Endogamic vs Exogamic Partnerships

Dominique JOLLY, Professor
Groupe CERAM
BP 085 – 60, rue Dostoïevski
06902 SOPHIA-ANTIPOLIS Cédex
dominique.jolly@ceram.fr

Abstract (100 words): The paper distinguishes between two types of inter-firm alliances: endogamy and exogamy. Endogamy occurs when partners share related profiles. On the opposite, exogamy appears when allies exhibit unrelated profiles. It is suggested that endogamy serves for accumulating similar resources and gaining scale effects while exogamy allows the combination of differentiated competences and the achievement of symbiotic effects. Two different cases are employed to infer practical recommendations regarding how these different types of partnerships should be managed.

Inter-firms alliances developed at a tremendous rate over the last twenty years. This has been the case in the Western world as well as in emerging countries. All alliances are not equal. As a result, they should be managed in different ways. Managers must pay attention to the type of alliance they get into to adopt the most appropriate behaviour. The question that stems from this assertion is: What are the different types of alliances? It is quite common to differentiate between national and international alliances. Analysts also distinguish alliances according to the type of organizational arrangements, the stages of the value added chain covered by the deal, the absence or the presence of equity links in the agreement, the relative size of the partners, etc. (Ruffio et al., 1999). All these distinctions are obviously important to consider, but they do not address the main issue raised by inter-firm alliances: What are the motives for setting up an alliance? Which benefits are the partners looking for when they enter a cooperation agreement?

This paper is based on the idea that the benefits gained – thanks to the alchemy of cooperation – are a function of what each of the partners pools into the alliance. Obviously, the less you bring, the less you get. But the question does not relate solely to quantities of resources. In line with the increasingly popular resource-based theory, this paper puts the emphasis on the nature of the resources brought by the partners. According to the relatedness between the resources polled by each partner, the cooperation will produce very different sets of complementarities. I will show that these complementarities may be either quantitative – when resources are related, or qualitative – when resources are unrelated. This criterion leads to two archetypes of alliances: endogamy and exogamy. We will see that endogamy refers to alliances between associates that are close. While, on the contrary, exogamy is the marriage with some outsiders.

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Whatever the alliance, implementing the cooperation raises problems such as the risk of opportunistic behaviours of the partner: did it bring all the resources it promised? Does it cooperate effectively? Partners also have to define how they will share decision power. Unlike autarchy or any acquisition move, cooperation involves at least two decision makers – any choice must convey the assent of each party. But there are some issues that are specific to endogamies and exogamies. I will show that each of these two archetypes are designed to pursue completely different aims. Furthermore, they raise very different implementation issues and they call for different management styles.

TWO ARCHETYPES OF INTER-FIRM ALLIANCES

Four conditions must be met in order to have a true inter-firm alliance (Jolly, 2001). First, each of the partners must accept to lose their autonomy in order to pursue a common goal in a well specified area – whether this concerns an entire business or a specific function (e.g., joint supply) or a well-defined project (e.g., developing together a new technology). Second, each partner has to pool a fraction of its own resources into the joint venture for the interest of the cooperation. Third, the joint action should produce results that would not occur in the context of an independent action. And finally, apart from the alliance, each partner is supposed to keep autonomous a significant part of its global business – otherwise this will result in an imbalance that might reduce the freedom of the ally.

Relatedness between partners’ profiles at the core of the dichotomy

In the interpersonal sphere, endogamy is the union of two partners coming from the same social milieu whereas exogamy is the wedding of two people originating from different backgrounds. In the business world, the concept of milieu can easily be understood as the industry in which a company operates. It refers, by extension, to the products and/or services it delivers.

What can be an alliance between companies coming from the same milieu? Joint research and development (R&D) between companies of the same industry is an example of endogamy. An another example is a common factory for two car manufacturers to produce a given component (e.g., an engine, a gear-box, even power-trains or platforms). **Endogamies occur when two companies come from the same industry and deliver the same product and/or service.** There is a good chance that the partners’ profiles share a minimum of similarities – for at least three reasons. First, they operate within the same environment, with the same customers, distributors, suppliers. Second, they have to face the same rules of the game, that is the same key success factors. Third, if they share the same background, they might have very similar value chains, they might detain comparable technology portfolios, they probably employ the same type of manufacturing facilities, or they very often use similar distribution channels.

On the contrary, **an exogamy occurs when a company is teaming with a partner which does not share the same profile.** Usually, it means that the two companies do not come from the same industry. For example, this would be the case of a car manufacturer setting up an alliance with an aluminium producer to jointly develop the use of this metal in the car industry. The two partners do not have the same suppliers, distributors, customers. They have completely different value chains, they master different technologies, they operate different manufacturing facilities, they have different expertises at the commercialisation stage.

