

International Management



CHAPTER 7 IMPLEMENTING STRATEGY: & STRATEGIC ALLIANCES

Disclaimer - Copyright

The information in this script is copyrighted. It is prohibited to publish information, copy or use them in any form for commercial purposes.

This file as well as all other files or documents which are handed out via password protected Moodle platform and/or linked in via Moodle are made only for the purpose of exam preparation for course listeners exclusively. Any file or hardcopy must be deleted after the exam or after the user did quit the university of applied science, Aschaffenburg.

It is prohibited to posted or publish any file or document or password of this lecture on the internet or to use any content for public presentations. There is a total ban on exploitation. In addition, no liability is accepted for errors. Lack of references to be completed in accordance with the instructions in the course.

It is emphasized that reading of these documents is no replacement for attending the lecture. In this respect, these documents represent only a skeleton of the substance, which has to be completed by the users own lecture notes and a dense and proper study of literature. All content is subject to change without notice.


Chapter Learning Goals

7.1 To become familiar with the types of strategic alliances for international business, the challenges in implementing them, and guidelines for success in alliances

7.2 To understand what is involved in implementing strategies, including those for small businesses and those involved in emerging economies

7.3 To consider how to manage the firm's performance in international joint ventures, with attention to knowledge management, government and cultural influence, and the role of e-commerce

Learning Objective 7.1



To become familiar with the types of strategic alliances for international business, the challenges in implementing them, and guidelines for success in alliances.

Strategic Alliances (Cooperative Strategies)

- ❖ 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

- ❖ **Equity Strategic Alliances**: firm A purchases shares/equity in firm B, thus A has ownership claims of firm B
 - ❖ **Global business often owns shares in its global suppliers, distributors, local assemblers**
 - ❖ **Joint Ventures**: $A + B + C + \dots = N$ (a new firm)
 - ❖ Starbucks and Tata Global beverages
 - ❖ Shanghai Volkswagen Automotive Co., Ltd. Founded in 1984, equity from VW AG Germany 40%, VW China Invest 10%, SAIC Motor 50%, a fixed-term joined venture for 45 years till 2030
- ❖ **Non-Equity Strategic Alliances**: agreements are carried out through contract rather than equity/shares
 - ❖ UPS and Nike: entire delivery services from factory to warehouse to customer to repair
 - ❖ Apps runs on ios or Android platforms: Nike & Apple (Nike + sensor)
- ❖ **Global Strategic Alliances**: working partnerships were found between companies across national boundaries and increasingly across industries
 - ❖ Star Alliance (Airlines)
 - ❖ European Airbus Industry consortium



Global and Cross-Border Alliances: Motivations and Benefits (1 of 2)

- ❖ To avoid import barriers, licensing requirements, and protectionist legislation
- ❖ To share the costs of the research and development of new products and processes
- ❖ To gain access to specific markets where regulations favor domestic companies

Global and Cross-Border Alliances: Motivations and Benefits (2 of 2)

- ❖ To reduce political risk while making inroads into a new market.
- ❖ To gain rapid entry into a new or consolidating industry and to take advantage of synergies

Challenges in Implementing Global Alliances (1 of 2)

- ❖ Alliances: faster and less risky route to globalization
- ❖ Problems with
 - ❖ Shared ownership
 - ❖ Differences in national cultures
 - ❖ Integration of vastly different structures
 - ❖ Conflicts in decision making and control

Challenges in Implementing Global Alliances (2 of 2)

- ❖ Many alliances fail or end up in takeover
- ❖ Choosing the right form of governance
- ❖ The benefits of cooperation versus the dangers of new competition



Source: Wakeam, J. (2003). The Five Factors of a Strategic Alliance
<https://iveybusinessjournal.com/publication/the-five-factors-of-a-strategic-alliance/>

The Dual Role of Strategic Alliances Benefits vs. Tradeoffs

Exhibit 7-1 (1 of 2)

COOPERATIVE	COMPETITIVE
<ul style="list-style-type: none">• Enhance learning opportunities to co-develop new technologies• Facilitate corporate restructurings by reducing exit barriers in non-growth sectors• Achieve economies of scale (e.g., in mfg. plants)• Optimize division of labor• Increase product and geographic diversification• Reduce investment risk in new product and/or geographic markets	<ul style="list-style-type: none">• Control market access and distribution to thwart current and potential rivalry• Create learning constellations that attenuate foreign dependency on key inputs and skills• Provide opportunity to acquire strategic resources and tacit knowledge• Enhance diffusion of industry standards that create entry barriers

