

## Learning Objectives

- Definition
- Motivation
- As a choice for EMNEs *Emerging multinational Enterprises*
- As a choice for MNEs *M*
- Sources of Conflict
- Governance
- Change Induced

1

1

## What Is A Strategic Alliance?

*Competitors.*

- A **Strategic Alliance** is a collaborative relationship formed between two or more organizations with the **shared objective of achieving mutual benefits** that they may not fully realize individually.
- These alliances can take various forms, such as partnerships, joint ventures, collaborations, or co-creation agreements.
- Strategic alliances are a vital part of modern business strategies, enabling organizations to access new markets, technologies, resources, and capabilities while sharing risks and costs.

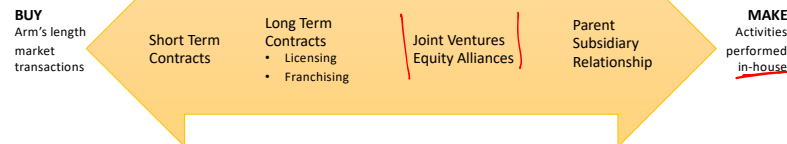
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## Strategic Alliances

- Strategic alliance is a co-operative and collaborative approach to achieve larger goals

*1. Asset specificity.  
Hold-up.  
2. Contract mgmt.*



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## Motivation for Strategic Alliance

4

4

## Objectives

- The primary objectives of forming strategic alliances include:
  - Market Expansion:** Access to new markets, customers, and distribution channels. *Eli Lilly Ranbaxy.*
  - Risk Sharing:** Sharing financial, operational, or market risks with alliance partners. *Bajaj-Triumph Hero. - Harley Davidson.*
  - Resource Access:** Gaining access to technologies, intellectual property, or resources that enhance competitiveness.
  - Innovation:** Collaborative efforts to innovate and develop new products or services.
  - Cost Reduction:** Achieving economies of scale or cost efficiencies through collaboration.

5

5

## Benefits

- Strategic alliances offer several advantages:
  - Diversification:** Reducing dependence on a single market or customer segment.
  - Resource Pooling:** Combining expertise, technologies, and resources to achieve common goals.
  - Risk Mitigation:** Spreading risks and uncertainties among alliance partners.
  - Market Synergy:** Leveraging complementary strengths to serve customer needs more effectively.
  - Competitive Advantage:** Gaining a competitive edge through shared expertise.

6

6

## 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 *Distrest.*
  - Governance issues
- Can distract participating company's management and key players
  - Cannibalization of manpower

*Bajaj Kawasaki. MNC MNC  
Hero Honda.*

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*Indian*  
As a Choice for EMNEs

8

8

## Competitive Strategies for Emerging Markets

*Resources & Capabilities* (2)

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

*Cost Pressure* (1)

Figure 1. Dawar and Frost's typology

9

## 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.

*M&M*      *Federal*

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Figure 1. Dawar and Frost's typology

- Distribution
- Brand.
- Non-mkt strategy.

10

## 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.

*Pharma. by Generic.*

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Figure 1. Dawar and Frost's typology

*Spring board.*

- Economies of Scale.
- Expat population.
- Price.

11

## 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.

*HAL*

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Figure 1. Dawar and Frost's typology

*Indian Oil Aviation by Sky Tanking.*

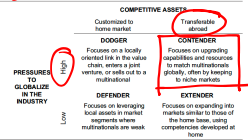
- No head-on competition
- Co-optation.

12

## Competitive Strategies for Emerging Markets

- The greatest challenge for **contenders** is to overcome deficiencies in skills and financial resources. *Tech Access.*
- 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.

