to the difficulty in entering Japan as a foreign entity, Teva entered the market via a small joint venture. Yanai continued,

> We first did small joint venture [in Japan] because we said we needed a local partner to help us understand this market ... and for the next three years together we actually studied the Japanese generics market, and we did even a small acquisition just to test the waters. Only after three years when we really felt we understood [the Japanese market], and of course the opportunity showed up, we went for the major move and we acquired a company at the level of $1 billion.

Teva bought Taiyo, Japan's third largest generic pharmaceutical company in May 2011. In addition, Teva bought out their joint venture partner and merged that operation into Taiyo thereby creating a commanding position in the Japanese generic pharmaceutical market.

This case demonstrates two points. The first is using different FDI methods in order to best implement a corporate strategy. In the beginning, Teva used joint ventures to "borrow" the competencies of other organizations because they simply didn't have the resources internally. When they had sufficient resources to acquire targets, they used them successfully capturing technology, innovation, and market share. Today they continue to collaborate with other market-leading organizations when appropriate instead of bolstering their own competing resources internally. Rather they use those resources for other strategic opportunities. In some cases they do this to reduce risk and capital expenditure.

Secondly, Teva used joint venture as a means of learning about a very foreign market rather than entering blindly and buying without adequate market and cultural understanding. They entered Japan in a very limited fashion as they got to know its unique features and characteristics before ultimately pursuing a substantial acquisition. This supports one of the key success factors of the survey participants: those who have entered markets most successfully have done so with full knowledge of the local market.

5 Nonequity Modes of Investment

Introduction

There is no wider or more ambiguous subject in this book than the strategic alliance. Strategic alliances are the catch-all phrase used to suggest a long-term working relationship between two separate organizations. Outsourcing, long-term supplier relationships, licensing agreements, and agency agreements all fall under the heading of nonequity alliances—the organizations hold no equity in the other partners but can influence their actions. They differ from joint ventures and minority equity stakes that are the most common forms of equity alliances. Nonequity alliances are discussed in this chapter as is research on alliances that doesn't differentiate between alliance types.

General strategic alliance research

In research, there is often little differentiation between types of strategic alliances as many share the same similarities. Because of this, research on strategic alliances often fails to differentiate between the levels of collaboration or mutual reliance and characterizes them as the same. This oversimplifies the relationships and overriding factors that influence the success of the various types of alliances.

Strategic alliances, including both contractual and collaborative alliances (discussed later in this chapter), are the mainstay of emerging markets, accounting for over half of market entries into Latin America, Asia, and even Eastern Europe (Adarkar et al., 1997). There has been an explosion of strategic alliance activity in the past 20 years (Gulati, 2007) as markets have opened up for inward investment. Research has found that the world's top 500 global businesses have on average 60 *major* strategic alliances in addition to countless less strategic relationships (Dyer, Kale, and Singh, 2004).

Yet strategic alliance performance has been, at best, mixed. Some organizations have been able to parlay their alliances into financial success such as HP and Oracle who, because of repeated alliance value creation, realize share price gains simply upon the announcement of another alliance (ibid.). Research has found, however, that most alliances fail to deliver what is anticipated by the partnering firms with studies finding failure rates ranging from 30 percent to as high as 70 percent (Kogut, 1989; Das and Teng, 2000; Kale, Dyer, and Singh, 2002; Banford, Gomes-Casseres, and Robinson, 2003; Gulati, Sytch, and Mehrotra, 2008). Alliances are found to be unstable structures that are more prone to failure and dissolution than other types of FDI such as acquisitions or greenfield investments (Inkpen and Beamish, 1997; Dyer, Kale, and Singh, 2001).

Globalizers from differing parts of the world ally for different reasons although all share some characteristics (Hitt et al., 2000; Ireland, Hitt, and Vaidyanath, 2002; Nix et al., 2008) (see Table 5.1). All continue to use alliances to enter restricted industries where foreign outright ownership is prohibited, which, as seen in Chapter 2, occurs in 90 percent of countries. As discussed earlier, most globalizers enter into alliances to fill a void of internal resources—whether it be geographic market knowledge, political connections, access to technology, branding, low-cost manufacturing opportunities, or simply international know-how. What resources they are seeking differentiates developed world globalizers and emerging world globalizers.

