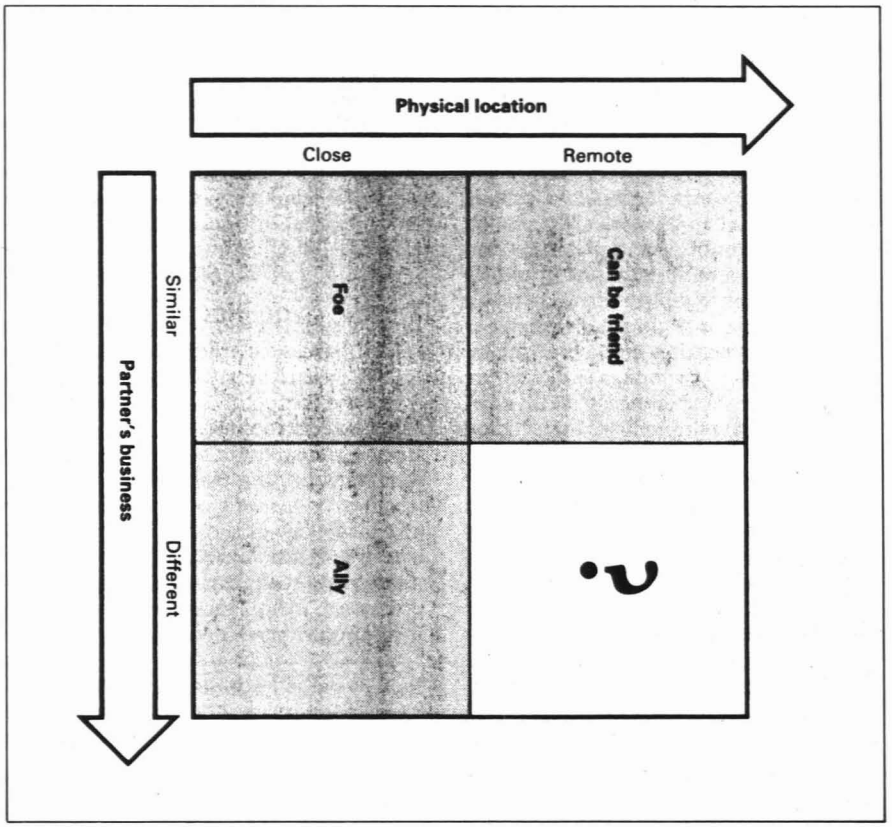


Exhibit V: Deciding on consortium partners

16.5 percent, with the rest traded on the Tokyo Stock Exchange, has grown to be No. 2 in the Japanese process control and instrumentation field. Honeywell has been able to inject needed technologies, and the Japanese partner has supplied a stable management team.

American-Japanese joint ventures such as Yamatake-Honeywell, Caterpillar-Mitsubishi, Sumitomo-Minnesota Mining and Manufacturing (3M), and Fuji-Xerox are all ranked among the top three in their respective industries. Ebara-Infilco, owned until recently by Westinghouse's Infilco Division, is the biggest firm in the Japanese water treatment industry. This is doubly astonishing because more than 90 percent of this company's work was in the public sector, which is notoriously intolerant of outsiders.

The French companies Schlumberger and Michelin both have commanding positions in the United States. And another cosmopolitan French company, Air Liquide, owns 64.2 percent of Teisan, which is publicly traded on the Tokyo Stock Exchange. Philips has a long and successful history of joint ventures with Matsushita in electronic components. Similarly, Caterpillar's joint venture with Mitsubishi Heavy Industries has given it real staying power in the rather conservative earth-moving equipment market of Japan. High Voltage Industries (HVI), a 50 : 50 joint venture between GE and Hitachi in gas switch gear in Philadelphia, uses GE's mighty pooled salesforce for utility customers and Hitachi's advanced gas diffusion technology.

Essential shortcomings

Too often, however, joint ventures fail because of differences between the partners. Since a joint venture is a legal entity with equity sharing, the partners must decide formally how to share profit (or loss) and where and how to reinvest for the future. Unless their management or resource allocation can frustrate common goals. All concerned need to understand at the outset that making a success of a joint venture involves at least as much pain and effort as building a new greenfield plant. Like a marriage, it will demand a lot of effort by both parties over a long period that may bring changes in the environment, in their relative strengths.

Unlike a marriage, though, a joint venture is constrained by numerous legal contracts and forms of capital participation. Instead of talking out their frustrations and differences, the partners are frequently all too quick to point out each other's violations of these legal contracts. Often, critical matters tend to be decided by vote, based on the partners' respective proportions of equity holding.

In my observation, majority voting seldom represents good business judgment and rearely favors entrepreneurial decisions. Indeed, if a voting process is needed to decide on critical matters, the chances are the joint venture has already failed. To put it another way, if your company needs the world's best lawyers to spell out all the possible details and countermeasures in potential disputes, you lack a sound basis for the joint venture.

Two companies with »natural« fit are a rarity. Extremely careful planning, and a lot of giving, will be needed before the partners can begin thinking about jointly harvesting the fruits.

