



Implementing Strategy

Strategic Alliances; Small Businesses; Emerging Economy Firms

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OBJECTIVES

1. To realize that much of international business is conducted through strategic alliances.
2. To understand the reasons that firms seek international business allies and the benefits they bring.
3. To become familiar with the ways that SMEs can expand through alliances with MNCs.
4. To understand the complexities involved in managing international joint ventures.
5. To focus on how emerging economy firms can implement their expansion strategies.
6. To appreciate the governmental and cultural factors that influence strategic implementation, as well as the impact of e-commerce.
7. To recognize the changing factors, opportunities, and threats involved in joint ventures in the Russian Federation.

OPENING PROFILE: FROM BP TO EXXON: BEWARE THE ALLIANCE WITH THE BEAR.¹

“Memo to Exxon: Business with Russia Might Involve Guns and Balaclavas.”²

A smiling Vladimir Putin, then—Prime Minister of Russia (now President again), looked on as Exxon Mobil and OAO Rosneft, Russia’s largest oil producer, signed on for a partnership involving as much as \$500 billion of investments. The deal involves a \$3.2 billion exploration project in Russia’s Arctic waters and in the Black Sea. For its part, Rosneft, which is 75 percent owned by the Kremlin, will also get shares in at least six Exxon Mobil projects in the United States. The deal also provides \$450 million for a joint Arctic research center in St. Petersburg. Rosneft does not have the technology for deep-sea drilling.

The alliance is a blow for Britain’s BP, with which Rosneft had struck an accord in January to jointly develop the Arctic fields—but the deal fell through after BP’s Russian shareholders managed to block it. The Exxon-Rosneft alliance marks the end of long and combative negotiations between Russian oligarchs and the joint venture TNK-BP. In addition, the day after the Exxon-Rosneft deal was announced, BP’s Moscow offices were raided.

BP’s spokeswoman Sheila Williams declined to comment on the Exxon-Rosneft deal, but said BP is still “committed both to Russia and to the continuing success of TNK-BP,” its Russian venture.³ Indeed, as reported by the *Financial Times*, “BP defended itself against a raid by bailiffs and armed special forces troopers on its Moscow office on Wednesday (August 31, 2011), describing it as ‘part of a pressure campaign against BP’s business in Russia.’”⁴ In fact, in a scene reminiscent of bad movies, the *New York Times* reported that “*commandos* armed with assault rifles raided the offices of the British oil company BP on Wednesday, in one of the ritual armed searches of white-collar premises that are common enough here to have a nickname: masky shows (so-called because of the balaclavas the agents often wear.)”⁵

Run-ins with the Russian police have been frequent for BP, including the revocation of visas of BP’s executives, such as the current BP chief executive Robert Dudley, then director of TNK-BP, who was forced to leave Russia. Considering recent events has prompted a leading risk-analysis organization, the Eurasia Group, to put out a warning to its clients about partnering in Russia and what can happen to companies that get into a bad relationship with the government there. Other companies in Moscow have also been targeted. Deutsche Bank’s office in Moscow was raided in February by masked and armed law enforcement agents apparently looking for documents related to a commercial mortgage.⁶

Events such as these clarify why investors are reluctant to invest in Russia, given the political and economic climate that leads to such harassment; in addition, there has been considerable flight of capital out of the country. Ironically, the Exxon-Rosneft deal is connected to the arrest of former Russian oil tycoon Mikhail Khodorkovsky and his re-conviction at the beginning of 2011. Putin had Khodorkovsky—then head of the Yukos Oil Company—arrested in 2003, charged with negotiating a joint venture with Exxon without getting permission from the Kremlin. Putin has now used Rosneft, which acquired the Yukos assets stripped from Khodorkovsky, to make the deal with Exxon himself.⁷

STRATEGIC ALLIANCES

As discussed in the opening profile, strategic alliances present great opportunities but sometimes great peril for the uninformed, especially when dealing with the lesser-known risks in emerging markets.

Strategic alliances are partnerships between two or more firms that decide they can better pursue their mutual goals by combining their resources—financial, managerial, and technological—as well as their existing distinctive competitive advantages. Alliances—often called *cooperative strategies*—are transition mechanisms that propel the partners’ strategies forward in a turbulent environment faster than would be possible for each company alone.⁸ The explosion of international strategic alliances (ISAs) over the last decade has been caused by the need for organizations to respond to the globalization of markets and the opportunities presented by technological advances. However, the rush to take advantage of those opportunities has resulted in an estimated half of ISAs having poor results or failing.⁹ (These problems will be discussed later in this chapter.)

Alliances typically fall under one of three categories: joint ventures, equity strategic alliances, and non-equity strategic alliances, and they can be for various purposes such as sharing technology, marketing, or production joint ventures. Cross-border alliances frequently necessitate a local partner in order to counteract political risk factors and to take advantage of local knowledge and contacts.

Indeed, the goals of technology sharing and the move towards green technology led BMW and Toyota to announce an alliance in December 2011. Toyota had been through a tough year of natural disasters and a strong yen. The chief executive of Toyota Motor Europe, Didier Leroy, said that an alliance would let both sides bolster efficiency, improve economies of scale, reduce development costs, and achieve quicker speeds to market.¹⁰ Alliances with electronics makers Sanyo Electric and Panasonic have also been precipitated by the search for better batteries. Still, “alliances have been one way that Toyota has hedged its bets: It has forged partnerships with Aston Martin and Ford, and last year, it announced a tie-up with Tesla Motors, the Silicon Valley-based maker of high-end electric cars.”¹¹

It should be noted, however, that, while the last decade brought a surge in companies seeking growth through mergers and acquisitions (M&As), joint ventures, and other alliances, the global economic downturn caused many companies to postpone or cancel out on such plans, often instead retrenching or “de-merging.” Examples were General Motors and Citigroup having to spin off partners as well as retrench operations in order to maintain sufficient cash flow. The rate of deals collapsing increased amid the credit crisis and global equity market volatility. An example was the C\$34.8 billion (US\$28.2 billion) leveraged buy-out of BCE, the Canadian telecommunications giant, which was under threat after auditor KPMG said BCE might not meet solvency tests if it absorbed the C\$32 billion of debt required to finance the transaction.¹² Other proposed deals were going ahead, but with revised terms: For example, Dow Chemical, the largest U.S. chemical group, entered into a deal to inject its low-growth plastics business into a joint venture with Kuwait’s state oil company—but at a reduced price.

Still other deals, made under duress, involved government alliances in an attempt to save companies and industries from default, as with a number of banks that become subject to partial nationalization. As one example, the British Government struck a deal in March 2009 to increase its stake in Lloyds’ Banking Group (LBG) to 65 percent from 43 percent. The Government guaranteed some \$575 billion worth of toxic assets as part of the deal, which was brokered between bank and Treasury officials. Lloyds Banking Group was created early 2009 when Lloyds TSB bought rival lender HBOS, which faced collapse because it was struggling to raise funds due to the credit crunch.¹³

Joint Ventures

MUMBAI, India—After years of studying the Indian market, Starbucks Coffee said Monday that it would open its first store here by September (2012) through a 50-50 joint venture with Tata Global Beverages, a unit of the largest business group in India.

THE NEW YORK TIMES,
JANUARY 20, 2012.¹⁴

As discussed in Chapter 6, a **joint venture (JV)** is a new independent entity jointly created and owned by two or more parent companies. The JV agreement for a firm may comprise a majority JV (where the firm has more than 50 percent equity), a minority JV (less than 50 percent equity), or a 50-50 JV (where two firms have equal equity). An international joint venture (IJV) is a joint venture among companies in different countries. In that case, the firm shares the profits, costs, and risks with a local partner (or a global partner) and benefits from the local partner’s local contacts and markets. (Advantages and disadvantages of IJVs were discussed in Chapter 6). The Starbucks agreement with Tata Global Beverages is an example of a 50-50 equity IJV. “The announcement came a year after the company said it was going to enter the market and nearly two months after the Indian government fumbled an effort to attract more foreign investment in its retailing industry.”¹⁵ Although India is a nation of tea-drinkers, Starbucks decided it was time to look for market growth in such a fast-growing economy. Tata’s motivation is to create a national cafe chain. It earlier had a minority stake in a chain called Barista, but that venture fell apart when the partners were having a lot of disagreements.

Another example of a 50-50 equity IJV is that between France's PSA Peugeot-Citroen Group and Japan's Toyota at Kolin in the Czech Republic. As noted by Fujio Cho, president of Toyota Motors, the world's richest carmaker:

*Each company has brought its own style, culture and way of thinking to this partnership—but our different approaches have benefited our joint venture enormously.*¹⁶

Among the benefits noted by the two companies are that Toyota “gains an insight into the mindset of one of Europe's biggest indigenous carmakers and knowledge of its suppliers and their capabilities.”¹⁷ And Peugeot-Citroen can gain experience from Toyota's lean manufacturing system. The companies acknowledge that the IJV has resulted in faster development and increased production capacity, and that costs are shared without either company renouncing its independence.¹⁸

Equity Strategic Alliances

Abu Dhabi's state-owned Advanced Technology Investment Company, the latest entrant in the \$20bn contract chipmaking industry, is proving it has the capital to back its ambition of making Abu Dhabi a chip industry heavyweight through yesterday's \$1.8bn deal to buy a majority stake in Singapore's Chartered Semiconductor.

FINANCIAL TIMES,
SEPTEMBER 9, 2009.¹⁹

Two or more partners have different relative ownership shares (equity percentages) in the new venture in an equity strategic alliance. Most global manufacturers have equity alliances with suppliers, sub-assemblers, and distributors—forming a network of internal family and financial links. Risk-sharing is often the motive behind equity alliances, as when Daiichi Sankyo, a Japanese pharmaceutical giant, bought a 51 percent equity share in India's Ranbaxy Laboratories in June 2008. The goal for Daiichi was to add value to its research and development expertise, and to use Ranbaxy's low-cost manufacturing base; in turn Ranbaxy would gain access to Japan's markets.²⁰

Sometimes an international, or global, joint venture is part of a desperate strategy. This was the case in January 2009 when Chrysler reached for another lifeline in its equity deal to join forces with Italy's Fiat. The plan was for Fiat to get a 35 percent ownership stake in Chrysler with the goal of bringing its Fiat and Alfa Romeo brands back to the United States through Chrysler's dealership network. In return Chrysler would get the opportunity to stay alive by presenting a strategic partnership as part of its plan to the U.S. government in its quest for an additional \$3 billion loan to allow it to stay in business.²¹ However, further developments led to a change in plans when some creditors did not make concessions, and President Obama announced on April 30, 2009:

*Chrysler, the third-largest American auto company, will seek bankruptcy protection and enter an alliance with the Italian automaker Fiat, the White House announced Thursday.*²²

However, the deal with Fiat would be intact after bankruptcy, with Fiat to take part in running Chrysler, provide technical operations, and build at least one vehicle in a Chrysler plant. Fiat did not put up any financing as part of the agreement. Considerable additional financing from the U.S. government was planned after Chrysler's restructuring, with the Canadian government also offering some financing.²³

Non-Equity Strategic Alliances

Agreements are carried out through contract rather than ownership sharing in a non-equity strategic alliance. Such contracts are often with a firm's suppliers, distributors, or manufacturers, or they may be for purposes of marketing and information sharing, such as with many airline partnerships. UPS, for example, is a global supply-chain manager for many companies around the world, such as Nike, that essentially do not touch their own products but contract with UPS to arrange the entire delivery process from factory to warehouse to customer to repair, even collecting the money.²⁴

Global Strategic Alliances

Working partnerships between companies (often more than two) across national boundaries and increasingly across industries are referred to as global strategic alliances. A glance at the global

airline industry, for example, tells us that global alliances have become a mainstay of competitive strategy. Not one airline is competing alone; each major U.S. carrier has established strategic links with non-U.S. companies. The Star Alliance, for example, has code sharing among 26 member airlines around the world.

