# **Hubbard, N.** (2013). Chapter 5: *Nonequity Modes of Investment* (pp.59-71)

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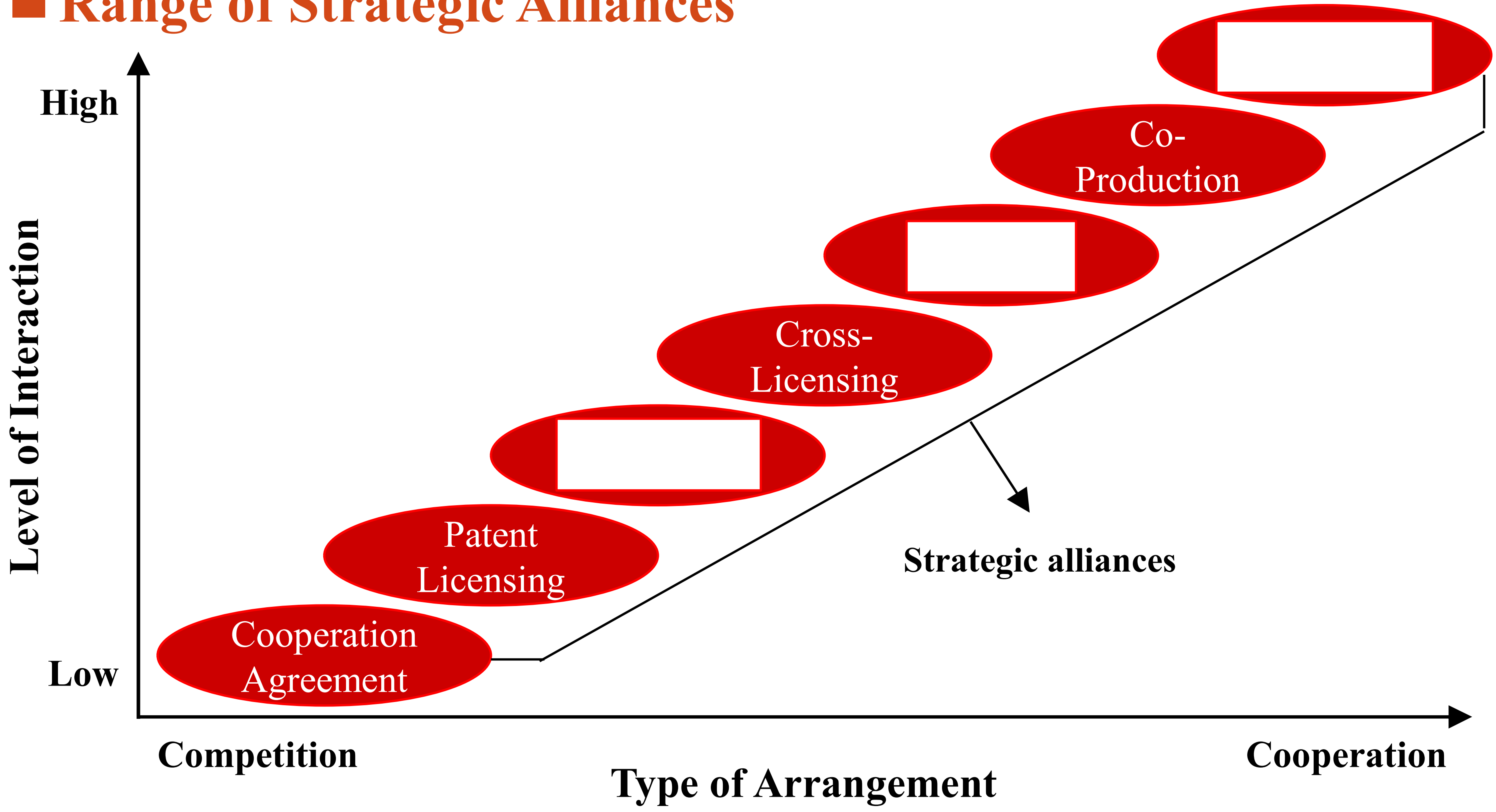
# General Strategic Alliance Research

## ■ Opening Question

**What are strategic alliances?**

# General Strategic Alliance Research

## Range of Strategic Alliances



**Source:** Johanson & Vahlne (1977).

# General Strategic Alliance Research

## ■ Why Companies Enter Collaborative Strategic Alliances?

**Country's Economic Status**

| | Low | High |
|---|---|---|
| **Developed** | ☐ Access to established brands.<br>☐ Access to technology.<br>☐ **Access & learn about the local market**. | ☐ Share costs (*e.g.*, R&D).<br>☐ **Enter restricted market**.<br>☐ Gain access to market with reduced risk exposure. |
| **Emerging** | ☐ Lower-cost manufacturing center.<br>☐ **Market access**.<br>☐ "Replace" internally lacking resources. | ☐ Government requirement.<br>☐ **Access to domestic market**.<br>☐ Access to cheap manufacturing.<br>☐ Reduce uncertainty. |

**Stage of Globalizer's Development**

**Source:** Hubbard (2013: 60).

# General Strategic Alliance Research

## Types of Nonequity Investments

### Top-Line Growth Alliances

- To increase sales by **entering a previously untapped market & with the assistance of another organization**.
- A commonly used vehicle is the **co-marketing alliance**.

