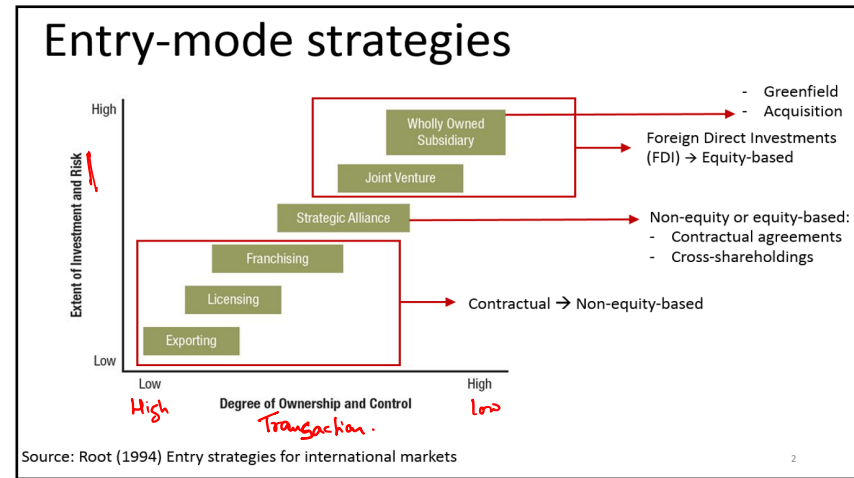


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Motivation for Strategic Alliance or JV

3

3

Pros & Cons

Advantages of JV

- Strengthens competitive position
 - Enter new markets
- Hedge against uncertainty
- Access critical complementary assets
 - Reducing costs in the value chain
- Learn new capabilities
 - Developing and diffusing new technology

Disadvantages of JV

- Can result in loss of control
 - Hard to establish good management control of operations
 - Control of IP
 - Governance issues
- Can distract participating company's management and key players
 - Cannibalization of manpower

free rider.

MNC - local.

4

4

Competitive Strategies for Emerging Markets

MNC vs Domestic.

PRESSURES TO GLOBALIZE IN THE INDUSTRY	COMPETITIVE ASSETS	
	Customized to home market	Transferable abroad
High	DODGER Focuses on a locally oriented link in the value chain, enters a joint venture, or sells out to a multinational	CONTENDER Focuses on upgrading capabilities and resources to match multinationals globally, often by keeping to niche markets
Low	DEFENDER Focuses on leveraging local assets in market segments where multinationals are weak	EXTENDER Focuses on expanding into markets similar to those of the home base, using competencies developed at home

Scale economies Reduce cost
intentional
Design. manuf. Distribution
benchmark.
Basic Local customer
stand + compete
nearly mltb.

Figure 1. Dawar and Frost's typology

5

Competitive Strategies for Emerging Markets

- For **defenders**, the key to success is to concentrate on the advantages they enjoy in their home market.
 - In the face of aggressive and well-endowed foreign competitors, they frequently need to fine-tune their products and services to the particular and often unique needs of their customers.
- Defenders** need to resist the temptation to try to reach all customers or to imitate the multinationals.
 - They'll do better by focusing on consumers who appreciate the local touch and ignoring those who favor global brands.

Figure 1. Dawar and Frost's typology

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Competitive Strategies for Emerging Markets

- With the right transferable assets, **extenders** can use their success at home as a platform for expansion elsewhere.
 - A selective policy of international expansion, carefully tied to the company's key assets, can reap added revenue and scale economies, not to mention valuable learning experiences.
- Extenders** can leverage their assets most effectively by seeking analogous markets—those similar to their home base in terms of consumer preferences, geographic proximity, distribution channels, or government regulations.
 - Expatriate communities, to take a simple case, are likely to be receptive to products developed at home.

Figure 1. Dawar and Frost's typology

7

Competitive Strategies for Emerging Markets

- In industries where pressures to globalize are strong, it's difficult to build on local assets
 - If assets are valuable only in home country, then the best course may be to enter a JV or sell out to an MNC.
- Dodging** is difficult, as it requires a revamp of the strategy.
 - Focusing on niches, a dodger can use its local assets to establish a viable position e.g., distribution & service or supplier of complementary products.

Figure 1. Dawar and Frost's typology

8

Competitive Strategies for Emerging Markets

- The greatest challenge for **contenders** is to overcome deficiencies in skills and financial resources.
- The most successful contenders—those that have moved beyond competing solely on the basis of cost—have learned to overcome those disadvantages by accessing resources in developed countries.

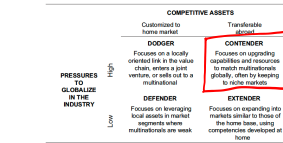


Figure 1. Dener and Frost's typology
Loyal Enfield.