Alliances are also sometimes formed between a company and a foreign government, or among companies and governments. In addition, changing regulations and policies by governments and institutions lead to new opportunities for alliances with national industries abroad. As an example, when the Nuclear Suppliers Group, a global consortium that regulates the sale of the items, voted to lift the ban on deals with India, that freed up any country to sign nuclear plant deals there. The company Areva, which is owned mostly by the French government, joined with the state-run Nuclear Power Corporation of India to build at least two and possibly as many as six nuclear power plants in the energy-starved country. Their two-reactor project could be worth about \$10 billion.²⁵

Alliances may comprise full global partnerships, which are often joint ventures in which two or more companies, while retaining their national identities, develop a common, long-term strategy aimed at world leadership. The European Airbus Industrie consortium, for example, comprises France's Aerospatiale and Germany's Daimler-Benz Aerospace, each with 37.9 percent of the business; British Aerospace with 20 percent; and Spain's Construcciones Aeronauticas with 4.2 percent.

Whereas such alliances have a broad agenda, others are formed for a narrow and specific function, such as production, marketing, research and development, or financing. More recently these have included electronic alliances, such as Covisint, which is redefining the entire system of car production and distribution through a common electronic marketplace. Covisint is an e-business exchange developed by Ford, General Motors, Nissan, Renault, and (then) Daimler Chrysler AG to meet the needs of the automotive industry, and is focused on procurement, supply chain, and product development solutions.²⁶

Global and Cross-Border Alliances: Motivations and Benefits

Some of the typical reasons behind cross-border alliances are as follows:

1. ***To avoid import barriers, licensing requirements, and other protectionist legislation:*** Japanese automotive manufacturers, for example, use alliances such as the GM–Toyota venture, or subsidiaries, to produce cars in the United States so as to avoid import quotas.
2. ***To share the costs and risks of the research and development of new products and processes:*** In the semiconductor industry, for example, where each new generation of memory chips is estimated to cost more than \$1 billion to develop, those costs and the rapid technological evolution typically require the resources of more than one (or even two) firms. Intel, for example, has alliances with Samsung and NMB Semiconductor for technology (DRAM) development; Sun Microsystems has partners for its technology (RISC), including N. V. Philips, Fujitsu, and Texas Instruments. Toshiba, Japan's third-largest electronics company, has more than two dozen major joint ventures and strategic alliances around the world, including partners such as Olivetti, Rhone-Poulenc, GEC Alsthom in Europe, LSI Logic in Canada, and Samsung in Korea. Fumio Sato, Toshiba's CEO, recognized long ago that a global strategy for a high-tech electronics company such as his necessitated joint ventures and strategic alliances.
3. ***To gain access to specific markets, such as China and Russia, where regulations favor domestic companies:*** Firms often find that the only way—or, at least, the best way—to enter markets such as China and Russia is through alliances, as discussed elsewhere. In addition, in spite of the severe economic problems in the EU, firms around the world are still investing there and forming strategic alliances with European companies to bolster their chances of competing in the European Union (EU) and to gain access to markets in Eastern European countries as they further develop their businesses. Chun Joo Bum, chief executive of the Daewoo Electronics unit, acknowledged his desire for local partners in Europe for two reasons: (1) to provide sorely needed capital, and (2) to help Daewoo navigate Europe's still disparate markets, saying "I need to localize our management. It is not one market."²⁷

4. *To reduce political risk while making inroads into a new market:*

Carefully orchestrated partnerships with governments and other business groups are crucial to the [Disney] entertainment group's thrust into China and the rest of south-east Asia.

BOB IGER, President and COO, Walt Disney²⁸

Hong Kong Disneyland is jointly owned by the Chinese government, which owns a 57 percent stake. Beijing is especially interested in promoting tourism through the venture and in employment for the 5,000 workers Disney employs directly, as well as the estimated 18,000 workers in related services.²⁹ Maytag Corporation, also determined to stay on the right side of the restrictive Chinese government while gaining market access, formed a joint venture with RSD, the Chinese appliance maker, to manufacture and market washing machines and refrigerators. Maytag also invested large amounts in jointly owned refrigeration products facilities to help RSD get into that market. Coca-Cola—a global player with large-scale alliances—is not beyond using some very small-scale alliances to be “political” in China. The company uses senior citizens in the Chinese Communist Party’s neighborhood committees to sell Coke locally.

5. *To gain rapid entry into a new or consolidating industry and to take advantage of synergies:*

Technology is rapidly providing the means and products—such as the iPad—for the overlapping and merging of traditional industries such as entertainment, computers, and telecommunications in new digital-based systems. Disney’s business model of cellular partnerships and content sales, for example, created Disney mobile operations in Hong Kong, Taiwan, South Korea, Singapore, and the Philippines.³⁰ The company uses joint venture partners such as the Hong Kong government, or licensees and distributors such as Oriental Land and NTT DoCoMo.³¹

In many cases, technological developments are necessitating strategic alliances across industries in order for companies to gain rapid entry into areas in which they have no expertise or manufacturing capabilities. Competition is so fierce that they cannot wait to develop those resources alone. Many of these objectives, such as access to new technology and to new markets, are evident in AT&T’s network of alliances around the world. Agreements with Japan’s NEC, for example, gave AT&T access to new semiconductor and chip-making technologies, helping it learn how to better integrate computers with communications.

Challenges in Implementing Global Alliances

G.E. to Share Jet Technology with China in New Joint Venture

NEW YORK TIMES,
JANUARY 17, 2011³²

Effective global alliances are usually tediously slow in the making but can be among the best mechanisms to implement strategies in global markets. In a highly competitive environment, alliances present a faster and less risky route to globalization. It is extremely complex to fashion such linkages, however, especially where many interconnecting systems are involved, forming intricate networks. Many alliances fail for complex reasons. Many also end up in a takeover in which one partner swallows the other. McKinsey & Company, a consulting firm, surveyed 150 companies that had been in alliances and found that 75 percent of them had been taken over by Japanese partners. Problems with shared ownership, differences in national cultures, the integration of vastly different structures and systems, the distribution of power between the companies involved, and conflicts in their relative locus of decision making and control are but a few of the organizational issues that must be worked out. When the joint venture between France Telecom and Deutsche Telekom was announced in September 2009, Tim Hottges, France Telecom finance director, said that the two sides had already agreed on a “solution mechanism” for potential problems in the United Kingdom. Noting that “This is a sign that even those who embark on such partnerships with optimism recognize that conflict about who is in charge is a constant risk,” the *Financial Times* observed that “joint ventures start with smiles, but often end in tears.”³³

Often, the form of governance chosen for multinational firm alliances greatly influences their success, particularly in technologically intense fields such as pharmaceuticals, computers, and semiconductors. Thus, joint ventures are often the chosen form for such alliances because they provide greater control of proprietary technology as well as providing increased coordination in high-technology industries.

Cross-border partnerships, in particular, often become a “race to learn”—with the faster learner later dominating the alliance and rewriting its terms. In a real sense, an alliance becomes a new form of competition. In fact, according to researcher David Lei,

*Perhaps the single greatest impediment managers face when seeking to learn or renew sources of competitive advantage is to realize that co-operation can represent another form of unintended competition, particularly to shape and apply new skills to future products and businesses.*³⁴

All too often, cross-border allies have difficulty collaborating effectively, especially in competitively sensitive areas; this creates mistrust and secrecy, which then undermine the purpose of the alliance. The difficulty that they are dealing with is the dual nature of strategic alliances—the benefits of cooperation versus the dangers of introducing new competition through sharing their knowledge and technological skills about their mutual product or the manufacturing process. Managers may fear that they will lose the competitive advantage of the firm’s proprietary technology or the specific skills that their personnel possess.

The cumulative learning that a partner attains through the alliance could potentially be applied to other products or even other industries that are beyond the scope of the alliance, and therefore would hold no benefit to the partner holding the original knowledge.³⁵ Some of the trade-offs of the duality of cross-border ventures are shown in Exhibit 7-1 and are illustrated by the 2011 joint venture between General Electric (GE) and Avic, a state-owned Chinese company. The alliance shows the tricky risk-and-reward calculations American corporations must increasingly make in their pursuit of the lucrative markets in China. This is a 50-50 venture with Avic

EXHIBIT 7-1 The Dual Role of Strategic Alliances

Cooperative	Competitive
Economies of scale in tangible assets (e.g., plant and equipment).	Opportunity to learn new intangible skills from partner, often tacit or organization-embedded.
Upstream–downstream division of labor among partners.	Accelerate diffusion of industry standards and new technologies to erect barriers to entry.
Fill out product line with components or end products provided by supplier.	Deny technological and learning initiative to partner via outsourcing and long-term supply arrangements.
Limit investment risk when entering new markets or uncertain technological fields via shared resources.	Encircle existing competitors and preempt the rise of new competitors with alliance partners in “proxy wars” to control market access, distribution, and access to new technologies.
Create a “critical mass” to learn and develop new technologies to protect domestic, strategic industries.	Form clusters of learning among suppliers and related firms to avoid or reduce foreign dependence for critical inputs and skills.
Assist short-term corporate restructurings by lowering exit barriers in mature or declining industries.	Alliances serve as experiential platforms to “demature” and transform existing mature industries via new components, technologies, or skills to enhance the value of future growth options.

Source: David Lei, “Offensive and Defensive Uses of Alliances,” in Heidi Vernon-Wortzel and L. H. Wortzel, *Strategic Management in Global Economy*, 3rd ed. (New York: John Wiley & Sons, 1997), used with permission.

planned for a 50-year duration. Additional risks are that such technology-sharing could advance the Chinese military-aviation status.