In short, the joint-venture route can be difficult because it involves matching two different corporate cultures by the artificial means of legal contracts. Ownership and control issues, which are fundamentally at odds with the spirit of pragmatic, entrepreneurial business, come into the picture. Unless the corporation is fully prepared to maintain the spirit of the joint venture without having recourse to contract, the long-term viability of the enterprise is questionable.

Companies that choose the joint-venture route to becoming a Triad power will be wise to follow a few simple guidelines:

- Make sure there is at least one key top management sponsor on each side of the venture, each firmly convinced that the undertaking is meaningful and will be good for his company.
- Keep these sponsors responsible for the joint venture for a decade at least.
- Ensure active cross-fertilization and frequent mutual face-to-face communications at the top management, operations management and workforce levels.
- Above all, communicate rather than control.

On the organizational side, a joint venture must be clearly positioned relative to existing divisions. Many joint ventures are formed by a handful of top executives and staff members, and their position in relation to the existing corporate functions and operating divisions is often unclear. Without full cooperation or resource reallocation, the joint venture becomes a stepchild.

3. The consortium

Traditional multinationals tried to do everything on their own as they entered each market. Today, the skills and resources required to compete worldwide have increased so enormously that they can no longer »go it alone«. All but a very few must rely for success on their ability to develop and enhance company-to-company relationships, particularly across national and cultural boundaries.

Given the difficulties a company faces in penetrating the major Triad markets on its own, or in adapting its established corporate culture to establish an insider position in the other regions of the Triad, the strategic benefits of forming a consortium of true insiders in the respective key regions are obvious. Such a consortium can enable each member company to enjoy almost instant access to a vast number of potential customers, and gain vital insight into the purchasing, manufacturing, marketing, distribution, personnel and financing aspects of operating everywhere in the tough but lucrative Triad markets.

Facing facts

The trend of recent consortia is toward sharing resources and swapping products to avert development risk. Instead of geographically close competitors joining forces, distant competitors are merging and sharing functions such as R& D and production: British Leyland produces a medium-sized Honda in the United Kingdom, while Nissan produces Volkswagen's Santana model in Japan.

Many examples of emerging loose consortia can be seen today in such key industries as automobiles, semiconductors and steel. The rationale is to seek partners in other Triad regions to supplement functional shortcomings in order to survive and even expand in home regions. Typically, these consortia are formed to share or trade certain upstream functions such as R&D, production and technology, and to stay abreast of the leading-edge competitors. Sometimes they involve swapping certain product categories in order to take advantage of synergies made possible by sharing critical functions. Rarely does a partner give up an entire function.

This form of cooperation is becoming increasingly popular in industries once proverbial for tough competition. An executive vice president of a large US chemical company recently visited several Japanese chemicals firms to explore areas of potential synergy. To his surprise, more than half of them expressed strong interest in sharing various resources. Many global enterprises today are willing to cooperate with their Triad-region competitors rather than fight them off in destructive trade wars.

Consortium alliances between competitors in the same Triad region should be avoided, however. Distant foes can be real friends, while close cousins can be enemies (Exhibit V). Most of the European transnational mergers of the 1960s, involving links between similar companies, failed. Because they were too close, they could not work as partners and ended up at loggerheads.

The most useful ground rule in forming a consortium is to maximize the contribution to critical fixed costs. If R&D becomes expensive, make sure the resulting products are sold all over the world by licensing them to consortium allies, even though you may have some selling capabiliteis of your own in certain regions. if you have a costly, state-of-the-art production facility that could operate at low cost if fully utilized, then you should think about selling your products through any company with strong distribution capabilities, to original equipment manufacturers or under your own brand name. If you have a well-developed sales-force and/or distribution channel, but your laboratories cannot pump out enough new products, then think about importing attractive products made by other companies. Most product lines acquire a larger value-added increment during distribution than in production.

All these measures aim at maximizing the product's contribution to fixed costs by drawing on a global range of options. The message is: Enlarge your search for sources and potential contributors beyond your traditional neighborhood »shopping areas«. Go global for the hunt. If your traditional rival is going global, then your only option is to do the same — but to it better.

Practical imperatives

The organizational implications of international consortia are complex. Collaborative arrangements with traditional competitors are seldom welcomed by middle managers, whose interest is to show top management that they are as capable as anyone else. One essential step, therefore, is to conduct a good internal communications campaign to explain the intent of the consortium. Building executive relationships on several levels between the partners, and positioning a strong liaison officer at the top, are also vitally important. Too many consortia have been launched on a great wave of enthusiasm, only to fail subsequently for lack of any built-in means of sustaining it. Most companies, while generously forgiving themselves their own mistakes, have a terrible habit of recriminating over their trading partner's errors. Maturity and diplomacy are required in a consortium to sustain constructive intercompany relationships.