Developed world globalizers seek low-cost manufacturing opportunities and political connections especially in the developing world. More commonly they use alliances to enter foreign markets quickly without having to build up an internal knowledge and skill base specific to that market, and instead piggyback on an indigenous firm's market knowledge and connections to access the market (Nix et al., 2008). Developed nation globalizers ally to reduce or share financial burdens especially in cases of high economic or political instability using alliances to gain a foothold, an insurance policy of sorts, in case of future market opportunity. They also enter alliances in other developing nations to share heavy financial expenditures such as R&D expenses.

Emerging world globalizers, on the other hand, seek to fill the voids of superior technology and established brands; interestingly they may also seek lower-cost manufacturing sites if their domestic manufacturing costs are rising. Many seek insights about managing international businesses from those more experienced—almost an apprenticeship devoid of the higher risk of failure associated with going it alone while inexperienced.

Globalizers use several types of collaborative strategic alliances to enter markets, including nonequity methods and those in which they take an equity position. We will look at these in turn.

Table 5.1 Why companies enter collaborative strategic alliances

Country's Economic Status	LOW	HIGH
DEVELOPED	• Access to established brands • Access to technology • Learn about business practices that are lacking internally • Access and learn about the local market	• Share costs (e.g. R&D) • Enter restricted market • Gain access to market with reduced risk exposure/cost
EMERGING	• Lower-cost manufacturing center • Market access • "Replace" internally lacking resources	• Government requirement • Access to domestic market • Access to cheap manufacturing • Reduce uncertainty/risk exposure • "Replace" internally lacking resources (e.g. market knowledge)

Stage of Globalizer's Development

Contractual strategic alliances: Nonequity modes of investment

As seen in Chapter 1, strategic alliances run the gamut from the outsourcing of nonessential operations through co-marketing to joint venture relationships. A strategic alliance is a "medium- to long-term contractual arrangement in which two or more independent organizations acknowledge their mutual interdependence and strive to pool their resources to jointly create an outcome that neither of the exchange parties can easily attain on its own" (Schreiner, Kale, Corsten, 2009, p. 402). An international strategic alliance is simply such an arrangement where the companies are headquartered in different countries. Strategic alliances vary in degree of integration between the operations. Researchers often fail to differentiate between nonequity modes of strategic alliances and joint ventures, even though they are both subsets of strategic alliances as they share many common characteristics and key success factors. They also have some very differing features as seen later in the chapter.

Nonequity modes of international investment are those in which a transnational corporation "externalizes part of its operations to a host-country-based partner firm in which it has no ownership stake, while maintaining a level of control over the operations by contractually specifying the way it is to be conducted" (UNCTAD, 2011, p. 127). The key characteristic is the ability to exert a material impact on how the host-country partner conducts their business without actually having any equity stakeholding in that organization. Different forms of nonequity investment can include: contract farming or manufacturing, outsourcing of services (call centers, logistics), a franchising relationship, licensing, or management contracts. The end result is that the transnational organization influences at least some of the activities of the recipient organization's operations (ibid.).

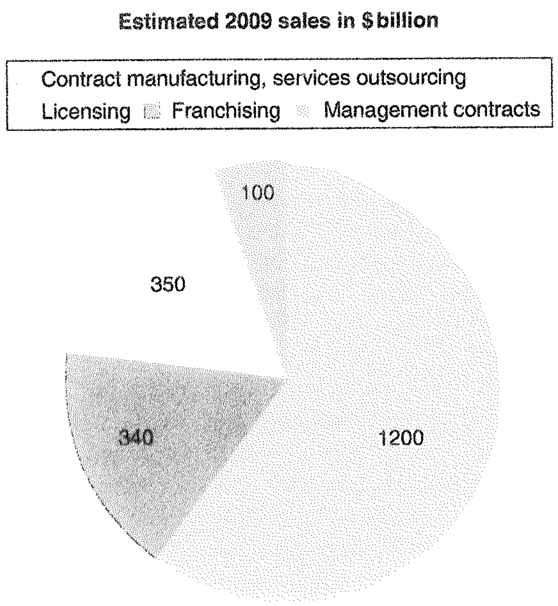
The use of emerging world enterprises in doing this is growing rapidly and accounted for an estimated $2 trillion of sales in 2009, excluding key industries such as contract farming where statistics are not accurately kept (ibid.) (see Graph 5.1).

