

Strategic alliances to gain global integration



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Introduction

Multinational companies (MNCs) are defined as a firms with strong tangible and intangible assets, thus the capability to expand their business worldwide, with global diffusion as an important resource for competitive advantage (Bartlett and Ghoshal, 1998). In the stage of going global, most companies have to deal with the pressures of both global integration and/or local responsiveness, and some choose to form a strategic alliance with a partner to achieve global integration and/or local responsiveness more easily.

Global integration and Local responsiveness

Global Integration

Global integration pressures are the forces that make MNCs exploit worldwide resources and integrate their activities on a global basis to realize economies of scale and achieve cost reduction. Bartlett and Ghoshal (1998) summarize that the motivation of Global Integration is the need of efficiency. More specifically, the developments of advanced technologies allow companies to expand manufacture globally and achieve economies of scale, resulting in the more standardized products. Moreover, the tastes of consumers have become homogeneous worldwide. Besides, MNCs tend to have “ global chess” strategy, using the profit generated in one market to fund operations in another.

Local Responsiveness

In contrast, local responsiveness requires MNCs to make strategic decisions based on local context (Roth and Morrison, 1990). According to Bartlett and Ghoshal (1998) the drivers for local responsiveness are (i) the differences in consumer tastes in different countries; (ii) the typical characteristics of the product system in host countries; (iii) the administrative costs of coordinating manufacture on a global basis; (iv) the improvements in technologies enable companies to disperse manufacture to smaller local plants with low cost; (v) the trade and legislative barriers set by local Governments. Similarly, Hill (2001) discusses that the main pressures for local responsiveness are the differences in consumer tastes and preferences; differences in infrastructure and traditional practices; in distribution channels; and host government demands. Such pressures for local responsiveness urge multinational firms to adjust their products and services to better meet the demand of indigenous people.

The Integration - Responsiveness Framework

The I-R framework, which is initially rationalized by Lawrence and Lorsch (1967) and later developed by Doz (1980), provides an insight into how MNCs compete internationally (Johnson and Julius, 1995). Bartlett and Ghoshal (1998), Spender and Grevesen (1999) mention the I-R framework to explain different ways MNCs respond to global integration and local responsiveness based on their strategy. As in Figure 1 below, MNCs pursuing a global strategy often emphasize on global integration and coordination. In contrast, multidomestic companies (called as multinational companies in Bartlett and Ghoshal model), with most pressures coming from customizing operation towards local context, focus on local responsiveness. International

companies have an emphasis in knowledge transfer, because most of value they create is from transferring valuable resources to foreign markets. For transnational companies, facing equal pressures from both integration and responsiveness, they adopt a multifocal strategy aiming to achieve both cost efficiency and responsiveness. However the study of Bartlett and Ghoshal (1998) was restrained at internal organizational issues.

Figure 1: How MNCs respond to Global integration, Local responsiveness and Worldwide learning based on their strategy (Bartlett and Goshal, 1998)

Strategic Alliances

There have been several researches on strategic alliances. Holmberg and Cummings (2009) contend that strategic alliances are becoming more and more important to every company in its strategic effort to maintain competitive advantages in the global marketplace. Strategic alliances are links between two or more companies to mutually carry out a specific project by coordinating necessary resources while still preserving their autonomy (Dussauge and Garette, 1999). Wheelen and Hunger (2000, p. 125) define a strategic alliance as a partnership between two or more companies to achieve strategically important targets that are mutually beneficial.

According to Elmuti and Kathawala (2001), there are four main motivations for forming strategic alliances: (i) the growth strategies of parent companies to enter to a new market; (ii) the procurement of new technology or best quality or cheapest cost; (iii) the mitigation of financial risks; and (iv) the maintenance of competitive advantage for enterprises. Nowadays in a

dynamic global environment, the role of strategic alliances is even more critical to the performance of a multinational company.

Robson and Dunk (1999) have generalized the three main stages to develop an alliance including: Partner selection, Venture design and Venture management. The three key stages defined are similar to those by Hill (2001).

