International Joint Ventures (IJVs)/Strategic Alliances (SAs)

Definitions
- IJV is the creation of a new legal entity by two or more partners.
- Strategic alliance is a collaboration made by a firm with another firm or supplier, customer, or distributor.

Why IJVs/SAs
- Overcome restriction on foreign ownership
- Entry into difficult markets
- Increasing global competition
- Share risks
- Achieve global scale
- Shape industry evolution - set standards
- Learn and apply new technologies
- Product positioning
- Synergy

Partner Selection
- Technical skills
- Identifiable mutual need
- Similarities in management perspectives
- Relative size - equal size preferred
- Strategic complementarity
- Operating policies - accounting systems, human resources, MIS
- Culture and communications problems
- Trust and commitment
Partner Selection

- Get as much information as possible on the potential partner
- Collect data from informed third parties
  - former partners
  - investment bankers
  - former employees
- Get to know the potential partner before committing

Costs of IJVs

- differing objectives of partners and/or govs.
- uneven power between partners
- synergies may not emerge
- frequent conflict
- loss of autonomy
- costs of learning
- costs of coordination
- unintentional loss of knowledge or skills

When IJVs?

- entering new fields or businesses
- low levels of international experience
- potential for joint gains is greater when partners are dissimilar
- in tangible assets
Benefits of IJVs

- provide firms with resources for which there are no equally efficient or available substitutes
- undertake projects and spread costs, risks
- strategic timing - first access to markets, products, or technologies
- first mover advantages
- maintain good relationship with governments
- pre-empt suppliers from integrating to become competitors

Benefits of IJVs (cont.)

Government
- increase employment
- import substitution
- technology transfer
- promote local industry
- minimize foreign exchange loss

Benefits of IJVs

Local Firms
- access to technology
- access to trademarks, brandnames etc.
- access to export markets
Keys to Success in IJVs/SAs

- Mission - commitment from both top managements
- Strategy - balance cooperation with competition
- Governance - parity not power is the key
- Culture - develop a common set of beliefs, values and ideology. Incompatibility leads to dissolution, distrust, and disillusion

Keys to Success in IJVs/SAs

- Organization
  - composition of board
  - CEO and top management
- Management
  - lines of authority
  - conflict resolution
  - responsibility
  - accountability
  - communications

Structuring the alliance to reduce opportunism

Fig 14.1
Limitations of Alliance Networks

- Organizational constraints
  - demands on management time
  - difficulties in rationalizing operations
- Strategic gridlock
  - limited availability of partners
  - competition among alliances
- Dependence
  - loss of control over company destiny

Managing Alliances in Stages

<table>
<thead>
<tr>
<th>Stage</th>
<th>Key Mgmt Concern</th>
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<tbody>
<tr>
<td>1) Strategy formulation</td>
<td>Define logic of collaboration</td>
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<td>2) Partner search</td>
<td>Match goals and capabilities</td>
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<td>3) Negotiations</td>
<td>Allocate roles and design structure</td>
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<td>4) Startup</td>
<td>Invest &amp; build trust</td>
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<tr>
<td>5) Operations</td>
<td>Contribute and receive capabilities</td>
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<td>6) Adjustment</td>
<td>Monitor changes in envt. and partners and renegotiate as needed</td>
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