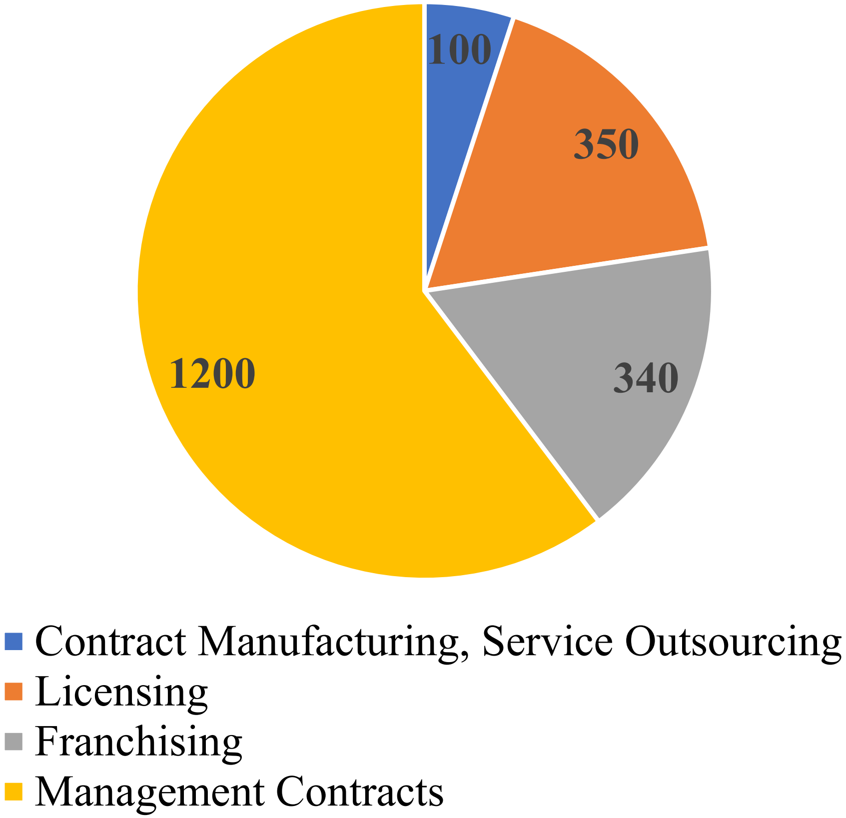
- An organization seeks a strategic partner from whom they **can source lower-cost manufacturing product** to focus on their supplier chain.
- **Nike:** The lack of its control over working conditions at some locations.

### Outsourcing of Non-Essential Business Activities

- Outsourcing occurs when one organization has another firm perform its **non-critical business activities**, including **payroll**, **call centers**, & **logistics**.
- **Outsourcing** vs. **offshoring** (*i.e.*, Business activities are performed overseas.)

# General Strategic Alliance Research

## ■ Estimated Non-Equity Modes of Investment (Sales in US$ Billion)



**Source:** Hubbard (2013: 60); **original source:** UNCTAD (2011).

# General Strategic Alliance Research

## Management Contracts

- Foreign management contracts are used primarily when **the foreign company** can **manage better** than the owners.
- Contracts usually cover **3-5 years**, & **fixed fees**.
- The British Airport Authority (BAA) has contracts to manage **airports** in Indianapolis (US), Naples (ITA), & Melbourne (AUS).

- … are most commonly performed by **industrial-equipment, construction,** & **consulting companies**.
- … are often performed **for a governmental agency**.

**【Example 1】** Bechtel (U.S.) built a semiconductor plant for Motorola in China & a pipeline for BP in Algeria.

**【Example 2】** China State Engineering & Shanghai Construction Group have worked on a subway in Iran, railway line in Nigeria etc.

# General Strategic Alliance Research

## ■ Cost-Reducing Nonequity Alliances

### ❖Benefits of Using Emerging MNCs

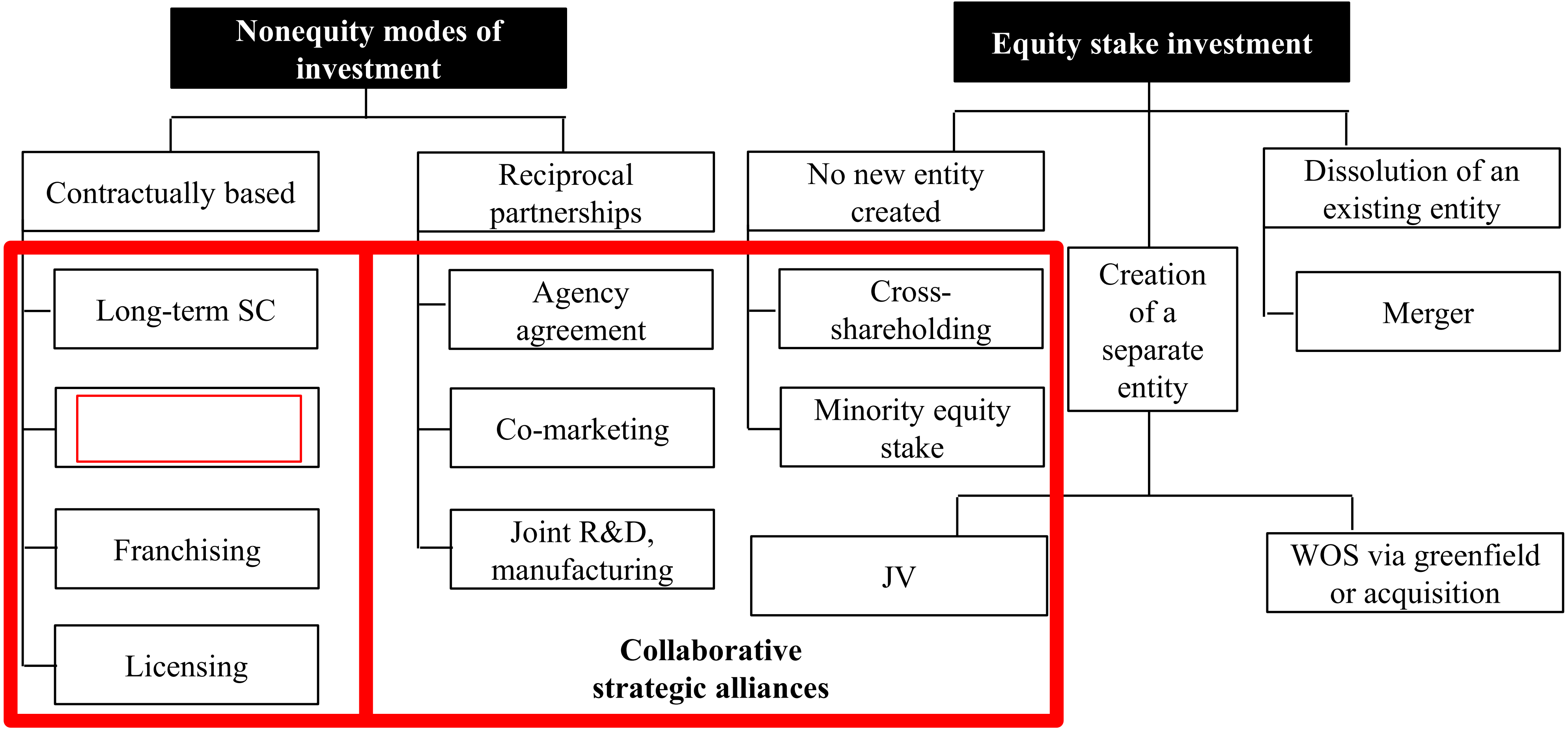
- **A significantly lower degree of risk** in terms of legal liability, market & political risk when selecting emerging world partners (Doh & Stumpf, 2005).
- **Lower up-front & working capital costs** as they are usually generated by the emerging world partner (Peng, 2000).
- The great benefit of an emerging world partner relationship is the **flexibility** the relationship provides the globalizer in terms of the **ability to terminate** the relationship or **change locations** with much reduced costs other than opportunity costs.
- If the cost base of the globalizing partner rises, the globalizer has the **ability to search out another partner** either in the same or a complementary geography.

