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CREATIVITY OF STRATEGIC ALLIANCES AND JOINT VENTURES

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Summary:
Any company that aspires to industry leadership in 21st century must think in terms of global, not domestic market leadership. The world economy is globalizing at an accelerating pace as countries previously closed to feregn companies open up their markets, as the Internet shrinks the importance of geographic distance, and as ambitious growth-minded companies race to build stronger competitive positions in the markets of more and more countries.
This paper focuses on strategy options for expanding beyond domestic boundaries and competing in the market of either a few or a great many countries. In the process of exploring these issues, we will introduce a number of corect concepts-multicountry competition, global competition, profit sanctuaries, and cross-market subsidization. The chapter includes section of market conditions; strategy options for entering and competing in foreign markets, the importance of locating operations in the most advantageous countries and so on.

Keywords:
consumer, organization, research, implication, environment, influence

1. Introduction

Strategic alliances, joint ventures, and other cooperative agreements with foreign companies are a favorite and potentially fruitful means for entering a foreign market or strengthening a firm's competitiveness in world markets (Bleeke & Ernst, 1991) (Hamel, Doz., & C.K., 1989).

Cross-border alliances have proved to be popular and viable vehicles for companies to edge their way into the markets of foreign countries.

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Historically, export-minded firms in industrialized nations sought alliances with firms in less-developed countries to import and market their products locally – such arrangements were often necessary to win approval for entry from the host country's government. Both Japanese and American companies are actively forming alliances with European companies to strengthen their ability to compete in the 25-nation European Union (and the five countries that are seeking to become EU members) and to capitalize on the opening up of Eastern European markets. Many U.S. and European companies are allying with Asian companies in their efforts to enter markets in China, India, Malaysia, Thailand, and other Asian countries.

Companies in Europe, Latin America, and Asia are using alliances and joint ventures as a means of strengthening their mutual ability to compete across a wider geographical area – for instance, all the countries in the European Union or whole continents or most all country markets where there is sizable demand for the industry's product. Many foreign companies, of course, are particularly interested in strategic partnerships that will strenghten their ability to gain a foothoild in U.S. market.

However, cooperative arrangements betweeen domestic and foreign companies have strategic appeal for reasons besides gaining better access to attractive country markets. (Doz & Hamel, 1998) (Hamel, Doz, & Prahalad, 1989) (Porter, 1998). A second big appeal of cross-border alliances is to capture economies of scale in production and/or marketing – cost reduction can be the difference that allows a company to be cost-competitive. By joining forces in producting components, assembling models, and marketing their products, companies can realize cost savings not achievable with their own small volumes. A third motivation for entering into a cross-border alliance is to fill gaps in technical expertise and/or knowledge of local markets (buying habits and product preferences of consumers, local customs, and so on). Allies learn much from one another in performing joint research, sharing technological know-how, studying one another's manufacturing methods, and understanding how to tailor sales and marketing appraoches to fit local cultures and traditions. Indeed, one of the win-win benefits of analliances is to learn from the skills, technological know-how, and capabilities of alliance partners and implant the knowledge and know-how of these partners in personnel throughout the company.

A fourth motivation for cross-border alliances is to share distribution facilities and dealer networks, thus mutually strengthening their access to buyers. A fifth benefit is that cross-border allies can direct their competitive energies more toward mutual rivals and less toward one another; teaming up may help them close the gap on leading companies. A sixth driver of cross-border alliances comes into play when companies are an effective way to tap into a partner's local market knowledge and help it ectablish working relationships with key officials in the host-country goverment. (Christensen, 2001) And, finally, alliances can be a particularly useful way for companies across the world to gain agreement on important technical standards – they have been used to arrive at standards for DVD players, assorted PC devices, Interent-related technologies, high-definition televisions, and mobile phones.

Cross-border alliances enable a growth-minded company to widen its geographic coverage and strengthen its competitiveness in foreign markets while, at the same time, offering flexibility and allowing company to retain some degree of autonomy and operating control.