Types of nonequity investments can be divided into three distinct business areas:

1. Top-line growth alliances
2. Cost-savings alliances
3. Outsourcing of nonessential business activities

Top-line growth alliances are those that are designed to increase sales usually by entering a previously untapped market and with the assistance of another organization. This can be via entering a new geography or new product application. A commonly used vehicle is the co-marketing alliance that is built around the marketing proposition, which includes the sharing of advertising, promotion, customer services, and in a cross-border context, very importantly, channels of distribution (Das, Sen, and Sengupta, 2003; Nanda, 2009). It is this relationship that is used extensively when entering new geographic markets through agents and representatives.

Cost-savings alliances are relationships in which an organization seeks a strategic partner from whom they can source lower-cost manufacturing product to funnel down their supply chain. They are most commonly seen with developed world companies outsourcing the manufacturing of product to suppliers from lower-cost environments. Increasingly, however, we are seeing more newly industrialized market globalizers (such as South Korea and Taiwan) also using emerging markets as lower-cost producing centers (Buckley et al., 2005). While this approach brings with it several key advantages of lower cost base and increased flexibility, it is increasingly under criticism for its potential lack of control over working conditions at some locations. When managed proactively, while it offers a lower manufacturing cost base, it does carry with it a significant monitoring cost in terms of supply chain management. Walmart, for example, audited either directly or through two partner organizations (ILO.IFC and International Council for Toy Industries) 8,713 suppliers in 2011 and ceased purchasing from 155 factories due to serious standard violations (www.Walmart.com). The reputational damage experienced by Nike in the 1990s shows just how important the links are between strategic alliance partners—while the costs are lower, the ability to control your alliance partner is also lower, therefore potentially increasing overall risk (see Case 5.1).



Graph 5.1 **Estimated nonequity modes of investment in 2009**

Source: UNCTAD (2011).

The final type of nonequity mode of investment is outsourcing of nonessential business activities. Outsourcing occurs when one organization has another firm perform its noncritical business activities—common examples include payroll, call centers, and logistics. Outsourcing doesn't necessarily require the activity's performance to travel overseas. Offshoring is different to outsourcing—it is the sending of business activities to be performed in another country by either part of that same organization, again usually to a lower-cost center (Moncarz, Wolf, and Wright, 2008).

When combined, the concept becomes *offsourcing*, or the performance of nonessential business activities by an unaffiliated firm located overseas. There has been an explosion of the combination of both offshoring and outsourcing to lower-cost parts of the world—it is estimated that the offsourcing market is worth a combined $500 billion annually (Plunkett, 2010).

There are significant advantages of using emerging world enterprises for the performance of cost-reducing nonequity alliances. There is a significantly lower degree of risk in terms of legal liability, market, and political risk when selecting emerging world partners (Doh and Stumpf, 2005). There are lower up-front and working capital costs as they are usually borne by the emerging world partner (Peng, 2000). Perhaps the greatest benefit of an emerging world partner relationship is the flexibility the relationship provides the globalizer in terms of business cycles, including the ability to terminate the relationship or change locations with much reduced costs other than opportunity cost (ibid.). Further if the cost base of the globalizing partner rises, the globalizer has the ability to search out another partner either in the same or a complementary geography. Thus, the transnational can concentrate on its core business while removing those elements, which, while necessary, are not seen as a critical driver for their business' success. The end result is maximum flexibility and reduced risk for the transnational.

There are of course inherent risks with using emerging world enterprises in terms of performance, cost savings, and organizational coordination. The quality of the emerging world corporation's service or product has a direct impact on the globalizer with whom it partners—poor services or workmanship can negatively color the perceptions of the globalizer's image. Related to this, the increasingly inclusive view of corporate social responsibility in supply chain management means that while globalizers have relationships in the emerging world, they are seen as being increasingly responsible for their partners' actions in terms of employee welfare and environmental issues (Doh and Stumpf, 2005). Thus the globalizer is put in the increasingly difficult position of being responsible for their alliance partners' behaviors in ensuring those businesses operate in just and socially acceptable means while not actually having operational control over them.