# General Strategic Alliance Research

- **Cost-Reducing Nonequity Alliances**
  - **Risks of Using Emerging MNCs**
    - The quality of the emerging MNCs’ service or product has a direct impact on the globalizer with whom it partners – **poor services or workmanship** can **negatively affect** the perception of **the globalizer’s image**.
    - **The risk of coordination (↑)** = Globalizers make **many alliances**.
    - The globalizer is put in the **increasingly difficult position of being responsible for their alliance partners’ behaviors** in ensuring those businesses operate in just & socially acceptable means while not actually having operational control over them.
    - The biggest risk of relinquishing control over any part of an organization to an overseas entity is to **fail to protect its core competency**.

# General Strategic Alliance Research

## Differences in Strategic Alliances



**Nonequity modes of investment**

- Contractually based
  - Long-term SC
  - Franchising
  - Licensing
- Reciprocal partnerships
  - Agency agreement
  - Co-marketing
  - Joint R&D, manufacturing

**Equity stake investment**

- No new entity created
  - Cross-shareholding
  - Minority equity stake
- Creation of a separate entity
  - JV
  - WOS via greenfield or acquisition
- Dissolution of an existing entity
  - Merger

**Collaborative strategic alliances**

**Source:** Hubbard (2013: 66).

# Conclusive Remarks

## Summary

### ❖ What are Strategic Alliances?

- It is **not easy to reach an agreed definition** that nonetheless understand viable options for success.
- Some companies enter into alliances simply to **acquire the resources** they do not have internally to support their expansion plans.

### ❖ Contractual vs. Collaborative Alliances

- **Contractual alliances:** Licensing, outsourcing, franchising etc.
- **Collaborative alliances:** Co-marketing, joint R&D, JVs etc.

### ❖ What Make Strategic Alliances Successful?

- **Long-standing relationships** built on years of **mutual objectives & common ways of working**.
- **Share risks & resources**.

# **Hubbard, N.** (2013). Chapter 6: *Equity Investment Alliances & Joint Ventures* (pp.72-96)

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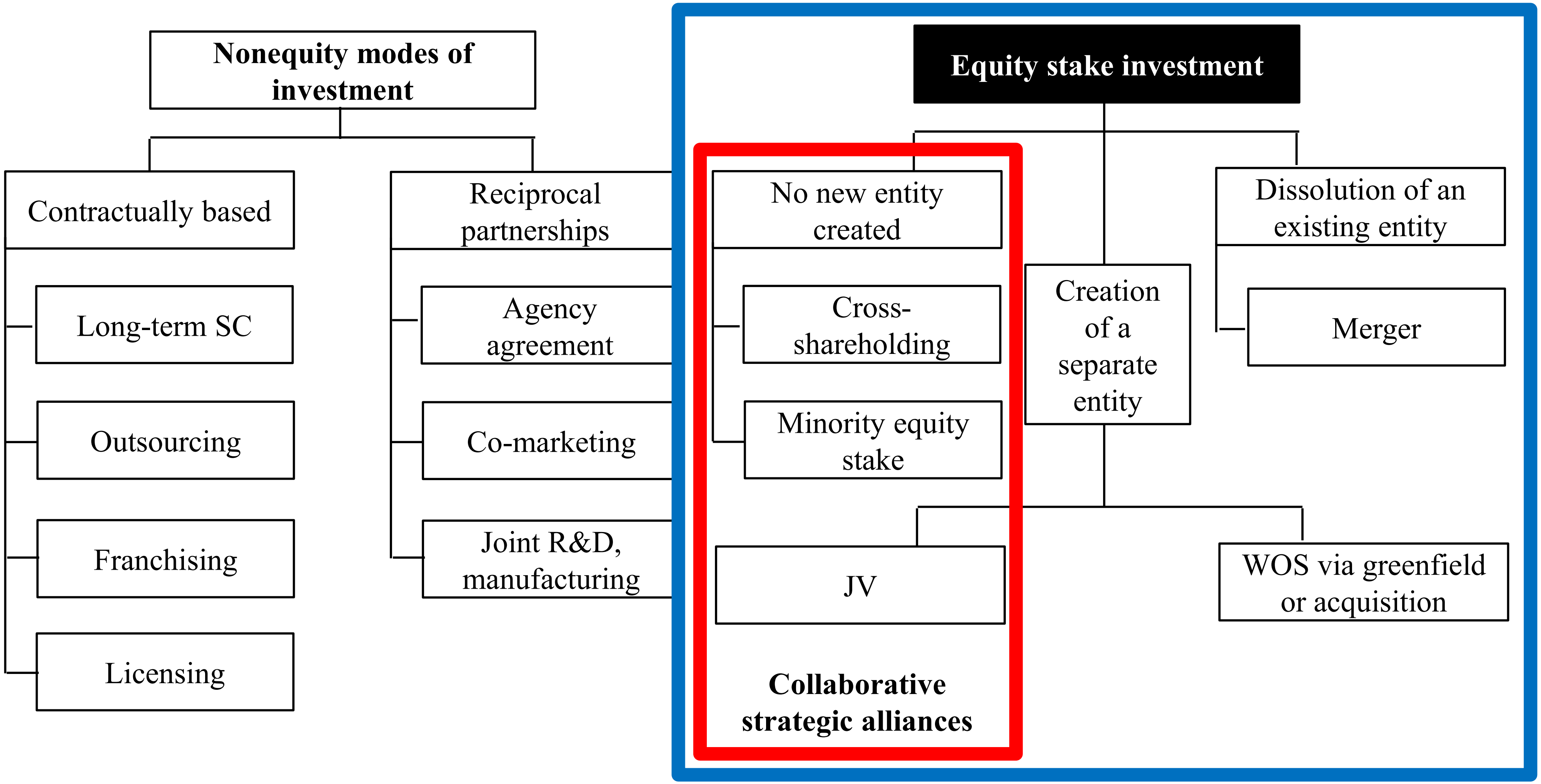
# Introduction