Any corporation entering into consortium arrangements will need to keep two points in mind:

- Instead of cautious, suspicious and distant alliances of convenience, it will need to allow positive, proacitve and strategic interlinkages — ultimately, if not at the outset — among all the participating partners.
- It must be prepared to gradually adjust its business system and terminology in order to minimize friction among the consortium members in communication and agreeing on critical matters. Smooth communication among the partners at all times and at all levels of management is vital to the long-term success of a Triad consortium.

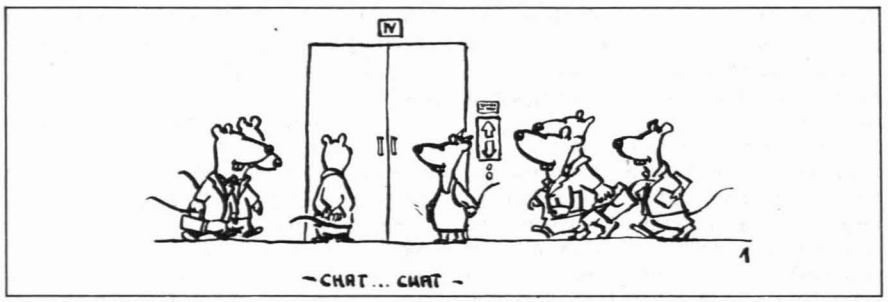
Marks of a Triad Power

Whether it has achieved »insider« status through wholly-owned subsidiaries, joint-venture entities or loose consortium alliances, a true Triad power can be identified by a few distinctive characteristics:

1. Well established management systems in each of the Triad regions.
2. A full set of functions (possibly supplemented by headquarters or other regions where that makes strategic sense), fully responsive to local conditions.
3. Managers who are wholly familiar with local and regional customers and competitors.
4. Continuity of management, mostly with home-grown, overseas-trained personnel.
5. Swift, autonomous decision making, fully synchronized with the rest of the

corporation. (Corporate headquarters, though fully informed, seldom interferes with regional management.)
6. Strong »staying power« in the key markets during periods of difficulty, and the capacity to come up with creative solutions to problems of market change.
7. Constant active communications — by telephone, personal visits and long-term exchange of people — within the corporation, at the interfaces with affiliated companies, and with headquarters.
8. Intolerance of the customary »it's out of my control« excuses for shortcomings and mistakes.
9. Significant presence and weight in the communities where its operations are located.
10. A corporate headquarters that functions simultaneously in three roles: as resource mobilizer, as interface lubricator and as strategic sensitizer.

The »resource mobilizer« role is self-evident in the case of wholly-owned subsidiaries. But even if a company takes the joint-venture or consortium rout to Triad »insider« status, it must be prepared to allocate substantial funds and human resources to the venture with its partners. These alternatives to the on-your-own approach reduce the necessary commitment of management resources, but they must not be used to choke off the allocation of resources. Even a technical tie-up will not bear fruit unless both parties are willing to exchange people and experiment together, and prepared for plenty of »nice tries«.



By the same token, coprorate headquarters should take every opportunity to act to facilitate and lubricate the implementation strategies of consortia and/or joint ventures, rather than sit and wait for results to come in form the four corners of the world. The final critical headquarters role is that of strategic sensitizer. If you are in the office automation industry, you had better be in California or Japan so that you can feel the »breathing« of the business. If your are a semiconductor manufacturer you need to visit Hamilton-Avnet, a large microchip distributor in the United States, or Kyushu, Japan's »silicon island«, to feel the vibrations of the industry. These are the sensitive zones where trends can be detected first and where insiders can pick up market signals far ahead of competitors based elsewhere. Triad insiders in Japan were the first to pick up such subtle signals as the entry of Japanese sewing machine companies into the electronic typewriter business, or that of Sumitomo and Furukawa Copper Wire Works into fiber optics.

A true Triad insider can extract the strategic essence from these »sensitive zones« on behalf of its Triad partners. In its role as strategic sensitizer, headquarters will act to maximize corporate wealth by finding opportunities and eliminating blind spots over the entire Triad and its submarkets. It will pick up critical information in one region and preempt the opportunities of competitors in other regions. It will be alert to signals of structural change in consumers' desires, so that the company can come up with new product and/or service concepts. It will be able to identify and link up with dynamic new partners, catching its domestic and global competitors off guard.

Challenge and opportunity

To sum up: Old strategies and organizational frameworks designed to reach 200 million customers at most have become obsolete in the Triad's new and dynamic markets of 600 million people. where consumers and industrial customers alike are becoming more and more homogeneous in their basic needs.

This growing universality of user characteristics and requirements gives global enterprises a powerful incentive to find ways of doing business in all parts of the Triad. But neither consumers nor industrial customers can be captured at a single sweep, using a monolithic approach and a single business system around the world. Regional differences in business practice and in the local infrastructures of distribution, personnel, production and engineering, coupled with the political pressures of protectionism, make it necessary for the global enterprise to establish a true insider position in each of the key Triad regions. To succeed, it must be prepared to change its strategy, its structure and its traditional culture and value system, transforming itself into a new global entity with a significantly different chemistry and blood type — a Triad power.