The Dual Role of Strategic Alliances Benefits vs. Tradeoffs

Exhibit 7-1 (2 of 2)

Cooperative	Competitive
<ul style="list-style-type: none">• Leverage complementary skills of each partner• Acquire local/international regulatory and market knowledge• Develop linkages with major buyers/suppliers• Develop international experience with other MNEs in order to “springboard” onto the global stage• Compensate for competitive and latecomer disadvantages	<ul style="list-style-type: none">• Prevent technological and learning by partners vis-à-vis outsourcing agreements• Provide a platform to transform mature industries• Create new growth opportunities

Guidelines for Successful Alliances



- Choose a partner with compatible
- Trust is an essential ingredient



- 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

Learning Objective 7.2



To understand what is involved in implementing strategies, including those for small businesses and those involved in emerging economies

Strategic Implementation

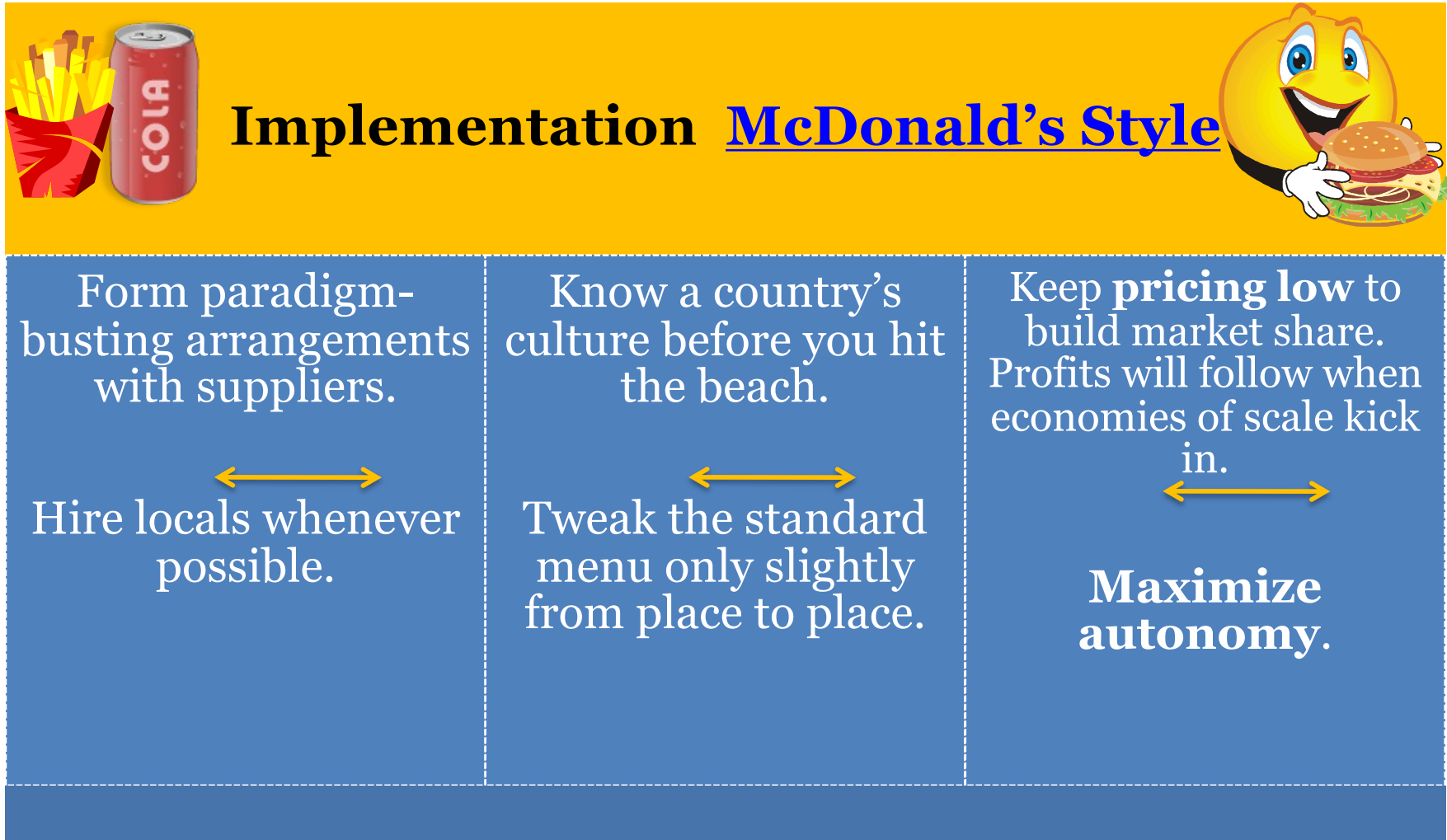
- 
- Involves putting decisions about global alliances and entry strategies into action