What makes cross-border alliances an attractive strategic means of gaining the above types of benefits (as compared to acquiring or merging with foreign-based companies to gain much the same benefits) is that entering into alliances and strategic partnerships to gain market access and/or expertise of one kind or another allows a company to preserve its independence (which is not the case with a merger), retain veto power over how the alliance operates, and avoid using perhaps scarce financial resources to fund acquisitions. Furhermore, an alliance offers the flexibility to readily disengage once its purpose has been served or if the benefits prove elusive, whereas an acquisition is more permanent sort of arrngament (although the acquired company can, of course, be divested). An excellent presentation on the pros and cons of alliances vs. acquisitions is given in Dyer, Kale, and Singh's"When to Ally and When to Acquire" (Dyer, Kale, & Singh, 2004).

2. The Risks of Strategic Alliances with Foreign Partners

Alliances and joint ventures with foreign partners have their pitfalls, however. Cross-border allies typically have to overcome language and cultural barriers and figure out how to deal with diverse (or perhaps conflicting) operating practices. The communication, trust-building, and coordination costs are high in terms of management time. (Kanter, 1994) It is not unusual for there to be little personel chemistry among some of the key people on whom success or failure of the alliance depends – the rapport such personel need to work well together may never emerge. And even if allies are able to develop productive personel relationships, they can still have trouble reaching mutually agree-able ways to deal with key issues or resolve differences. There is a natural tendency for allies to struggle to co-llaborate effectively in competitively sensitive areas, thus spawing suspicions on both sides about forthright exchanges of information and expertise. Occasionally, the egos of corporate executives can clash – an alliance between Northwest Airlines and KLM Royal Dutch Airlines resulted in a bitter feud among both companies' top offical (who, according to some reports, refused to speak to each other). (Shawn, 1996). In addition, there is the thorny problem of getting alliance partners to sort through issues and reach decision fast enough to stay abreast of rapid advances in technology or fast-changing market conditions.

It requires many meetings of many people working in good faith over time to iron out what is to be shared, what is to remain proprietary, and how the cooperative arrangements will work. Often, once the bloom is off the rose, partners discover they have conflicting objectives and strategies, deep differences of opinion about how to proceed, or important differences in corporate values and ethical standards. Tensions build up, working relationships cool, and the hoped-for benefits never materialize. (Main, 1990)

Even if the alliance becomes a win-win proposition for both parties, there is the danger of becoming overly dependent on foreign partners for essential expertise and competitive capabilities of its own, then at some juncture cross-border merger or acquisition may have to be substituted for cross-border alliances and joint ventures.
Strategic alliances are more effective in helping establish a beachhead of new opportunity in world markets than in achieving and sustaing global leadership.

One of the lessons about cross-border alliances is that they are more effective in helping a company establish a beachhead of new opportunity in world markets than they are in enabling a company to achieve and sustain global market leadership. Global market leaders, while benefiting from alliances, usually must guard against becoming overly dependent on the assistence they get from alliance partners-otherwise, they are not masters of their own destiny.

2.1. When a Cross-Border Alliance May Be Unnecessary

Experienced multinational companies that markets in 50 to 100 or more countries across the world find less need for entering into cross-border alliances than the companies in the early stages were globalizing their operations. (Prahalad & Lieberthal, 2008) Multinational companies make it a po- int to develop senior managers who understand how "the system" works in different countries; these companies can also avail themselves of local managerial talent and know-how by simply hiring experienced local managers and therby detouring the hazards of collaborative alliances with local managers and thereby detouring the hazards of collaborative alliances with local companies. If a multinationl enterprise with considerable experience in entering the markets of different countries wants to detour the hazards and hassles of allying with local business, it can simply assemble a capable management team consisting of both senior managers with considerable international experience and local managers. The responsibilities of its own in-house managers with international business savvy are (1) to transfer technology, business practices, and the corporate culture into the company's operations in the new country market, and (2) to serve as conduits for the flow of information between the corporate office and local operations. The responsibilities of local managers are (1) to contribute needed understanding of the local markets conditions, local buying habits, and local ways of doing business, and (2) in many cases, to head up local operations.