But doing business in China often requires Western multinationals like G.E. to share technology and trade secrets that might eventually enable Chinese companies to beat them at their own game—by making the same products cheaper, if not better.³⁶

The enticing benefits of cross-border alliances often mask the many pitfalls involved. In addition to potential loss of a company's technology and knowledge or skills base, other areas of incompatibility often arise, such as conflicting strategic goals and objectives, cultural clashes, and disputes over management and control systems. Sometimes it takes a while for such problems to evidence themselves, particularly if insufficient homework has been done in meetings between the two sides to work out the implementation details. The alliance between KLM Royal Dutch Airlines and Northwest Airlines linking their hubs in Detroit and Amsterdam, for example, resulted in a bitter feud among the top officials of both companies over methods of running an airline business—the European way or the American way—and over cultural differences between the companies, as well as a power struggle at the top over who should call the shots.³⁷

Implementing Alliances Between SMEs and MNCs

All countries have a large proportion of business enterprises, as well as NGOs, that are small or medium-sized enterprises (SMEs). But, increasingly, MNCs are dominating the markets in which SMEs operate, often crowding them out of business altogether. However, astute managers of SMEs can often find opportunities for alliances with those multinationals, providing “complementary resources and capabilities that can lead to, for instance, an innovative product offering being rolled out on a global scale, or a worldwide licensing agreement.”³⁸ For example, MNCs often partner with local small enterprises to capture new ideas and innovations. Sun Microsystems, for instance, engaged with a number of small enterprises in Scotland on RFID projects in order to bolster its competitiveness in this emerging area.³⁹ SMEs should seek out those opportunities to offer MNCs complementary technologies as well as local market networks, as discussed in the nearby Under the Lens feature.



UNDER THE LENS

Dancing with Gorillas: How SMEs Can Internationalize through Relationships with Foreign Multinationals⁴⁰

SHAMEEN PRASHANTHAM

International expansion is no longer the exclusive domain of large multinational corporations (MNCs). Internationalizing small and medium enterprises (SMEs) feature prominently in today's economic landscape especially, but not exclusively, in knowledge-intensive sectors such as software and biotech. How do these SMEs overcome their resource constraints and accelerate their internationalization process? In part, by leveraging their network relationships with other companies—such as key clients or strategic partners.

In this article I focus on one potentially valuable network relationship that is seemingly overlooked by many SMEs: a local relationship with a foreign MNC. That is, a relationship with a local MNC subsidiary (e.g., IBM India). While SMEs often collaborate with other SMEs, they may also forge links with larger firms that can provide them with both resources and opportunities that would ordinarily be beyond their reach. Also, associating with larger firms can provide legitimacy to SMEs, especially for new ventures, where an unproven track record may deprive them of credibility in the marketplace. A relationship with an MNC could potentially help in all these ways. Although possibly advantageous for SMEs, interaction between SMEs and MNCs is unlikely to take place easily or naturally. Indeed, the mismatch between a small firm and a large global player can be so intimidating that one might ask: Why should SMEs bother about forging relationships with local MNC subsidiaries? I once posed this very question to management guru C. K. Prahalad at a conference. His response was: “SMEs cannot [avoid] large companies. If you want a global reach you have to put up with it. . . .

(Continued)

It is not a choice. The question is: How do you learn to dance with the big gorilla?" My research in India and the UK suggests that it is not easy for SMEs to dance with gorillas—but it can be done by adopting the following strategies:

(i) *Forming MNC relationships* Most MNCs wishing to engage with a partner of similar size will take a direct frontal approach to that relationship, perhaps through a dedicated alliance department or through key individuals who have direct counterparts in the prospective partner company. In direct contrast, for an SME seeking to partner with an MNC, the lack of access and attention coupled with the asymmetry in resources means that a direct frontal approach is likely to fail. Instead, the SME would be better off using an indirect means of access. That is, it may be necessary to form a bridge between the two disparate organizations. So, for example, some MNCs such as Microsoft run active partner programs through which SMEs can receive technical and sales support. Additionally, some public policy initiatives provide even greater "hand-holding" for SMEs that may include, for example, legal advice while formulating agreements concerning intellectual property. Such initiatives will of course only make a positive difference if both SMEs and MNCs have access to them. SMEs would do well to identify and leverage these opportunities, where available. In particular, using local allies to forge MNC relationships can help the SME gain commitment from its larger partner. Commitment—in the form of a memorandum of understanding, for example—strengthens the commitment to a joint project from all the parties. Even if pressures from MNC headquarters begin to impede progress, subsidiaries—particularly entrepreneurial ones—are likely to push on with a view to achieving the agreed outcome. Apart from the actual benefits of the collaborative activity, a major motivation for persisting with a joint project when there is a written understanding is to avoid losing face in the local community. As one interviewee suggested, when there is mutual commitment to a collaborative project, an MNC subsidiary is likely to be "shamed into carrying out its end of the bargain."

(ii) *Consolidating MNC relationships* Having formed a relationship with an MNC, an SME must establish its credentials by being clear about, and focusing on, the greatest value that it can add to the relationship. The SME can then proactively leverage the MNC's complementary capabilities. For instance, if the SME's main contribution pertains to specialized technology, then in order to enhance its prospects of internationalization it can draw upon complementary technical expertise from the MNC as well as its marketing base to achieve greater international visibility. Here, the development of a meaningful SME-MNC relationship must be underpinned by the SME's solid innovation base. Integral to the process of consolidating the relationship from there on is the process of building trust incrementally. This calls for investing time and energy in regular interaction with the MNC partner. However, the SME should also be aware of the inherent instability in such relationships. One way to deal with this vulnerability is by "modularizing" knowledge transfer from the MNC partner. This is because when collaborative projects have discrete knowledge transfers, it is possible to achieve partial success even if the project gets shelved at some point down the road. Joint projects can be broken down into specific knowledge transfer milestones. This was certainly the case with one software SME that I studied. Decisions beyond its control led to the termination of a collaborative partnership with an MNC subsidiary after about six months of activity. A modular approach to knowledge transfer, however, meant that this SME ended up with a perfectly functioning prototype using the MNC's hardware platform, which required no further additional technological development going forward.

(iii) *Extending MNC Relationships* Given the asymmetry of resources and differences in long-term objectives, SME-MNC relationships are bound to unfold in an unpredictable pattern. Yet SMEs ideally would want to extend a successful relationship with an MNC. The SMEs most successful at collaborating effectively with MNC subsidiaries over a long period of time were those that built links with individuals who spanned boundaries and who could, in turn, tap into resources and knowledge elsewhere in the MNC network. The virtues of boundary-spanning networking can be seen in cases where the SME's visibility with, for example, Microsoft in Bangalore is extended to the global HQ in Seattle. Another SME that I studied dealt with an MNC technology specialist who was well connected with European and North American subsidiaries, and therefore could obtain useful information from the wider MNC network. Apart from extending the relationship in geographic terms, SMEs should also seek to broaden the value chain activities they undertake jointly with MNCs. One attraction of dealing with MNCs is the prospect of receiving support in both upstream activities, such as R&D, as well as downstream activities, like sales. Joint product development efforts provide an example of an upstream benefit, while joint promotion activities (e.g., being featured on the MNC's global website) illustrate downstream benefits. SMEs would do well to adopt a holistic perspective seeking to derive,

EXHIBIT 7-2 Strategies for Overcoming Asymmetry

Relationship Stage	Forming	Consolidating	Extending
Strategic focus	Partner selection	Strategic renewal (including innovation)	International expansion
Examples of relational strategies	Leveraging allies and network entry- points (e.g., partner programs)	Modularizing knowledge transfer (i.e., discrete milestones)	Cultivating boundary-spanning champions

where feasible, both upstream and downstream benefits, thus achieving economies of scope—getting more bang for their buck—from network relationships with MNC subsidiaries. (These strategies are summarized in Exhibit 7-2).

Given the considerable challenges involved, it is conceivable that some SMEs will wonder whether collaborative SME-MNC relationships are really worth the trouble. Indeed for some SMEs, specifically those that are content to focus on relatively less knowledge-intensive offerings and pick the low-lying fruit, engaging with MNCs may not be truly beneficial. However for those SMEs that do have cutting-edge technologies to offer, spurning the prospect of engaging with MNCs is likely to result in missed opportunities. And, as noted at the outset, there may really be little option for innovative SMEs with global ambitions but to learn to dance with the gorillas.

Source: Dr. Shameen Prashantham is Associate Professor in International Business and Strategy at Nottingham University Business School China. His research focuses on social capital and the internationalization of young firms, particularly in the Bangalore software industry. He has published in *British Journal of Management*, *California Management Review*, *Entrepreneurship Theory & Practice*, *Journal of International Business Studies*, *Journal of Management Studies*, and *Organization Studies*, among other journals. He is also the author of *The Internationalization of Small Firms: A Strategic Entrepreneurship Perspective* (London: Routledge, 2008). Used with the permission of Dr. Shameen Prashantham.

Guidelines for Successful Alliances

As discussed earlier, many global companies, such as IBM, the Tata Group, and Toyota, build extensive alliance portfolios that involve multiple concurrent alliances. Oracle's Partner Network, for example, includes 19,500 partners. Alliance partners can provide synergies and value to corporate performance by providing access to new resources and markets, generating economies of scale and scope, reducing costs, sharing risks, and enhancing flexibility.⁴¹ Unfortunately, the complexities involved in managing many alliances often means that many—around half by most estimates—are unsuccessful, often because of poor partner selections initially, and then also because of poor management to ensure that the expected competencies and synergies are realized. Research by Dovev Lavie of 20,000 alliances involving about 8,800 unique partners provides some insight into how managers can manage their alliances in ways that will increase the likelihood of success. The results enabled the identification of “value-creation and value-capture strategies that can guide partner selection decisions, and developed alliance portfolio management practices to help managers extract more value from their alliance portfolios.”⁴² Value creation strategies include, for example, the importance of assimilating network resources so as to acquire new skills and capabilities. Value capture strategies caution that it is important to “avoid partners that compete in your industry if they enjoy superior bargaining power.”⁴³ One key factor in managing alliance portfolios is to consider not only what each alliance partner will bring to the company, but also how that partner will affect other partners in the portfolio.

It is clear that many difficulties arise in cross-border alliances in melding the national and corporate cultures of the parties, in overcoming language and communication barriers, and in building trust between the parties over how to share proprietary assets and management

processes. Some basic guidelines, as follow, will help to minimize potential problems. However, nothing is as important as having a long “courtship” with a potential partner to establish compatibility strategically and interpersonally and set up a plan with the prospective partner. Even setting up some pilot programs on a short-term basis for some of the planned combined activities can highlight areas that may become problematic.

1. Choose a partner with compatible strategic goals and objectives and with whom the alliance will result in synergies through the combined markets, technologies, and management cadre.
2. Seek alliances where complementary skills, products, and markets will result. If each partner brings distinctive skills and assets to the venture, there will be reduced potential for direct competition in end products and markets. In addition, each partner will begin the alliance in a balanced relationship.⁴⁴
3. Work out with the partner how you will each deal with proprietary technology or competitively sensitive information—what will be shared, and what will not, and how shared technology will be handled. Trust is an essential ingredient of an alliance, particularly in these areas; but this must be backed up by contractual agreements.
4. Recognize that most alliances last only a few years and will probably break up once a partner feels it has incorporated the skills and information it needs to go it alone. With this in mind, managers need to “learn thoroughly and rapidly about a partner technology and management: transfer valuable ideas and practices promptly into one’s own operations.”⁴⁵

Some of the opportunities and complexities in cross-border alliances are illustrated in the following Comparative Management in Focus on joint ventures in the Russian Federation. Such alliances are further complicated by the different history of the two parties’ economic systems and the resulting business practices.



