

# **Chapter 7:**

## **Global Alliances and Strategy**

### **Implementation**

**PowerPoint by:**  
**Mohamad Sepehri, Ph.D.**  
**Jacksonville University**



# Chapter Learning Goals

1. Realize that much of international business is conducted through strategic alliances.
2. Understand the reasons that firms seek international business allies and the benefits they bring.
3. Understand the complexities involved in managing international joint ventures.
4. Appreciate the governmental and cultural factors that influence strategic implementation; as well as the impact of e-commerce.
5. Recognize the changing factors, opportunities, and threats involved in joint ventures in the Russian Federation.



## Opening Profile: Haeir Group—Growth Through Strategic Alliances, Acquisitions, and Global Networks

- Haeir Group is the fourth-largest white goods (refrigerators, washing machines, and other appliances) manufacturer in the world.
- Haeir has established an extensive sales network around the globe, primarily through strategic alliances with key partners in prospective global markets.



# Strategic Alliances

## *(Cooperative Strategies)*

# Strategic Alliances

- Partnerships between two or more firms that combine financial, managerial, and technological resources and their distinctive competitive advantages to pursue mutual goals



# Categories of Strategic Alliances



**Joint Ventures:** PSA Peugeot-Citroen Group and Toyota

**Equity Strategic Alliances:** TCL-Thompson electronics

**Non-Equity Strategic Alliances:** UPS and Nike

# Global and Cross-Border Alliances: Motivations and Benefits



**To avoid import barriers, licensing requirements, and protectionist legislation**

**To share the costs of research and development of new products and processes**

**To reduce political risk while making inroads into a new market**

# Global and Cross-Border Alliances: Motivations and Benefits



**To gain access to markets  
(EU), where regulations favor  
domestic companies**

**To gain rapid entry into a new  
or consolidating industry and  
to take advantage of synergies**

# Implementing Alliances Between SMEs and MNCs: *Strategies for Dancing with Gorillas*

Stage of Relationship	Traditional Model: MNCs Partnering with Each Other	New Model: Enterprises Partnering Locally with MNCs	Strategies for Small Enterprises Partnering with MNCs
Forming	A direct frontal approach through a dedicated alliance department or key individuals who are direct counterparts	Given asymmetry of access and attention, the direct approach is likely to fail; <i>use indirect means of access</i>	<ul style="list-style-type: none"> <li>•Use local allies such as regional institutions or partnering programs</li> <li>•Use MNCs reputational strength to gain support</li> </ul>
Consolidating	Well-established processes for structuring, governance, and staffing alliances	Given the asymmetry of resources and long term objectives, these processes don't apply; <i>so plan for the short term with an eye on the long term</i>	<ul style="list-style-type: none"> <li>•Capitalize on points of technology by proactively demonstrating skills and creating opportunities</li> <li>•Ensure modular or discrete knowledge transfer to ensure tangible outcomes</li> </ul>
Extending	A relatively predictable pattern for the further development of alliances, including built-in contingencies for instability and dissolution	Given asymmetry and therefore dispensability of small enterprises; there is greater uncertainty vis-à-vis MNCs' own plans and priorities; <i>so be vague by design with an eye on the bigger prize</i>	<ul style="list-style-type: none"> <li>•Proactively build networks within the MNC and add value</li> <li>•Adopt an ambiguous approach by design; pursue oblique goals without showing all cards initially, and keep options open</li> </ul>





# Challenges in Implementing Global Alliances

- Many alliances fail or end up in takeover



- Choosing the right form of governance
- The benefits of cooperation versus the dangers of new competition



# Guidelines for Successful Alliances



**Choose a partner with compatible strategic goals and objectives.**

**Seek complementary skills, products, and markets**

**Work out how each partner will deal with proprietary knowledge or competitively sensitive information**

**Recognize that most alliances only last a few years**

# Comparative Management in Focus: JVs in Russian Federation



# Comparative Management in Focus: Guidelines for Establishing JVs in Russian Federation

Investigate whether a joint venture is the best strategy—acquiring a Russian business may be better.

Set up meeting with appropriate authorities well in advance.

Be above board in paying taxes.

Set up stricter controls and accountability systems.



# Comparative Management in Focus: Guidelines for Establishing JVs in Russian Federation

Make it clear your firm does not  
pay bribes

Assign the firm's best managers  
and given them enough authority

Take advantage of local knowledge  
by hiring Russian managers

Designate considerable funds for  
promotion and advertising to  
establish an image



# Strategic Implementation



- Involves putting decisions about global alliances and entry strategies into action

- Successful implementation requires creating a “system of fits”

- Resources must be allocated

- Leadership is the key



# Strategic Implementation



## Implementation McDonald's Style



Form paradigm-busting arrangements with suppliers.