Hence, one cannot automatically presume that a company needs the wisdom and resources of a local partner to guide it through the process of successfully entering the markets of foreign countries. Indeed, experinced multinationals often discover that local partners do not always have adequate local market knowledge – much of the so-called experince of local partners can predate the emergence of curent market trends and conditions, and sometimes their operating practices can be archaic.

2.2. Strategy knowledge gap

In the knowledge economy, successful strategic management is critically dependent on managing knowledge affectively in socio-cultural business systems. Knowledge is now recognized by business practitioners and academics as one of the most important sources of innovation and new customer value propositions, emanating from individual, organizational and communal nowledge creativity and utilization. While most extant knowledge management theory and application focus on the organization, and improwing its competitive advantages, there is an increasing need to shift this focus to the socio-cultural business system, i.e. understanding and effectively enabling knowledge generation and utilization to enhance the dynamic capabilities of particular socio-cultural business systems.

The purpose of this section is to present three practical frameworks as a basis for understanding systemic strategy-knowledge links. The reader is encouraged to explore the various theories underlying systemic knowledge knowledge creation and utilization, e.g. complex adaptive systems theory and autopoieses theory, (Oliver & Roos, 2000) and theories of how organizations can become "poised" in their knowledge landscapes by co-evolving with other stakeholders in their business system. (Lissack & Roos, 1999)

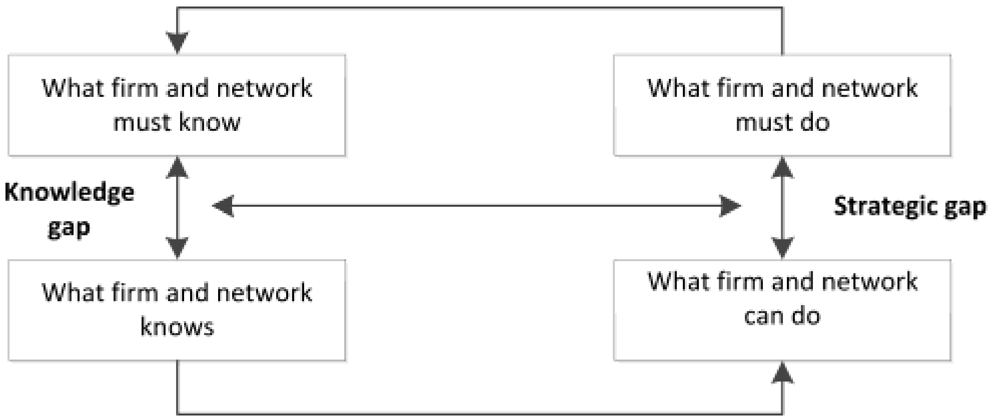

Figure 1 Identifying the systemuic strategy-knowledge gap (Adopted from (Zack, 1999))

3. The Knowledge Creating Process in a Business System

The "raison d'etre" of an organization and the socio-cultural business system of which in forms part is to continuously create knowledge and convert this knowledge into socio-cultural value. Knowledge and the capability to create and utilize such knowledge are the most important source of a business network's existence and its sustainability. Various authors, such as Nonaka, Teece, Drucker, Probst, Von Krogh and Stewart consider knowledge as the most important resource in today's economy. (Nonaka I. , 1991) (Teece, 2000) (Drucker, 1993) (Devenport & Probst, Knowledge Managment Case Book, 2002) (Devenport & Prusak, Working Knowledge, 1998) (Von Krogh, 1997) Nonaka and Takeuchi propose a knowledge-creating model (the SECI model) for a firm that can also be applied to a business network.

In the above knowledge-creating system, knowledge is created through the SECI spiral (see Figure 2.), that proceeds through four models of conversion between tacit and explicit knowledge.