COMPARATIVE MANAGEMENT IN FOCUS

Joint Ventures in the Russian Federation

Russia ranks 67th out of 139 countries covered by the 2012–2013 Global Competitiveness Index.

*World Economic Forum.*⁴⁶

The new deal (a Disney television channel) comes as regulators take a softer look at foreign takeovers, a change evident in the number of recent transactions. Two weeks ago Unilever acquired Kalina, a Russian make-up producer, for euro 500m (\$693m), while last year PepsiCo spent \$5.4bn to acquire Wimm-Bill-Dann.

*www.ft.com, October 27, 2011.*⁴⁷

Judging by the above quotes, it seems that Russia poses a number of contradictions to would-be investors. In 2011, as Disney pushed into Russia with a new Disney television channel, its CEO Bob Iger said “we really believe in Russia as a growth market.”⁴⁸ On the other hand, investors get concerned when they hear about incidents such as the raid on the offices of BP in Moscow in August 2011 (described in the Opening Profile), and the seizure of the Norwegian cell phone company Telenor in 2009—just two in a series of events shaking faith in the Russian market. It’s clear that foreign companies have started to think twice about investing in international joint ventures (IJVs) in Russia since (then) President Putin’s moves to take control of key industries, including banks, newspapers, and oil assets. In May 2008, President Putin signed the Strategic Industries Bill, which regulates foreign investment. The new law identifies 42 strategic sectors (compared to 16 in 2005) in which foreign investors have to seek special permission before investing. Indeed, “since the financial exodus from Russia in the wake of the world credit crisis and Moscow’s heavy-handed military incursion into Georgia, the country’s capacity to tap the tens of billions of dollars in foreign investment it needs to overhaul its creaking infrastructure has been thrown into doubt.”⁴⁹

MAP 7.1 Russia



In spite of those caveats, Russia—the world’s largest country, spanning eleven time zones, clearly offers substantial opportunity for companies willing to go for the risk-return trade-off. However, its significant growth over the last decade has slowed considerably since the global economic downturn, making it less competitive than the other “BRIC” countries, although, at 4.2 percent in 2011, third highest among the leading economies. According to the 2011 World Economic Forum Russia report, the most important single element explaining a country’s medium-term growth performance is productivity; labor productivity in Russia is less than half the value achieved by workers in the OECD member states. The decline in manufacturing competitiveness in Russia “is due to the combination of an increase in real wages and shortcomings of the business climate, which puts Russia at a disadvantage in international comparison.”⁵⁰ Russia ranks 67th out of 139 countries covered by the 2012–2013 Global Competitiveness Index. In addition, there is concern that the long-term business climate will remain for some time as an unbalanced, corruption-ridden, natural resource-based economy because of the persistent lack of formal institutions:

*Russian managers have relied excessively on informal institutions, including personal networks, to conduct business due to the void created by the weak legitimacy of the country’s formal institutions.*⁵¹

All in all, investors are confused, though many are determined to take advantage of a more stable ruble; the vast, underexploited natural resource potential; a skilled, educated population of 145 million; and a huge market. Indeed the abundance of technically skilled Russians has attracted a number of companies such as Intel, Cisco, Sun Microsystems, and Microsoft. Many MNCs claim that they must have a presence in Russia to be globally competitive. But a survey of 158 corporate investors and non-investors in Russia indicated that respondents thought that doing business in Russia was more risky and less profitable than China, India, or Southeast Asia. Their main concerns were corruption and bribe-taking at all levels of the state bureaucracy and weak legislative and enforcement regimes.⁵² Russia was ranked 147th out of 180 countries by Transparency International, based on clean government and business.⁵³ Indeed, Ikea, the Swedish retailer, has found that Russian graft on several levels has so far won out against the company’s efforts to thwart extortion efforts by power companies; even the courts found in favor of the power companies.⁵⁴

(Continued)

In addition to the potential for corruption and the constant uncertainty in the business environment, firms doing business in Russia find that implementing a joint venture is very frustrating and time-consuming due to the all-consuming regulations and bureaucracy there. For these reasons, many foreign firms pick a local partner to help them navigate the myriad of negotiations to obtain permissions, get visas, acquire property, and so on. Other firms hire a security firm (Krisha) which smooths the way through the bureaucracy, often with payments.⁵⁵

Nevertheless, the results of a study commissioned by the Foreign Investment Advisory Council (FIAC) reported in 2010 that “there are many reasons to be positive and optimistic about the prospects for increased Modernization and Innovation (in technology) and higher levels of FDI into the Russian Federation.”⁵⁶ The recommendations are to put Russia on a path to improve its competitive position among other BRIC countries by boosting its internal market demand for high-tech innovation, and through infrastructure development, among other plans.

At the same time, those 50 executives representing large companies around the world who were surveyed by the FIAC expressed concern about political interference in business, arbitrariness in the application of laws, complexity of the tax system, and the lack of skilled staff. They also expressed concern that small companies would have difficulties in registering and start up, thus limiting economic growth.⁵⁷ Nevertheless, investment continues from companies such as Dutch brewer Heineken, and Citibank, which says its business in Russia is growing at an annual rate of 70 percent. Moscow and other major cities are experiencing a consumer boom, spurred on by rising incomes in the middle class, making Russia one of the fastest growing regions for global consumer giants such as Coca-Cola, Procter & Gamble, and Nestlé.⁵⁸ They join those already taking advantage of those opportunities such as Caterpillar, IBM, GE, Ford, Hewlett-Packard, PepsiCo, Eastman Kodak, and AT&T, as well as thousands of smaller IJVs—primarily in software, hotels, and heavy industrial production. Many, like Bell Labs, are involved in research and development, taking advantage of the Russians’ high-level education and technical capabilities. In addition, Russia is promoting its several special economic zones around the country; the government hopes to attract further investment by offering tax concessions, such as exemption from property and land tax for the first five years.⁵⁹

In addition Western managers need to recognize that there are cultural factors affecting cross-border business, in particular that Russians are distrustful of outsiders; managers attempting to develop joint ventures will therefore need to be aware that they will need to spend considerable time communicating and developing a trusting relationship. Reliance on their own networks and the use of favors (*blat*) present obstacles to business relations between Russians and “outsiders.”⁶⁰

Overall, managers of foreign companies planning to set up business in Russia should carefully consider the following:

- Investigate whether a joint venture is the best strategy. If a lot of real estate is needed, it may be better to acquire a Russian business, because of the difficulties involved in acquiring land.
- Set up meetings with the appropriate ministry and regional authorities well in advance. Have good communication about your business needs and build local relationships.
- Be sure to be totally above board in paying all relevant taxes to avoid crossing the Russian authorities.
- Set up stricter controls and accountability systems than usual for the company.
- Communicate clearly up front that your firm does not pay bribes.
- Assign the firm’s best available managers and delegate to them enough authority to act locally.
- Take advantage of local knowledge by hiring appropriate Russian managers for the venture.
- Designate considerable funds for local promotion and advertising so as to establish the corporate image with authorities and consumers.⁶¹

Foreign managers’ alliance strategy must also take into account the goals of potential Russian partners. An awareness and acceptance of the motivations of Russian firms for alliances with foreign companies will aid in finding and achieving a cooperative joint venture.

Researchers for the *Wall Street Journal* reported their findings about what local Russian firms want from an alliance with a foreign firm; they made it clear that they expect assistance with market entry through forming an alliance, and that they need assistance in solving bribes, kickbacks, and other under-the-table transactions.⁶²

IMPLEMENTING STRATEGY

Implementing Strategy McDonald's Style

- *Form paradigm-busting arrangements with suppliers.*
- *Know a country's culture before you hit the beach.*
- *Hire locals whenever possible.*
- *Maximize autonomy.*
- *Tweak the standard menu only slightly from place to place.*
- *Keep pricing low to build market share. Profits will follow when economies of scale kick in.*⁶³

Decisions regarding global alliances and entry strategies must now be put into motion with the next stage of planning: strategic implementation—also known as functional level strategies. Implementation plans are detailed and pervade the entire organization because they entail setting up overall policies, administrative responsibilities, and schedules throughout the organization to enact the selected strategy and to make sure it works. In the case of a merger or IJV, this process requires compromising and blending procedures among two or more companies and is extremely complex. The importance of the implementation phase of the strategic management process cannot be overemphasized. Until they are put into operation, strategic plans remain abstract ideas: verbal or printed proposals that have no effect on the organization.

Successful implementation requires the orchestration of many variables into a cohesive system that complements the desired strategy—that is, a *system of fits* that will facilitate the actual working of the strategic plan. In this way, the structure, systems, and processes of the firm are coordinated and set into motion by a system of management by objectives (MBO), with the primary objective being the fulfillment of strategy. Managers must review the organizational structure and, if necessary, change it to facilitate the administration of the strategy and to coordinate activities in a particular location with headquarters (as discussed further in Chapter 8). In addition to ensuring the strategy-structure fit, managers must allocate resources to make the strategy work, budgeting money, facilities, equipment, people, and other support. Increasingly, that support necessitates a unified technology infrastructure in order to coordinate diverse businesses around the world and to satisfy the need for current and reliable information. An efficient technology infrastructure can provide a strategic advantage in a globally competitive environment. Jack Welch, while CEO of General Electric (he retired in late 2001), was prescient when he referred to his e-commerce initiative, saying, “It will change relationships with suppliers. Within 18 months, all our suppliers will supply us on the Internet, or they won’t do business with us.”⁶⁴

An overarching factor affecting all the other variables necessary for successful implementation is that of leadership; it is people, after all, who make things happen. The firm’s leaders must skillfully guide employees and processes in the desired direction. Managers with different combinations of experience, education, abilities, and personality tend to be more suited to implementing certain strategies. In an equity-sharing alliance, sorting out which top managers in each company will be in which position is a sensitive matter. Who in which company will be CEO is usually worked out as part of the initial deal in alliance agreements. This problem seems to be frequently settled these days by setting up joint CEOs, one from each company. Setting monitoring systems into place to control activities and ensure success completes, but does not end, the strategic management process. Rather, it is a continuous process, using feedback to reevaluate strategy for needed modifications and for updating and recycling plans.

Of particular note here we should consider what is involved in implementing strategies for SMEs and the issues involved in the effective management of the global sourcing strategy. Then we will review what is involved in managing performance in international joint ventures, since they are such a common form of global alliance, and yet they are fraught with implementation challenges.

Implementing Strategies for SMEs

For small businesses venturing abroad, however, the first step is often that of exporting. This can be a daunting task; however, there are many sources available to help the small business managers embark on exporting, as discussed in the nearby feature *Under the Lens: Breaking Down Barriers for Small Business Exports*. Of particular note, China offers substantial opportunities

for exports for SMEs (businesses with fewer than 500 employees), which have accounted for an estimated third of exports to China in recent years. All exports to China were expected to be around \$115 billion for 2011, with agricultural products leading the way, followed by computers and electronics, chemicals, non-electrical machinery, and waste and scrap.⁶⁵ China is the third largest export market for U.S. companies, after Canada and Mexico, and followed by Japan and the United Kingdom.

