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ENTREPRENEURIAL NETWORKS ACROSS OCEANS TO PROMOTE INTERNATIONAL STRATEGIC ALLIANCES FOR SMALL BUSINESSES*

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I. Introduction

Everything conceivable in human activities, whether it be in art or business, often is a reflection of something else. A piece of art may be a reflection of our desire. Empirically oriented scholarly works may be considered to be a reflection of "reality." Similarly, the so-called "strategic alliances" may be a reflection of something very natural. The aim of the paper is to seek out a natural source that creates a thrust for alliances and maintains their vigor.

For this purpose, three different modes of creating alliances across national borders are presented. Alliances in various forms, such as joint ventures, product licensing, cross-licensing (and technical exchanges), outsourcing agreements, cooperative R & D, co-production, OEM agreements, and sales/distribution ties begin to become a way of life. However, an alliance in which all of the players are small businesses that reach across national borders is rare. A rare case such as this is described, following the presentation of the three modes of creating ties. In many occasions, we can learn more from an extreme (rather than an ordinary) case. Moreover, even when we begin to use the term, "strategic alliance," as though the word is almost a household term in business communities, the careful description of a case is still not enough. Therefore, this paper provides an additional case description.

The basic tenet that could be drawn from our single case study is that a successful alliance may be a reflection of the product characteristics themselves; in other words, in some business areas, the very nature of a

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product demands a network of firms with different resources. The case studied here is intriguing in this respect.

A network requires another network. The machine with a network capability could not be feasible without creating a network with other companies that have necessary, relevant resources, especially in the case of technology-based small businesses. In the case presented below, the "alliance" is a natural reflection of the product property, a network-conscious computer. The role of a "go-between" in creating this alliance of firms will be also described in connection with the three modes presented in the beginning of the paper.

Ⅱ. Previous Studies

Ⅱ.1. Alliances that involve Japanese corporations

Alliances with Japanese corporations are generally regarded as difficult and demanding. Consider the following quote from one of the recent issue of Business Week.

> Vice-President, Edward P. Rowady [VP of Holley Automotive Division of Colt Industries, a fuel system suppliers to the American Big Three] would like some new business from Japanese auto makers, but he says their insistence on "long-term partnerships" makes it difficult without a Japanese intermediary. Given the woes of his cohorts, Rowady thinks the trade-off is too great. "A partner wants your business as much as you want his," he declares bitterly. "Joint ventures boil down to this : 'How can you help us take over your market?'" (*Business Week*, July 24, 1989, P.15).

This is a synopsis of the problems reported in both academic and journalistic literature that deals with joint ventures with Japanese firms. Some authors explicitly refer to the pitfalls derived from the inclusion of Japanese partners whether in joint ventures or other forms of international alliances (Peterson & Shimada, 1978; Wright, 1979; Reich & Mankin, 1986). There are several salient issues worth commenting on : (1) general cultural differences; (2) perception and understanding of "legal contract"; (3) asymmetry in learning attitudes; (4) locus of activities in value chain; and (5) global versus multidomestic industries.

(1) General cultural differences Too much emphasis has been placed on

cultural differences in comparison of western and Japanese management; and there are culture-free concepts drawn from contingency theory of organization that explain a considerable part of variance in organizational behavior without referring to cultural differences (cf., Kagono et al., 1985). The cultural differences, however, could not be dismissed, especially when discussing international strategic alliances.

In comparing cultural differences between American and Japanese managers, Peterson & Shimada (1978) attribute the basic epistemological framework commonly held among Japanese managers to "the dual ideas of: (a) 'direct and immediate experience' and (b) 'indeterminateness of thought'" (p. 797). They elaborate on this point as follows:

> For the Japanese, the introspective observation of immediate experience is a positive and ultimately realistic point of view. An analytical or conceptual approach can proceed too far into abstract thinking and thus distort reality. This incapacity to think in terms of absolutes and universal abstract principles suggests from the Western point of view a certain tendency toward anti-intellectualism[1] (Peterson & Shimada, 1978, p. 797).

Other Japanese cultural attributes that these authors identify are: emphasis on trust and mutual confidence; lack of belief in the contract (which will be discussed in the next section); fear of "losing face" in a social setting; and, most of all, language problems. They may overemphasize the language barrier between communication across borders; but language is a reflection of epistemological framework in a certain culture.

(2) Perception and understanding of legal contract Many articles point to differences in the perception and understanding of legal contracts between American and Japanese business people in particular (perhaps, the one between Western and Asian people in general).

Japanese partners seem to be tolerant of some ambiguities inherent in a long term relationship, while Western counterparts seem to be happy with articulated contracts that bind the nature of a relationship. Berlew (1984) warns that "the American partner and its legal counsel should be sensitive to foreign distaste for detailed U.S.-style agreements; but should not for its sake sacrifice coverage of all important points" (p. 54).

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1. A conceivable Japanese vernacular for "intellectualism" is *shoseiposa*, meaning "thinking and discussing like a university student."

The differences in the perceived role of contracts is related to the Japanese emphasis on something unwritten and invisible, such as trust. With Japanese partners in mind, Wright (1979) points out that :

> Problems also arise frequently because of differences in the emphasis on written agreements. Whereas foreign businessmen tend to operate according to the letter of joint venture agreements, the Japanese prefer to emphasize the building of mutual trust and understanding that make the written agreement more a symbol of a commitment to cooperate than an actual working document (p. 28) .

A very similar observation is made by Peterson & Shimada (1978) as follows :

> The formal contract itself is viewed differently by the managers in the two business cultures. American managers generally take the position that, given the likelihood of some misunderstanding between the two partners, the contract should provide for every conceivable contingency. The Japanese do not believe that the contract, mere words on paper, can assure the success of the venture.. (p. 799) .

A Japanese distaste for legally-minded universal agreements, may be related to the Japanese weakness in thinking in terms of universal abstract principles reviewed above.

(3) Asymmetry in learning attitudes Forming alliances may be a way to cope with resource interdependencies (Pfeffer & Nowak, 1976a.; 1976b) . Moreover, it is a way to learn from others who have heterogeneous resources. There seem to be differences in learning attitudes between Western and Japanese partners in forming joint ventures.