In addition there is the risk of coordination. Globalizers can have literally hundreds of alliances especially in certain sectors such as telecommunications or retail, making overall coordination and knowledge management throughout the firm extremely challenging. In some cases, those within the firm don't even know of the existing relationships and because of this are unable to exploit them. Knowledge transfer and cross-learning in these circumstances become impossible. One way to alleviate this issue is to have a centralized alliance unit, a practice adopted by many "serial" alliancers such as Oracle and HP. Having a centralized capability mitigates some of the control and coordination issues while encouraging organizational learning. It is discussed more in Chapter 7.

Perhaps the biggest risk of relinquishing control over any part of an organization especially to an overseas entity is understanding whether or not that piece of the business puzzle is critical to the firm's success. Risk management suggests that if the function is core to the business' overall success, its control should be retained to ensure its proper management. What leads to an organization's success is not always blatantly obvious. An example is Walmart's logistical operation. One of their core competencies is to have shelves adequately stocked at all times; for them to outsource logistics would be to endanger the ability to achieve a cornerstone competency. Therefore, they keep that function in-house while many other retailers have chosen to outsource it. Thus, the first step of a nonequity outsourcing relationship is truly understanding the trigger points essential to the business' ongoing success. There will be some that are simply too critical to relinquish control to another organization no matter how good a partner.

On the cost front, research is finding that the actual cost savings associated with offsourcing are simply not as robust as advertised (ibid.). The cost bases of low-cost centers are also rising rapidly in both India and China, two of the major sources for offsourcing in the emerging world. As costs rise, the differential between developed world rates and emerging world rates narrows. An example is Microsoft who was paying their Indian offsourcing company US$90 an hour for tech support—a rate not significantly below those in the US able to offer the same service (ibid.). In addition, it is not uncommon for an offsourcing recipient to dramatically increase their fees once the business is fully embedded and the cost to change is high—that is, after the globalizer has invested considerable management time and money to initially set up the relationship.

Finally, it is a misconception to believe that once the activity it offsourced to a new location the coordination with the globalizer stops. Globalizers must proactively manage their ongoing relationship to ensure compliance with their organizational objectives which takes considerable time and energy especially if not in the same geography. Globalizers must also manage their intellectual property and mitigate the enormous problem of manufacturing fraud and counterfeiting that is endemic in emerging world environments. Thirdly, research has found that innovation and learning from emerging world alliance partners does not permeate the rest of the globalizing organization—it is extremely challenging to encourage innovation to make the jump from the emerging world enterprise to the host company when in a noncollaborative alliance arrangement (Fang and Zou, 2010).

To increase the odds of success when offsourcing, several steps can be undertaken. As discussed before and will be seen time and time again throughout this research, initial partner selection and the exchange of expectations is a critical foundation. Secondly, when formulating the contract, build into the contract performance and nonperformance clauses. If you are the offsourcing recipient, ensure that the contract also protects you in terms of performance criteria and ongoing business. It should be difficult for a strategic alliance partner to switch as long as performance and pricing criteria remain consistent to what has been contractually agreed. For offsourcers, rate adjustments such as a cap on the price increase through the first number of years should also be included; occasionally offsourcers begin with a lower pricing structure and then increase it once the outsourcer is firmly entrenched and the cost to switch is much higher. Thirdly, if possible it is suggested to run two offsourcing centers—not only will they compete, you have a backup in case one of them is unreliable or becomes overpriced. Lastly, offsourcing relationships require management like any other business relationship—this research concurs with those who found that the more time one proactively invests in managing their alliances, the more likely one will find them successful.

Offsourcing, licensing, franchising are almost always asymmetric in terms of the power relationship between the globalizer and organization with which they enter into the contract. At its essence, it is a contractually obligated performance of a business function for the globalizer whether promoting revenue, reducing costs, or performing nonessential functions. However, the key to success appears to be for the globalizer and its partner to treat the relationship as a collaborative strategic alliance, assisting each other to better them both. This is characterized by transparent flows of information, realistic expectations management of both parties, and ultimately a culture of trust that is endemic of successful long-term business relationships.