Some typical features of strategic alliances are that their operations are subject to multiple decision making, continuous bargaining and conflicts of interests (Dussauge and Garette, 1999). Therefore it is not easy to successfully manage an alliance. Bleeke and Ernst (1993) find that among 49 alliances in their research, about 67% confront troubles within the first two years. Holmberg and Cummings (2009) give examples of failed strategic alliances, mostly due to lack of rigorousness in partner selection process. It is important to know if the way alliances can create value for the firm is appropriate to the parent firms' strategy. So the first thing MNCs' managers should consider from partner selection stage is to identify and verify that the way strategic alliances help to expand business is in line with the overall international operation strategy of parent firms.

In this paper, the ways strategic alliances help multinational companies to achieve global integration and/or local responsiveness will be examined to assess their importance to the partner companies in relation to the partner companies' strategy.

Evaluating the ways strategic alliances allow multinational companies to achieve Global integration and Local responsiveness.

There have been approaches to classify the ways that a strategic alliance cooperates to expand the business of parent companies. For example, Todeva and Knoke (2005) have listed 18 typical ways that strategic alliances can support multinational companies. This paper will approach the classification of Dussauge and Bernard (1999) because the systematized typology helps to provide a more comprehensive understanding on how strategic alliances allow MNCs to achieve integration and responsiveness.

Alliances between non-competing companies

International expansion joint ventures

International expansion joint ventures (JVs) are established with a foreign partner aiming to penetrate into a new geographic market. One partner (the MNC) often seeks for market penetration, while the other (the local partner) has wide knowledge on local market thus can provide more easy market access. For example, in 1998, Yamaha Motor, the premier Japanese motorcycle manufacturer, together with Vietnam Forest Corporation, a state-owned corporation in forestry and Hong Leong Industries from Malaysia established a joint venture named Yamaha Motor Vietnam Ltd., providing motor cycles in Vietnam market (Yamaha Motor). The state-owned corporation has understanding about the market as well as necessary relations to the authority, combined with the expertise in manufacturing of Yamaha Motor, created a viable basis for the JV to thrive in Vietnam.

This model is beneficial for both local government and the foreign MNC. For local government, equity sharing in JVs makes the MNCs more responsible and interested in the success of the JV. For the MNC, the local partner may provide the privilege access and political connections supporting effective market penetration. However this type of JV may result in the conflicts of benefits between the MNC and local partner. In many cases the JV is only one part of the total network of the MNC, so the MNC may have detrimental decision to the JV's performance.

International expansion JV is rarely the first choice of MNCs' managers since they prefer wholly owned subsidiary. However it is still common practice for MNCs when shifting business beyond borders (Dussauge and Bernard, 1999). International expansion JVs are common for MNCs facing great local responsiveness pressure (i. e. multidomestic and transnational companies), because it seeks solutions to overcome the legislative barrier and complexities of local market. In other words, it helps the MNCs to tailor their operation to fit local context.

Vertical partnerships

Vertical partnerships bring about cooperation opportunities for two companies at different successive stages of the production process.

Normally, one partner may become a supplier or customer of the other. For example, Heinz, a global US food company is the supplier of many food products for ASDA in UK. That enables ASDA to fully deploy the resources of Heinz.

However there are also shortcomings in this model. Since there is no bidding process, the opportunities to find the most cost-effective supplier are limited. As a result, the buyer tends to become dependent on the supplier. Although this model delivers mutual understanding, there are still potential conflicts of benefits (Dussauge and Bernard, 1999).

Vertical partnerships relate to a strategic issue that MNC managers often deal with to increase efficiency: make or buy, or cooperate decision. MNCs choose to outsource when the cost to produce by their own is higher than the cost to outsource to a strategic partner. Consequently vertical partnerships are often exploited by MNCs facing high pressures from cost reduction (global and transnational companies). That model may help the MNC to maximize economies of scale and achieve global integration.

Cross-industry agreements

Cross-industry agreements are cooperation between two companies in different industries with a view to create a brand new business to diversify their operation, by taking advantage of the partner's resources. For example, in 2001, Sony Corporation - a Japanese electric equipment producer, and Telefonaktiebolaget LM Ericsson - a provider of telecommunication equipment and services from Sweden established a 50: 50 joint venture, Sony Ericsson. The JV has become a world-class mobile-phone manufacturer (Sony Ericsson).