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**Collaborative strategic alliances**

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# Introduction

## ■ Collaborative Strategic Alliances: Equity Investments

### ❖Cross-Shareholdings & Business Groups

- Minority equity cross-holdings are **a long-standing characteristic** of most of the developing world with **many emerging market countries** having **key families & institutions** controlling **a significant amount of the countries' commerce**.

### ❖Minority Equity Stakes

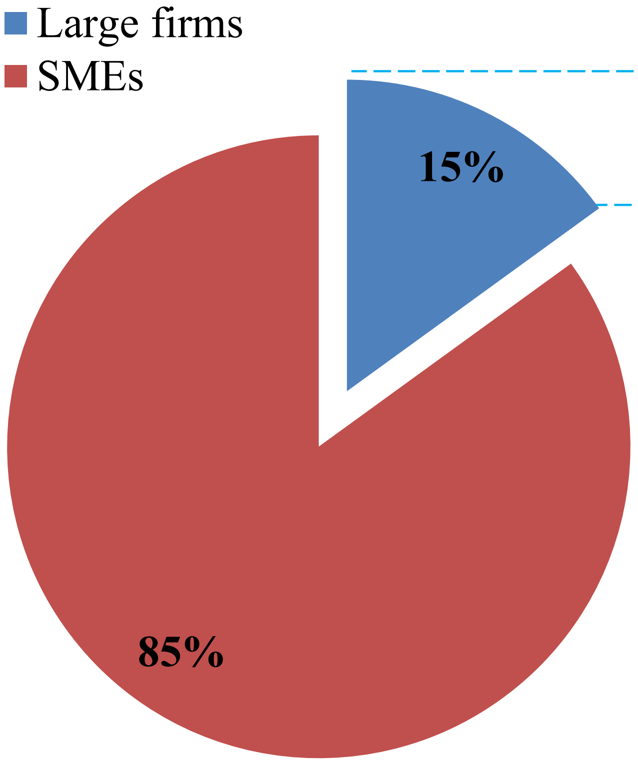
- Equity stakes offer an organization the opportunity to **enter a market without the financial cost of a full acquisition**.

### ❖Joint Ventures

- JVs are those collaborations where **two or more parties** invest in **a new entity** with each party contributing both tangible & intangible resources.
- JVs are also **a subset of strategic alliances**, & in fact the most collaborative type, in that assets from all parties are **merged together** in order to form the new entity.

# Cross-Shareholdings & Business Groups

## ■ Overview of the Korean Economy



**Business groups (*Chaebols*)**

SAMSUNG
Hanwha
LG
HANJIN
HYUNDAI
KIA MOTORS
DOOSAN
SK
KUMHO ASIANA

> *Chaebols* dominate the export-oriented industries & possess international competitiveness.
> SMEs ( are focused on domestic business activities.