Commercial contract or strategic alliance?

There is some debate about where contractually agreed obligations end and strategic alliances begin. Kale and Singh differentiate types of nonequity modes of investment—which they call contractual agreements—into traditional and nontraditional arrangements (2009). Traditional contracts include franchising, licensing, and long-term supply contracts while nontraditional include co-operational activities and those where you share assets or skills. The difference seen is that strategic alliances are only those relationships where there are high degrees of mutual communication and collaboration together—thus excluding traditional contracts. But taking the UNCTAD definition of a nonequity mode of investment, potentially all of Kale and Singh's traditional contractual arrangements could be considered strategic alliances as could long-term supplier contracts and outsourcing arrangements. A globalizer such as Nike entering into a long-term supplier contract certainly has the ability to influence the behavior of their suppliers and as will be seen in Case 5.1 has done so quite effectively.

When the Kale and Singh model, however, is combined with the UNCTAD definition it creates *contractual* and *collaborative alliances* (see Diagram 5.1).

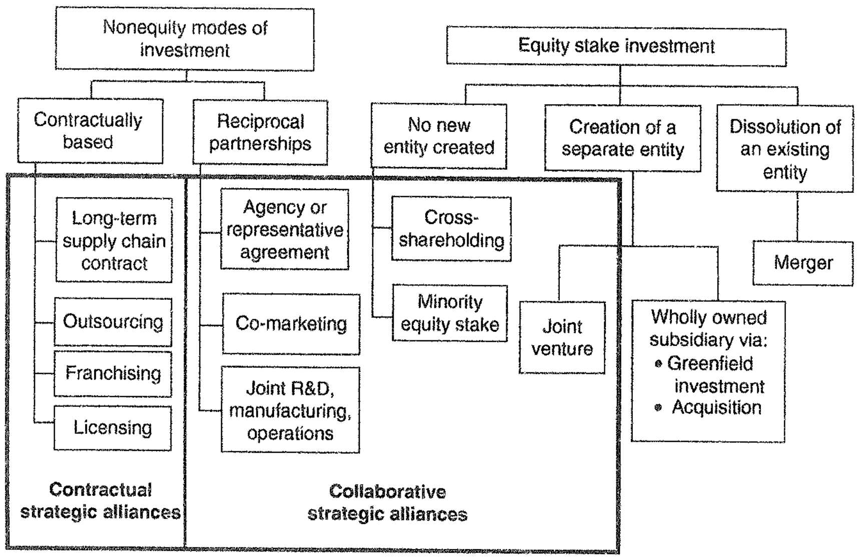

Nonequity modes of investment
Equity stake investment
Contractually based
Reciprocal partnerships
No new entity created
Creation of a separate entity
Dissolution of an existing entity
Long-term supply chain contract
Agency or representative agreement
Cross-shareholding
Merger
Outsourcing
Co-marketing
Minority equity stake
Joint venture
Wholly owned subsidiary via:
• Greenfield investment
• Acquisition
Franchising
Licensing
Joint R&D, manufacturing, operations
Contractual strategic alliances
Collaborative strategic alliances

Diagram 5.1 **Differences in strategic alliances**

Source: Adapted from Kale and Singh (2009), Yoshino and Rangan (1995).

Contractual strategic alliances are those whose foundation is a contractual obligation to fulfill some or all of a functional role for another organization. It can include supply chain management such as long-term supplier agreements or logistics, licensing, or outsourcing of those functions not perceived to be core for that organization. The level of relationship can vary as all strategic alliances do, but does not require the *mutual* collaboration that is inherent to collaborative strategic alliances. As seen earlier in this chapter, the collaborative effect is for the most part one sided, which being the organization receiving the contract.

Collaborative strategic alliances differ from contractual strategic alliances in that mutual collaboration is critical to the venture's success. As discussed previously, interdependence in contractual strategic alliances such as a long-term supplier contract or outsourcing arrangement exists but it tends to be lopsided. Simply put, collaborative strategic alliances will fail without a high degree of mutual reliance. Those relationships that are reciprocal fall under the heading of collaborative strategic alliances (see Diagram 5.1). Nonequity collaborative strategic alliances include joint research and development, co-marketing, and representative agency agreements, which will be discussed in this chapter. Equity investment alliances (joint ventures and minority stakeholdings) will be discussed in the following chapter.