Based on the studies by Nonaka & Johansson (1985) and Itami (1987), Pucik (1988) pays attention to the importance of organizational learning capability (an invisible capability) . Pucik warns that the "we-are-safe" attitude weakens the motive to learn from others. There are two practical concerns related to this attitudinal difference. For one thing, the company in alliances needs a person who can learn from somebody alien as a key linking person. For another, the company needs to set up "learning-driven career plans" (Pucik, 1988) for those who are engaged in alliances again as a linking person.

Hamel, Doz & Prahalad (1989) , through the multiple case studies of fifteen strategic alliances (that include two European-Japanese alliances

and seven U.S. - Japanese alliances) find that :

> ... in every case in which a Japanese company emerged from an alliance stronger than its Western partner, the Japanese company had made a greater effort to learn.
>
> ... A senior U.S. manager offered this analysis of his company's venture with a Japanese rival : "We complement each other well--our distribution capability and their manufacturing skill. I see no reason to invest upstream if we can find a secure source of product [e.g., manufacturing in a value-added chain] . This is a comfortable relationship for us."
>
> An executive from this company's Japanese partner offered a different perspective : "When it is necessary to collaborate, I go to my employees and say, 'This is bad, I wish we had these skills ourselves. Collaboration is second best. But I will feel worse if after four years we do not know how to do what out partners knows how to do.' We must digest their skills."
>
> The problem here is not that the U.S. company wants to share investment risk (its Japanese partner does too) but that the U.S. company has no ambition *beyond* avoidance. When the commitment to learning is so one-sided, collaboration invariably leads to competitive compromise. (p. 134) .[2]

The issue of asymmetric learning is related to the different locus of central activities in the value chain between Western and Japanese partners which will be discussed in the next section.

(4)Locus of activities in the value chain Generally, Japanese partners use American counterparts to cultivate research skills and distribution channels that their U.S. counterparts have, while the former focus on their activities in the manufacturing phase on a value added chain.

Reich & Mankin (1986) point out that : "Under the typical agreement, the U.S. company buys products from its Japanese partner and sells them in the United States under its own brand name, using its own distribution channels" (P. 81) .

The notion of value chain is most prominent in Porter (1987) in discussing international competition and cooperation. An important buildingblock in implying his value chain theory to this purpose is the concept of competitive scope. Porter comments that :

2. This remark is backed up by a lot of quotes from their interview studies. Hamel et al (1989) note that " [a] s one manager noted, We don't feel any need to reveal what we know. It is not an issue of pride for us. We are glad to sit and listen. If we're patient we usually learn what we want to know."(p. 138) Another quote from a Japanese manager goes as follows : "'Our Western partners approach us with the attitude of teachers,' he told us. 'We are quite happy with this, because we have the attitudes of students.'" (p. 138) .

> Competitive scope is the breadth of activities that the firm employs when competing in an industry. There are four dimensions of competitive scope : (1) segment scope, or the range of segments that the firm serves (such as product varieties and customer types) ; (2) industry scope, or the range of industries that the firm competes in using a coordinated strategy; (3) vertical scope, or activities that are performed by the firm versus by suppliers and channels; and (4) geographic scope, or the geographic regions that the firm operates in using a coordinated strategy (p. 33).

Assume that partners in alliances share the first and second scopes. The most common situation described by Reich & Mankin (1986) can be interpreted as a case in which Japanese partners tend to focus on two ends in vertical scope, namely the basic research and distribution, and expect their U.S. partners to capture the U.S. market, a geographic scope, whether through their own brand or by OEM supply.

The issue is related to the asymmetry in learning attitudes. In frequent talks with a major Japanese corporation in electronics that once abandoned a technological area an area that now becomes a core technology for their entire business areas the company decided to supply OEM products to the most demanding partner in the U.S.. Its divisional manager remarks that its whole business is learning. OEM is not a quick fix, but a deliberate choice to rebuild the company's technological (basically its manufacturing) wing. In contrasting avoidance on the side of a Western partner and learning on the side of an Asian partner, Hamel, Doz & Prahalad (1989) point out that :

> Asian companies often learn more from their Western partners than vice versa because they contribute difficult-to-unravel strengths, while Western partners contribute easy-to-imitate technology (p. 136).

Consider the difficulties in transferring product versus process technology. On most occasions, the research and development side of a value chain may be easier to imitate than the manufacturing side of the chain, because the former is embodied in products that are susceptible to reverse engineering while the latter is not. It should be noted that U.S. companies are better at product innovations while Japanese counterparts at process innovations.

(5) Global versus multidomestic differences Porter (1987) proposes the distinction between global and multidomestic industries. For multidomestic industries, a country-centered strategy is called for to enter into foreign markets. As stated above, in these industries, relationships between partners are prone to be

asymmetric. This happens between a partner that focuses on manufacturing and another partner that is engaged in distribution. An industry like computers and telecommunications where global standardization is a major thrust, allows more symmetric exchange of technological ideas.

Related to this point, Porter (1987) coins a new concept, a global platform. In defining this concept, he argues that :

> A country is a desirable global platform if it provides an environment yielding firms domiciled in that country an advantage in competing globally in a particular industry. (p. 45) .

Ⅱ.2. Definitions and varieties of joint ventures

There exists a variety of terms which refer to the so called "alliances." For instance, Perlmutter & Heenan (1986) coin the term, "GSP," which stands for global strategic partnerships. They characterize five feaures of GSP's as alliances : (1) two or more companies develop a common, long-term strategy; (2) the relationship is reciprocal; (3) the partners' efforts are global; (4) the relationship is organized along horizontal, not vertical lines[3]; and (5) the participating companies retain their national and ideological identities. For smaller companies, their partners can be either peers or giants in terms of the size; but according to these definitional features, the relationship must be reciprocal and horizontal.

In a similar vein, Auster (1987) coins the term ICL's, international corporate linkages. ICL's are defined as "the diverse interorganizational arrangements created by firms based in different countries to obtain strategic advantages in their markets and environments" (p. 3) . It includes the whole variety of licensing agreements, technological transfers and exchanges, and research and development arrangement, in addition to joint ventures. Moreover, joint ventures are estimated to cover only thirty to fifty percent of ICL's. In other words, JV is just a part of ICL's. The variety is important. There is a specific reason why Auster (1987) deliberately avoids the term alliances :

> Collaboration, cooperation, and alliances ... suggest that the firms involved are *working together to pursue common goals*. In reality, goals may range from shared, to mixed, to conflicting and the underlying relationships may range from cooperative to exploitive (pp.3-4) .