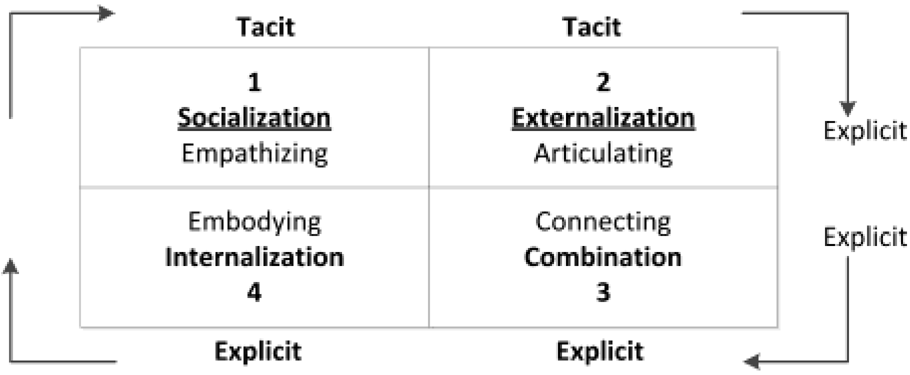

Figure 2 The SECI model of knowledge creation in a business system (Adopted from (Nonaka & Takeuchi, 1995))

A number of authors e.g. Beinhocker, Govindarajan and Gupta, Hamel, and Kim and Mauborgne, have suggested approaches for "changing the rules of the game" (Beinhocker, 1999) (Govindarajan & Gupta, 2001) (Hamel G. , 2000) (Kim & Mauborgne, 1999) Most of these approaches (or frameworks) consider business models from an individual organization perspective. A framework for co-shaping the development of new business models for an organization in systemic contex is presented in Figure 3 which effectively encapsulates the previous framework discussed in this chapter.

Figure 3 indicates that a new business model arises not only from reconfiguring an organization's core business strategy and dynamic capabilities, but also from making sense of socio-cultural dynamics and gaps, reinventing of customer value proposition(s), and reconfiguring the business network and its value chain. A reconfigured core business strategy should be *results* of systemic insight, foresight and sense making.

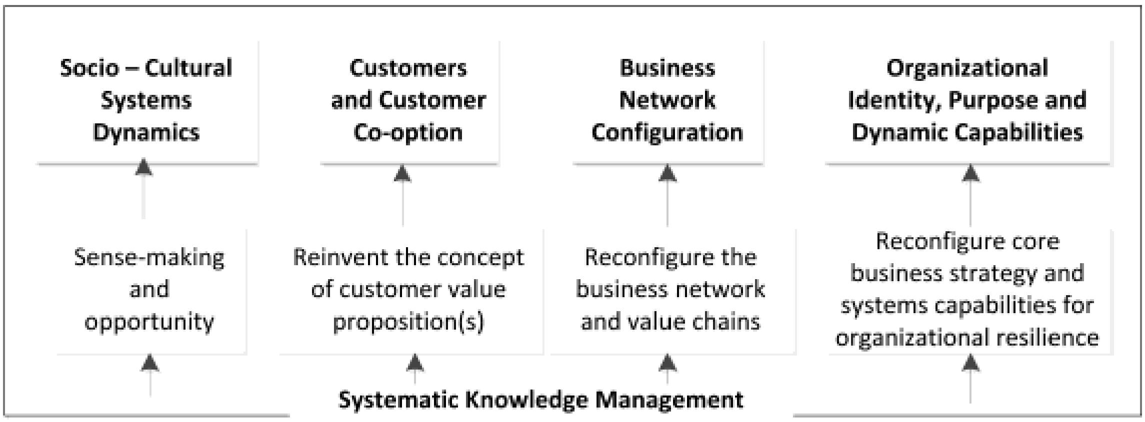

Figure 3 A systemic perspective of developing new business models

4. Strategic that fit the markets of emerging countries

Companies racing for global leadership have to consider competing in emerging markets like China, India, Brazil, Indonesia and Mexico – countries where the business risks are cosiderable but where the opportunities for growth are huge, especially as their economies develop and living standards climb towards levels in the industrialized world. (Prahalad & Lieberthal, 2008) (Arnold & Quelch, 1998) With the world now comprising more than 6 billion people – fully one-third of whom are in India and China, and hundreds of millions more in order less-developed countries of Asia and Latin America – a company that aspires to world market leadership (or to sustained rapid growth) cannot ignor the market opportunities or the base of technical and managerial talent such countries offer. For example, in 2003 China's population of 1,3 billion people consumed nearly 33 percent of the world's annual cotton production, 51 percent of the world's pork, 35 percent of all the cigarettes, 31 percent of worldwide coal production, 27 percent of of the world's steel production, 19 percent of the alluminium, 23 percent of the TVs, 20 percent of the cell phones, and 18 percent of the washing machines. (Cherry, 2004) China is the world' largest consumer of copper, aluminium, and cement and the cesond biggest for PCs, and it is on track to become the second largest market for motor vehicle by 2010.