- 
- Successful implementation requires creating a “system of fits”

- 
- Resources must be allocated

- 
- Leadership is the key

Strategic Implementation McDonald's Style



Implementing Strategies for SMEs

- ❖ China offers opportunities for exports for SMEs
 - ❖ Agricultural products
 - ❖ Computers and electronics
 - ❖ Chemicals
 - ❖ Non-electrical machinery
 - ❖ Waste and scrap
 - ❖ ...
- ❖ China is the third largest export market for U.S. companies
- ❖ China is the biggest trading partner of Germany since 2015 and 254.4 billion euros were traded between Germany and the People's Republic of China in 2023 (exports and imports). ... then, the United States with 252.6 billion euros, the 3rd partner is the Netherlands with a foreign trade turnover of 220.4 billion euros. ([Destatis](#), 2024)

Under the Lens: Breaking Down Barriers for Small or Medium-Sized Enterprises (SMES) in the US.

- ❖ Small businesses make up 98% of American companies
- ❖ The American Small Business Administration (SBA) aims to increase small business exporters through U.S. Export Assistance Centers
- ❖ In addition to counseling and training, SBA guarantees loans of up to \$5 million
- ❖ Ex-Im Bank provides export financing for amounts over \$5 million



[Translate](#) [SBA en Español](#) [For Partners](#) [Newsroom](#) [Contact Us](#) [Q](#)

[Business Guide](#) [Funding Programs](#) [Federal Contracting](#) [Learning Platform](#) [Local Assistance](#) [About SBA](#)

Start your
business in 10
steps

[SEE THE GUIDE](#)