3. Commenting on the fourth point, the authors add that "technological exchanges, resource pooling, and other 'soft' forms of combination are the rule (P. 137) ."

Even strong terms like "exploitive" and not used, since most of those who study alliances are aware that the relationships are subtle and can be competitive. The most intriguing notion in defining alliances is that of "competitive collaboration" (Hamel, Doz & Prahalad, 1989). Such alliances among potential (or actual) competitors can be informal and may create a social network (von Hippel, 1988).

Harrigan (1985; 1989) uses the term a "spider's web" of joint ventures. This term, however, does not refer to the network of horizontal relationships built among equals, the network without saliently strong hubs. Instead, she assumes that " [b] riefly, owners possessing great bargaining power can sit at the hub of a web of parallel joint ventures" (Harrigan, 1988, p.142).[4] There are a few conditions that facilitate the formation of a "spider's web." First, when demand is rapidly growing, as compared with when demand is growing slowly or simply declining, spider's webs are more likely to occur. They occur to gain access to product features, technology and/or distribution channels. Second, when the strategic importance of the project is high *and* competitive environment is volatile rather than stable, a spider's web of cooperative agreements is suitable. Third, when product configuration cannot be standardized *and* customer sophistication is high, a spider's web of cooperative strategies is more likely to occur to cope with contingencies.

Earlier the problems related to cultural differences are mentioned. For this aspect, Peterson and Shimada (1978) claim that "[p] roblems based upon cultural differences become particularly significant when the foreign investment takes the form of a joint venture" (p. 797).

On a theoretical level, Kogut (1988) attributes the varieties in the forms of alliances to different modes of "transaction" from a Williamsonian perspective. In theory it may be the reflection of the mode of the "transaction." In the case described below, it seems to be the reflection of the product attribute.[5]

Ⅲ. Three Modes of Creating Ties Across Borders

International strategic alliances can involve more than two countries. However, for the sake of illustrating different modes of finding and creating ties

4. More loosely linked joint activities that do not necessarily involve sharing equity and ownership are different from the web type joint ventures. She calls the former "cooperative agreements."
5. This point will be more fully explained later.

across borders, let us consider the simple cases of two countries. The three modes are named (1) the random search mode, (2) the diplomatic mode, and (3) the network-of-networks mode.

Ⅲ. 1. The random search mode

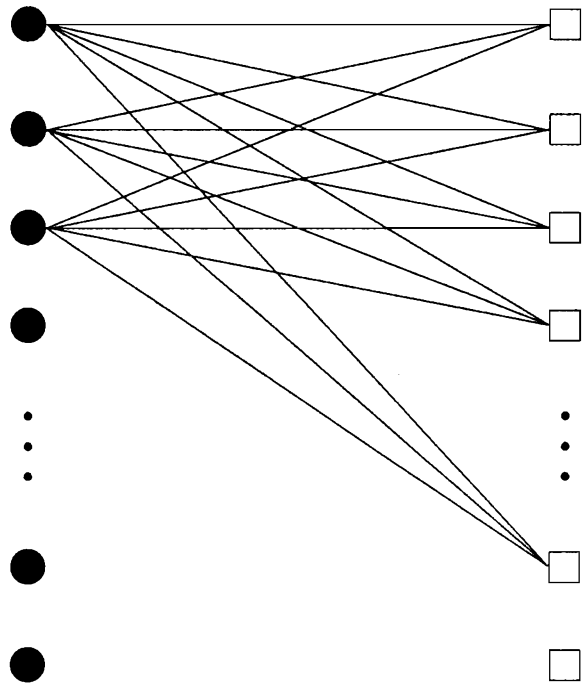
Assume there are n companies in the alpha area in the country A and that there are m companies in the beta area in country B. If a CED of small businesses in the alpha is to find a partner in the beta, the trouble for him or her is a search process. The search may be simply impossible because of the sheer number of the potential combinations (n multiplied by m becomes a large number depending of the degree of agglomeration of small businesses in each area). The pitfalls in this approach is depicted in Figure 1.

Ⅲ. 2. The formal diplomatic mode

If an entrepreneur in a certain area in one country realizes that random search does not work, he or she may rely on more formal routes. A Japanese entrepreneur may expect some help from JETRO, for instance, to seek and select a partner in foreign country. There are some other formal routes and institutional help. *Chushokigyo Jigyodan*, an agency spawned from MITI to focus on development of small businesses in Japan, has created an advisory and referral system for overseas joint ventures. The formal system, being seemingly more helpful than a sheer random search model, could be very diplomatic, but may be inefficient because of bureaucratic red tape. Just consider the interplay of governmental or quasi-governmental agencies such as USTR in the U.S. and JETRO in Japan. Though they may be effecitive for the purpose of announcing, offending, or defending something vital to a country; they are far from perfect organizations through which to launch a partner search, because these formal agencies at the national level normally could not be embedded in local communities.

Then, what is the role of a local government agency with regard to creating international ties? State and municipal governments in the U.S. often have their bureau for promoting and helping "world trade" of local companies, without having a specifically "targeted" area or areas in the "world." Therefore, the kind of help expected from these agencies is rather general. In considering the U.S.-Japan relations, there are many U.S. state governments that have established their Tokyo offices. There are, however, at least two pitfalls for them to serve as a linking pin for small businesses in a specific business community in both

Figure 1. Search Mode # 1
(a) The Random Search Mode



n companies in the alpha area in country A	m companies in the beta area in country B

- Natural and informal ; but
- The potential searches (n×m) is simply too large to be handled by small businesses.

countries.

The first is the location. The Tokyo offices of various states do not necessarily focus on firms in Tokyo metropolitan area. It may work better when the Tokyo offices of a U.S. state government is located in an area in Japan where the

"targeted" business resides. The second problem is that these state agencies tend to focus only on big businesses. In other words, many, if not most, of them set up their Tokyo office to solicit attentions from Japanese business community so that some of the Japanese corporations consider their state as a candidate for direct overseas investment. As such, the agencies must be helpful for those big companies seeking a place to build their U.S. manufacturing subsidiaries; they may not be helpful for small businesses in Japan to find a partner in international alliances.[6] The problems related to this approach is illustrated in Figure 2.