HAL  
GSL  
HSL



13

## Conflicting priorities

\$10K.  
\$12K.  
Quality transfer pricing.  
IP

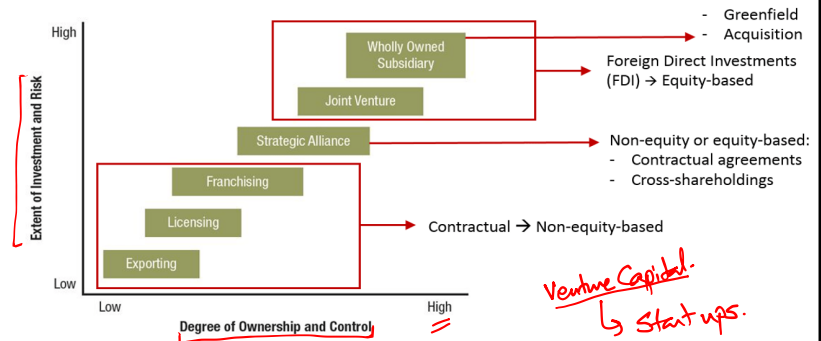
- |                                  |   |
|----------------------------------|---|
| <b>Developed country partner</b> | <b>Emerging country partner</b>         |
| Local Market *                   | • Export Market                         |
| Access Local Market *            | • Protect Local Market                  |
| Safeguard Technology *           | • Transfer Technology                   |
| Import Components *              | • Develop Local Suppliers               |
| High Quality Standards *         | • Cost Savings (Jugaad)                 |
| Long Term Focus *                | • Short Term Focus                      |
| Foreign Management Style *       | • Local Management Style <i>Family.</i> |