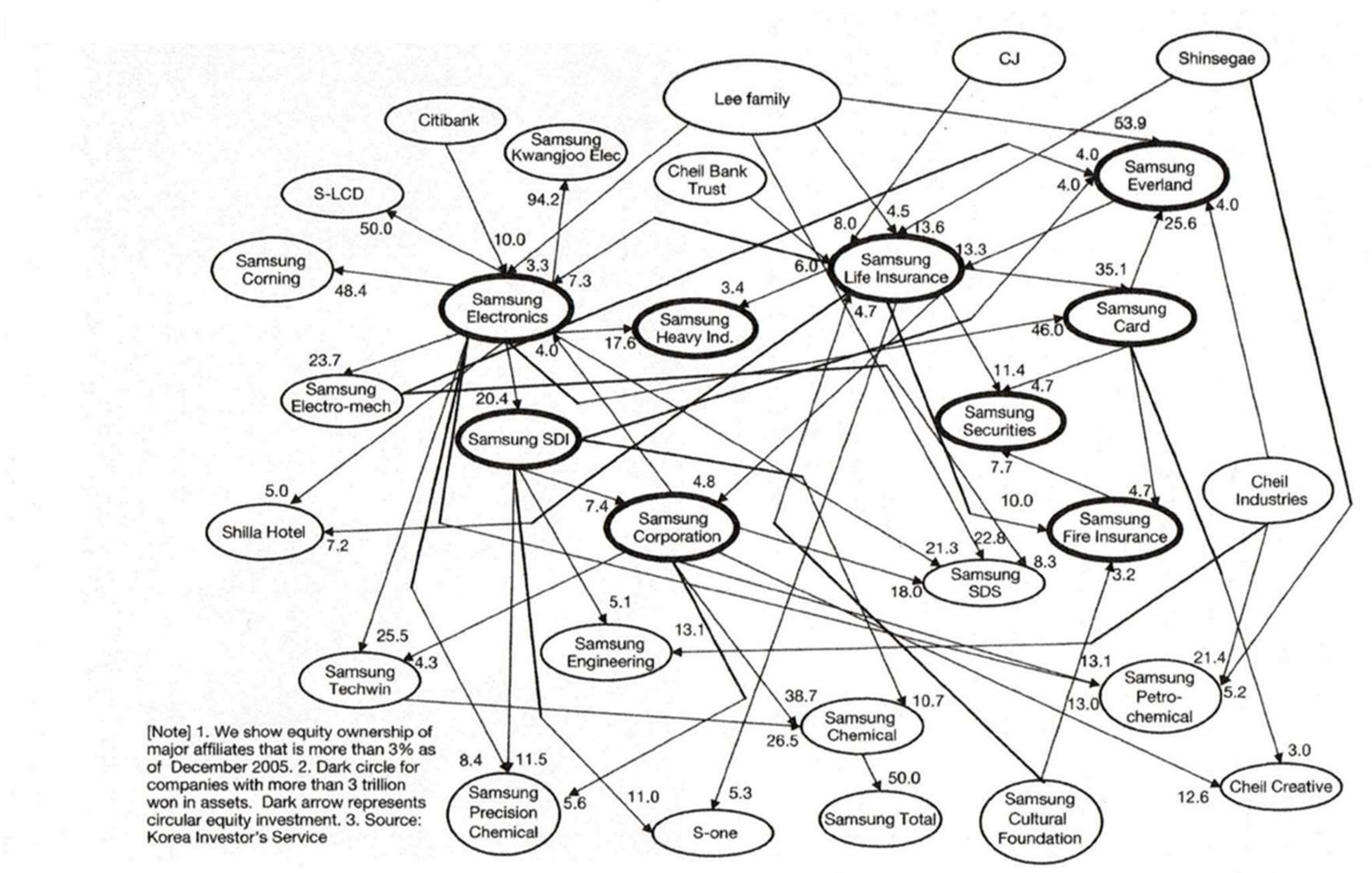
# Cross-Shareholdings & Business Groups

## ■ *Chaebol*

| *Chaebol* | *[A] Founders (Years)* | *[B] Current Chair (Years)* | *Relationship of B to A* |
|---|---|---|---|
| Samsung | Lee Byung-Chull<br>(1938-1987) | Lee Kun-Hee<br>(1987 - present) | Son |
| Hyundai | Chung Ju-Yung<br>(1947-1987) | Chung Mong Koo<br>(2000 - present) | Son |
| LG | Koo In-Hoe<br>(1931-1969) | Koo Bon-Moo<br>(1995 - present) | Grandson |
| Daewoo | Kim Woo-Choong<br>(1967-1999) | | |
| SK | Choi Jong-Keun<br>(1953-1973) | Chey Tae-Won<br>(1998 - present) | Son |

# Cross-Shareholdings & Business Groups

## ■ Ownership Structure of Samsung



[Note] 1. We show equity ownership of major affiliates that is more than 3% as of December 2005. 2. Dark circle for companies with more than 3 trillion won in assets. Dark arrow represents circular equity investment. 3. Source: Korea Investor's Service

# Introduction

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# Minority Equity Stakes

## ■ The Industrial & Commercial Bank of China (ICBC)

### ❖ICBC Took 20% the Stake in South Africa's Standard Bank.

- It cost ICBC **US$5.5 billion**.
- Not only was the **2011 transaction the largest FDI into South Africa**, it was the largest overseas transaction by a Chinese bank.
- It enables **ICBC to operate effectively in Africa** without having direct operations there at a time when by their own admission.
- They **don't have the international management time or skills** to devote to the continent.
- In addition, when **Standard Bank** decided to **sell Standard Bank Argentina** to **concentrate on its African expansion, it sold 80% to ICBC** giving it the largest Chinese bank presence in **South America**.
- In sum, ICBC **gets 2 continents** of **market-leading coverage without utilizing excessive amounts of scarce management resources**.

# Joint Ventures

## Collaborative Strategic Alliances: Equity Investments

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# Joint Ventures

## ■ The Logic of Entering in a JV in China:

### ❖ What Do Developed Market Firms Look for?

- Market knowledge;
- Unique competencies/special skills from the partner;
- 
- Previous alliance experiences; &
- Political connections.

### ❖ What Do Chinese Firms Look for?

- Technological capabilities;
- Intangible assets (*e.g.*, patents, copy rights, knowhow, knowledge etc.);
- 
- Capability for quality.

**Source:** Hitt et al. (2000); Hubbard (2013)

# Joint Ventures

## Hubbard's (2013) Survey

### The '4' Major Reasons for Engaging with JV Projects

I. Strict **government restrictions** (particularly, in many emerging economies);

II. To **secure a partner** who understood **local culture, politics, & distribution** to market;

III. To gain **expertise in that region**; &

IV. The **availability of a good candidate** to partner.

### A "Defensive" JV Objective

- Foreign MNCs **get rid of a competitor by partnering rather competing**.
- "*The local players were very strong & was decided it was too resource heavy to try & compete with them head-to-head in a market that was, frankly, not significant for us. Joint venture was the more opportunistic answer*".

**Source:** Hubbard (2013).

# Joint Ventures

## Due Diligence

### ❖WHAT Questions Should be Asked?

- **WHAT** is the ultimate goal for the venture? Is it permanent or short measure? Is it location specific? Industry specific?
- **WHAT** is the time frame for its setup & milestones?
- **WHAT** is success being measured upon (*e.g.*, financial, knowledge transfer, full employment)?
- **WHICH** resources should be both used?
- **WHAT** are the time frames of resource commitment?
- **HOW** is information going to be shared?
- **HOW** are interests to be protected? **WHAT** controls are in place to ensure compliance?