But there is still room for growth. Though China is the third-largest market for SME exports, only 10.2 percent of American SME exporters shipped goods to China in 2009.

CHINA BUSINESS REVIEW,
2011.⁶⁶



UNDER THE LENS

Breaking Down Barriers for Small Business Exports

Small businesses made up 97 percent of all U.S. companies that exported goods and services abroad in 2009, but they only generated roughly one-third of all export revenue, according to the U.S. Census Bureau. The U.S. government is looking to boost small business exports with the National Export Initiative (NEI)—an initiative started in January 2010 by U.S. President Barack Obama—which aims to double U.S. exports and create millions of jobs in the United States by the end of 2014.

“To double exports we need to increase the number of small business exporters,” said Richard Ginsburg, an international trade specialist with the U.S. Small Business Administration (SBA). Fifty-eight percent of roughly 250,000 U.S. small and medium-sized enterprise (SME) exporters ship to just one market. Ginsburg says one of the key goals of NEI is to help those firms ship to multiple markets.

China has been a growing market for American SMEs—companies with fewer than 500 employees. According to the U.S. International Trade Administration, the number of American SMEs exporting to China increased by 776 percent from 1992 to 2009. But there is still room for growth. Though China is the third-largest market for SME exports, only 10.2 percent of American SME exporters shipped goods to China in 2009.

U.S. EXPORT ASSISTANCE CENTERS

Of the 20 U.S. government agencies involved in export assistance, SBA specifically aims to increase the number of small business exporters through programs delivered through U.S. Export Assistance Centers. Senior SBA trade and finance specialists—along with employees from the U.S. Commercial Service and the U.S. Export-Import (Ex-Im) Bank—staff 20 of more than 100 U.S. Export Assistance Centers in metropolitan areas around the country. The centers help “export-ready” companies begin to export or expand to new markets abroad by providing counseling, training, export insurance, and loans to these businesses; conducting market research; and facilitating contracts between U.S. exporters and foreign buyers.

Ginsburg says small business owners usually approach an Export Assistance Center when they want to make a deal with a foreign buyer or when they receive an order from a foreign buyer and have never exported before. The centers can help companies understand payment terms and conditions, help them handle logistics such as shipping, and refer them to translators. These transactions are often simple when doing business in the United States, but they can be complicated when crossing international borders.

Counseling, outreach, and loan programs help break down what Ginsburg calls the “psychological trade barriers” that prevent small businesses from exporting. “There are people who feel they can lose their business if they export,” Ginsburg says. “The risks are so much more than shipping across town or across the state or across the country.” For example, small business owners sometimes fear that they will not be able to collect payments from overseas buyers.

Companies that want to export face barriers such as language and lack of knowledge of the foreign regulatory environment, and—specifically for businesses exporting to China—fear of intellectual property rights infringement, Ginsburg says.

EXPORT LOANS FOR SMALL BUSINESSES

In addition to counseling and training, SBA guarantees loans of up to \$5 million, while the Ex-Im Bank provides export financing for amounts over \$5 million. “It’s a success story for SBA when we’re

working with a small business exporter and they outgrow the small loan amount and need more than the \$5 million SBA threshold,” Ginsburg says.

SBA runs four loan programs for small business exporters: the Export Express Program, the Export Working Capital Program, International Trade Loan Program, and SBA and Ex-Im Bank Co-Guarantee Program. The Export Express Program, formerly a pilot program, was made permanent in 2010 with the passage of the Small Business Jobs Act of 2010 to support the NEI goal of increasing small business exports. The program aims to streamline the export loan process for small businesses. SMEs that have been operating for at least 12 months can receive up to \$500,000 to finance export activities, such as participating in foreign trade shows, purchasing equipment, and translating product literature. The law also permanently increased loan limits on export working capital and international trade loans.

Companies can obtain more information on export loans from the nearest Export Assistance Center and apply directly for loans through SBA lenders. Visit www.export.gov/eac to contact the nearest center or www.sba.gov/content/us-export-assistance-centers for a list of centers with SBA representatives.

CHRISTINA NELSON

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Source: “U.S. Exports in China Rebound in 2010.” This article first appeared in the July-September 2011 *China Business Review*. Used with the permission of the *China Business Review*.

Implementing a Global Sourcing Strategy

Multinational corporations and their manufacturing partners in emerging markets need to rethink how they manage their relationships with each other in light of the global downturn.

HARVARD BUSINESS REVIEW,
JUL/AUG 2009.⁶⁷

The entry strategy of global sourcing was discussed in Chapter 6. Outsourcing abroad—alliances with firms in other countries to perform specific functions for the firm (offshoring)—is often in the news because of the politically charged issue of domestic jobs apparently being “lost” to others overseas. Beyond finding lower paid workers, however, the strategic view of global sourcing is developing into “transformational outsourcing”—that is, the view that, properly implemented, global sourcing can produce gains in efficiency, productivity, quality, and profitability by fully leveraging talent around the world.⁶⁸ Procter & Gamble, for example, having outsourced everything from IT infrastructure and the functions of Human Resources around the world, announced that CEO Alan G. Lafley wanted 50 percent of all new P&G products to come from other countries.⁶⁹ However, implementing such a strategy is more difficult than it is made to seem in the press, as many companies have encountered unexpected problems when outsourcing. Advice on implementation from experiences by companies such as Dell, IBM, and Reuters Group PLC lead us to the following guidelines:

1. **Examine your reasons for outsourcing:** Make sure that the advantages of efficiency and competitiveness will outweigh the disadvantages from your employees, customers, and community; don’t outsource just because your competitors are doing it.
2. **Evaluate the best outsourcing model:** Opening your own subsidiary in the host country (a “captive” operation) may be better than contracting with an outside firm if it is crucial for you to keep control of proprietary technology and processes.
3. **Gain the cooperation of your management and staff:** Open communication and training is essential to get your domestic managers on board; uncertainty, fear, and disagreement from them can jeopardize your plans.
4. **Consult your alliance partners:** Consult with your partners and treat them with the respect that made you decide to do business with them.
5. **Invest in the alliance:** Plan to invest time and money in training in the firm’s business practices, in particular those to deal with quality control and customer relations.⁷⁰

Further advice comes from Josh Green, CEO of Panjiva, which is an information resource for companies doing business across borders. Green asks “How healthy is your global partner?” as he noted that an increasing number of firms in developed economies were finding that their

suppliers in Asia had gone out of business following the protracted global economic downturn that caused firms to reduce their demand from their suppliers. He notes that both buyers and suppliers have learned the hard way that in future they need to carefully investigate and evaluate their potential partners. He suggests, for example, that both sides should do a background check on the financial health and future viability of the company; get references from other partners of the firm; be prepared to give those assurances and data about their own companies; and be prepared for problems by having alternate partners ready to fill in.⁷¹ The need to be prepared for the unexpected was suddenly brought home on March 11, 2011 when the Japanese earthquake and tsunami struck—a disaster for the Japanese people, and a problem for supply chains of companies around the world (see *Under the Lens: Global Supply Chain Risks—The Japanese Disaster*). The quake and tsunami left nearly 28,000 people dead or missing, thousands homeless, and Japan's northeast coast devastated. Clearly the first responsibility for Japan was to their people, but also this disaster threatened the country economically—not the least because 15 percent of its GDP was in its supply chain business to global firms ranging from semiconductor makers to shipbuilding.⁷²



UNDER THE LENS

*Global Supply Chain Risks—The Japanese Disaster*⁷³

With different component parts for everything from cell phones to cars being sourced from various countries, supply chains have become longer and far more complex to manage than in the past. It is not surprising, then, that companies around the world, from Lenovo to General Motors, had to scramble to find alternate supply sources after the Japanese earthquake and tsunami on March 11, 2011 disrupted supplies. As well as being a disaster for the Japanese people, major problems arose due to the nuclear alert, power shortages, damaged infrastructure, and loss of port access. At Hewlett Packard, for example, Tony Prophet, senior VP for Operations, gathered his team in the wee hours of the morning to brainstorm back-up plans for its \$65 billion a year global supply chain, saying

“It’s like being in an emergency room, doing triage.”⁷⁴

The auto industry in particular was hard hit. Japan exports 2.5 million engines and 8.5 million transmissions annually to assembly plants around the world, and 2,200 separate parts are used in the typical vehicle. Ironically, it was the Japanese automakers with plants in the U.S. and Europe who were the most disrupted, not expecting to be able to get up to full production again for several months. Toyota, for example, which sources about 15 per cent of its parts from Japan for its U.S. plants, was reduced to about 30 percent of its normal production capacity.

General Motors set up its disaster response teams in three “crisis rooms” at its Vehicle Engineering Center in Warren, Michigan. Problems included being able to identify tiers of sub-suppliers and what parts were affected. Shortages led to temporary plant shut-downs. Lack of information due to communication outages was a problem and so GM sent forty employees to Japan to visit suppliers; determine what parts were being held up and the reasons why, such as the supplier’s inability to get the steel they needed to make the parts or to acquire enough electricity to run their factories; and also to offer help.

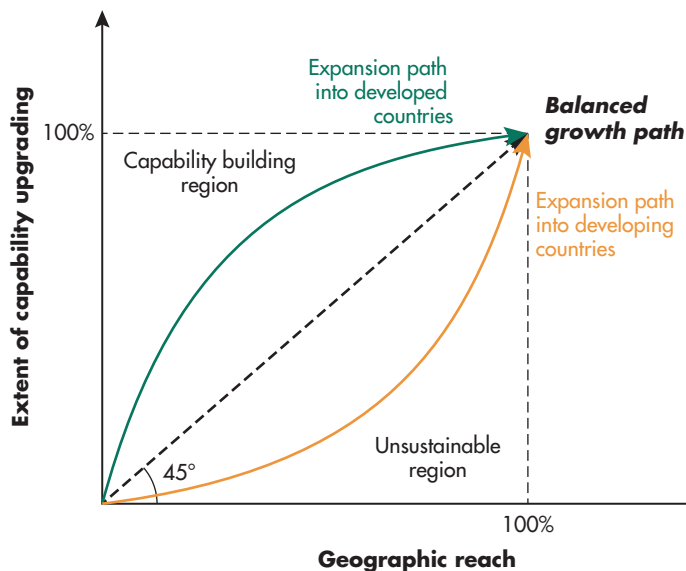
These days, sourcing risk is somewhat reduced because sourcing is done globally, and technological developments have enabled the ability to manage these complex networks through Internet communications, RFID tags, and sensors attached to valued parts. In addition sophisticated software can now be used for tracking and orchestrating the flow of goods worldwide. However, as supply chains become longer—that is suppliers of suppliers of suppliers—control is more difficult and therefore the risk is greater. A further difficulty is the lack of alternative sources for the thousands of tiny specialized parts for those ubiquitous electronics - like connectors, speakers, microphones, batteries and sensors. If any of these parts cannot be sourced, the entire plant may be put on hold. Five parts in the new Apple iPad, for example, come from Japanese suppliers.