14

## As a Choice for MNEs

15

## Entry-mode strategies



Source: Root (1994) Entry strategies for international markets

16

## Modes of Entry *Eclectic Paradigm*

- OLI paradigm – Foreign market entry decisions can be resolved by factoring in
  - Ownership Advantages
  - Location Advantages
  - Internalization Advantages

```

    graph TD
      Q[DOES THE COMPANY HAVE AN ... ADVANTAGE?] --> O{O OWNERSHIP}
      O -- NO --> A[REMAIN DOMESTIC]
      O -- YES --> L{L LOCATION}
      L -- NO --> B[PRODUCE AT HOME AND EXPORT]
      L -- YES --> I{I INTERNALIZATION}
      I -- NO --> C[LICENSE]
      I -- YES --> D[FOREIGN DIRECT INVESTMENT]
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17

## Eclectic Paradigm *New mkt entry.*

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
- Internalisation**
- Location**

18

## Eclectic Paradigm *R.B.V.*

- 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 → *survive.*

19

## Eclectic Paradigm *Reliance: EstP Petrochem Textiles. Transaction Cost Theory.*

Three types of “Advantage Categories”

- Ownership Specific**
- Internalisation:**
  - 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**

20

## Eclectic Paradigm

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

21

21

## Eclectic Paradigm

Three types of "Advantage Categories"

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

22

22

## Eclectic Paradigm

- **Location Advantage**
- Manufacturing located in host country
  - Customer needs
  - Logistics
  - Factor endowments
  - Political
  - Climate
  - Geography
- If no, export-oriented business

Apple — India  
 — China  
 — Taiwan  
 Tesla.

23

23

## Sources of Conflict

24

24

## Alliance Threats

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

25

25

## Sources of Risk

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

*Handwritten notes: 70% 30% with an arrow pointing from the Agency row to the Financial row.*

26

26

## Co-opetition & Learning Races

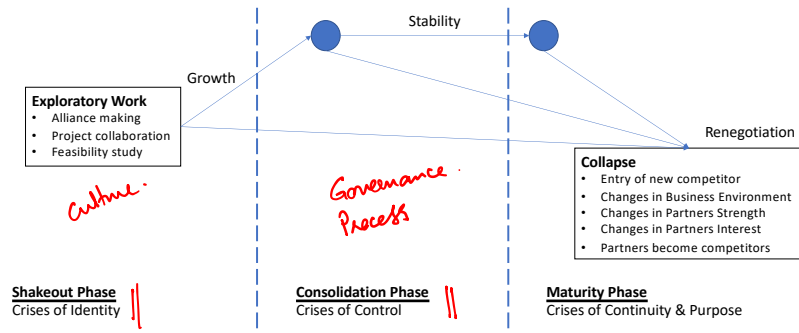
- When the collaborating firms are also competitors, co-opetition ensues
  - They may jointly increase the pie rather than dividing it amongst themselves
- Co-opetition may lead to **learning races**
  - The rate at which firms learn differs

*Handwritten notes: Mkt Tech. Knowledge Management.*

27

27

## Life Cycle of Alliances



28


28

## Making JV Successful

- **Misaligned Objectives and Expectations**
  - **Divergent Goals:** Each partner may enter the alliance with different expectations or strategic goals. For example, one company may seek to gain new technological capabilities, while the other is more interested in accessing new markets. Over time, these differing objectives can lead to conflicts if not adequately aligned.
  - **Expectation Mismanagement:** Conflicts arise when partners have misaligned expectations regarding the outcomes, timelines, or benefits of the alliance.

**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?



29

29


## Making JV Successful

- **Control and Decision-Making**
  - **Lack of Clarity in Governance:** Ambiguity in decision-making authority can lead to power struggles. Clear governance structures are essential to avoid conflicts.
  - **Decision-Making Conflicts:** Disagreements often occur over strategic decisions, such as market approach, product development, and response to competitive pressures.

**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.



30

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## Making JV Successful

- **Resource Allocation**
  - **Inequitable Resource Contribution:** Conflict can occur when one partner feel they are contributing more resources — whether financial, human, or technological — than they are receiving in benefits.
  - **Control over Resources:** Disputes may arise regarding how resources, such as funding and staffing, are allocated and controlled within the joint venture or alliance.

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31

31


## Making JV Successful

- **Performance Issues**
  - **Differing Performance Metrics:** If the partners use different metrics to measure success, it can lead to disagreements over the perceived value of the alliance.
  - **Unmet Performance Expectations:** When the alliance or joint venture does not meet performance expectations, it can lead to blame and conflict between the partners.

**2. CLEAR EXPECTATIONS**

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

- joint business activities
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32


32

## Making JV Successful

- **Communication Barriers**
  - **Ineffective Communication:** Poor communication can lead to misunderstandings, lack of trust, and inefficiencies that fuel conflict.
  - **Information Asymmetry:** Issues often arise when one partner feels that information is not being shared transparently or timely.

**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.



33


33

## Making JV Successful

- **Intellectual Property and Knowledge Sharing**
  - **IP Ownership:** Disputes may arise over the ownership and use of intellectual property and innovations developed during the partnership.
  - **Knowledge Misappropriation:** There can be fears or actual incidents where one partner feels that their proprietary knowledge is being used unfairly or beyond the scope of the alliance.

**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.



34


34

## Making JV Successful

- **Legal and Contractual Disagreements**
  - **Ambiguities in Contractual Agreements:** Vague terms and conditions in the partnership agreement can lead to interpretations that vary between partners, leading to disputes.
  - **Compliance with Agreements:** Conflicts can occur when one partner perceives that the other is not adhering to the agreed terms.

**2. CLEAR EXPECTATIONS**  
Clearly prescribe, from the outset, all arrangements relating to:

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




35

35

## Making JV Successful

- **Exit Strategies**
  - **End of Alliance Disputes:** Conflicts can emerge when terminating the alliance, particularly if the terms of dissolution are not clearly defined or if the partners disagree on the division of assets, remaining resources, or continuation of shared projects.