**Source:** Hubbard (2013).

# Joint Ventures

## ■ Key Success Factors in JVs

**Source:** Hubbard (2013: 77).

# Joint Ventures

## Key Success Factors in JVs

### ❖Strategic Objectives

- **Clearly agreed & articulated strategic objectives** are important to successful JV performance.
- The **misunderstanding** likely exists between MNCs & their partners that the former focus on the **long-term strategic objectives** whilst the latter focus on the **immediate opportunities** at hand.
- **Corporate objectives change** over time !

  "*[G]iven more time to the exploration of the longer-term strategic intention from both sides at that time [of venture formation], but it moves on with the passage of time. So even if both sides believe they have the same vision on Day 1, we move down the road a decade that's unlikely to still be the same picture I had in view 10 years earlier*."

# Joint Ventures

## Key Success Factors in JVs

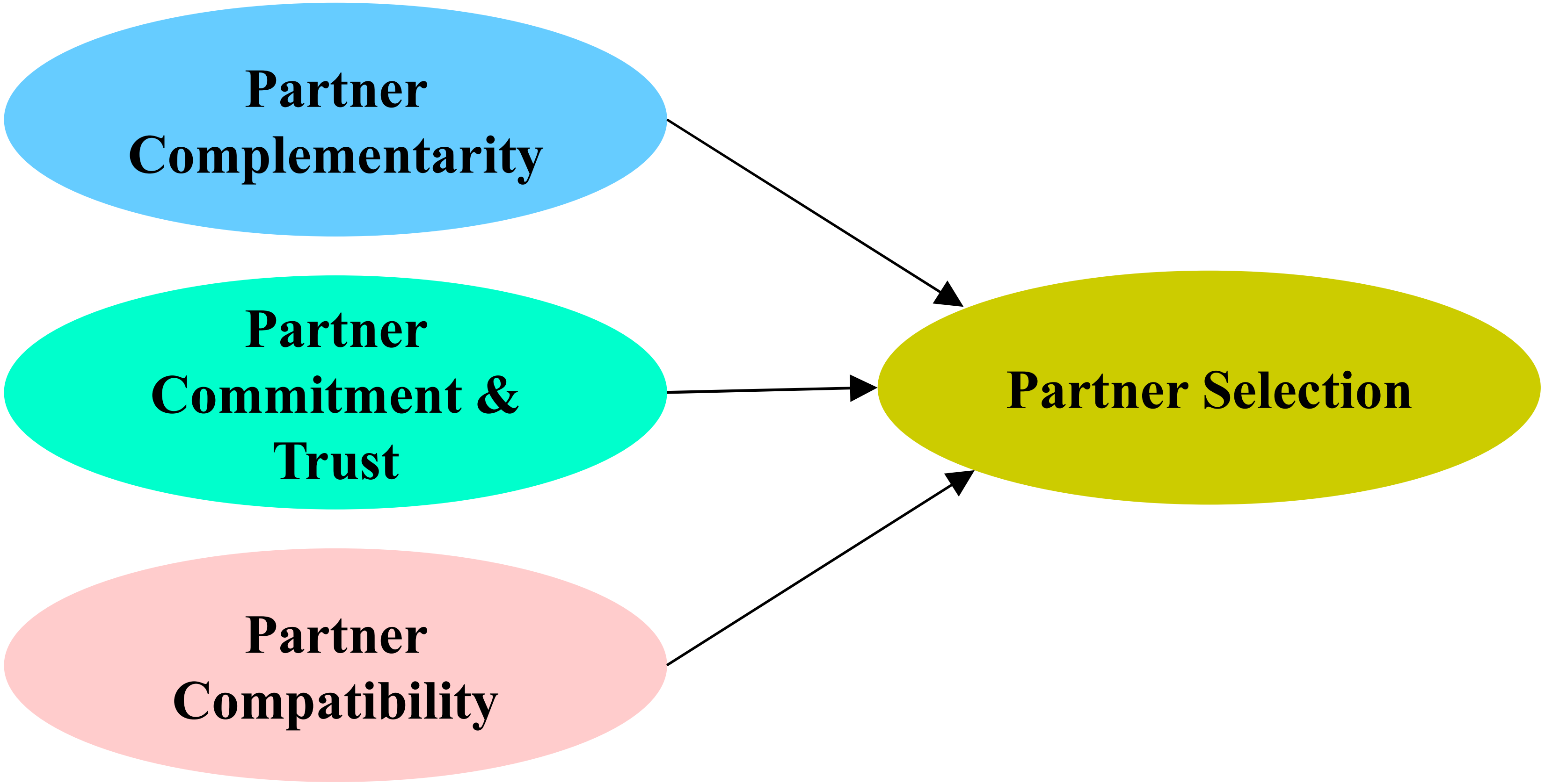
### Level of Venture Control & Ownership

- The **distinction** between **control** & **ownership** !
- **Control** is the amount of influence the various partners have in the operational, managerial, & strategic direction of the JV.
- **Dominant parent structures** are those in which the JV operates as if it were a wholly owned subsidiary of one of the venture partners (Killing, 1982) with the other partner(s) having little input on managerial issues.
- According to Hubbard (2013), **dominant parent structure** is by far the preferred control level.
- The **level of control** highly depends on **the development of the country** (Control matters when investing in the developing market due to the issue of corporate governance).