Nonetheless the drawback of cross-industry agreements is that they often post small profit margin, because most of the cases, the level of convergence of the two initial businesses is more moderate than expected.

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Besides, this model requires a high level of compatibility of the resources contributed by the two parties; and the new business developed must have a clear marketing strategy to become successful. Lastly, successful alliances can impose threats of new competitors if one ally obtains key skills/resources of the other (Dussauge and Bernard, 1999).

Based on above characteristics, it can be inferred that cross-industry agreements support MNC to achieve global integration while looking for combining abroad complementary resources to reduce cost of the new business. It is also discussed that cross-industry agreements help to achieve local responsiveness, in case a MNC cooperates with a local company to introduce a brand new products to that specific local market.

Alliances between competitors

Shared-supply alliances

Shared-supply alliances are the form of JV cooperation between competitors sharing similar resources to produce a certain product that is specific to each partner. Shared-supply alliances allow the partners to realize economies of scale, since they will not be able to reach an efficient scale if they produce individually. For example, BMW teamed up with Mercedes to produce a design of a front-wheel-drive-car. The new shared platform allowed BMW to expand the Mini range model more flexibly, while providing Mercedes more conventional and cost-effective measures to launch a substitution for the A- and B-class designs (Autocar, 2007).

It is argued that shared-supply alliance is not the only choice for MNC managers, because the target of cost reduction can be solved by traditional

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method of outsourcing. Firms should only opt for shared-supply alliances once they have other strategic targets other than cost reduction. Moreover, cooperating with competitors to produce similar components may lead undifferentiated products and losing competitive advantage. Besides, the budget for shared-supply alliances may limit other budgets for necessary activities in the MNCs thus hinder further improvements (Dussauge and Bernard, 1999).

Shared-supply alliances can be suitable for MNCs suffering from cost pressure (global and transnational companies). However MNCs should consider carefully before establishing shared-supply alliances because of the potential conflicts. MNCs should consider other strategic benefits other than sole cost efficiency, e. g. exploiting the partner's manufacturing experience in local countries. Consequently this model, in case prudently chosen after considering all pros and cons, may be a good choice for transnational companies who have to balance integration and responsiveness.

Quasi-concentration alliances

This type of alliance allows two competitors to manufacture and market a common product. The partners' objective is to realize economies of scale on the product, while their autonomy is still preserved, since the risk of acquisition is avoided. Quasi-concentration alliance is most common in airline industry, e. g. the cooperation between Sud-Aviation in France and British Aircraft Corporation in the UK to form Concorde in 1962 (Heritage Concorde).

The advantage of this model is that the partners will not have to compete against each other on that common product. However, Quasi-concentration model may result in the competition between the common product and partner companies' products. Additionally, the model may cause the risks of leaking the core technologies to the competitors. Lastly, in case the partners decide to establish a JV to coordinate all the functions of the alliance, there is a risk of losing control over the JV and converting the parent companies in to mere shareholders (Dussauge and Bernard, 1999). Quasi-concentration alliances, with its initial objective of cost reduction, are appropriate for achieving global integration, hence global and/or multinational companies.

Complementary alliances

In this case the alliance allows partner companies to contribute different assets and resources to executing the cooperative project. For example a firm distributes a rival's product in domestic market. FPT, one of the largest information technology companies in Vietnam went into partnership with Dell to distribute Dell's computers and other products in Vietnam market (FPT, 2008). FPT looks for Dell's expertise in computer production, while Dell needs FPT's knowledge on local market and distribution network.

The advantage of the model is that complementary alliances avoid direct competition between rivals. The alliance also brings about the opportunity to acquire new skills from the partner. However the potential competition between allies does not totally disappear (Dussauge and Bernard, 1999).

Complementary alliances may help the partner to achieve local responsiveness because normally the local partner provides the knowledge

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on how to market the product in local marketplace. However in highly competitive industries, such alliances enable the MNC to focus in its core profession, rather than setting budget for establishing a local distribution network. From that perspective, complementary alliances are also good for global integration.

