

# STRATEGIC ALLIANCE ALERT

- *WHAT TO DO AND WHAT TO LOOK OUT FOR WHEN FORMING AN INTERNATIONAL ALLIANCE*
- *INTERNATIONAL ALLIANCES IN THE BIOTECHNOLOGY INDUSTRY ARE ON THE INCREASE*

In the last issue of the Strategic Alliance Alert we looked at the acceleration of international strategic alliances in the high technology industry, and the Japanese "Keiretsu" approach to alliances. In this issue, we will consider some guidance on do's and don'ts relating to cultural and organizational differences between alliance partners, and we will consider the rapid changes taking place in health care and the current proliferation of strategic alliances occurring in the biotechnology industry. We can expect an accelerated volume of alliances as President Clinton's health care reforms become more defined.

Few would argue that in the 90s and into the next century, the globalization of industry, international technology transfers and the arrival of advanced communication highways will have a significant impact on our world. As a result, we will inevitably see the ties between Asian, American and European companies tighten as they become more mutually dependent. Sensitivity to different cultures and value systems will become increasingly important.

Cultural differences are inevitable when putting together an international alliance. Many end in disaster due simply to a lack of knowledge about a particular country or region. Such disasters can be avoided with some foresight and a willingness to do the necessary homework prior to entering an international alliance.

## Partnerships Are Formed With People

It is important to treat an alliance as a long-term partnership based on human relationships, not just an item on the corporate agenda. Companies are made up of people and, as with all successful relationships, trust and compatibility are developed and nurtured slowly through time, patience, flexibility, mutual understanding and cooperation. This cannot be stressed enough. When problems arise, and they will, you want to find yourself dealing with friends you know and respect — and you want them to feel the same way about you.

A strategic fit based on shared markets and technology is fundamental, but it is never enough in-and-of itself. More alliances fail due to a breakdown of communication and conflicts between individuals than to unsound strategic fits. No matter how good things look from a business perspective, it is essential to ask the hard question — can we work with these people in a close, long term relationship? A founding partner of The Lared Group, Lorraine Segil, who presents an Executive Management Program at Cal Tech on "Strategic Alliances" comments, "One utility company had 27 alliances. The executive in charge of alliances made his business decision to ally with a partner based on his 'gut feeling' of confidence and trust in the lead individual in the partnering company. When he permitted the business consideration to overcome the interpersonal issues, the result was almost always a problematic alliance." Those in top management must be wholly committed to making the alliance work.

This attitude of mutual respect and cooperation must be communicated to lower management and below — all the way down to the shipping clerks.

## Avoiding Cultural Disasters

Before entering an international alliance, do as much research as possible on the country and its regions. Expect each to have a culture uniquely its own. Consider language and dialect differences. Allyson L. Stewart of AAI Consultants can cite numerous embarrassing and costly blunders made by companies that neglected to do their research. One company, a manufacturer of tonic water, renamed its product "il water" in advertisements in Italy. Luckily the ads were pulled quickly when it was discovered that "il water" idiomatically means the bathroom in that country! There are innumerable variations of this type of cultural faux pas, which may occur from region to region as well as from country to country.

## The Operational Fit

Whether due to cultural differences or simply corporate culture, the chances of a successful operational fit must also be taken into consideration before cementing a union. Survey your own corporate culture and that of your prospective partner. Does your company operate in teams, or is individualism more the norm? Is the organizational structure hierarchical or collaborative in nature? Is communication direct or diplomatic? Are quickness and punctuality important, or is time orientation ill-defined? What about labor relations, government relations, political circumstances, environmental rate of change? How is information exchanged, with certainty or ambiguity? If there is a wide gap between your corporate culture and that of your prospective alliance partner, conflicts will arise. Decide if the gap is too wide to allow for understanding and mutual cooperation. If it is, you may have to go it alone by setting up a subsidiary or buying control of an existing company.

## Continental Differences

It has frequently been stated in this newsletter that international strategic alliances are no longer an option, but a necessary response to a changing and shrinking world. Companies have to learn to cooperate with those of other cultures if they expect to survive in today's business climate. A little understanding of the basic differences between Southeast Asian, European and North and South American ways of thinking and doing business can go a long way in forging successful alliances. Lorraine Segil says, "The Lared Group has spent the past eight years assisting U.S. companies through their offices in London, Milan, Paris and Beijing, to think through the corporate and country cultural issues before signing an alliance contract that could end up being an expensive way to educate a competitor. The result," she says "is a relationship in which learning is in both directions.

And our research of over 200 companies proves that the cultural and personality issues are what cause many alliances to fail at the three to five year mark."

