Xerox and Fuji Xerox:

From the Corporate Intensive Care Ward, Lessons about Partnerships

Excerpts published by **Associated Press**, March 6, 2001.

Benjamin Gomes-Casseres

Xerox's sale of half its share in Fuji Xerox is a painful attempt to get a new lease on life. If it succeeds, it will not be the first time that Fuji Xerox saved Xerox. And, whether it does or does not succeed, the move is likely to teach important lessons about joint venture management. New and old economy executives enamored with the idea of partnership would do well to listen for new lessons.

Fuji Xerox first helped pull Xerox out of an abyss two decades ago. During the mid-1970s, competitors from Japan had started chipping away at the copier empire that Xerox built in the 1960s. At first, Xerox refused to recognize this threat and did not respond. By the end of the decade, it woke up as if in a sweat: "I was not sure if Xerox would make it out of the 1980s," then-CEO David Kearns would later say.

With the help of Fuji Xerox product designs, manufacturing capacity, and management ideas, Xerox then mounted a comeback that stemmed the tide of low-end copiers from Canon, Ricoh, and Minolta, and at the same time turned back a high-end attack from Kodak and IBM. By the 1990s, Xerox had come to recognize Fuji Xerox as "a critical asset of Xerox," in the words of then-CEO Paul Allaire. The story of this 39-year old joint venture has since become a must-read for alliance managers.

Allaire recently returned to the CEO spot to find he needed Fuji Xerox more than ever. But this time, the cure Xerox needed was different. Rather than relying on Fuji Xerox for process improvements and market development, Xerox needed a quick infusion of cash. Analysts right away saw that Xerox's 50% ownership of Fuji Xerox's equity represented a pool of unrealized capital gains. So, why not sell some of it?

The problem with this simple financial solution is that the 50/50 ownership of Fuji Xerox has been a key factor in the success of the partnership between Xerox and Fuji Photo Film. The balance of power in this structure gave Fuji Xerox the autonomy that made it flourish. Together with the tight technology and marketing agreements negotiated over the years between Xerox and Fuji Xerox, this structure enabled Xerox to share its inventions with its Japanese joint venture without fear of creating a rival. Fuji Photo Film, in fact, had been barred from using Xerox technologies in its own businesses.

All this may now change. Or it may not. The parties have not yet explained exactly what the restructuring of their joint venture will entail. Certainly, it will involve more than shifting assets among balance sheets. Possibly it will mean a wholesale shift of power, with the erst-while silent partner Fuji Photo Film reasserting an influence it only had at the very start of the relationship.

Changing the foundation of a partnership is never easy. Honeywell tried it in the

1990s with mixed success. It sold half its equity in Yamatake-Honeywell to raise cash to fight a take-over attempt; the defense worked, but the company's relationship with its Japanese partner only went downhill after that. KLM too sold its equity in Northwest in the 1990s, following an ownership dispute; the alliance has remained in force, but lost ground in the battle for airline partnerships. Buying out a partner fully often works better then changing ownership and expecting relationships to continue unfazed. Corning's recent buy-out of Siemens's 50% share in Siecor will be a test of this assertion.

But if any pair of partners can pull off such a change, it is probably Xerox and Fuji Photo Film. Through years of working together, this pair has developed excellent mechanisms for coping with change and indeed exploiting the instability that is inherent in alliances. Among the factors that have historically sustained this alliance, and that are well worth replicating in alliances elsewhere, are the following:

- *Alignment behind a common strategy.* Fuji Xerox sold under the "Xerox" name and saw itself as part of a "Xerox Group," the members of which tried hard to aim their fire at outside rivals, not at each other.

- *A clear division of responsibility among partners.* Robert Frost's phrase "good fences make good neighbors" sums up the alliance design that kept the partners from encroaching on each other's business.

- *Relationships up, down, and across the organizations.* Xerox and Fuji Xerox maintained multiple points of contact – from their CEOs down to bench engineers – and entwined all operations, from R&D to marketing.

- *Flexibility.* The design and management of the alliance evolved continually in response to competitive challenges and the changing capabilities of the partners.

This last characteristic of the Fuji Xerox alliance is clearly important for the immediate future. But the others too will need to be maintained and even marshaled to help in the transition. If not, the ability of Fuji Xerox to contribute strategically to Xerox's global business may be in danger. That would be a high price for Xerox to pay for the cash infusion.

Benjamin Gomes-Casseres directs the MBA program at Brandeis University's Graduate School of International Economics and Finance, and authored *The Alliance Revolution: The New Shape of Business Rivalry* (Harvard Press, 1996), which is based, in part, on research at Fuji Xerox.