Implications for MNCs

For MNCs pursuing a global strategy, the partners in the alliance tend to be highly integrated to the network and operation of the MNCs. The partners are meant to conduct the chosen global strategy of the MNCs (Vapola et al., 2010). From the analysis above it can be inferred that global companies may deploy vertical partnership and quasi-concentration alliances.

Multidomestic companies often prefer to have diversified partners, of which each of them is best suited to a particular function in a specific location. In an effort to customize their products towards local demands, multidomestic companies often differentiate their operations in each footprint countries by selecting the most compatible model and partner to form alliance in that nation. Therefore international expansion JVs and complementary alliances are most suitable models for a multidomestic partner.

For transnational companies, the alliances are diversified with differentiated contributions, from sensing and exploiting opportunities from local level, to occupying certain roles in the exploitation of the value chain. Each of these partners may possess different partnership needs. So MNC should utilize different types of alliances simultaneously after considering all advantages and disadvantages (Vapola et al., 2010).

In the case of international companies, the key issue is knowledge transfer with partners. The MNCs will success if they can transfer their key competencies and knowledge to foreign markets, especially tacit knowledge which is more difficult to codify and transfer than explicit knowledge. On the other hand, this may lead to a conflict with the need for confidentiality of information. Therefore based on their detailed strategy, international companies can consider any suitable type of alliance, but should be extremely prudent with cross-industry agreements and quasi-concentration alliance, since those types of alliances may lead to serious conflicts in knowledge transfer.

Another content common to all types of alliances, is the control problem. Control is a critical issue especially in groups of alliances between competitors, since these groups of partner are more sensitive to conflict. In order to successfully manage an alliance, MNCs should focus on control, combining effectively all level of control from personal centralised control, bureaucratic formalised control, output control, to control by socialisation. Those measures are to assure the alliance operates in line with the MNC's original strategy. The cost of control may be high especially for transnational companies who have to deal with all kinds of alliances to achieve both integration and responsiveness. So transnational companies should be prudent in applying control policy with alliance, to avoid the risk that an increase in cost of control could erode profit.

Conclusion

There is a trend that MNCs are facing increasing pressures from both global integration and local responsiveness equally. No MNC pursuing pure

integration or pure responsiveness strategy can become totally successful in the global arena. As a result, achieving the balance between global efficiency and local responsiveness has become an essential issue with most MNCs (Paik and Sohn, 2004), (Girod et al., 2010). Bartlett and Ghoshal (1998) assert that companies must become more globally competitive and, at the same time, more sensitive and responsive to national conditions. MNCs should flexibly choose the way to cooperate with strategic alliance on a case-by-case basis to achieve their specific target for a specific market.

From the analysis above we can see that each way of cooperation in alliance has its own advantages and disadvantages. There is neither best model of strategic alliance nor idealistic coordination that leads to optimal performance for all MNCs. Each MNC, based on its own strategy, needs to consider all pros and cons of possible types of strategic alliance before making alliance decision, in order to achieve global integration and/or local responsiveness hence their business plan and strategy. In other words, “companies should be clear about why they are entering the alliance and what they expect to gain from it. They also need to understand how it fits into their business plan.” (Elmuti and Kathawala, 2001).

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PART 2: REFLECTION

Word count: 1, 431 words

Description

The International Business Strategy module is contained in the MSc Accounting (Financial services) course which I am attending. The module provides an insight into the strategies of multinational companies (MNC) i. e. international strategy, global strategy, multidomestic strategy and transnational strategy. Based on that basic knowledge, implications for organizational structure, control, knowledge transfer, modes of entry, strategic alliances and internationalization of SMEs are introduced.

General evaluation

The module has provided me knowledge that is both old and new to me. From undergraduate program in my home country I have studied about globalization, key drivers and how globalization affects international trade. However in this module I found more insights into how globalization affects the formation and development of multinational companies. The theories are really necessary and helpful to understand the real business world, and the way multinational companies are actually formed, structured, managed and developed. The knowledge on globalization and MNCs are systematized and in line with current academic and empirical understanding about international business. However, I believe the knowledge would be absorbed more quickly if more methods of studying are combined, for example group presentations or debates.