Tailoring products to fit conditions in an emerging-country market, however, often involves more than making minor product changes and becoming more familiar with local cultures. (Prahalad & Lieberthal, 2008) Ford's attempt to sell a Ford Escort in India at a price of $ 21.000 – a luxury-car price, given that India's best-selling Maruti-Suzuki model sold at the time for $10.000 or less, and thar fewer than 10 percent of Indian households have annual purchasing power greater than $20.000 – met with a less-than-enthusiastic market response. McDonald's has to offer vegetable burgers in parts of Asia and to rethink its prices, which are often high by local standards and affordable only by the well-to-do. Kellogg has struggled to introduce its cereals successfully because consumers in many less-developed countries do not eat cereal for breakfast – changing habits is difficult and expensive. In several emerging countries, Coca-Cola has found that advertising its world image does not strike a chord with tle local populace in a number of emerging-country markets.

Single-serving packages of detergants, shampoos, pickles, cough syrup, and cooking oils are very popular in India because they allow buyers to conserve cash by purchasing only what they need immediately. Thus, many of developed companies find that trying to employ a strategy akin to that used in the market of developed countries is hazardous. (Tarun Khanna, 2005) Experimenting with some, perhaps many, local twists, is usually necessary to find a strategy combination that works.

5. Strategy Options

Several strategy options for tailoring a company's strategy to fit the sometimes unusual or challenging circumstances presented in emerging-country markets:

- *Prepare to compete on the basis of low price*. Consumers in emerging markets are often higly focused on prices, which can give low-cost local competitors the edge unless a company can find ways to attaract buyers with bargaing prices as well as better produ-cts. (Prahalad & Lieberthal, 2008) For example, when Unilever entered the market for laundry detergents in India, it realized that 80 percent of population could not afford the brands it was selling to affluent consumers there (or the brands it was sellng in weathier countries). To compete against a low-priced detergent made by a local company, Unilever came up with a low-cost formula that was not harsh to the skin, constructed new low-cost production facilities, packaged the detergent (named Wheel) in single–use amounts so that it could be sold very cheeply, distributed the product to local merchants by handcarts, and crafted an economical marketing campaign that included painted signs on buildings and demonstrations near stores – the new brand quickly captured $ 100 million in sale and was the number one detergent brand in India in 2004 based on dollar sales. Unilever later replicated the strategy with low-priced packets of shampoos and deodorants in India and in South America with a detergent brand named Ala.
- *Be prepared to modify aspects of the company's business to accomodate local circumstances* (but not so much that the company loses the advantage of global scale and global branding). (Khanna, Palepu, & Sinha, 2005) For instance, when Dell entered China, it discovered that individuals and business were not accustomed to placing orders through the Internet (in North America, over 50 percent of Dell's sales in 2002-2005 were online). To adopt, Dell modified its direct sales model to rely more heavily on phone and fax-order and decided to be patient in getting Chinese customer to place Internet orders. Furher,

because numerous Chinese goverment departments and state-owned enterprises insisted that hardware vendors make their bids through distributors and systems integrators (as opposed to dealing directly with Dell salespeople as did large enterprise in other countries), Dell opted to use third parties in marketing its products to this buyer segment (although it did sell through its own sales force where it could).

– *Try to change the local market to better match the way the company does business elsewhere*. (Thompson, Peteraf, Gamble, & Strickland, 2011) A multinational company often has enough market clout to drive major changes in the way a local country market operates. When Hong Kong – based STAR launched its first satelliet TV channel in 1991, it profoundly impacted the TV marketplace in India: TV Indian goverment lost its monopoly on TV broadcasts, severeal other satellite TV channels aimed at Indian audinces quickly emerged, and the excitement of additional channels triggered a boom in TV manufacturing in India. When Japan's Suzuki entered India in 1981, it triggered a quality revolution among Indian auto parts manufactures. Local parts and components suppliers teamed up Suzuki's vendors in Japan and worked with Japanese experst to produce higher-quality products. Over the next two decades, Indian companies became very proficient in making top-notch parts and country other than Japan, and broke into the global market as suppliers to many automakers in Asia and other parts of the world.