Clearly, executives around the world have learned that there are unforeseen risks in implementing a global sourcing strategy—in particular combined with the just-in-time inventory practice. As a result, they realize that they need to have back-up sourcing plans to manage the risk of supply chain disruption.

Implementing Strategies for Emerging Economy Firms

Firms from emerging economies have, out of necessity, expanded globally through different paths and strategies than those traditional paths followed by firms in the developed world. Their motives for expansion into developed countries often include the need to acquire specific resources, such as technological know-how, R&D capability, managerial skills, and global brands so as to make them competitive with established firms. It is interesting to observe how those firms are coping with strategic implementation. Rather than the gradual, staged internationalization process typical of traditional firms from the “developed” world, the emerging firms—of all sizes—are finding that they have to move quickly or skip various stages in order to expand into both developed as well as developing markets.⁷⁵ As a result, firms such as Brazil’s Natura Cosméticos, China’s Lenovo, and Argentina’s Tenaris—now significant global players—have tended to expand globally through acquisitions and alliances and have had to be more flexible organizationally. Mauro F. Guillén and Estaban García-Canal point out from their research that firms from emerging and developing countries “face a significant dilemma when it comes to international expansion because they need to balance the desire for global reach with the need to upgrade their capabilities. They can readily use their home-grown competitive advantages in other emerging or developing countries, but they must also enter more advanced countries in order to expose themselves to sophisticated, cutting-edge demand and develop their capabilities.”⁷⁶ As Guillén and García-Canal demonstrate in Exhibit 7-3, those firms must decide how to balance their geographic expansion with their ability to upgrade their capabilities in the market because they lack the resources and capabilities of established MNEs; they must realize that “prioritizing global reach without improving firm competencies jeopardizes the capability upgrading process.”⁷⁷ (This puts them in the “unsustainable region” in the exhibit). Huei-Ting Tsai and Eisingerich also note “the dual challenge faced by emerging market firms, namely, market creation and/or R&D knowledge creation.”⁷⁸ They note that firms with less technological and selling capabilities tend to enter new markets one at a time. In addition, firms with strong technological capabilities often expand to overseas markets shortly after the firm is established. They found from the firms in their sample that those that were stronger technologically and had more financial resources would compete in the developed markets, whereas those with a lesser stable of competitive resources pursued less-competitive markets during the early stages of their internationalization.

EXHIBIT 7-3 Expansion Paths for Emerging Economy Firms



Source: Based on Mauro F. Guillén and Estaban García-Canal, “The American Model of the Multinational Firm and the ‘New’ Multinationals from Emerging Economies,” *Academy of Management Perspectives*, May, 2009: 23–35.

Challenges in Implementing Strategies in Emerging Markets

Firms expanding into emerging market countries are often unaware of the considerable differences from their home markets and the challenges they face in getting started. Because of their lack of familiarity and preparation for those challenges, “foreign” firms are often surprised that they are not able to compete successfully with local firms. They may be operating under assumptions that firms from more developed countries have better experience, management knowledge, technology, and other resources than those in the target regions. Unfortunately, it is that mindset that may lead foreign firms to enter those new markets without sufficient research and preparation for the differences and difficulties they may face.

The initial challenge is likely to be how to navigate poor infrastructures, supply chains, and distribution networks—problems that local firms know how to navigate through experience and contacts. The same edge is enjoyed by local firms when dealing with the myriad regulations and bureaucracies prevalent in some developing economies.

Expansion into emerging markets also brings personnel challenges, especially at management levels. Here too, often the domestic companies have the advantage of knowing how to source, attract, and train local talent; those employees also tend to prefer to work for local companies that are perceived to be more invested in their future.⁷⁹ On the other hand, those employees often do not have the experience or familiarity with cross-border business compared with the “foreign” firms that may bring in their own talent.

Clearly, firms going into developing markets need to thoroughly explore how to navigate the infrastructure and institutions, evaluate the area for their personnel needs, and make local contacts in order to assess the feasibility of operating there and competing with local firms.

Managing Performance in International Joint Ventures

Much of the world’s international business activity involves international joint ventures (IJVs), in which at least one parent is headquartered outside the venture’s country of operation. IJVs require unique controls. Ignoring these specific control requisites can limit the parent company’s ability to efficiently use its resources, coordinate its activities, and implement its strategy.

The term **IJV control** refers to the processes that management puts in place so as to direct the success of the firm’s goals. Most of a firm’s objectives can be achieved by careful attention to control features at the outset of the joint venture, such as the choice of a partner, the establishment of a strategic fit, and the design of the IJV organization.

The most important single factor determining IJV success or failure is the choice of a partner. Most problems with IJVs involve the local partner, especially in less-developed countries. In spite of this fact, many firms rush the process of partner selection because they are anxious to “get on the bandwagon” in an attractive market. In this process, it is vital to establish whether the partners’ strategic goals are compatible (see Chapter 6). The strategic context and the competitive environment of the proposed IJV and the parent firm will determine the relative importance of the criteria used to select a partner.⁸⁰ IJV performance is also a function of the general fit between the international strategies of the parents, the IJV strategy, and the specific performance goals that the parents adopt.⁸¹ Research has shown that, to facilitate this fit, the partner selection process must determine the specific task-related skills and resources needed from a partner, as well as the relative priority of those needs.⁸² To do this, managers must analyze their own firms and pinpoint any areas of weakness in task-related skills and resources that can be overcome with the help of the IJV partner.

Partnerships with companies in India present both positive and negative examples of IJV performance, although, overall, IJVs there run into considerable problems. Although India still insists on joint ventures in sectors such as telecommunications, agriculture, and insurance, it has lifted restrictions for other industries, allowing wholly-owned operations in them. However, a number of recent IJVs have done poorly, especially for the Indian partner. TVS Motor Company, for example, which is the third-largest motorbike manufacturer in India (a market with around 8 million bikes per year), recently bought out its Japanese partner Suzuki. From Suzuki’s perspective, the only entry strategy available to the company under government regulations at the time was a joint venture. However, after a while TVS complained that it was not able to develop the company’s own capabilities because “Suzuki wanted to keep its technology for itself. It was a frustrating episode.”⁸³ On the other hand, an IJV between Indian engineering group Kirloskar and Japan’s Toyota, for vehicle production, has had more positive results, with

Mr. Kirloskar acknowledging that Toyota has been open in sharing ideas and improving the productivity of his firm.⁸⁴

Organizational design is another major mechanism for factoring in a means of control when an IJV is started. Beamish et al. discuss the important issue of the strategic freedom of an IJV. This refers to the relative amount of decision-making power that a joint venture will have, compared with the parents, in choosing suppliers, product lines, customers, and so on.⁸⁵ It is also crucial to consider beforehand the relative management roles each parent will play in the IJV because such decisions result in varying levels of control for different parties. An IJV is usually easier to manage if one parent plays a dominant role and has more decision-making responsibility than the other in daily operations. Alternatively, it is easier to manage an IJV if the local general manager has considerable management control, keeping both parents out of most of the daily operations.

International joint ventures are like a marriage: the more issues that can be settled before the merger, the less likely it will be to break up. Control over the stability and success of the IJV can be largely built into the initial agreement between the partners. The contract can specify who has what responsibilities and rights in a variety of circumstances, such as the contractual links of the IJV with the parents, the capitalization, and the rights and obligations regarding intellectual property. Of course, we cannot assume equal ownership of the IJV partners; where ownership is unequal, the partners will claim control and staffing choices proportionate to the ownership share. The choice of the IJV general manager, in particular, will influence the relative allocation of control because that person is responsible for running the IJV and for coordinating relationships with each of the parents.⁸⁶

Where ownership is divided among several partners, the parents are more likely to delegate the daily operations of the IJV to the local IJV management—a move that resolves many potential disputes. In addition, the increased autonomy of the IJV tends to reduce many common human resource problems: staffing friction, blocked communication, and blurred organizational culture, to name a few, which all result from the conflicting goals and working practices of the parent companies.⁸⁷ Regardless of the number of parents, one way to avoid such potential problem situations is to provide special training to managers about the unique nature and problems of IJVs. The extent of control exercised over an IJV by its parent companies seems to be primarily determined by the decision-making autonomy that the parents delegate to the IJV management—which is largely dependent on staffing choices for the top IJV positions and thus on how much confidence the partners have in these managers. In addition, if top managers of the IJV are from the headquarters of each party, the compatibility of the managers will depend on how similar their national cultures are. This is because there are many areas of control decisions where agreement will be more likely between those of similar cultural backgrounds.⁸⁸

Knowledge Management in IJVs

*The most effective strategic leadership practices in the 21st century will be ones through which strategic leaders find ways for knowledge to breed still more knowledge.*⁸⁹

Managing the performance of an IJV for the long term, as well as adding value to the parent companies, necessitates managing the knowledge flows within the IJV network. When managed correctly, “alliances serve as a source of new knowledge for the firm.”⁹⁰ Sirmon et al. contend that if firms can access and “absorb” this new knowledge, it can be used to alter existing capabilities or create new ones.⁹¹ Yet, as found by Hitt et al., “cultural differences and institutional deficits can serve as barriers to the transfer of knowledge in alliance partnerships”⁹² Clearly, then, managers need to recognize that it is critical to overcome cultural and system differences in managing knowledge flows to the advantage of the alliance.

Knowledge management, then, is “the conscious and active management of creating, disseminating, evolving, and applying knowledge to strategic ends.”⁹³ Research on eight IJVs by Berdrow and Lane led them to define these processes as follows:

1. **Transfer:** managing the flow of existing knowledge between parents and from the parents to the IJV.
2. **Transformation:** managing the transformation and creation of knowledge within the IJV through its independent activities.
3. **Harvest:** managing the flow of transformed and newly created knowledge from the IJV back to the parents.⁹⁴

In particular, the sharing and development of technology among IJV partners provides the opportunity for knowledge transfer among those individuals who have internalized that information, beyond any tangible assets; the challenge is to develop and harvest that information to benefit the parents through complementary synergies. Those IJVs that were successful in meeting that challenge were found to have personal involvement by the principals of the parent company in shared goals, in the activities and decisions being made, and in encouraging joint learning and coaching.⁹⁵

The many operational activities and issues involved in strategic implementation—such as negotiating, organizing, staffing, leading, communicating, and controlling—are the subjects of other chapters in this book. Elsewhere we include discussion of the many variables involved in strategic implementation that are specific to a particular country or region, such as goals, infrastructure, laws, technology, ways of doing business, people, and culture. In the following sections, the focus is on three pervasive influences on strategy implementation: government policy, societal culture, and the Internet.