9

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Entry Mode Decision

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Eclectic Paradigm

Three types of "Advantage Categories"

- Ownership Specific:
 - Legally protected rights such as patents, brand names, trademarks
 - Access to valuable & rare resources such as raw materials or knowledge
 - Exclusive control over particular purchasing or distribution channel
 - Economies of scale in manufacturing, service, & administration
- Internalization
- Location

11

11

Eclectic Paradigm

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 - Economies of scale in manufacturing, service, & administration
- Internalization
 - The risk of market failure causes firms to internalize market transactions in intangible assets (e.g. Knowledge) or tangible assets (e.g. Manufacturing)
 - In-house value chain activities help the enterprise to reduce transaction costs
 - Internalization helps to develop firm specific capabilities concerning experience curve, operational scale effects, and organizational skills
- Location

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Eclectic Paradigm

Three types of "Advantage Categories"

1. Ownership Specific:
 - Lower access & accost of raw materials, technologies and labor
 - Market volume & attractiveness
 - Infrastructure and logistics
 - Institutional framework
 - Technologies & digitization

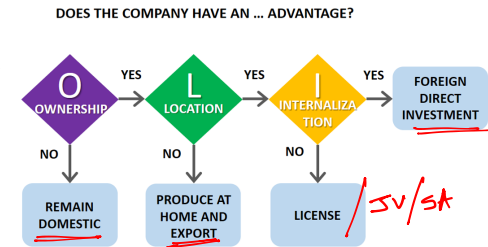
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Modes of Entry

• OLI paradigm – Foreign market entry decisions can be resolved by factoring in

- Ownership Advantages
- Location Advantages
- Internalization Advantages



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Ownership Advantages

- Benefits accrued due to owning of resources
 - Ownership provides competitive advantage
 - Resources can be tangible or intangible
 - Knowledge, skills, capabilities, relationships, physical assets that form the basis of a firm's competitive advantage
 - If no, remain domestic, enter JV
- RBV → VRIO
 ↓
 Sustainable Competitive Advantage.

15

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Location Advantage

- Manufacturing located in host country
 - Customer needs
 - Logistics
 - Factor endowments
 - Land
 - labors
 - Capital.
 - Political
 - Climate
 - Geography
- If no, export-oriented business home

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Internalization Advantage

- Transaction costs
 - Low (strategic partnerships)
 - High (FDI)
- Internal production vs producing through partnership

Risk | SA/JV Greenfield.
Control

17

17

Sources of Conflict

Hexo/Honda.
Kawasaki/Bajaj

18

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Conflicting priorities

<p style="color: red; text-align: center;">MNC</p> <p>Developed country partner</p> <ul style="list-style-type: none"> Local Market * Access Local Market * Safeguard Technology * Import Components * High Quality Standards * Long Term Focus * Foreign Management Style * 	<p style="color: red; text-align: center;">Domestic.</p> <p>Emerging country partner</p> <ul style="list-style-type: none"> • Export Market • <u>Protect</u> Local Market • Transfer <u>Technology</u> R&D/Patents. • Develop Local Suppliers • Cost Savings (Jugaad) • Short Term Focus • Local Management Style Family
--	---

Eli Lilly Lambony.

Distribution
IP

19

19

Alliance Threats

- **Adverse Selection:** Potential partners misrepresent the value of the skills and abilities they bring to the alliance
- **Moral Hazard:** Partners provide to the alliance skills and abilities of lower quality than they promised
- **Holdup:** Partners exploit the transaction-specific investments made by the others in the alliance

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Sources of Risk

Source of Risk	Financial	Resource	Market
Contextual	<ul style="list-style-type: none"> - Legal limits to majority control - Poor contract enforcement - Poor accounting standards - Inadequate protection of IP - Inadequate working capital & liquidity 	<ul style="list-style-type: none"> - Underdeveloped intermediate institutions - Lack of capital - Inadequate managerial & technical expertise 	<ul style="list-style-type: none"> - Restrictions on business, land use, and other licenses - Informal Local protectionism - Low growth rate of market - Instability of the economy
Agency	<ul style="list-style-type: none"> - Partner engages in fraudulent or opportunistic behavior - Exploitation of minority interest 	<ul style="list-style-type: none"> - Deficiencies in partner capabilities & resources - Loyalty of managers & staff from partner is low 	<ul style="list-style-type: none"> - Partner cannot or will not deliver access to domestic market

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Co-opetition & Learning Races

- When the collaborating firms are also competitors, co-opetition ensues
 - They may jointly increase the pie rather than dividing it amongst themselves
- Co-opetition may lead to **learning races**
 - The rate at which firms learn differs

SA/JV
→ Absorptive Capacity.

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Culture

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Managing Cultural Diversity

- Should one partner's culture **dominate** the operations of the alliance versus striving for a balance from both the cultures
- Should there be an attempt to **integrate** the two cultures (to derive synergy) versus segregation within the alliance (to avoid conflict)

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Managing Cultural Diversity

		Integration	
		YES	NO
Domination	NO	<p>Synthesis is a policy aimed at cultural integration on the basis of melding of both or all partners' cultures</p>	<p>Segmentation</p> <ol style="list-style-type: none"> 1. Segregation: no integration between the cultures 2. Pluralism: limited discourse between cultures
	YES	<p>Domination is a policy aimed at cultural integration based on the dominance of one partners' culture</p>	<p>Breakdown: policy of domination by one partner fails to secure integration as it is rejected by the other partner</p>