Ⅲ. 3. The network-of-networks mode

A random search may fail because of the large number of potential ties (n multiplied by m). A formal diplomatic approach may fail because of bureaucracy and the lack of embeddedness in an entrepreneurial community (accordingly, with the lack of hands-on exposure to small businesses).

The third mode that we would like to present with the following case in mind may be named the "network-of-networks" mode[7], or the informal gatekeeper[8] mode. A gatekeeper is a person who collects information from the outside world, and then, screens, and disseminates that information for the people inside a certain social unit he or she belongs to (e.g., clubs, organizations, and communities). When one of the authors of this paper began to conduct ethnographic studies on entrepreneurial networks in the Greater Boston area, the initial interviews reveal that a relatively few number of people represent this entrepreneurial community (cf., Kanai, 1988; 1989). Another author, as one of the first Japanese venture capitalist in the Silicon Valley, spent several years to become embedded in the social web of people in the valley.

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6. As anecdotal, but nontrivial evidence, let us illustrate a situation we were involved in. Both of the authors served as a coordinator for a U.S. mission of the Entrepreneurial Global Exchange Special Committee, Japan Junior Chamber (June 7 to June 17, 1989). In the process of finding the local associations or networks in some targeted states in the U.S., members of the Japan JC first visited Tokyo offices of these states only to find that they are not only uninterested in having Japanese small businesses (unless they are considering building plants there) but also are unaware of (or at least they do not care about) the association for small businesses in their state. In other words, in locating the networks to visit to find potential partners, small businesses could not expect much from those formal offices in Tokyo.
7. The authors learned this term from the papers and talks by Professor Kenichi Imai of Hitotsubashi University, although the use of the term here has more limited meaning than he originally meant in describing the coming new era of information network society.
8. For the use of this term, gatekeeper, to refer to a sociometric star in networks, see the studies by Allen (1977).

In using the same simple case described in the earlier section, assume there are ten gatekeepers in the alpha area in the country A and that there are twenty gatekeepers in the beta area in country B. If two of the gatekeepers in the alpha area happen to know three of the gatekeepers in the beta area (perhaps through international conventions or foreign missions), there are six (two multiplied by three) potential referral channels used for creating ties between these two entrepreneurial communities in different countries. The nature of relationships can be much more informal than that of the diplomatic route. The gatekeepers informally represent the community, because they are well-connected in their community and to the outside world. This mode, in a nutshell, is to create a network of networks in a so-called "borderless" economy (with a lot of lingering borders such as cultures).

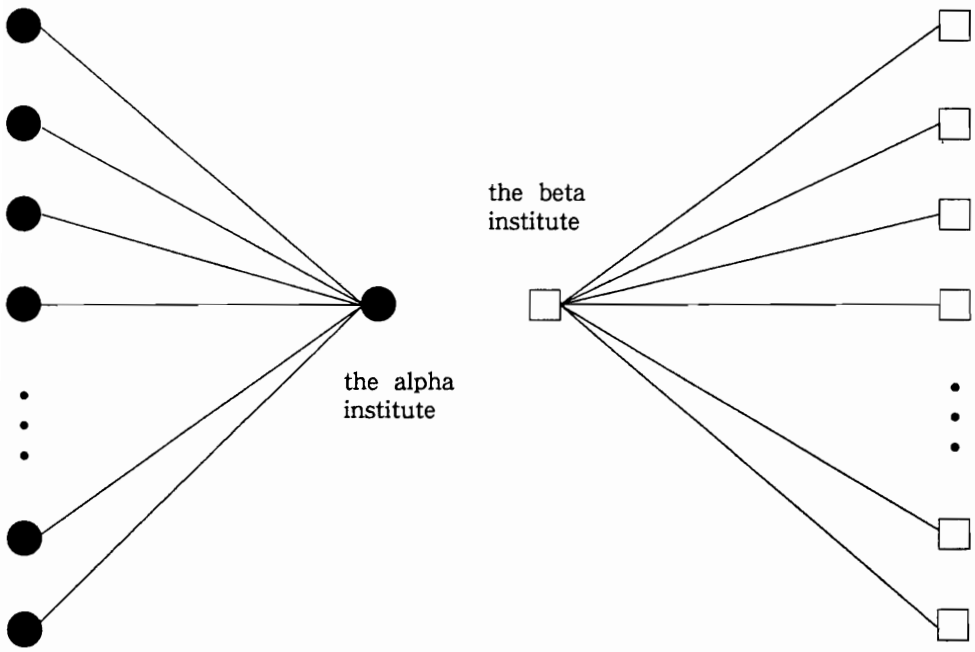
In short, as compared with the random search mode, this mode is surer and more reachable; as compared with the formal diplomatic mode, the search process in the informal gatekeeper mode is less bureaucratic and more efficient (speedy), although there must still remain the actual negotiation process even after reaching the "right" partner.

The role of government, especially MITI, in Japan tends to be overemphasized (more so in the Western literature). There is, however, *a Japanese vernacular* that casts doubt on effectiveness of the overemphasis and overreliance on government in creating ties with other countries —— *Minkan-gaiko*, literally meaning" grass-roots, non-diplomatic business diplomacy." This argument for the third alternative mode is summarized in Figure 3.

Ⅳ. The Case of the Kinkei-SCO-TWG-Rexon Alliance

This section is divided into three parts. The first raises the methodological issues: how the two authors collaboratively describe the case in which the first author is an outsider (or an observer/interviewer) and the second author of this paper is an insider (or facilitator) of the project. The second part describes a series of events designed by the second author to trigger particular kinds of international strategic alliances, one of which will be described in the third part. It should be noted that the case chosen for this paper is one among many cases that have been spawned from the events geared to creation of the opportunities to build up ties across the Pacific Ocean (the ties between Silicon Velley in the U.S. and the Osaka Bay area in Japan, to be more specific).