– *Stay away from those emerging markets where it is impractical or uneconomic to modify the company's business model to accomodate local circumstances*. (Thompson, Peteraf, Gamble, & Strickland, 2011) Home Depot has avoided entry into most Latin American countries because its value proposition of good quality, low prices, and attentive customer service relies on (1) good highway and logistical systems to minimaze store inventory costs, (2) employee stock ownership to help motivate store personel to provide good customer service, and (3) high labor cost for housing construction and home repairs to encourage homeowners to engage in do-it -yorself projects.

Company experiences in entering developing markets like China, India, Russia, and Brazil indicate that profitability seldom comes quickly or easeily. Building a market for the company's products can often turn into a long – term process that involves reduction of consumers, sizable investments in advertising and promotion to alter tastes and buying habits, and upgrades of the local infrastructure (the supplier base, transportation systems, distribution channele, labor markets, and capital markets). In such cases, a company must be system to improve the infrastructure, and lay the foundation for generating sizible revenues and profits once conditions are ripe for market takeoff.

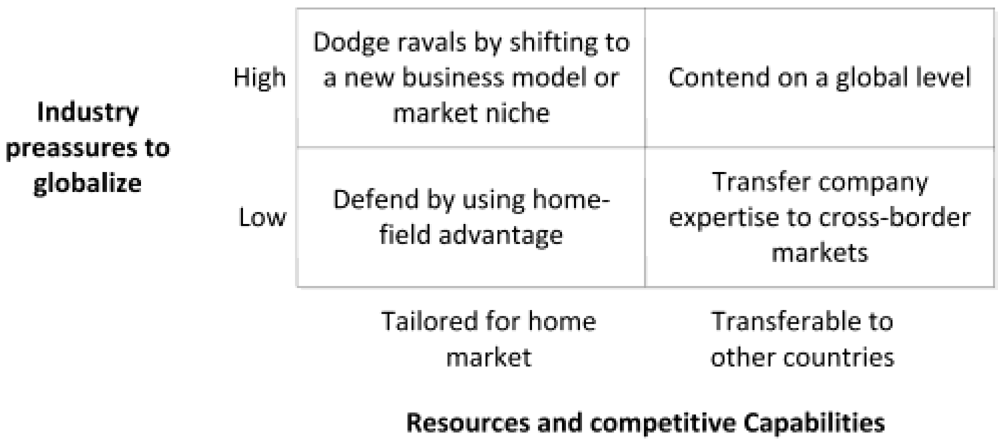

Figure 4. Strategy Option for Local Companies in Competing Against Global Companie (Adopted from Dawar & Frost (1999))

Profitability in emerging markets rarely comes quickly or easily – new entrants have to adopt their business models and strategies to local conditions and be patient in earning a profit.

CONCLUSIONS

Strategic alliances with foreign partners have appeal from several angles: gaining wider access to atractive country markets, allowing capture of economies of scale in production and/or marketing, filling gaps in technical expertise and/or knowledge of local markets, saving on costs by sharing distribution facilities and dealer networks, helping gain agreement on important tecnical standards and helping combat the impact of alliances that rivals have formed. Cross-border strategies alliances are fast reshaping competition in world markets, pitting one group of allied global companies against other group of allieed global companies.

There are three ways in which a firm can gain competitive advantage (or offset domestic disadvantages) in global markets. *One way* involves locating various value chain activities among nations in a manner that lowers costs or achieves greater product differentiation. A *second way* involves efficient and effective transfer of competitively valuable competencies and capabilities from its domestic markets to foreign markets. A *third way* draws on a multinational or global competitor's ability to deepen or broaden its resource strenghts and capabilities and to coordinare its dispersed activities in ways that a domestic-only competitor cannot.

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