

## 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 govts.
- ◆ 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

---

---

---

---

---

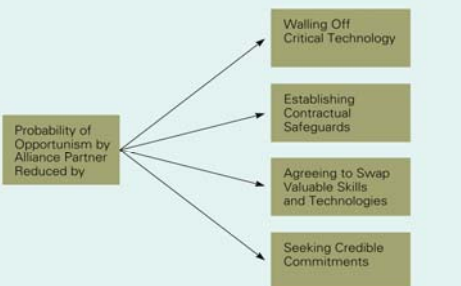
---

---

---

## 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

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

---

---

---

---

---

---

---

---