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- ### Managing Cultural Diversity - Synthesis
- | | |
|--|--|
| <p>Advantages</p> <ul style="list-style-type: none"> • Permits integration that enhances quality of <u>cooperation</u> • Maximizes potential for mutual learning • Provides new identity to JV • Creates flexibility to adapt to local conditions | <p>Disadvantages</p> <ul style="list-style-type: none"> • May face resistance to change • Takes time and effort in implementation • Could affect productivity negatively in short term |
|--|--|
- 26

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- ### Managing Cultural Diversity - Domination
- | | |
|---|---|
| <p>Advantages</p> <ul style="list-style-type: none"> • Allows rapid introduction of standardized policies and practices • Creates unified identity • Provides single face to external groups like customers | <p>Disadvantages</p> <ul style="list-style-type: none"> • Can cause resentment from dominated culture • Forgoes opportunities to learn from other cultures • Reduces flexibility to adapt to local conditions |
|---|---|
- 27

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- ### Managing Cultural Diversity - Segregation
- | | |
|--|--|
| <p>Advantages</p> <ul style="list-style-type: none"> • Avoids offending cultural sensibilities and cultural conflicts • Allows for strong subcultures • Gives greater flexibility to local operations • Maintains productivity in short run | <p>Disadvantages</p> <ul style="list-style-type: none"> • Reduces synergy gain, mutual learning • Reduces ability to standardize practices • Leads to poorly integrated management systems • Creates personal isolation for expatriates |
|--|--|
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Managing Cultural Diversity - Pluralism

Advantages

- Allows for comparison between cultural approaches that encourage learning

Disadvantages

- Requires more effort and time than segregation

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Governance

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Strategic Partnerships

- Strategic Alliance (without creating a new entity)
 - Joint working group
 - Co-development & co-production agreement
 - Transfer of Technology agreement
- Joint Venture (A new entity is created)

legal formal

] informal.

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Governance Types

- **Non equity Alliance:** Partnership based on contracts between firms
 - Supply, licensing & distribution agreements
- **Equity Alliance:** Partnerships in which at least one partner takes partial ownership in the other
 - CVC investments, parent subsidiary
- **Joint Ventures:** Two or more firms join together to create a new business entity that is legally separate and distinct from its parents

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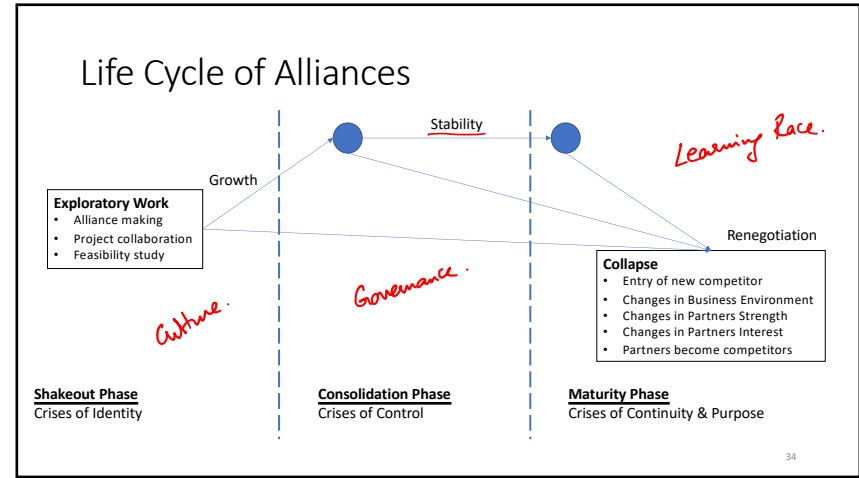
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Governance types

Non-equity	Equity	Joint Venture
<ul style="list-style-type: none"> • Flexible • Fast • Easy to initiate & terminate • Weak ties • Lack of trust & commitment 	<ul style="list-style-type: none"> • Stronger tie • Trust & commitment may emerge • Window into new technology • Less flexible • <u>Slower</u> • <u>Investments needed</u> 	<ul style="list-style-type: none"> • Strongest tie • Trust & commitment likely • Requirement of institutional environment • Long negotiations • High investments • Long-term solution • Double reporting

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Making JV Successful

1. COMPLEMENTARY BENEFITS

Ensure there are complementary benefits and roles for each of the parties in the joint venture. First step is to consider: what's in it for me? Next step: what's in it for the other interested party?

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35

Making JV Successful

2. CLEAR EXPECTATIONS

Clearly prescribe, from the outset, all arrangements relating to:

- joint business activities
- valuation of the business
- ownership
- shareholder arrangements
- further buy-outs and/or exit.

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Making JV Successful

3. EXIT STRATEGY

We mentioned this in Tip 2 but it deserves highlighting: make sure there is a clear plan for how one or both parties can exit, should the need arise.



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Making JV Successful

5. SHARED VALUES

It's often the little issues that lead to a joint venture arrangement breaking down, therefore cultural fit and shared values between the parties are critical. They don't have to be the same, but there has to be mutual respect from the outset.



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- JV enhances organizational capability – OLI framework
- Termination is not failure
- Possible to work with competitor
- Environment & strategies co-evolve

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