Collaborative strategic alliances: Nonequity position

At one end of the collaborative strategic alliance spectrum one finds nonequity relationships of a co-operational nature such as co-marketing or research and development. Success in these cases relies entirely on collaboration and achieving mutual benefits or the alliance disintegrates. At the spectrum's other end are those alliances where the parties taking an equity position include minority stakeholdings, cross-holdings, and joint ventures. They are quite different in terms of interdependency, and as seen in the research findings the latter are far more complicated to manage and less likely to succeed.

The use of nonequity partnerships was highly prevalent in those companies interviewed both in terms of contractually based and reciprocal relationships. Those interviewed indicated it was considered part of everyday business operations. None viewed the use of nonequity modes of investment with the same level of risk awareness as equity-based investment vehicles such as joint ventures presumably due to the inherent flexibility and lack of significant investment.

In a few cases, there was an acknowledgment that because the areas where they operated via agents rather than having a team on the ground were much less significant markets, they didn't receive the attention they perhaps should have. One participant commented on how they set up an agency relationship, "It's very sporadic and very opportunistic by nature and I can say so because sometimes we are replacing them, meaning that probably we do not have the right and the optimal process to select the agents in certain countries."

There were a handful, however, whose businesses thrived using agency arrangements and representative offices. For those, three main approaches were taken in establishing and managing these relationships—all three approaches relied on detailed market and competitive knowledge in order to maximize alliance opportunities both in terms of partner selection and route to market. The first was to leverage existing market understanding from which to make business decisions. Because of the sheer size of the companies interviewed, it was not uncommon for one business division to already have an existing operation within a geography into which another division wished to expand. In these cases, the market entrant would "piggyback" on the existing market knowledge and relationships held by the organization's other divisional employees to hasten the establishment of local ties and increase the speed at which the new entrant could gain traction in the market. This proved highly effective in ensuring a better choice of agent and therefore faster time to market, thus avoiding some of the pitfalls of new market entry. In some cases, they were able to use the existing division's agent to channel the additional product.

The second approach was to establish a small rep office whose objective was to gain firsthand knowledge of the market as quickly as possible. In many cases, the organization would decide how best to proceed with their investment based upon that information whether it be through a strategic alliance with some level of collaboration, acquisition, or further greenfield investment. In many cases the organization would go in without a preconceived idea of how best to enter the market and wait until they had a clearer understanding of the market circumstances.

In two of the survey's globalizers, the brands were seen as the cornerstone of the organization's international success. Because of this, even when those organizations established agent relationships, they kept a representative office in the same location to ensure the brand and products were effectively managed and efforts coordinated with the organization as a whole. One participant commented that without an "on-the-ground presence"

> [w]e risk losing control of pricing and margins and can become overreliant on the distributor to do it as you would. We use the right commercial rewards that ensure an alignment of objectives and for everyone to make good money. We try and make some people rich! It leads to long-standing successful partnerships. But we still keep a local presence to keep close awareness of our product.

In the case of one company interviewed, having a rep office in every agent location was seen as too expensive so the dozen markets deemed most critical were given additional resources of a local corporate office to provide additional support to the local agent; other locations were visited in a monthly basis to ensure fulfillment. To do otherwise meant that there could develop anomalies in global brand management, which, in the case of these two businesses, was seen as potentially risky.

The final approach was to enter the market with the best information available in terms of reputable potential alliance partners gleaned from all viable sources including customers. One participant who did this said:

> We really interrogated the [alliance] partner hard as to what they needed, how he thought it would go. We were doing our market testing with the client directly as well because what you think the client might want may actually not be what he really wants. We sought feedback and third-party feedback on how they thought we would work together.