**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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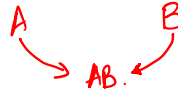
## Making JV Successful

- **Cultural and Organizational Differences**

- **Corporate Culture Clash:** Different organizational cultures can lead to misunderstandings and friction. Practices that are considered normal in one company can be perceived as strange or inefficient in another.
- **Management Style Conflicts:** Differences in management styles, such as hierarchical versus flat structures, risk tolerance, and decision-making processes, can also lead to tensions.

### 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.



37

37

## Governance

38

38

## Strategic Partnerships

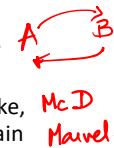
- Strategic Alliance (without creating a new entity)
  - Joint working group
  - Co-development & co-production agreement
  - Transfer of Technology agreement
- Joint Venture (A new entity is created)

39

39

## Governance Types

1. **Joint Ventures:** Two or more companies create a separate legal entity to pursue a specific business opportunity.
2. **Equity Alliances:** Companies acquire a stake in each other's businesses, often through the purchase of shares.
3. **Non-Equity Alliances:** Collaboration without ownership stake, including co-marketing, licensing agreements, or supply chain partnerships.
4. **Network Cooperation:** Multiple organizations form a network to share resources and collaborate on common goals.
5. **Global Alliances:** Partnerships that span multiple countries or regions, often used for market expansion.



Stau.

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## Governance types

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

41

41

## Changes Induced due to JV

42

42

## Changes Induced due to JV

### 1. Strategic Focus and Business Objectives

- **New Markets and Capabilities:** Joint ventures and alliances often enable companies to enter new markets or develop new capabilities that would be too costly or complex to develop alone. This can lead to shifts in strategic focus towards these new opportunities.
- **Resource Sharing:** Companies often share resources like technology, market intelligence, and human capital, which can optimize costs and enhance competitive advantages.

43

43

## Changes Induced due to JV

### 2. Operational Changes

- **Integrated Operations:** Operations may need to be aligned or integrated to some extent, especially in joint ventures where a new entity is formed. This might require standardizing processes, adopting new practices, and consolidating supply chains.
- **Increased Complexity:** Managing partnerships can add layers of complexity to operations, including the need for coordination mechanisms, joint decision-making processes, and the integration of different systems and technologies.

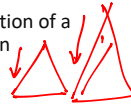
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## Changes Induced due to JV

### 3. Organizational Structure and Governance

- **New Management Structures:** Joint ventures usually require the creation of a new governance structure that represents all parties involved. This can include joint boards or management teams.
- **Decision-Making Processes:** Strategic alliances often require the establishment of new decision-making processes that include inputs from all partners. Ensuring alignment and agreement on strategic decisions can be challenging but essential.



45

45

## Changes Induced due to JV

### 4. Cultural Integration

- **Cultural Challenges:** When companies from different cultural backgrounds form a joint venture or alliance, integrating corporate cultures can be one of the biggest challenges. Differences in work styles, communication practices, and business procedures need to be harmonized.
- **Learning and Adaptation:** Working closely with another company allows for cross-cultural exchanges and learning opportunities, potentially leading to cultural shifts within both organizations.

*integrate → innovat*  
*Dominant → cost.*

46

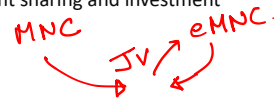
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## Changes Induced due to JV

### 5. Risk and Reward Sharing

- **Shared Risk:** Joint ventures and strategic alliances allow companies to share the risks associated with new business ventures, which can lead to more ambitious projects being undertaken.
- **Reward Distribution:** The benefits derived from joint initiatives also need to be shared, requiring clear agreements on profit sharing and investment returns, which can alter financial strategies.

*\$100 mn.*



47

47

## Changes Induced due to JV

### 6. Human Resources

- **Team Dynamics:** New teams may need to be formed, combining staff from each partner organization. Managing team dynamics, aligning incentives, and fostering collaboration across company lines are crucial tasks.
- **Skills Development:** Employees may have opportunities to develop new skills and competencies as they are exposed to new environments, technologies, and methodologies.

*People → Mkt*  
*→ Tech.*

48

48

## Changes Induced due to JV

### 7. Legal and Regulatory Compliance

- **Complex Legal Frameworks:** Joint ventures especially involve complex legal arrangements which can impact the parent companies' compliance and regulatory frameworks.
- **Intellectual Property (IP):** Handling of IP is a critical aspect, particularly in alliances focused on technology and R&D. Clear agreements are essential to prevent conflicts and protect proprietary information.

US  
↔ JV ↔ India.

49

49

## Changes Induced due to JV

### 8. Market Perception and Branding

- **Co-Branding Opportunities:** Alliances often involve co-branding efforts which can enhance brand perceptions and extend market reach.
- **Stakeholder Confidence:** Strategic alliances and joint ventures can affect how investors, customers, and other stakeholders perceive the companies involved. Successful alliances can boost confidence, while failures can have the opposite effect.

50

50

## Recap

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

Dawa → Frost.

Learning Race

Co-opetition.

Changes:  
Governance  
- Hold up  
- Moral Hazard  
- Adverse Selection.

51

51