Analysis

I chose to write my assignment with topic 1: Evaluate the ways strategic alliances allow multinational company to achieve global integration and local responsiveness, since I realize this is the increasing trend in international cooperation. I have found a lot of academic literature on the field that I chose. There are a lot of useful information about strategies, Integration - Responsiveness framework and strategic alliances. Among those academic literatures, I found the book by Hill (2001) International business - Competing on the global marketplace very useful for understanding about the strategy typology of multinational companies. Although prior to Hill (2001) there have been several relevant researches on multinational companies' strategy typology, the book still provides comprehensive and

detailed description about the four type of strategies adopted by multinational companies, the stages to establish a strategic alliance, and the pros and cons of each strategy.

I continued to read about Integration - Responsiveness Framework and found the work of Roth and Morrison (1990) helpful to understand about the key concepts of I - R Framework, the relationships with strategies and limitations of I - R framework. The illustrations and explanation of Bartlett and Ghosal (1998) are also fundamental to explain the relationships between I -R Framework and strategies. Although I did not use all the information I read for my assignments due to irrelevance, those are what I am going to bear in mind about the I - R Framework in the time to come.

For strategic alliances, the book by Dussauge and Garrette (1999) is very useful for the typology of strategic alliances and the advantages/disadvantages of each type of alliance. I made much reference to that book in my assignments due to the systematized typology of alliance and the in-depth analysis the book provides. Besides, the journal of Vapola et al. (2010) gives a systematic approach to analyze portfolio management of strategic alliances based on multinational companies' strategy, which I find very useful and made citations in my work.

Besides, I also study about other significant issues relating to multinational companies i. e. the structure of international business, control, knowledge transfer, modes of entry and the internationalization of SMEs. I did read a number of books and journals and managed to link relevant contents together. I have also made some inference to other fields of multinational

companies like control and knowledge transfer, to have a more objective and broad view of the role of strategic alliances. However I think the links to control and knowledge transfer are not salient in this assignment, because of time and length constraint and especially the fear of deviating from the main topic.

Conclusion

Theories about I - R Framework and its relation to the four strategies of multinational companies are very pragmatic and useful to understand the actual pressures faced by most multinational companies in the global marketplace. Those theories also provide a rationale of how multinational companies respond to global integration and local responsiveness, which helps me to perceive the business world in a more practical and systematic way.

Theories about strategic alliances allow me to understand the most common ways that strategic alliances support the partners to achieve their strategic targets. There are 6 typical ways namely international expansion joint ventures, vertical partnerships, cross - industry agreements, shared - supply alliances, quasi - concentration alliances and complementary alliances. I also understand the pros and cons of each type of alliances. I am now able to explain why a multinational company choose to cooperate with non-competitors or competitors, based on their strategy and nature of business. Implications for other concepts i. e. control and knowledge transfer are also inferred in the assignment, therefore a more objective view of MNC operation and its strategic alliances is provided.

What has been drawn out from the assignment is that each multinational company, before deciding to cooperate in a strategic alliance, should consider all possible proposals, as well as the strengths and weaknesses of each proposal to judge if the type of alliance helps them achieve global integration and/or local responsiveness in the most effective way.

From my perspective, I realize some kinds of strategic alliances are extremely common between developed and developing countries e. g. international expansion joint ventures or complementary alliances. Such knowledge may be useful when I come back to Vietnam and continue my job at an investment bank facilitating international trade and investments. It will be easier for me to fully understand the nature of transactions of MNC customers. I may work out the best solution to serve financial needs for MNC customers. For example, for some important MNC customers, I may propose to apply a more flexible cut-off time for their transactions, because their transactions are, by nature, often between nations in different time zones. Moreover, I may propose to apply a more competitive pricing for transactions between multinational companies and their alliances and/or subsidiaries. The reason is that when two partners contribute resources to a certain alliance project, the transactions for material purchasing, infrastructure costs, personnel mobilization... tend to be frequent and of large amount, at least in the short term, which can deliver relatively high non-interest income for the bank. Besides, the business consultant services for institutional customers could be improved when the bank understand the needs of a MNC customer coming into a new developing market and seeking for a potential partner to set up a strategic alliance.

The most important learning technique I studied is how to link together different fields of knowledge, in the case of th