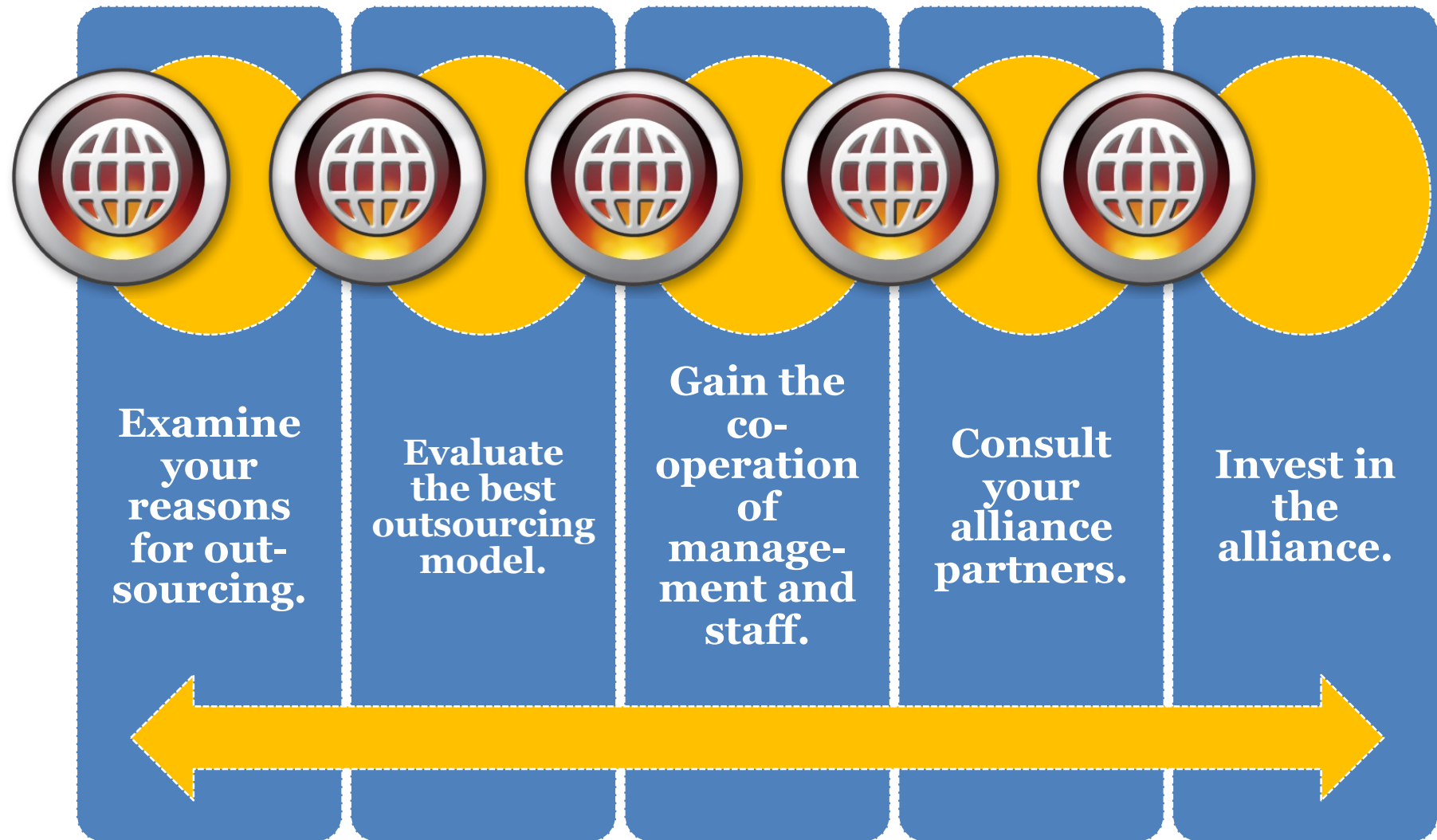


Global Supply Chain Risks & Opportunities

Supply chains have become larger and far more complex to manage

- After the March 2011 earthquake and **tsunami in Japan** → disrupted supply chains
 - *Auto industry particularly hard hit*
 - *Control/risk became issues*
- **COVID-19 Pandemic**
 - *Strengthened ICT infrastructure building*
 - *Locked down of Shanghai city that has disrupted auto supplies in Germany and Europe and around the world*
- **The current Russian-Ukraine War**
 - *Pushing up energy and commodity prices*
 - *Dramatized inflation rate*

Implementing a Global Sourcing Strategy: From Offshoring to Near-Shoring /Next-Shoring

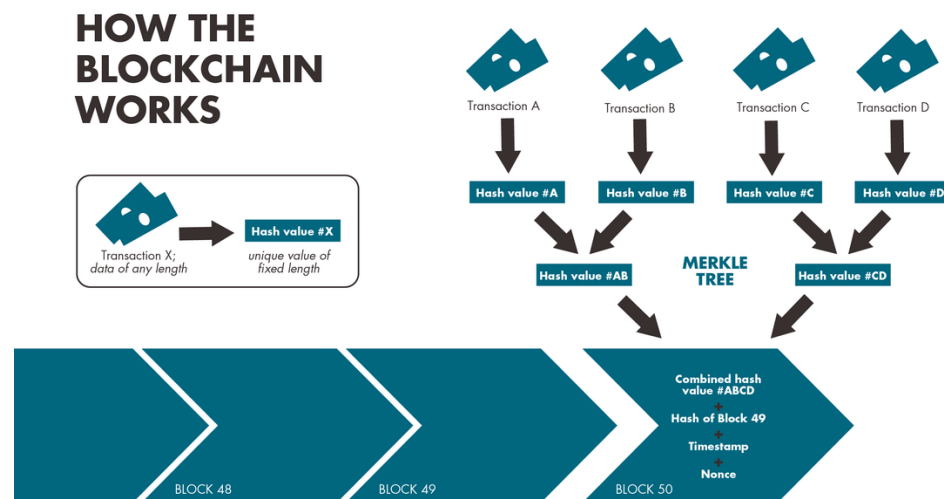


The Next Wave (will be addressed separately)