Should we conclude that exogamies are only inter-industries partnerships? In some circumstances, companies belonging to the same business might have developed different
resource profiles: it means that they have different technological backgrounds, or do not use the same production processes, or exploit different distribution channels. This is for example the case of alliances between well established large pharmaceutical companies and small dedicated biotechnology companies – the later usually detaining a relevant technology but lacking the manufacturing capacities and distribution network to commercialise it while the former have exactly the opposite competitive profile.

In a nutshell, the differentiation between endogamy and exogamy does not come from the membership to one industry or another, but it comes from the comparative profiles of the partners. Related profiles induce endogamic partnerships and unrelated profiles offer opportunities for exogamic partnerships.

**Accumulating similar resources or combining differentiated competences**

As soon as two companies share related profiles, have related assets, capacities, abilities, competencies and expertises, it can easily be assumed that there is a high probability that they will pool similar resources in their cooperation. For example, if they decide to jointly research a new technology, they will bring together engineers that probably have very similar backgrounds. In a completely different field, if they intent to merge their supply functions, which are hypothesized to be identical, they will add similar negotiation powers. Or, if they decide to build a joint factory, they will pool close manufacturing experiences. When resources of the same nature are brought into the cooperation, the only aim that can be pursued by allies is the accumulation of identical resources. This set of relationships can be summarized as follows:

Similar environment and value chains => similar resources brought by the allies => accumulation of identical resources in the alliance

On the opposite, when two companies differ significantly in terms of profile, the resources that will be pooled, if they decide to form an alliance, will be highly differentiated. For example, the resources brought by Hewlett-Packard in its alliance with Intel are completely different from the ones brought by Intel. Intel brought a world-wide domination in the market of microprocessors, industrial capacities and leading-edge design competencies accumulated and improved through experience. While HP brought an expertise in enterprise computing systems, an expertise in compiler, and more broadly in software and its high-performance, Precision Architecture, with "floating unit" and VLIW technology. When each partner is bringing resources that cannot be brought by its counterpart, it means that resources pooled in the cooperation cannot be substituted. In such circumstances, the allies are not looking for the accumulation of similar resources, but for the combination of specific resources. These relationships can be expressed as follows:

Unrelated environment and value chains => idiosyncratic resources brought by the allies => combination of differentiated resources in the alliance

To conclude, partners of an endogamy can only pursue quantitative complementarities whereas exogamy can only deliver qualitative complementarities. Looking for quantitative complementarities in an exogamy is unrealistic. The resources pooled are too different for producing scale effects. In the same vein, looking for qualitative complementarities in an endogamy would be a curious quest as the resources brought by the allies are supposed to be fully substitutable. Table 1 offers a summary of our main arguments. Let’s go now in deeper details with the management of endogamies and the management of exogamies.
### Table 1 – Contrasting the two archetypes of inter-firm alliances

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<td>- uniting buyer/seller;</td>
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<td>- reaching the optimum scale;</td>
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<td>- gaining scope economies;</td>
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<td>- alliance of a car manufacturer and an aluminium producer;</td>
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<td>two distribution companies;</td>
<td>- Joint Ventures between Chinese and Western companies;</td>
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<td>- drilling joint venture in the oil industry;</td>
<td>- agreement between a large pharmaceutical company and a dedicated</td>
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<td>- joint design and/or production of parts by cars manufacturers;</td>
<td>biotechnology firm;</td>
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<td>- consortium established by a group of competitors in order to promote a</td>
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<td>technical standard.</td>
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MANAGING ENDOGAMIC PARTNERSHIPS

The case of PSA and Fiat in the monospace niche illustrates the type of benefits that can be gained through endogamic partnerships. This example shows that benefits are essentially related to quantitative complementarities. But, unfortunately, scale or size benefits are counterbalanced by serious issues that managers have to consider seriously.

**PSA-FIAT in the European monospace segment**

The monospace is a vehicle between the van and the private car. Two car manufacturers contributed to settle the concept: Chrysler, in North America, with its mini-van (launched in 1983) and Renault, in Europe, with its Espace (launched in 1984), a model that originated in fact in the car branch of the Matra Group.

After deciding to ally in 1988 for developing and manufacturing an entirely new monospace, PSA and Fiat finally reached the European market six years later. At the end of the eighties, the two companies shared an **identical environment and very similar value chains**. Both PSA and Fiat faced an emerging and narrow monospace market characterised by a slow take-off and strong uncertainty related to demand. As many competitors were entering the market, PSA and Fiat arrived late. The two companies had comparable histories and resource profiles. They were private firms with their equity mainly held by families. They were producing each close to two million vehicles per year. Their production systems were fairly similar. From a Fordist model, they both invested heavily in automation before adopting Japanese inspired techniques. They did not suffer from any real weakness: each one has design competencies, development capabilities, assembly and manufacturing capacities, marketing forces and distribution networks. But, both suffered from a lack of experience in the monospace field.