Americans are essentially action-oriented and enthusiastic. They tend to measure success by the bottom-line and are less concerned with the process of getting there. American society values high achievement. Generally, Americans are open when it comes to sharing information, but when attempting to learn from alliance partners they often fail because they tend to look for "home runs" instead of studying the cumulative effect of their partner's overall approach to doing business. This is particularly true when dealing with the Japanese, who excel at competing and organizing, but their ways of going about it are not easily visible to the typical western eye. In Europe the pace is slower and often highly bureaucratic. Despite the advent of the

European Common Market, U.S. firms should develop strategies specific to each European country, taking into consideration its pace, culture and unique quirks. In Europe, pursuit of financial gain is not always the number one priority, and a U.S. company expecting to make a quick profit may have to rethink its strategy. Says Allyson L. Stewart, "Adding about 40% more to your original time for business in Northern Europe, and 60% to estimates for Southern Europe should stand you in good stead."

### Have An Exit Strategy

No matter how good your intentions, how much research you do or how well you consider all the options prior to forming a strategic alliance, it is still possible for the alliance to fail. Always have a well thought out exit strategy ready to be put into place if necessary.

## BIOTECHNOLOGY — THE SEARCH IS ON FOR ALLIANCE PARTNERS

President Clinton's proposal for national health care reform, the American Health Security Act of 1993, aims at overhauling the U.S. health care system in an effort to provide affordable, lifetime health care for every American. The details involved in the plan's execution will be battled out in Congress in the months to come, but one thing is certain, profound changes are imminent in every segment of the health care industry. In fact, the changes have already begun.

The cornerstone of the Clinton plan is the establishment of health care alliances. These managed care cooperatives would act as the administrative arm of the system and work with the various health plans to provide health care to large regions of the country. It will eventually be necessary for independent physicians to join one of the health care delivery systems in their area. Physicians' groups are already scrambling to align themselves with hospitals in an effort to ensure survival, while statewide physician groups are also forming, hoping to gain clout when contracting with HMOs and health plans.

While the Clinton plan promises to spur future alliances in numerous areas of the health care trade, the biotechnology industry has been forming alliances for a number of years. This trend appears to be continuing at an increasingly rapid pace. Japanese and European companies have renewed their interest in gaining access to the new, innovative technology found in the U.S.

The collaboration between Britain's SmithKline Beecham PLC and Cephalon Inc. of West Chester, Pennsylvania is representative of the typical alliances expected in the future. Cephalon will develop ways to inhibit the enzyme calpain, which contributes to stroke and other neurological disorders, while SmithKline will assist with the clinical testing, regulatory approval, and global marketing of the resulting product. Payments from SmithKline to Cephalon will be dependent upon the achievement of specific goals set prior to the agreement. These types of "targeted" deals are becoming more common, as large companies insist upon specific technologies in return for monies invested.

Small biotechnology firms, many of which are finding capital increasingly difficult to come by, benefit from alliances with larger firms by gaining badly needed long-term capital while also gaining access to the larger firm's facilities and personnel. Research that may otherwise have taken five to ten years for a small company to finance can be carried out almost immediately with the backing of a large alliance partner.

SmithKline also established an alliance with Human Genome Sciences Inc., of Rockville, Maryland, while Germany's Boehringer Mannheim GmbH, Britain's Medeva PLC, and Sweden's Kabi Pharmacia AB have announced alliances with small U.S. biotechnology companies as well.

The Japanese recently reentered the biotechnology strategic alliance race, with Kissei Pharmaceutical Co. and Suntory Ltd. revealing their intentions to align with smaller companies in the U.S. to develop new drugs. Tokyo's Eisai Co. announced an alliance with GenPharm International Inc., of Mountain View, California, to develop human antibodies from genetically treated mice.

The current boom in international alliances is paralleled by increased activity among U.S. companies. Baxter Healthcare of Deerfield, Illinois has been particularly active, forming alliances with Incstar, which, through its alliance with Baxter, now offers the Clinical Assays (TM) line of RIA tests for determining the total and free thyroxine levels in serum; Avitar Inc., to market and distribute Hydrasorb wound care and dental disposables utilizing polyurethane technology; Enzon, Inc., which grants Baxter a worldwide license to Enzon's Single-Chain Antigen-Binding protein technology (Baxter's biotech group will use the SCA proteins to advance its cancer research programs focusing on human stem cell isolation and gene therapy).

Genentech, Inc., of San Francisco, California, merged with Roche Holdings, Inc. in 1990. Since that time, Genentech has entered into a number of research alliances, including a collaboration with HLR to co-develop and co-promote Pulmozyme in Europe. Genentech manufactures and supplies the product in all of Europe and markets the product in certain European countries. Genentech receives payments and technical support from HLR, while HLR has exclusive license to sell Pulmozyme in countries outside of Europe, the U.S., Canada and Japan.

The biotechnology industry as a whole is pursuing national and international strategic alliances, along with mergers and acquisitions, as a necessary means of ensuring full product pipelines for U.S. biotech companies. While health care reform will impact the industry with non-traditional partnering arrangements serving as a foundation for cost-containment, strategic alliances with Pacific Rim and European countries are currently considered the most effective way for biotech firms to gain access to technology and financing.

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