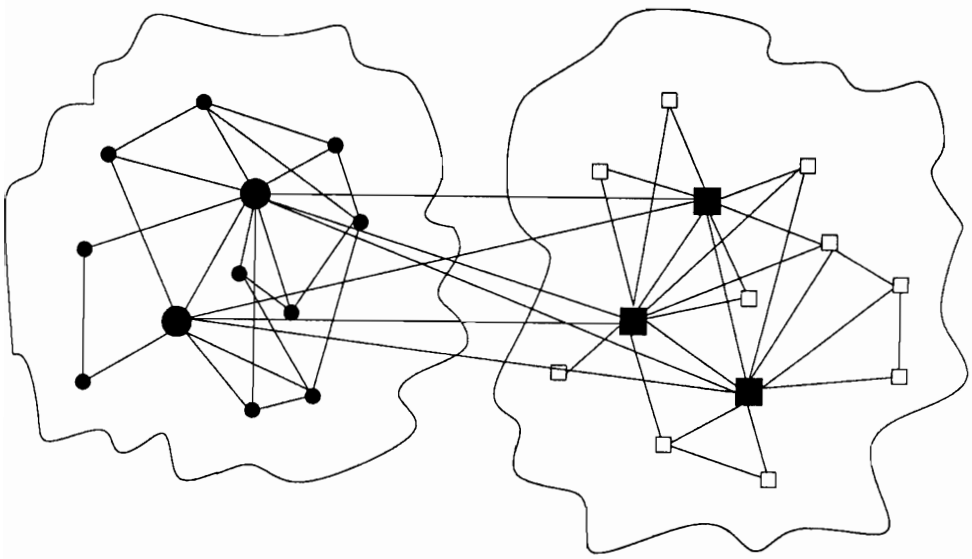
Figure 2. Search Mode # 2
(b) The Formal Diplomatic Mode



the alpha institute represents n companies in the alpha area in country A	the beta institute represents m companies in the beta area in country B

- Can be too formal/diplomatic
- The bureaucracies may not locate relevant companies

Figure 3. Search Mode # 3
(c) The Network-of-networks Mode, or The Informal Gatekeeper Mode



two gatekeepers in the alpha area in country A who are connected to the beta area

three gatekeepers in the beta area in country B who are connected to the alpha area

- Can be efficient and informal
- Little reliance on governments
- Needs some "social event" to make an initial search

Ⅳ.1. The method

The case description is the result of the collaborative efforts by an outside academic and a stakeholder of the project. Both have strengths and weaknesses in describing the case.

As an outsider, the first author interviewed six persons involved with the alliance. Kinkei system is a central player that initiated the project. He interviewed its CEO, the Executive Director responsible for the project, and a young engineer who was trained in and linked to one of its allied companies in Silicon Valley. He also interviewed both formally and informally a member of the staff at Data Control Limited who has been promoting the project as a "go-between" to make the project happen technologically and interpersonally. This staff member serves as a major source of information and arranged the necessary interviews. The above interviews were done in Osaka, Japan. Interviews were also done with two persons who represent two of the three companys in Silicon Valley. They were done in San Francisco. All of the interviews were taperecorded. The second author himself also serves as a sourse of information and a resource person. All of the necessary documents and archives relevant to this project filed by the DCL and Kinkei System were reviewed.

As an outside observer, the first author tries to describe the case as objectively as possible, although some of the data are retrospective in nature. It is harder for him to come close enough to the insider's views with limited data. The second author, however, as a stakeholder of the project, conceives internal (native) point of views about the nature of the alliance. However, some of the things that should be articulated in the case description may, to a large extent, be taken-for-granted by him. Hence comes the collaboration between the two authors to jointly write the case description.

Ⅳ.2. Trademarked "Alliances" as a social event

Data Control Limited has its offices in Palo Alto in the U.S., and Osaka and Tokyo in Japan. The company is comprised of two groups : the alliance consulting group; and the system technology group. DCL Osaka was established in 1979 and its Silicon Valley counterpart was established in 1982. Now DCL has its special wing called DCL/DEFTA that is specially geared to the facilitation of international strategic alliances; and it has recently enhanced its ability to raise financial support for the allied new startups. The basic idea of this endeavor could be traced back to the second author's thesis on the notion of "mul-

tinational startups" (Hara, 1981 circa). One of the authors developed the idea of multinational startup theory while he was a student at the Stanford Graduate School of Business. He developed the theory by conducting a series of interviews with executives at entrepreneurial companies, venture capital firms, and large multinational corporations. The recent brochure of DCL describes the aim of DCL/DEFTA as follows:

> DCL/DEFTA is a combined force of the Strategic Alliance Division of Data Control Limited and the Merchant Banking Group of DEFTA Incorporated. This unique structure has provided DCL's Strategic Alliance Division with a growing number of achievement in forming strategic alliances between US and Japanese companies. DCL uses its strong network of high level decision-making individuals in Japanese industries and DEFTA's strong planning capability to create strategic partnering structures as well as financial resources to invest to make its' [sic] strategic alliances successful. Bringing together the strategic alliance capability of DCL with DEFTA's venture capital capacity has made DCL/DEFTA a very unique merchant banker for American/Japanese corporate partnering and strategic alliances. ... DCL/DEFTA works directly with a consortium of investors groups composed of potential strategic partners in distribution, manufacturing, and joint research, as well as investing our own financial resources.
> (Brochure titled "*DATA CONTROL LIMITED/DEFTA, DCL'DEFTA GROUP —— Strategic Alliance Merchant Banker for U.S./Japan Corporate Partnering.*")

DCL has a track record of providing a successful high-tech negotiation forum annually called (and trademarked) "Alliance" and "Networking" (See Appendix for the list of successful alliances achieved through DCL). The following are the cases of alliances created by "Alliance" or "Networking" meetings: Mycogen and Kubota; Altos Computer Systems and Kobe Steel; and the Wollongong Group and Seiko Instruments. DCL/DEFTA will continuously provide these Forums.

The earliest one is called "Networking Japan in Tokyo" held in 1985. There were 300 U.S. and Japanese participants. Its objective was to create the informal communication channels between U.S. and Japanese small and medium size companies.