- ❖ Companies are moving from outsourcing to **nearshoring**
- ❖ **Nearshoring** moves manufacturing and service operations to closer geographic regions and markets
- ❖ **Reshoring** to the home country
- ❖ Increasing labour costs and risks of supply chains and transportation make offshoring less competitive
- ❖ Next-shoring is a trend toward robotics to digitalize operations

Under the Lens: Ford to Use Blockchain in Pilot to Trace Cobalt Mined in Congo

- ❖ Ford will use blockchain to trace cobalt from a Chinese-owned mine in the Congo
- ❖ Cobalt is used for batteries in electric cars
- ❖ Blockchain will improve the transparency of global supply chains
- ❖ Blockchain can identify human rights abuses such as the use of child labor in mining cobalt



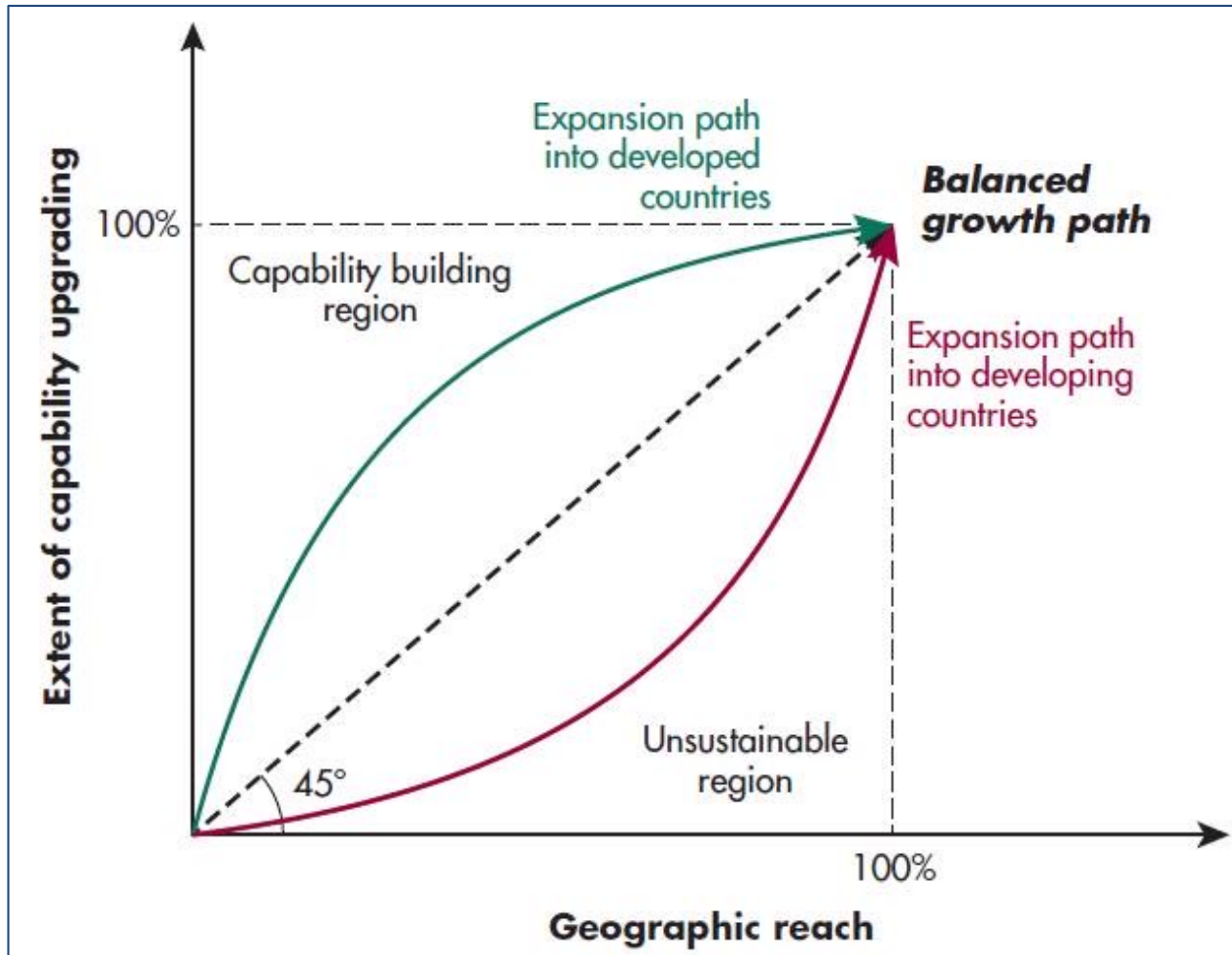
Reproduction of an original figure in "The Great Chain of Being Sure About Things" by the Economist