# Joint Ventures

## ■ Key Success Factors in JVs

### ❖Partner Selection



Partner Complementarity

Partner Commitment & Trust

Partner Compatibility

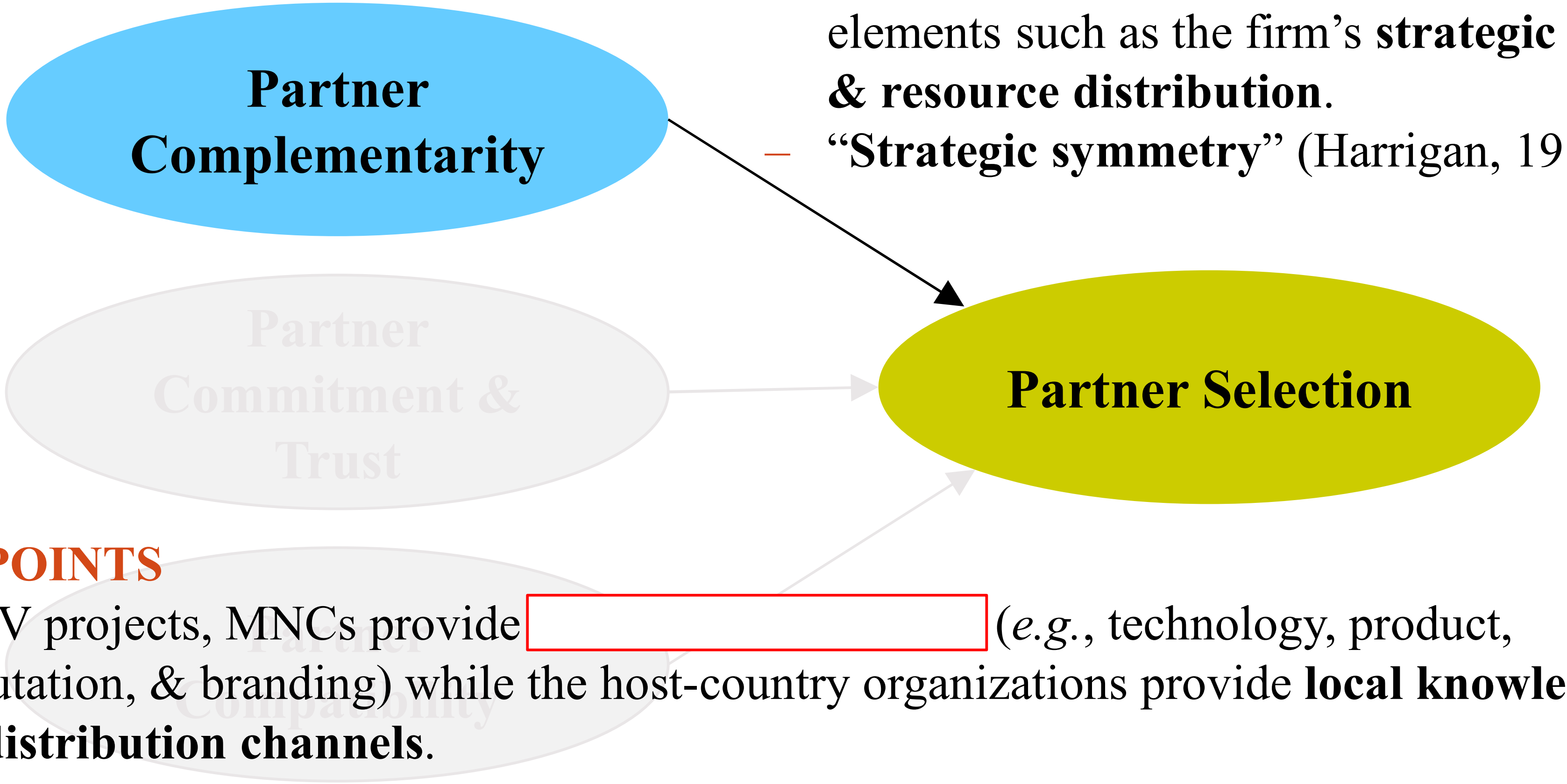
Partner Selection

**Source:** : Instructor's illustration based on Hubbard (2013).

# Joint Ventures

## Key Success Factors in JVs

### ❖Partner Selection



**KEY POINTS**

- **Partner complementarity** can include elements such as the firm's **strategic fit & resource distribution**.
- "**Strategic symmetry**" (Harrigan, 1988)

**KEY POINTS**

- In JV projects, MNCs provide (*e.g.*, technology, product, reputation, & branding) while the host-country organizations provide **local knowledge & distribution channels**.

**Source:** : Instructor's illustration based on Hubbard (2013).

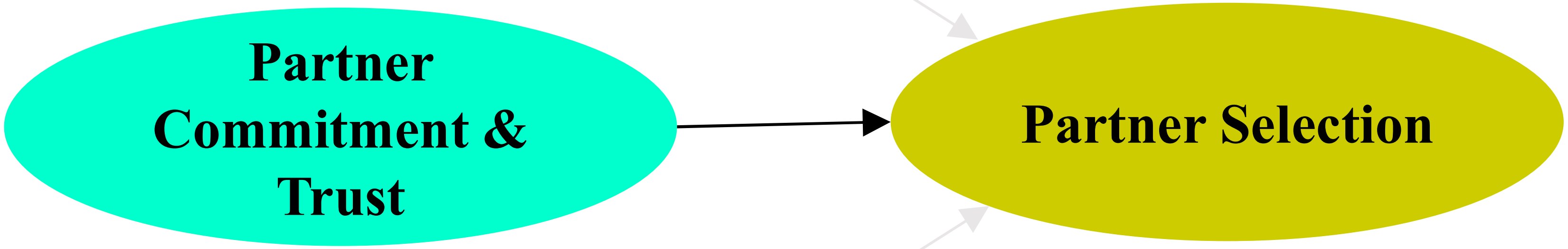
# Joint Ventures

## ■ Key Success Factors in JVs

### ❖Partner Selection

**KEY POINTS**

- **Partner commitment** can be defined "*the willingness of a partner to make resource contributions required by the alliance but also to make short-term sacrifices to realize the desired longer-term benefits*" (Kale & Singh, 2009: 47)



**Partner Commitment & Trust**

**Partner Selection**

**KEY POINTS**

- is formed over periods of time in which parties' expectations are met in **a realistic & timely manner** through **credible communication** (Hubbard, 1999).