Government Influences on Strategic Implementation

Host governments influence, in many areas, the strategic choices and implementations of foreign firms. The family-run Vermeer Company, for example, with its equipment-manufacturing factory in Pella, Iowa, earns about a third of its revenues from exports. However, the company realized its share of the market was falling rapidly due to competition from China, and so it decided to open a plant in Beijing, taking a Chinese partner and drawing help for the venture from the Chinese. The chief executive, Ms. Mary Vermeer Andringa, noted that:

*If we wanted to stay in the Chinese market, we needed to be there. That was the reality.*⁹⁶

The profitability of those firms which set up operations abroad is greatly influenced, for example, by the level of taxation in the host country and by any restrictions on profit repatriation. Other important influences are government policies on ownership by foreign firms, on labor union rules, on hiring and remuneration practices, on patent and copyright protection, and so on. For the most part, however, if the corporation's managers have done their groundwork, all these factors are known beforehand and are part of the location and entry strategy decisions. However, what hurts managers is to set up shop in a host country and then have major economic or governmental policy changes after they have made a considerable investment. Vodafone, for example, the British mobile phone giant, bought an Indian wireless company in 2007 for \$11 billion. However, they soon found the market was full of hazards—including a surprise tax bill of \$2.5 billion, and a corruption scandal over awarding contracts for additional wireless capacity.

In emerging markets “there are new hurdles every day, and they can change the rules of the market as you are playing it,” Marten Pieters, the chief executive of Vodafone’s India business, said.

The lesson from India? “If you don’t have the stomach for that,” Mr. Pieters said, “please don’t come.”

WWW.NYTIMES.COM,
MARCH 27, 2011.⁹⁷

Unpredictable changes in governmental regulations can be a death knell to businesses operating abroad. Recent changes in Russia causing uncertainty for foreign investors were already discussed. Another country that is often the subject of concern for foreign firms is China. Already one of the toughest countries for mergers and acquisitions, China recently added new restrictions on foreign investors, thus prolonging the time that a number of firms have to continue to wait to find out if their deals will go through: “Acquisitions that will require the ministry’s approval include companies with a well-known brand or those that could have an impact on ‘China’s economic security.’”⁹⁸ While China contends it is more committed to a market economy since it joined the World Trade Organization (WTO) in November 2001, history shows that foreign firms need to be cautious about entering China.

Cultural Influences on Strategic Implementation

When managers are responsible for implementing alliances among partners from diverse institutional environments, such as transition- and established-market economies, they are faced with the critical challenge of reconciling conflicting values, practices, and systems. Research by Danis shows how those important differences among Hungarian managers and Western expatriates can affect implementation. When considering key differences in practices, for example, Danis found that the Western expatriates evidenced a team orientation, a consensual management style, and a future planning mentality. This compared with the findings for the Hungarian managers, who showed an individual orientation, an autocratic management style, and a survival mentality.⁹⁹ Such advance knowledge can provide expatriate managers with valuable information to help them in successful local operations.

In other situations, the culture variable is often overlooked when deciding on and implementing entry strategies and alliances, particularly when we perceive the target country to be familiar to us and similar to our own. However, cultural differences can have a subtle and often negative effect. In fact, in a study of 129 U.K. cross-border acquisitions in continental Europe, Schoenberg found that 54 percent of the acquiring firms cited poor performance resulting from the implementation of their acquisitions, compared to their domestic mergers.¹⁰⁰ The researchers' study of those firms revealed six dimensions of national and corporate cultural differences between the management styles of the U.K. firms and the continental European firms:

Cultural Differences in U.K.-European Alliances

- Organizational formality
- The extent of participation in decision making
- Attitude toward risk
- Systemization of decision-making
- Managerial self-reliance
- Attitudes toward funding and gearing (financial leveraging).¹⁰¹

Among these dimensions, risk-orientation was the key factor that impacted the performance of the combined firm, because risk-taking propensity impacts managers' approach toward strategic options. Overall, risk-taking firms are likely to pursue aggressive strategies and deal well with change, whereas risk-averse companies are likely to tread more carefully and employ incremental strategies. Clearly, for companies entering into an IJV, successful implementation will depend largely on careful planning to take account of such differences, in particular that of risk-orientation, to improve organizational compatibility. The greater the cultural distance between the allied firms, the more likely problems will emerge such as conflict regarding the level of innovation and the kinds of investments each firm is willing to pursue.

Since many of Europe's largest MNCs—including Nestlé, Electrolux, Grand Metropolitan, and Rhone-Poulenc—experience increasing proportions of their revenues from their positions in the United States, and employ more than 2.9 million Americans; they have decided to shift the headquarters of some product lines to the United States. As they have done so, however, there is growing evidence that managing in the United States is not as easy as they anticipated it would be because of their perceived familiarity with the culture. Rosenzweig documents some reflections of European managers on their experiences of managing U.S. affiliates. Generally, he has found that European managers appreciate that Americans are pragmatic, open, forthright, and innovative. However, they also say that the tendency of Americans to be informal and individualistic means that their need for independence and autonomy on the job causes problems in their relationship with the head office Europeans. Americans simply do not take well to directives from a foreign-based headquarters.¹⁰² Rosenzweig presents some comments from French managers on their activities in the United States:

French Managers Comment on Their Activities in the United States:

- Americans see themselves as the world's leading country, and it's not easy for them to accept having a European in charge.
- It is difficult for Americans to develop a world perspective. It's hard for them to see that what may optimize the worldwide position may not optimize the U.S. activities.

- The horizon of Americans often goes only as far as the U.S. border. As a result, Americans often don't give equal importance to a foreign customer. If a foreign customer has a special need, the response is sometimes: It works here, why do they need it to be different?
- It might be said that Americans are the least international of all people, because their home market is so big.¹⁰³

Other European firms have had more successful strategic implementation in their U.S. plants by adapting to U.S. culture and management styles. When Mercedes-Benz of Germany launched its plant in Tuscaloosa, Alabama, U.S. workers and German “trainers” had doubts. Lynn Snow, who works on the car-door line of the Alabama plant, was skeptical whether the Germans and the Americans would mesh well. Now, she proudly asserts that they work together, determined to build a quality vehicle. As Jürgen Schrempp, then CEO of Mercedes's parent, Daimler-Benz, observed, “‘Made in Germany’—we have to change that to ‘Made by Mercedes,’ and never mind where they are assembled.”¹⁰⁴

The German trainers recognized that the whole concept of building a Mercedes quality car had to be taught to the U.S. workers in a way that would appeal to them. They abandoned the typically German strict hierarchy and instead designed a plant in which any worker could stop the assembly line to correct manufacturing problems. In addition, taking their cue from Japanese rivals, they formed the workers into teams that met every day with the trainers to problem solve. Out the window went formal offices and uniforms, replaced by casual shirts with personal names on the pocket. To add to the collegiality, get-togethers for a beer after work became common. “The most important thing is to bring together the two cultures,” says Andreas Renschler, who has guided the M-Class since it began in 1993. “You have to generate a kind of ownership of the plant.”¹⁰⁵ The local community has also embraced the mutual goals, often having beer fests and including German-language stations on local cable TV.

The impact of cultural differences in management style and expectations is perhaps most noticeable and important when implementing international joint ventures, mergers, or acquisitions. The complexity of such alliances requires that managers from each party learn to compromise to create a compatible and productive working environment, particularly when operations



MANAGEMENT IN ACTION

Mittal's Marriage to Arcelor Breaks the Marwari Rules

The biggest steel merger in history was consummated in June 2006 during a 20-minute meeting at a hotel near the Brussels Airport after a five-month takeover battle. The combination of India's Mittal Steel and Luxembourg steelmaker Arcelor creates the world's biggest steel company. The Arcelor acquisition brings Mittal's production to over 100 million tons, creating a company with 333,000 employees on four continents.¹⁰⁶

The deal did not come about easily, but Lakshmi Mittal, Mittal Steel's founder and 90 percent owner, skillfully managed opposition on two fronts—strategically and culturally.

Strategically, Mr. Mittal worked hard to overcome overwhelming hostility by Arcelor to his initial proposal. Arcelor had planned a deal with Russian steelmaker Severstal in a bid to block the Mittal acquisition.¹⁰⁷ But after two rejected bids from Mittal Steel, Mr. Mittal reached an agreement to acquire Arcelor in a deal valued at \$33.7 billion. Mittal, his son Aditya, and a team of negotiators gained agreement to a business plan and provided a comparison of their deal to the one from Severstal. Mittal also provided a plan for corporate governance rules to promote Arcelor's business model and a commitment that his family would vote its share to support the board's recommendations.¹⁰⁸ It was clear to Mr. Mittal that the Arcelor executives had an outdated view of Mittal Steel, but he spent a lot of time explaining and showing Arcelor executives how Mittal Steel operates. The Arcelor chairman, Joseph Kinsch, spent some time talking to the members of Mittal family and discussing the potential alliance. Finally a better relationship was acknowledged by both sides and the deal was sealed, with Kinsch saying “I hope it can become a love marriage between our teams.”¹⁰⁹

Apart from the strategic negotiations of the deal, which finally turned from hostile to friendly, there was opposition for other reasons. There was a battle from France, seemingly over a perception of losing control of a company that was already a European multinational, though there was no objection to Arcelor's effort to bring in the Russian company Severstal as a white knight.¹¹⁰ In addition, critics in the French and Luxembourg governments seemed to view the takeover by a family-run company as “a betrayal of old continental European traditions to a new cost-cutting imperative of globalization.”¹¹¹ A similar objection came from India, showing how growth can bring Indians into conflict with cultural

traditions. The objection was that Lakshmi Mittal, Indian-born head of Mittal Steel, was breaking the Marwari rules. Mittal belongs to an ethnic group called Marwari that “traditionally believes it is critical for companies to maintain family ownership.”¹¹² Three of the five major steel companies in India, as well as companies in a number of other industries, are controlled and run by Marwari families. Various family members run the operations of those companies, managing separate factories and strategic deals with other firms. The Marwaris, often India’s most affluent families, whose businesses thrived under the old protective government policies, had considerable business networks among the families, favoring doing business with them over others. As an ethnic group, they developed their own business practices:

*Marwaris started business days with Hindu prayer and ended with an accounting of that day’s cash flow. This practice, called partha, allowed them to respond quickly to market changes. Another, called modi, was a secret language that other Indians couldn’t decipher and was used for trading data and business records.*¹¹³

When Lakshmi Mittal, billionaire steel tycoon—a global strategist based in London running a Dutch-registered company—launched a dramatic bid to take over Mittal Steel’s chief rival, the reaction in India was one of shock. But Mittal said, “We have to put behind our family interest for the interest of the industry and the shareholders at large.”¹¹⁴ In giving up half of his 90 percent share of his company, to hold less than 45 percent of the combined company, he stated that he did not think his cultural traditions should deter the company from growth. In addition, Arcelor-Mittal will be based in Luxembourg, not in London where Mr. Mittal lives. He will share the chairmanship and be able to appoint only one-third of the board’s 18 seats. Mittal recognizes that to be globally competitive, Marwari family businesses will have to change their governance policies.¹¹⁵

are integrated. Sometimes a cross-border alliance deal may in itself contradict cultural traditions, as explained in the nearby Management in Action feature.