Implementing Strategies for Emerging Economy Firms

- ❖ Firms from emerging economies have expanded globally through different paths and strategies
- ❖ Emerging firms skip stages to expand to developed and developing markets
- ❖ Many firms have expanded through acquisitions and alliances
- ❖ Firms are more flexible organizationally

Expansion Paths for Emerging Economy Firms

Exhibit 7-2



For the EEFs, it is important to strike a balance among the ambition of global reach, firm's global competencies, and the resource redistribution within the company!

Management in Action: Infosys's Path from Emerging Start-Up to Emerging MNC (1 of 2)

Infosys is one of the most fascinating success stories to come out of India

- ❖ A start-up valued at \$250 in 1981 to over \$40 billion in 2019
- ❖ A path from a “born global” I T-services company to strategic alliances around the world



FOCUSKY

Little bit of History!

Co-founded in 1981 by 7 Engineers. The company was incorporated as "Infosys Consultants Pvt Ltd." with a capital of 10,000 or US\$250 (equivalent to about \$659 in 2016) in Model Colony, Pune as the registered office.

Founders & Co-founders???



Management in Action: Infosys's Path from Emerging Start-Up to Emerging MNC (2 of 2)

- ❖ A central goal was the global delivery model:
 - ❖ Producing where it is most cost effective
 - ❖ Selling where it is most profitable
- ❖ Most software development work was done in India and the sales focused on the United States
- ❖ Infosys then focused on being a global company—global clients, operations, staff, and brand image
- ❖ Infosys has been effective at developing solutions that incorporate the intellectual property of Infosys and the technology and services from the alliance partners.

Challenges in Implementing Strategies in Emerging Markets

- “Foreign” firms are often surprised they have trouble competing successfully with local firms
- Challenges facing firms venturing into emerging markets
 - Poor infrastructure (both hard- and software)
 - Supply chains/distribution networks
 - Personal challenges
 - Local knowledge of the market
 - **Political reasons**



Learning Objective 7.3



To consider how to manage the firm's performance in international joint ventures, with attention to knowledge management, government and cultural influence, and the role of e-commerce.