In the next year, "Alliance 86 Japan: Japan/US Conference on Strategic Technology Alliance" was sponsored by the Osaka Prefectural Government and the Osaka Industrial Association, and was organized and arranged by DCL. One hundred fifty American and Japanese participated in the program. The number of attendants for the following 1987, 1988, and 1989 meetings, respectively, are 100, 100, and nearly 180. In the case of Alliance 1989, among all

participants, 27 were from the U.S. DCL carefully chose and brought CEDs and technical directors of companies in Silicon Valley to Osaka. They were technology-based small businesses invisible to the eyes of large (even technology-savvy) corporations in Japan. High tech new ventures in the Silicon Valley have their strength in developing advanced technological ideas, not in the area of production and distribution. Japanese large corporations have competitive edges in reliable manufacturing. The Alliance 86 aimed at "further cooperation between Japanese and U.S. universities and businesses in developing new products by combining their respective strength" (the brochure titeld "Alliance 86 Japan"). The related objective of the event was to create the new High-Tech Gateway in Osaka, and revitalize the heavy industries in Osaka prefecture.

It should be noted that they are more than just conferences where participants listen to the stories that presenting companies from the U.S. have to say. Rather, the conference is designed as a search opportunity both for U.S. and Japanese partners. DCL had spent a lot of time in creating networks and being embedded in the Silicon Valley community, a rare example of a small-scale Japanese company to have done so.

This is why we call the conference a social event. In this event, every participant has to have something to contribute or seek. It is a matching opportunity; and special arrangements are made to make the matching process smoother and more serious. For instance, it is stipulated that Japanese participants from large corporations, must send a person with real decisionmaking capability along with an engineer who can evaluate the technological issues.

The past few years have witnessed several successful alliances which were originally triggered by these social events. Among them is the alliance that involved the Japanese company called Kinkei System. Mr. Nishigaki, the executive director of Kinkei System, together with Mr. Hata, the manager of software engineering, are central figures in the following case. Mr. Nishigaki's attendance of a 1986 seminar leads to the eventual creation of his own alliance project discussed in the next section.

Ⅳ. 3. The Kinkei-SCO-TWG-Rexon alliance as a case in focus

(1) The trigger Kinkei System has been a provider of automatic oscilloscope to energy industries. The company was established in 1979 and is successful. In the process of responding to user demands, the company has accumulated its technological base. The company began to consider developing their own pro-

ducts with their own brand. So far, although technologically advanced relative to its size, its role remained in the area of provider to public utilities such as Kansai Electric Power.

Technologically, the Kinkei system has come up with the idea to develop a thirty-two bit, UNIX-based, super-micro-computer for factory use with standard TCP/IP and VME bus compatible. Its technological features will be described more fully later. It is sufficient here to mention that the machine is used for the electronicpower generator control computer; and that Kinkei tries to make its customer base broader —— it will be used for factory use in general for promoting CIM (the computer integrated manufacturing).

There are threee technological elements that Kinkei needed to get outside support beyond the scope of the Japanese technological scene. The first element is the UNIX operating system. UNIX was rapidly emerging as a technologically advanced standard for minicomputers, and Kinkei wanted to use state-of-the-art technology in its system. No alternative to UNIX could provide the appropriate level of standardization. UNIX has a variety of vendors, who offer different levels of support and slightly different versions. XENIX, the Santa Cruz Operations version of UNIX, was chosen because of its compatibility with other UNIX versions and the level of support that SCO could provide in familiarizing Kinkei's engineers with using XENIX.

The second element is TCP/IP, that is short for transmission control protocol/internet protocol. One of the requirements of the Kinkei System was that it should be able to communicate with the variety of different computers, used by various power utilities who would be Kinkei's customers. TCP/IP is a communications protocol that facilitates communications between computers of different manufacturers. It is claimed that the Wollongong Group produces a commerical version of TCP/IP that provides the most reliable and fully UNIX compatible version of TCP/IP. It was Kinkei's technological flair that it realized the importance of the combination of UNIX and TCP/IP much earlier than all other technological giants in Japan.

The last element is VME bus. The use of VME bus is given for this project since Kinkei has been so accustomed to it. The bus was essential to connect the software operating system with the network operating system. For the limited volumes that Kinkei expected to sell, the purchase

of a commercially available bus made more economic sense for Kinkei than developing their own proprietary sysytem. This would make upgrades much easier to incorporate by saving Kinkei substantial debugging expenses. Rexon, a provider of VME bus, plays a part here in this alliance project.

In the summer of 1986, Chairman and CED of Kinkei System attended the seminar geared to technology based companies in the Osaka area under the auspices of Daiwa Bank. That was the first time the company was exposed to DCL. Shortly after that, the person who will later become responsible for the project coded ATC-X and assume the role of the first divisional manager for the machine met members of staff from DCL.

(2) Choice of the partners across the ocean DCL prepared the technological documents that carefully describe the recommended configuration of the core technological elements in the ATC-X Project.

Kinkei was first exposed to the Santa Cruz Operation and the Wollongong Group at Alliance '86. Both SCO and TWG, as we have already discussed, offered products that could solve the design needs of Kinkei's system.

Excited by the possibilities of using these products, the manger at Kinkei started to follow-up with SCO and TWG after Alliance '86. Kinkei's inexperience with doing business in the U.S., however, quickly led to problems. Kinkei had difficulty in communicating their needs to SCO and TWG in direct, Silicon-Valley style language. Managers on both sides of the Pacific felt frustrated at the lack of progress in the relationship.

Kinkei recognized the need for the use of the outside consulting help at this point. They hired Data Control Limited to analyze the product alternatives that Kinkei could use in designing the ATC-X and negotiate appropriate relationships with selected companies.

The Data Control report confirmed that the SCO and TWG products were the best solutions for Kinkei's operating and network communications software needs. Data Control then helped Kinkei negotiate agreements with SCO and TWG products that provided Kinkei with appropriately modified products for the use of the ATC-X and the Japanese market.

(3) The role of catalysts inside partners and the role of DCL In order to

make this kind of project happen, each company has to have a liaison officer to bridge the gap in an interorganizational field, and who, at the same time, serves as a catalysis inside the organization.

The executive director of Kinkei had been an idea champion for creating ties with U.S. high tech companies. "Persuading people inside Kinkei to sign up for this alliance project was the first challenge," he said, "and communicating with our would-be partners was the second challenge. The second one was somewhat attenuated by two factors. For one, there had always been someone like me in each potential partner who needed to persuade inside and speak outside on behalf of the company. The feeling that we were in the same position made me feel connected to them. We began to realize that patience paid. For another, DCL helped us to go through out second challenge by serving as a linking pin."