Because the two groups exhibit very similar profiles, any cooperation between them offers limited opportunities for pooling different types of resources. The two companies committed 0.76 billion Euros in the design, development and experimentation of a completely new model of monospace and invested together 0.91 billion Euros in an entirely new factory dedicated to this vehicle. Resources brought by partners were very similar.

This alliance was designed for gaining quantitative complementarities. Three related benefits were gained through the cooperation. (1) Sharing cost and risk. Considering the relatively small size of the monospace segment in Europe, manufacturers have a strong incentive for sharing the design (R&D) and manufacturing costs. (2) Increasing bargaining power. Concerning parts supply, this co-operation increases the negotiation power of the allies *vis-à-vis* the component suppliers. This point is highly relevant as 70% of the value-added is bought from outside. (3) Gaining economies of scale. By adding their respective production capacities in the same factory, PSA and Fiat are able to reach a larger scale compared to a situation where they would have run their own plant. Consequently this co-manufacturing agreement allows the partners to reach together a lower cost of production.

**Gaining scale effects reduces opportunities for differentiation**

The main lesson to be learned from this deal is that the economic advantages of an endogamic alliance, that is the **benefits gained at the design and the manufacturing stages are counterbalanced by strong constraints**. Most decisions, most features of the deal, have been constrained by the fact that it is a scale alliance. In particular, partners were forced to conceive a model fitting with the four trade marks in order to minimise industrial diversity, to gain scale effects and to maximise economies of scale. None of the brands could be entirely

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2 This section relies on an in-depth analysis of this case done by the author. For more details, see: Jolly (1997).
satisfied by defining an average concept. The tangible features of the vehicle do not offer significant differentiation; they share the same chassis, the same frame, the same body, the same engines and other mechanical parts, etc. But co-operation ends at the factory's door. Partners decided to distribute and sell the vehicles in their own distribution networks (as each car manufacturer holds a brand equity that it wants to preserve and exploit). It means that almost the same monospace is sold under four different names. As a consequence, the allies suffer from the commercialisation problems raised by the deal. The trouble is that the higher the substitutability between two offers, the higher the probability that competition would switch to price wars. Differentiation has to be found elsewhere, in peripherical features (such as marketing strategies, distribution network, quality of the sales forces, image and the notoriety created through communication and advertising, after sales services, etc.).

The potential consequences of a weakly differentiated output have to be taken into account. If the output is a part, a component, a subsystem that is incorporated by each partner in its own final product, each ally still have many ways to differentiate. But, if the output of the alliance is a final product that each partner will have to sell in its own distribution network – as we saw in this case – then, the risk of price wars is very high.

**Other issues raised by endogamic partnerships**

Dealing with low differentiated outputs is not the sole issue raised by endogamic partnerships. Managers should also pay attention to different issues, such as:

- **A reduced span for learning.** In endogamies, by definition, partners share related profiles. This absence of differences does not allow one partner to learn from the other: when two companies have related technology portfolios, close organizational know-how, comparable managerial abilities, etc. close contacts in the alliance offer limited opportunities for learning. As a consequence, endogamies only allow to learn together rather than to learn from each other;

- **The inertia resulting from the deal.** Once a large set of resources has been invested for building a new joint factory, it is hard to change your strategy. Once you have been able to gain economies of scale because you have been jointly able to reach a production of 1000, it is hard to come back solely to a production of 500 and lose the cost advantage;

- **The risk of a technological breakthrough.** When two companies build a joint factory, they have to choose one technology system (technologies embodied in the production process and the product or the service itself). Once they have decided on one given technology, they are committed to this technological stream for several years. If an alternative technology arises, it means that the joint investment will be challenged by a breakthrough and ultimately might be lost.

**MANAGING EXOGAMIC PARTNERSHIPS**

Exogamic partnerships might be hypothesized as easier to manage than endogamies as, most of the time, partners in exogamies are not in close competition. We will see that this is in fact a little bit more complicated. One example of exogamic partnerships that developed strongly over the last twenty years is the Chinese-Western joint venture. It has even been a condition for every Western firm that wanted to do business in China. This case shows the benefits and the pitfalls of exogamies.
Chinese-Western joint venture as an example of exogamy

In a Chinese-Western joint venture, it is quite obvious that partners originate from unrelated environments. Even if China has opened its doors for more than twenty years, even if the economy is moving at a tremendous pace, even if China is close to enter the World Trade Organization (WTO), it is still ruled by a highly powerful communist party. The political, social, economic, industrial and competitive situation is extremely different from the one Western companies are used to.