**Source:** : Instructor's illustration based on Hubbard (2013).

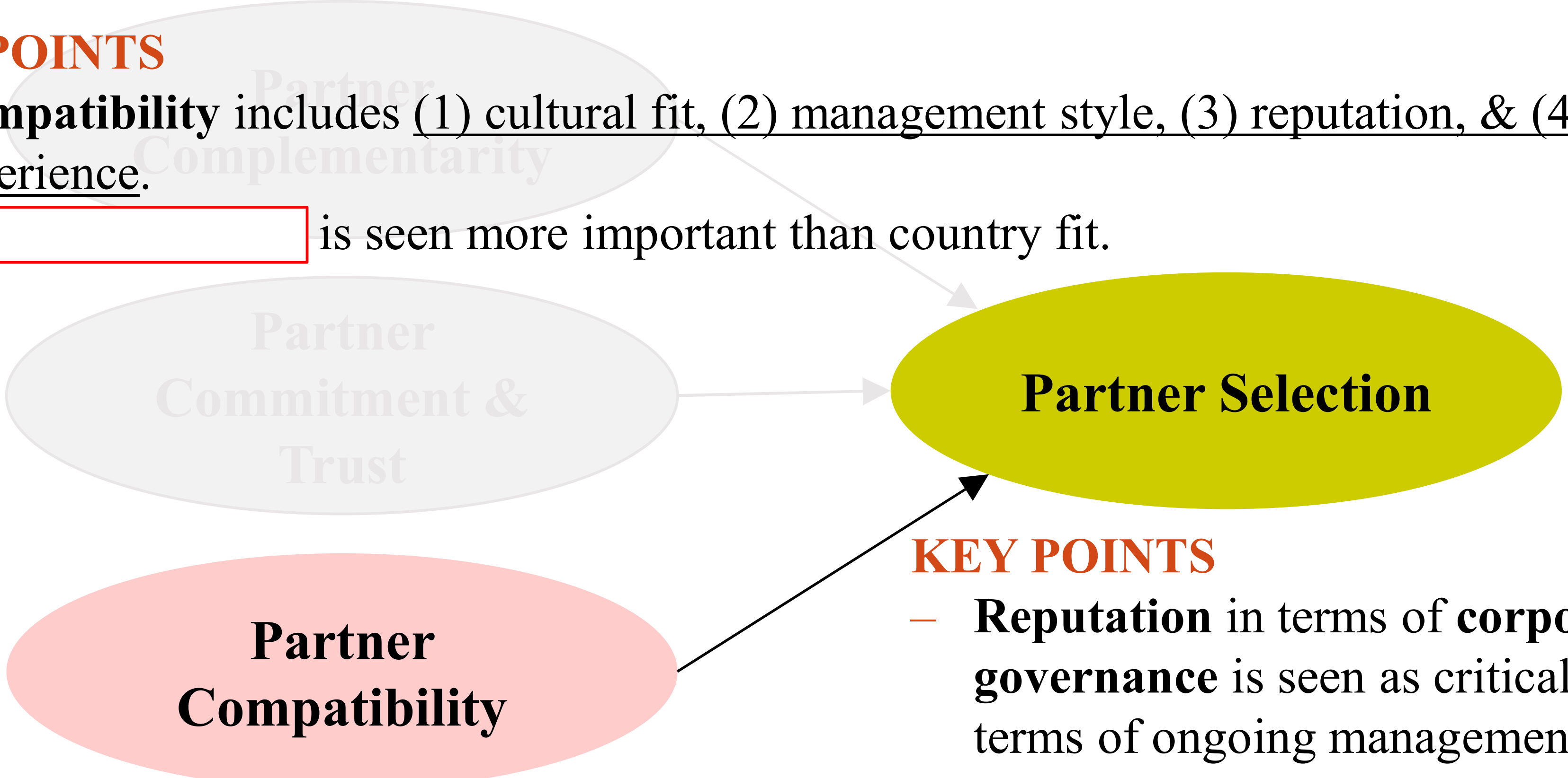
# Joint Ventures

## ■ Key Success Factors in JVs

### ❖Partner Selection

**KEY POINTS**

- **Compatibility** includes (1) cultural fit, (2) management style, (3) reputation, & (4) experience.
- is seen more important than country fit.



**KEY POINTS**

- **Reputation** in terms of **corporate governance** is seen as critical in terms of ongoing management (*e.g.*, **anti-corruption**)

**Source:** : Instructor's illustration based on Hubbard (2013).

# Future Trends in Strategic Alliances

## ‘4’ Major Trends

- **Project-Based Ventures**
  - **JVs** are formed for **a time-specific, short-term projects**.
- **The Partnering of Non-Traditional Partners**
  - **MNCs** often cooperate with **NGOs**.
- **Virtual Ventures**
  - The **virtual venture** is sort of strategic alliances where **small firms set up teams of skills without forming a JV**.
- **More Complexity in Strategic Alliances**
  - Even after having a centralized team involved in managing numerous alliance initiatives, they fail at times to capture & coordinate all the relationships as **their global conditions change so rapidly**.

**Source:** Hubbard (2013).

# Reading Assignments

## ■ Reading Assignments (For 26.02.2025 Wednesday)

### ❖ Antecedents of Firm Internationalization

- **Boustanifar, H., Zajac, E. J., & Zilja, F.** (2021). "Taking Chances? The Effect of CEO Risk Propensity on Firms' Risky Internationalization Decisions.", *Journal of International Business Studies*, 1-24.
- **Rubén Fernández-Ortiz & Guadalupe Fuentes Lombardo** (2009). "Influence of the Capacities of Top Management on the Internationalization of SMEs.", *Entrepreneurship & Regional Development*, 21(2), 131-154.
- **Matta, E., & Beamish, P. W.** (2008). "The Accentuated CEO Career Horizon Problem: Evidence from International Acquisitions.", *Strategic Management Journal*, 29(7), 683-700.

# The End of Today’s Lecture

ご清聴有難う御座いました。

**Thank you so much!**

**Vielen Dank für Ihre Aufmerksamkeit!**

**Grazie mille !**

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