Managing Performance in International Joint Ventures

IJV Control

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

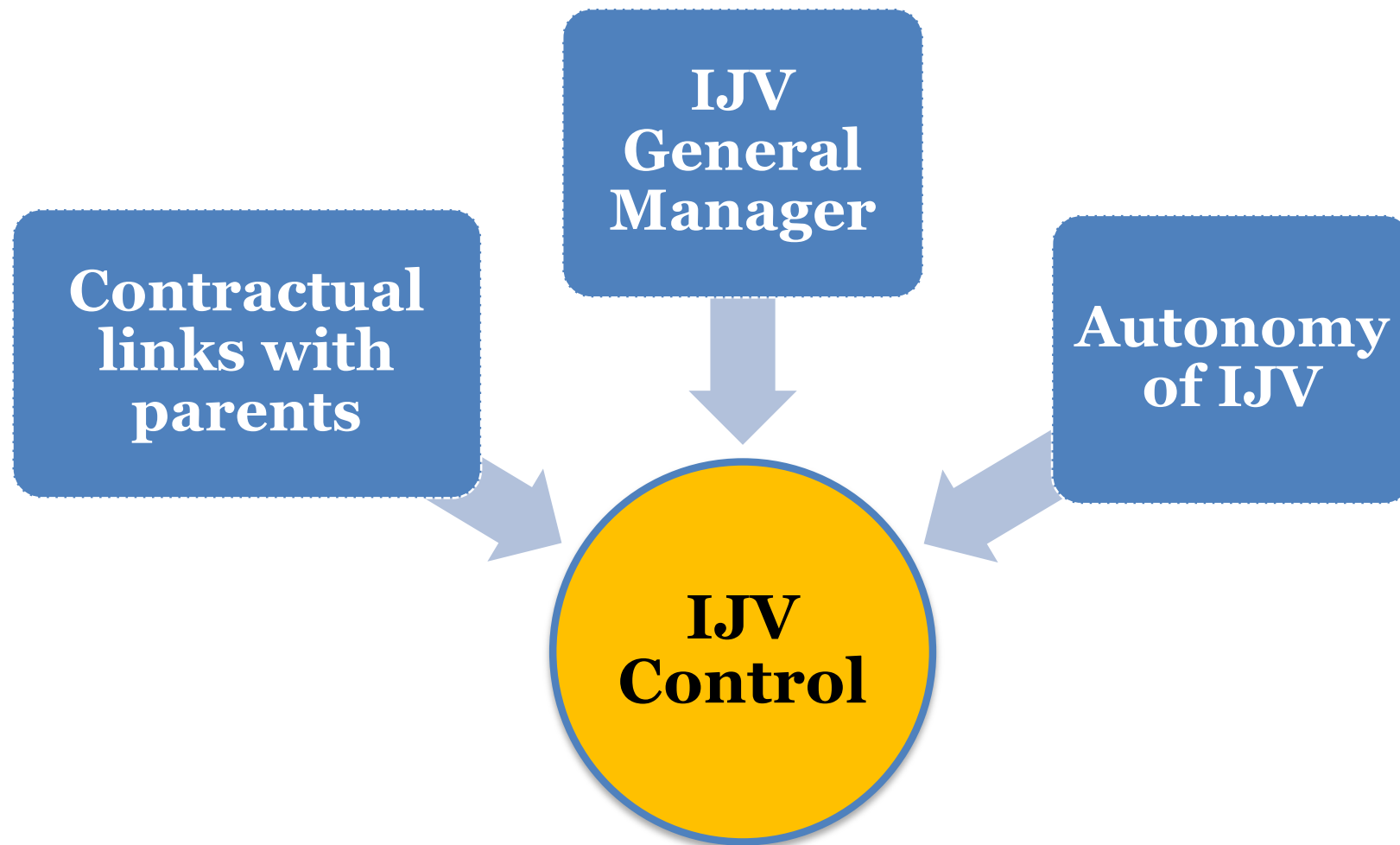
Choice of Partner

- Finds the right match with skills and resources (e.g. unsuccessful partnership/ventures, Suzuki and TVS Motor in India)

Organization Design

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

Three Complementary Dimensions of IJV Control



Knowledge Management in IJVs

- **Transfer**: managing the flow of existing knowledge between parents and from the parents to the IJV.
- **Transformation**: managing the transformation and creation of knowledge within the IJV through its independent activities
- **Harvest**: managing the flow of transformed and newly created knowledge from the IJV back to the parents

Government Influences on Strategic Implementation

- Profitability impacted by taxation and restrictions on repatriation
- Unpredictable changes in governmental regulations
 - China's new restrictions on foreign investors
 - \$2.5 billion tax bill for Vodaphone in India
 - Prolonged waiting time for deals to get approved

Cultural Influence on Strategic Implementation: Western ex-pats vs. Hungarian managers

Western	Hungarian
Team Orientation	Individual Orientation
Consensual Management Style	Autocratic Style
Future planning mentality	Survival Mentality

French Managers Comment on the U.S.

- Americans have difficulty accepting foreign managers
- Americans have difficulty developing a world perspective
- Americans are very U.S.-oriented; the least international of all people

What about the French managers?

French Managers – Doing Business in France



Cultural Differences in U.K.–European Alliances

Corporate Cultural Differences in Six Dimension

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 (financial leveraging)

E-Commerce on Strategy Implementation

- ❖ Outsourcing necessary tasks to e-commerce enablers
- ❖ Help companies sort through the maze of difficult taxes, duties, language translations, etc.
 - ❖ Small and medium-sized companies go global with no internal capabilities to carry out global e-commerce functions

Case Example - Inside Arcelor



Case Example : Mittal's (M&A) 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

Case Example : 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.

Conclusion

- ❖ Cross-border strategic alliances are **formed for many reasons**: market expansion, cost/technology-sharing, avoiding protectionism, synergies
- ❖ SMEs can **leverage network relationships** to accelerate the internationalization process
- ❖ Alliances take many forms, but can fail in the strategic implementation phase
- ❖ **Emerging economy firms have to move quickly**
- ❖ Successful alliances require **compatible partners** and the creation of a system of fits
- ❖ Differences in **national culture and changes in the political arena** can affect implementation