(4) Key factors for success —— native views Interestingly enough, all of the interviewees, regardless of their country of origin, emphasize the importance of building long-lasting interpersonal relationships and trust.

The cultural gaps that both sides had to overcome made the use of a consultant essential in order to achieve the necessary level of understanding and trust. For example, the Japanese tendency to write in a non-direct, general communications style made it impossible for the American side to understand Kinkei's requirements. Kinkei, on the other hand, was inexperienced at dealing with American companies, and did not know how else to communicate. Executive Director at Kinkei (and later his counterparts in SCO and TWG) began to realize that trust and communications could only develop with the use of a linkage-finder-and-builder (like Data Control in this specific case in focus) for all of the stakeholders in the ATC-X project, to translate back and forth the two separate styles of communications.

All of the participants point out, as mentioned earlier, the fact that they really needed "patience" at the initial stage. Again the role of the linking pin is important. The differences in logical approaches to the issues involved made it impossible for Data Control to smooth the feathers whenever one side felt the other was making an unreasonable response or demand. Only a persistent dedication towards moving the project forword could make it successful.

Kinkei contributed to the success of the project by allowing its executive director of engineering, Mr. Nishigaki, to have real decision making authority. In an unusual role for Japan, he was encouraged to make decisions and take risks (In a typical Japanese corporation, it is hard to pinpoint a single person who has the decision making authority and thus the responsibility is easily diffused among several executives). Mr. Nishigaki recognized correctly, that the only way for Kinkei's system to appear on the market as a technological leader in Japan was to make strategic alliances with these then emerging, but risk-taking American companies.

Mr. Nishigaki was able to make these decisions partly because no other director at Kinkei had the necessary technological background to choose appropriate products and partners. Still, he took a big risk in making his choices.

Our interviews with those who had been in charge of this project inside the SCO and TWG show that it was Mr. Nishigaki's early decision to send the manager of software engineering, his subordinate, to Silicon Valley to be exposed to both state-of-the-art of technology and Silicon Valley's culture.

V. The Pitfalls of Traditional Approaches

Why is the Alliance activity as a social event needed? Its raison d'etre resides in the pitfalls of traditional approaches for creating international ties.

As shown in Figure 4, typically, relationships between Japanese and American firms proceed as follows. An American organization sees an opportunity to enter the Japanese market through the help of a large Japanese trading company or government agency such as JETRO. However, these routes, no matter how hard the trading firm or government agency tries, often lead to failure. This is becasue the Japanese side just does not have the detailed, hands-on product or market knowledge to provide the American company with the assistance it needs to find appropriate customers in Japan. In a similar vein, banks and other financial institutes are not so useful in forming strategic alliances, even if they are internationalized in their financial operations. The issue is not just financial but technological when it comes to technology-driven alliances.

Japanese multinationals have their subsidiaries in various parts of the

world. It is a sad fact, however, that expatriates tend to get tired of greeting Japanese people, whether they are their superiors in corporate headquarters or their customers who travel, and therefore neglect to exert more efforts to be embedded in the local business communities. Therefore, Japanese subsidiaries are not an effective vehicle to find a potential partner in the U.S.

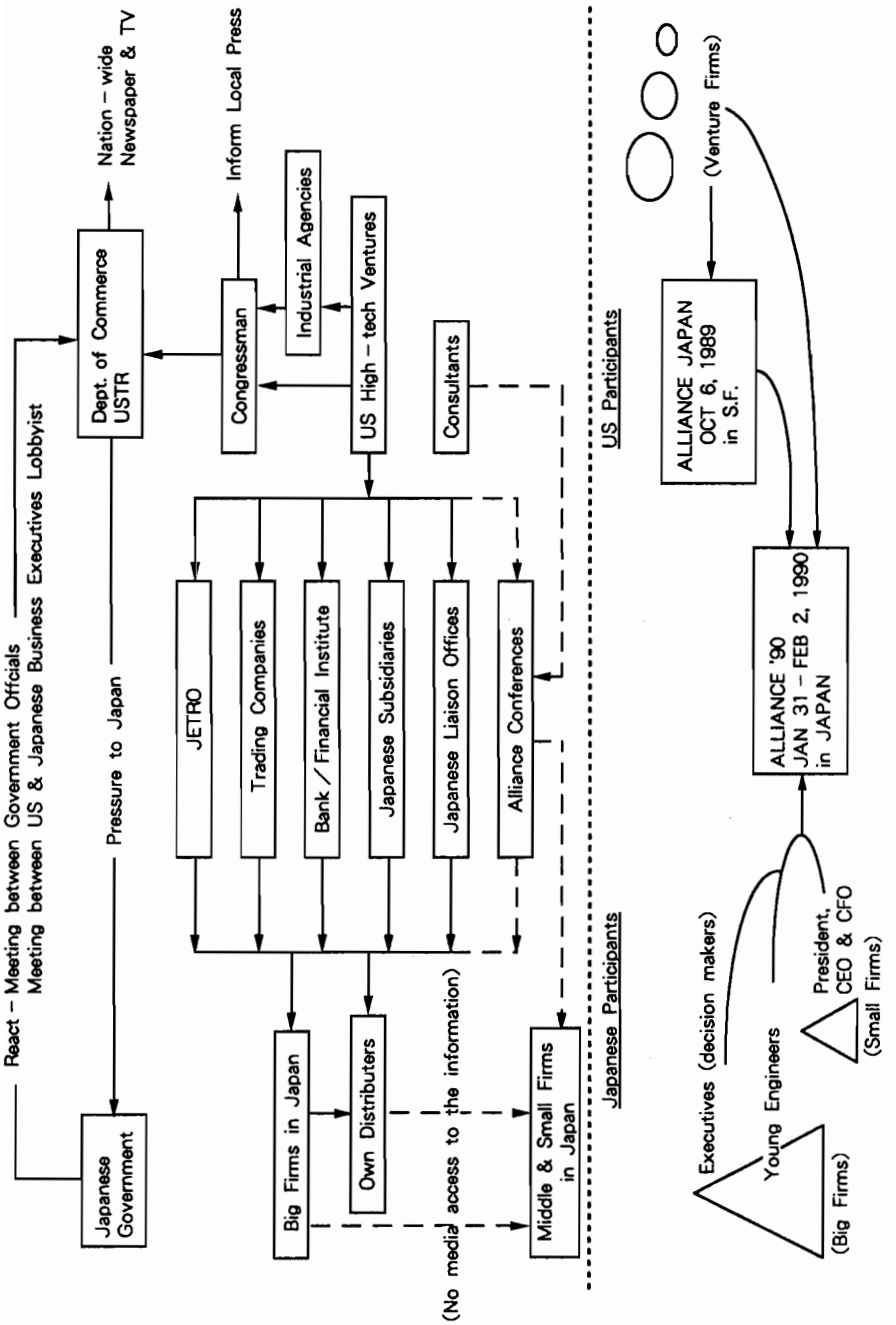
Some prefectural and municipal governments in Japanese major metropolitan areas may have their liaison offices in foreign countries. Osaka prefecture, for instance, set up their U.S.-Japan liaison office in California with the intention of getting access to the information on Silicon Valley firms. Those offices, however, do not have appropriate resources to achieve these objectives. Japanese liaison offices of various States from the U.S. may be effective in attracting Japanese corporations to build their factories in their state, but, as already described in section Ⅲ.2, seem not particularly interested in formation of much more subtle, technology-based alliances across the Pacific Ocean.