Hire locals whenever possible.

Know a country's culture before you hit the beach.



Tweak the standard menu only slightly from place to place.

Keep pricing low to build market share. Profits will follow when economies of scale kick in.



Maximize autonomy.

# Implementing a Global Outsourcing Strategy





# Managing Performance in International Joint Ventures

IJV  
Control

- Ensures that the way a joint venture is managed conforms to the parent company's interests

Choice of  
Partner

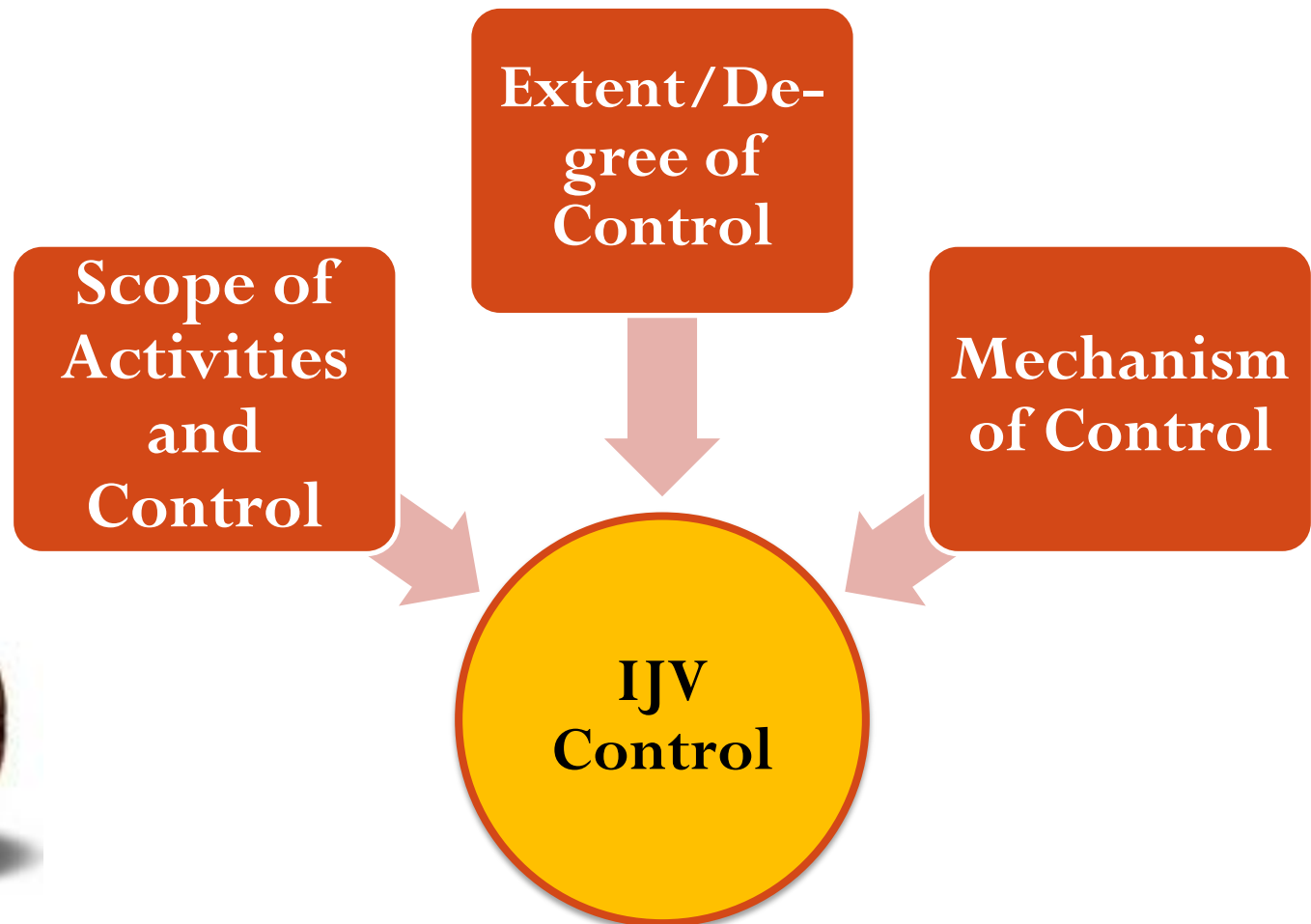
- Suzuki and TVS Motor in India

Orgznal.  
Design

- The strategic freedom in choosing suppliers, product lines, customers, and so on

