

Alliances are popular

Canadian companies will find that both large and small European firms are open to partnering with other firms. Large European firms are favourably disposed to strategic alliances for historical reasons. European competition laws were traditionally much less stringent than those in North America, allowing large corporations more latitude to cooperate among themselves. Strategic alliances are also common among the many family-owned, small- and medium-sized firms in Europe.

R&D partnerships have played an important role in enhancing the competitiveness of EC corporations. Innovation in products, processes, marketing, and management has become the basis for competitive advantage. With the costs and risks of R&D skyrocketing, EC companies have made extensive use of R&D alliances, pooling their skills and resources in order to achieve technological excellence.

Production and marketing agreements have meant that EC firms have been able to use the emerging Single Market for competitive advantage. Production agreements have allowed many European firms to achieve economies of scale and to offer a wider range of products than they could cover on their own. Marketing agreements have enabled them to make use of each other's distribution systems and knowledge of local markets.

The Japanese began using strategic alliances about half a century before Canadians did; the Europeans and Americans also started using them several years before we did. Even so, Canadian companies have been gaining considerable skill in forming strategic alliances. They have become full participants in a business environment characterized by technical collaboration, partnerships, and alliances with both domestic and foreign firms.

Of course, a few cooperative technical agreements have existed for decades in Canada in areas such as pulp and paper research, nuclear engineering or heavy electrical equipment. But the sheer number of alliances formed by Canadian companies since the mid-1980s points to a new phenomenon. Partnerships have developed by the hundreds, not only in technologically dynamic industries such as electronics, pharmaceuticals, chemical, and aerospace industries, but also in the more traditional sectors of transportation equipment, metal refining, and forestry.

Strategic alliances are not the exclusive preserve of large firms such as Northern Telecom, Bombardier, or General Motors of Canada. In fact, studies show that more than 80% of the firms active in strategic alliances are either small- (fewer than 100 employees) or medium-sized (between 100 and 1000 employees).

There are several reasons for the intensification of alliance activity by SMEs. First, Canada has only a few giant firms in each industry. In some industries such as biotechnology, telecommunications equipment, or chemicals, there is only one large Canadian champion. These large firms tend to gather at least some SMEs around themselves. Second, in many industries, smaller Canadian firms are customized producers of small batches; they usually work in close cooperation with clients who may be located in various countries. These companies know how to cooperate on R&D projects and are able to formalize agreements with their suppliers, clients and competitors. Third, even large corporations often do not have the critical mass needed to complete an R&D project alone. For SMEs, cooperation is a matter of life and death in markets characterized by rapid technological change, the overnight entry of new competitors, and hastened product obsolescence.

Perhaps as many as half of all Canadian strategic alliances have been encouraged by some level of Canadian government (federal or provincial), by a government lab, or by a Crown Corporation. Some are financed by a public program such as the Industrial Research Assistance Programme (IRAP) of the National Research Council of Canada, the Ontario Technology Fund or the Fonds de développement technologique in Quebec. Such alliances are often focused on pre-competitive research. Alliances funded and organized by the companies themselves tend to be more focused on the development of new or improved products and processes. They often include European or Asian partners who have approached Canadian firms because of their reputation in a particular field. These alliances tend to be more costly and, because of their strategic importance, less publicized than the government-funded alliances.

Studies show that about 30% of the alliances Canadian firms form are with foreign companies, and the number is increasing. Of these, European partners are by far the most common.

Of course, there are inevitable problems that arise in managing an alliance between Canadian firms and EC partners. Different languages, legislative frameworks, market structures, customer preferences, business cultures, and communication and transportation costs are the most common problems encountered by Canadian alliance partners in Europe. Canadian executives report that distance and some level of initial mistrust from the European side are the most difficult problems they have faced in forming alliances. But these problems have not detracted from the benefits Canadian firms have garnered from cooperative activities in the EC.