In China, too, strategic implementation necessitates an understanding of the pervasive cultural practice of *guanxi* in business dealings. Discussed in previous chapters, *guanxi* refers to the relationship networks that “bind millions of Chinese firms into social and business webs, largely dictating their success.”¹¹⁶ Tapping into this system of reciprocal social obligation is essential to get permits, information, assistance to access material and financial resources, and tax considerations. Nothing gets done without these direct or indirect connections. In fact, a new term has arisen—*guanxihu*—which refers to a bond between specially connected firms that generates preferential treatment for members of the network. Without *guanxi*, even implementing a strategy of withdrawal is difficult. Joint ventures can become hard to dissolve and as bitter as an acrimonious divorce. Problems include the forfeiture of assets and the inability to gain market access through future joint venture partners—all experienced by Audi, Chrysler, and Daimler-Benz. For example:

*Audi’s decision to terminate its joint venture prompted its Chinese partner, First Automobile Works, to expropriate its car design and manufacturing processes. The result was an enormously successful, unauthorized Audi clone, with a Chrysler engine and a First Automobile Works nameplate.*¹¹⁷

E-commerce Impact on Strategy Implementation

*With subsidiaries, suppliers, distributors, manufacturing facilities, carriers, brokers, and customers all over the globe, global trade is complicated and fragmented. Shipments cross borders multiple times a day. Are they compliant with all the latest trade regulations? Are they consistently classified for each country? Can you give your buyers, customers, and service providers the latest information, on demand?*¹¹⁸

As indicated in this quote, global trade is extremely complicated. Deciding on a global strategy is one thing; implementing it through all the necessary parties and intermediaries around the world presents a whole new level of complexity. Because of that complexity, many firms decide to implement their global e-commerce strategy by outsourcing the necessary tasks to **e-commerce enablers**, companies that specialize in providing the technology to organize transactions and follow through with the regulatory requirements. These specialists can help companies sort through the maze of different taxes, duties, language translations, and so on specific to each country. Such services allow small and medium-sized companies to go global without the internal capabilities to

carry out global e-commerce functions. One of these specialist e-commerce enablers is NextLinX, which applies technology to the wide range of services it provides for strategic implementation, allowing all trading partners to collaborate in a single online location, using the same information and processes. These kinds of Web-based services allow a company to manage an entire global trade operation, including automation of imports and exports by screening orders and generating the appropriate documentation, paying customs charges, complying with trade agreements, etc.¹¹⁹

CONCLUSION

Cross-border strategic alliances are becoming increasingly common as innovative companies seek rapid entry into foreign markets and as they try to reduce the risks of going it alone in complex environments. Those companies that do well are those that do their groundwork and pick complementary strategic partners. Too many, however, get “divorced” because “the devil is in the details”—which is what happens when “a marriage made in heaven” runs into unanticipated problems, such as cultural clashes and government restrictions, during actual strategic implementation. Alliances in various forms are particularly important for emerging market firms to be able to expand to developed economies. For SMEs, they too can work to ally with MNCs in the target locations so as to act fast to internationalize.

Summary of Key Points

1. Strategic alliances are partnerships with other companies for specific reasons. Cross-border, or global, strategic alliances are working partnerships between companies (often more than two) across national boundaries, and increasingly across industries.
2. Cross-border alliances are formed for many reasons, including market expansion, cost- and technology-sharing, avoiding protectionist legislation, and taking advantage of synergies.
3. SMEs can overcome their resource constraints and accelerate their internationalization process by leveraging their network relationships with other companies—such as key clients or strategic partners. Strategies include forming MNC relationships, consolidating those relationships with MNCs, and then extending the relationships to other endeavors.
4. Alliances may be short or long term; they may be full global partnerships, or they may be for more narrow and specific functions such as research and development sharing.
5. Alliances often run into trouble in the strategic implementation phase. Problems include loss of technology and knowledge skill-base to the other partner, conflicting strategic goals and objectives, cultural clashes, and disputes over management and control systems.
6. Emerging economy firms are finding that they have to move quickly or skip various stages in order to expand into both developed as well as developing markets. They tend to expand globally through acquisitions and alliances and have had to be more flexible organizationally. Their motives in developing alliances often include the need to access specific resources such as technology or management skills in order to compete globally.
7. Successful alliances require compatible partners with complementary skills, products, and markets. Extensive preparation is necessary to work out how to share management control and technology and to understand each other's culture.
8. Strategic implementation—also called *functional level strategies*—is the process of setting up overall policies, administrative responsibilities, and schedules throughout the organization. Successful implementation results from setting up the structure, systems, and processes of the firm, as well as the functional activities that create a *system of fits* with the desired strategy.
9. Differences in national culture and changes in the political arena or in government regulations often have unanticipated effects on strategic implementation.
10. Strategic implementation of global trade is increasingly being facilitated by *e-commerce enablers*—companies that specialize in providing the software and Internet technology for complying with the specific regulations, taxes, shipping logistics, translations, and so on for each country with which their clients do business.

Discussion Questions

1. Discuss the reasons that companies embark on cross-border strategic alliances. What other motivations may prompt such alliances? What are the driving forces for firms in emerging economies to embark on strategic alliances? How can SMEs expand abroad through relationships with MNCs?
2. Why are there an increasing number of mergers with companies in different industries? Give some examples. What industry do you think will be the next for global consolidation?
3. Discuss the problems inherent in developing a cooperative alliance to enhance competitive advantage, which also incurs the risk of developing a new competitor.

4. What are the common sources of incompatibility in cross-border alliances? What can be done to minimize them?
5. Explain what is necessary for companies to successfully implement a global sourcing strategy.
6. Discuss the political and economic situation in the Russian Federation with your class. What has changed since this writing? What are the implications for foreign companies to start a joint venture there now?
7. What is involved in strategic implementation? What is meant by creating a “*system of fits*” with the strategic plan?
8. Explain how the host government may affect strategic implementation—in an alliance or another form of entry strategy.
9. How might the variable of national culture affect strategic implementation? Use the Mittal Steel example to highlight some of these factors.
10. Discuss the importance of knowledge management in IJVs and what can be done to enhance the effectiveness of that process.

Application Exercise

Research some recent joint ventures with foreign companies situated in Russia or China. How are they doing? Bring your information

to class for discussion. What is the climate for foreign investors in Russia/China at the time of your reading this chapter?

Internet Resources

Visit the Deresky Companion Website at www.pearsonhighered.com/deresky for this chapter's Internet resources.

CASE STUDY

The Nokia-Microsoft Alliance in the Global Smartphone Industry (circa 2011)

The Nokia-Microsoft strategic alliance was announced in early 2011 to cooperate in the development of smartphones. *The Wall Street Journal* wrote: “*Nokia calls Microsoft for help.*”¹ The *Financial Times* observed: “*Elop jumps into the arms of former boss.*”² The alliance was specifically initiated by Stephen Elop, an ex-Microsoft executive who had worked with Steve Ballmer, CEO of Microsoft. No wonder Nokia hired Elop to become its CEO in 2010. This was a calculated move by Nokia to grow in an industry that carried good prospects for the future. In addition, Elop's expertise was in the software sector, where Nokia wanted to venture into the future. Both companies needed a partner to expand in an industry that was in a growth mode. Besides this, Nokia was particularly vulnerable because of its losing market share and because Apple's iPhone was growing in the U.S. and global markets. Microsoft was interested in Nokia because of its long-term interest regarding introducing Windows phone technology/software. Since Nokia continued to be a global player in the cell phone industry, it made sense to create a corporate tie-up that aimed at global expansion for both companies. Success of Apple's iPhone was another factor in seeking a long-term alliance in a market that has grown multifold in the global mobile phone market.

In 2012, Nokia was the largest manufacturer of mobile phones and other telecom gear in the world with revenues of \$55 billion and a market capitalization of \$19 billion. Microsoft, on the other hand, was the largest software maker in the world and generated revenues of \$69 billion. The company carried a healthy market capitalization in 2011 that stood at \$266 billion.³ By being a cash-rich company, Microsoft was able to inject a sizable amount of money in the alliance. As of February 2012, a closer look at the alliance reveals that both companies' plans worked well. Nokia has released a new series of mobile devices, called Lumina, with Microsoft's Windows technology. At the same time, Nokia continues to lose market share in the global mobile industry because of its aging technology (“Symbian”). Google's Android is a clear winner because of high demand, followed by Apple's iPhone. Google has done well since its acquisition of Motorola's Mobility.⁴ Value Line in 2012 wrote: “*Nokia's operating results continue to deteriorate; the transition of the smartphone is under way; over time, Windows Phone will be the software driving Nokia's upscale handsets.*”⁵ Although Nokia was always the market leader in mobile technology, its anemic strategies in the global market indicate that the company is losing steam in the mobile phone industry. The situation is the same with Research in Motion's BlackBerry, which continues to lose market share in global markets. Just a few years ago, BlackBerry was the main player in the global mobile industry with its well know technology and brand name.⁶

Regarding the issues of technology diffusion and changing consumer trends, the smartphone industry has gone through major structural changes that demand large-scale investment, new technologies, and resources. Companies such as Apple and Google that invested billions in the industry with competitive technologies are the main winners. No wonder Apple's market capitalization in early 2012 surpassed \$490 billion. Value Line commented: "*The remarkable growth story at Apple appears far from over; the company maintains a deep talent pool. . . . But we still expect the company to reach further heights as it leverages its hardware and software platforms. . . .*"⁷ The situation is the same with Google, which maintained a market value of \$200 billion during the same period. By 2014, global mobile subscribers are expected to grow beyond nine billion, with the industry's expenditures surpassing \$1.7 trillion. This clearly shows the level of competition and capital investment needed in the industry.⁸ In many regions of the world, there is a strong demand for mobile technologies, where product life cycles are becoming shorter.⁹

The above discussion about the changing mobile phone industry reveals the following issues in global business: (1) Technologies do not remain static and are always on the move because of changing demand and consumer needs; (2) Product life cycles are always short because of competition and new entrants; and (3) To survive in the market, companies need to seek alliances and collaborations regarding sharing technologies and markets.

Regarding the Nokia-Microsoft alliance, the initiative makes sense in global markets because of the companies' organic growth and expansion. Of course competition will be heightened in those segments where new technologies are being introduced by Google and Apple. At the same time, Nokia maintains a good competitive advantage in Asia and Latin America because of its established operations and clientele. The company has been exceptionally efficient regarding introducing those technologies and product lines that are competitive and adaptable. Nokia also carries an advantage in global markets because of its first-mover advantage in the mobile phone industry and its stable networks. Of course, markets are changing in favor of firms such as Apple and Google that aim at introducing new technologies and know how to compete efficiently and effectively.

Case Questions

1. Do a SWOT analysis of the Nokia-Microsoft strategic alliance in the global mobile phone industry.
2. Compare and contrast Nokia and Microsoft regarding their global operations and competitive advantages.
3. Within today's changing global software and mobile phone industries, evaluate and assess Nokia's and Microsoft's product lines and market shares.
4. What did you learn from the Nokia-Microsoft case when applying the main theories and topics from this chapter?

Source:

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