The American company and its business community get irritated and often angry with good reason, when they see no progress in penetrating the Japanese market. They complain to the U.S. government, which is *pressured to pressure* the Japanese government to "Open the Market." The governments then negotiate some type of agreement that may not even address the legitimate concern of the businessman.

The Alliance activities are designed to provide a different route. Here, American businesses can improve their access to companies in Japan that understand their specific products and want to help them, for mutual benefit, to penetrate Japan. It allows American business to be more proactive in solving their problems. It is more effective than government intervention. One of the most important rules for Japanese participants that makes the Alliance effective is that they are asked to send at least two different persons with different resources : an executive who has the real decision making authority and an engineer who is young enough to be able to evaluate state-of-the-art technology. Another rule for U.S. participants is that they send a CEO and CFO who together can make important substantial decisions at the site of the Alliance meetings.

Without the occasion like Alliances, Japanese corporations have no way to locate very young (and as such, highly invisible) , emerging,

Figure4. Pitfalls of Traditional Approaches and
Objectives of Alliance Activity



technology-based companies in Silicon Valley. Without it, on the other hand, the U.S. small, high tech companies could not gain access to Japanese big businesses.

Ⅵ. Theoretical and Practical Implications of the Case

A single case study is justified as a starting point for more thorough studies, only if the case represents the either a "rare" or (on the contrary) "typical" case (Yin, 1984). The above case is one of the rare examples of international strategic alliances that does not include a major corporation as a stakeholder. Neither is formal governmental help included. The case represents the network-of-network mode, or the informal gatekeeper mode. It also verifies the possibility of "multinational startups" (Hara, 1981, circa). Briefly stated, the notion of multinational startup casts doubt on the previous studies of multinational corporations that assume that MNC must be a large corporation. Multinational ties are possible even at the startup stage.

There are some lessons that are drawn from the case. First, international strategic alliances comprised only of small businesses are not only possible but also promising, because a small business firm is more likely to lack some resources that other partners possess. Moreover, the relationships can be more symmetric as compared with a big business-small businesses alliance.

Second, even if *nation cultures* are starkly different across countries, there are common features that characterize the *organizational culture* of technology-based small businesses regardless of their country of origin. The organizational culture of small businesses are entrepreneurial and that of a big business is inevitably somewhat bureaucratic with a few exceptions such as 3M. Therefore, the mutual understanding of partners is deeper, and the negotiation process between them is less difficult as compared with the case that involves a large corporation as a major partner.

Third, as interviews with those linking persons in each company in the present case show, even with the organizational cultural fit, patience is still a key factor for success, probably because the perceived role of a legal contract is so difficult between these two nation cultures as most of the previous studies emphasize. It should be noted that the negotiation process occurs not only between partners but also within each partner. For

the sake of "justifying" or "authorizing" strategic alliances, the person who serves as a linking pin to partners also needs to persuade those who are concerned inside his or her company that the partnering is necessary. Patience is needed for the role of the "catalyzer" inside the organization in order to promote the alliances.

Fourth, the case represents the situation where a "networker of networks," a key person or company that tries to create a global network of local networks in different nations, plays a major role. As one of key factors for success in this strategic alliance, our interviewees report the invaluable role assumed by Data Control Limited, as a "networker of networks."

Fifth, related to the fourth point, before launching on international strategic alliances, the "social events" of various forms such as international symposium, exchange programs, or conventions help identify candidates for partners. For designing fruitful conventions, one needs a company like DCL who serves as a gatekeeper of information both in Osaka (and Tokyo) in Japan and in Silicon Valley in the U.S.

Sixth, the most important theoretical implications that the present case suggets is that the nature of the project the alliances look for requires a network of small businesses with different resources. In this case, it is rephrased that the development of a network-conscious work station demands a network of firms. The alliance reported here, therefore, is a reflection of the product property.

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Appendix Examples of Successfull Strategic Alliance Partnerships

The following are some of the success relationships DC/DEFTA has arranged :

Microscope Development Corporation ⟷ Yamasaki Seiki Co. Ltd.
(February 24, 1986 Nikkei Sangyo Shinbun)

Qubix Graphic Systems Inc. ⟷ Motoya Co. Ltd.
(March 20, 1987 Nikkan Kogyo Shinbun)

Mycogen Corporation ⟷ Kubota Ltd.
(November 5, 1987 Nikkei Sangyo Shinbun)

Altos Computer Systems ⟷ Tau Giken of Tokyo
(Affiliate of Kobe Steel)
(November 6, 1987 Nikkei Sangyo Shinbun)

Altos Computer Systems → Kobelco Systems Corp.
(June 8, 1988 Japan Economic Journal)

Santa Cruz Operation
Rexon Incorporated ⟷ Kinkei Systems Co. Ltd.
(T. B. A Japan Economic Journal)
The Wollongong Group

The Wollongong Group ⟷ Seiko Instruments Co. Ltd
(Summer 1987 Nikkan Kogyo Shinbun)

Please note that there are a number of on－going arrangements that can not be disclosed to the public and previous successful cases that DCL/DEFTA's clients do not wish to make a public announcement of.