In another example, once vetted, several potential partners were hired on a trial basis. Those who performed within the cultural, ethical, and financial guidelines of the globalizer were given more responsibility and those who did not fell by the wayside. This approach while appearing to be quite time and resource consuming was not, according to the participant, as the more often it was done the better the globalizer got at spotting a potential fit. He commented:

> While you start doing a bit of business here, a bit of business there with a bunch of guys and you see their mentality, they are reliable, if payment is coming in on time, you eventually create an affinity with one of them or maybe one or more of them. Then you take references from customers when you go and visit the country and you look at the installations. You get to know them pretty well. I can tell you, it's easy—you always know who are the best agents or distributors or channels into any market within six months. It's not that difficult.

In all of the previous cases discussed, once the alliances were established the globalizer continued to carefully monitor, support, and evaluate the performance of partners to ensure compliance with their organizational wishes. In one of the cases, the agents became so successful and the market increasingly important that the globalizer eventually bought into the agents' local business creating a joint venture and solidifying their relationship. The participant commented,

> We gradually evolved into becoming partners with these agents and nowadays, in many of these regional offices we have, we have a major shareholder and we have a junior local partner. So we went from paying an agent's commission to dominating the agent's business over maybe a decade.

In another example, the globalizer bought out the agent entirely saying, "If it grew to a size or activity volume which is felt to be what we call 'significant,' then by definition we would like to manage it by ourselves for many good reasons."

As will be seen in joint ventures, it was not uncommon for globalizers to become reliant on a good agent. In a couple of cases, the globalizer went into an adjacent market with the same tested agent rather than trial with a new one who was local to the new market. In these cases, the foundation of trust and mutual benefit outweighed the benefits of further local knowledge. As will be seen in joint ventures, this pattern is not uncommon in strategic alliances—partner trust is paramount.

Conclusion

Strategic alliances are one of the most hotly debated topics researched in management. It is hard to reach an agreed definition that nonetheless understand viable options for success. This research uses contractual and collaborative strategic alliances as a differentiator and divides collaborative strategic alliances into nonequity and equity endeavors. Some companies enter into alliances simply because they have no choice—they don't have the resources internally to support their expansion plans or are required by law in order to operate in that jurisdiction. Others do so because of wanting to share risk or resources. As in all expansion plans seen throughout this book, the more successful alliances are proactively managed and based on maximum market knowledge. Long-standing relationships built on years of mutual objectives and common ways of working are the most successful—whether or not the alliance is technically collaborative, the partners collaborate to the mutual benefit of all. As will be seen in the next chapter when the stakes get higher, these two elements become even more critical.

Case 5.1 Nike

Nike learned about nonequity mode of investment management and its scrutiny the hard way. In the 1990s, Nike had an extensive series of low-cost manufacturing strategic alliances spread throughout the emerging world, which produced Nike-branded products at highly competitive prices. Allegations of sweatshops, poor working conditions, and low pay for their strategic alliance partners' employees began to dog Nike executives at every turn. By their own admission, Nike executives' initial responses were hands off indicating that these suppliers and their employees were not part of Nike, and therefore not their responsibility (www.Nike.com). A grassroots groundswell targeted Nike and their strategic alliance partners whose identity Nike guarded closely and in the process created a swarm of negative publicity that adversely impacted the organization.

Nike management had a dramatic change of tact—instead of ignoring their supply chain's ethical issues, Nike transformed their weakness into a supply chain competitive advantage by embracing its management and thereby ensuring that all others in the industry would need to adopt their standards (*Businessweek*, 2004). Nike established the Fair Labor Association (FLA) collaborating with several other producers utilizing low-cost manufacturing sites, including Reebok and Liz Claiborne as well as nongovernmental organizations to monitor suppliers. The end result is much greater supply chain transparency, monitoring of behavior, and measuring of results. Nike have removed almost 10 percent of their suppliers who failed to meet their published standards of behavior (www.Nike.com) and they continue to monitor the performance of the remaining 900 or so suppliers and their one million employees. By doing so, they have created an expectation that others in the industry must follow suit or face the same barrage of criticism.

This case demonstrates the dilemma of contractual strategic alliances. While they provide market flexibility and lower-cost manufacturing, ensuring the desired behavior when not in control of an operation is very difficult. When one has the size of Nike, the likelihood of compliance in your alliance partners is much higher but it does come at a high cost and significant risk if not proactively measured and monitored.