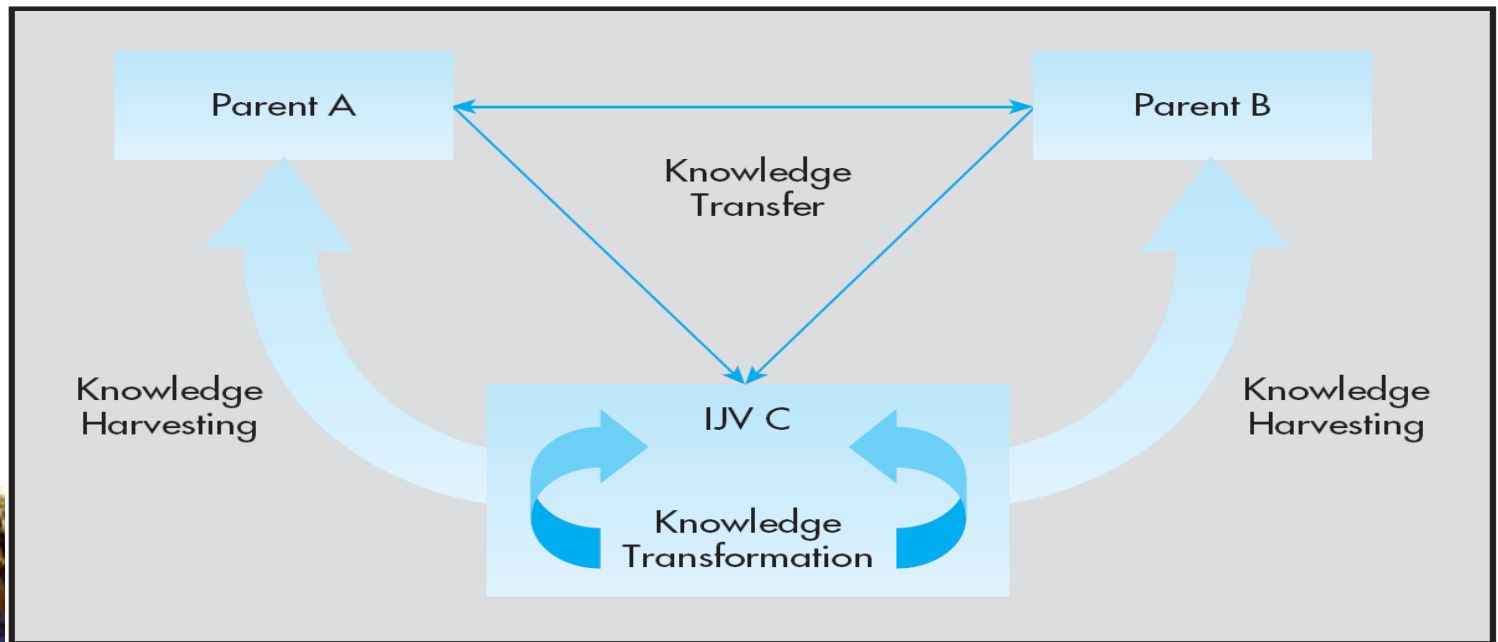


# Three Complementary Dimensions of IJV Control



# Knowledge Management in IJVs

## EXHIBIT 7-4 Knowledge Management in IJVs



*Note:* Knowledge transfer usually follows the paths AB and/or BA and BC. Harvesting follows the paths CA and CB.

SOURCE: I. Berdrow and H. W. Lane, "International Joint Ventures: Creating Value Through Successful Knowledge Management," *Journal of World Business*, Vol. 38, 1, February 2003, pp. 15–30, with permission from Elsevier.

# Government Influences on Strategic Implementation

- Unpredictable changes in governmental regulations
  - China's new restrictions on foreign investors
  - Caterpillar and tax breaks
  - Ousting of Indonesian President Suharto in 1998



# Cultural Influence on Strategic Implementation

Western	Hungarian	Source of Difference
Focus on core competencies	Focus on empire building	Systemic
Live to work	Work to live	Cultural/systemic
Play by rules	Beat the system	Cultural/systemic
Market-driven technology	Volume-driven technology	Systemic



# Dimensions of National and Corporate Culture Affecting Alliances

1. **Organizational formality**
2. **Participation in decision making**
3. **Attitudes toward risk**

4. **Systemization of decision making**
5. **Managerial self-reliance**
6. **Attitudes toward funding and gearing**



# Management in Focus: Mittal's Marriage to Arcelor Breaks the Marwari Rules

- In June 2006 Mittal Steel of India merged with Arcelor of Luxembourg to create the world's largest steel company.
- Resistance in Europe and by Arcelor:
  - Arcelor had outdated views of Mittal
  - Concerns about losing control of a European multinational



# Management in Focus: Mittal's Marriage to Arcelor Breaks the Marwari Rules

- **Resistance in India:**
  - Concerns about breaking Marwari rules
- Mittal put family interests behind industry and shareholder interests.
- Lakshmi Mittal gave up half of his 90 percent share in Mittal, will share chairmanship.