Environments are clearly unrelated and, even with companies belonging to the same industry, value chains are usually very different. Partners’ profiles are always very contrasted. In Chinese companies, organizational and managerial structures are often an heritage from a planned economy. Manufacturing capabilities sometimes come from old Soviet technological processes; distribution networks are very often barely emerging; managerial expertise is not state of the art, etc.

Resources pooled by allies into the joint venture always exhibit a strongly different nature. Western companies are known for contributing with four types of resources in the alliance: (a) production process technologies and the associated manufacturing equipment – almost always outperforming the ones traditionally used by the Chinese partner, (b) product technologies (i.e. new product models), (c) managerial expertise through expatriates and (d) strong brands. While Chinese companies bring completely distinct resources: land, real estate, raw materials supply, access to utilities, work force, guan xi (relationships with key stakeholders such as local government representatives or communist party officials), distribution channels (in China), etc.

These two sets of resources are highly differentiated. They are, from a qualitative point of view, very different. Usually, the resources input by one partner cannot be brought by the other. The combination of these resources in the alliance produces what is usually called symbiotic effects. It is a kind of crossbreeding between two sets of capabilities, expertises, competencies, etc.

Issues raised by exogamic partnerships

In exogamic partnerships, high attention should be paid to the following issues:

- **Unrelated profiles might induce cultural gap and debates.** As exogamies, by definition, occur when partners show unrelated profiles, it will be highly frequent that partners have also different cultures, different identities, different backgrounds, etc. Such differences do not facilitate the joint action. Defining a strategy may be impeded by different visions. Setting policies may be slow down by different values. Even day to day job might be hampered by different principles of action. As a consequence, and contrary to endogamies, managers involved in exogamies will have to reconcile different, and may sometimes conflicting, cultures.

- **Knowledge transfers that occur inside the joint venture.** Exogamic partnerships are opportunities for learning, for resources transfer between partners, where allies search to learn from their partners. Knowledge can flow through the organizational structure of the joint venture thanks to repeated contacts, day-to-day exchanges between engineers, human resource managers, marketing people. Several types of knowledge can be distinguished:

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3 This section is based on an in-depth analysis of eight different Chinese-Western joint ventures in very different industries. Secondary data and managers interviews were used to build the case studies. For more details, see: Jolly (2001).

industrial know-how, technological assets, organizational abilities, commercial and marketing competencies, etc. The point is true for explicit knowledge but is also clear for tacit knowledge (i.e. specific to one given context, unarticulated, stemming from a subjective perception of reality, inexplicit, informal, uncodified, etc.). As soon as the partner understand this knowledge, he will be able to learn from its counterpart (Inkpen, 1996). After a while, he might be able to transfer this knowledge to another organization and duplicate it. The maximum risk is when unplanned transfers occur, when some secrets are unveiled to the partner. The point becomes highly sensitive as soon as competitive advantages are based on these secrets (Inkpen & Beamish, 1997);

- **Competition is vivid inside the cooperation itself.** The interesting point is that even if these joint ventures call for cooperative behaviours, every one should keep in mind that partners are still competing. I do not refer to competition between different lines of products. Competition lies inside the joint venture itself. It is a competition on the speed of learning. The winner is the partner who will be the fastest to learn form its counterpart, that is the one with the best absorption capabilities (Kumar & Nti, 1998). At the same time, each one will try to curb the learning process of its partner. On the long term, such a process might have an impact on the future of the alliance itself. When one partner learn from the other, he reduces its dependency. But this is precisely this mutual dependency which serves as the glue of the partnership;

- **In the specific case of Chinese-Western joint venture, partners should implement strategies for protecting their knowledge base.** Three approaches should be distinguished (Jolly, 2001). One is to transfer only mature technologies that are not key for the future competitive advantage (keep at least one step ahead). Second is to keep in the West the most sensitive stages (such as R&D or the production of core parts for example). Third is to erect technological barriers but also at the same time to build financial and marketing barriers.

**CONCLUSION**

Endogamies should not be managed as exogamies. Because they are not set up for pursuing the same aims, because the motives for partnering are different, because they do not produce the same type of benefits, they raise different types of managerial issues and challenges.

When the partners have similar profiles, they usually accumulate resources fully substitutable in the alliance (i.e. brought either by one partner or by another). The cooperation produces quantitative complementarities: scale effects, size effects, volume effects, etc. Managers of endogamies should not look at these alliances as a way to learn from their counterpart. They should especially pay attention to the weakly differentiated outputs of the alliance caused by the standardisation process required to reduce industrial diversity and finally to gain scale economies.

On the opposite, when the profiles of the partners are differentiated, they combine idiosyncratic resources (i.e. each of which that cannot be brought by the counterpart). The complementarities gained from cooperation are qualitative: symbiotic or interbreeding effects. In that case, managers have to deal with potential cultural shocks between the different logics of the allies. They should also pay strong attention to the risk of unintended knowledge transfers between allies inside the cooperation.
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