4.3 Continued

| Spectrum of risk / mode | Low | Low/Medium | Medium/High | High |
|---|---|---|---|---|
| olitical, erial, and mic) | **Strategic alliance** The local partner takes on the vast bulk of the risk but still at the risk of poor partner choice | **Minority stake/control joint venture** The local partner and internationalizer share the risk but still at the risk of poor partner choice | **Joint venture** While the partners share the risk, there is still the risk of poor partner choice, and if there is imported manufacturing, there is redeployment of fixed resources if there is a difficult problem | **Greenfield investment** Significant risks about impact of increased capacity, revenue timings and amounts, supply chain and workforce management |
| | | | **Acquisition** Has known revenue stream, supply chain, and labor costs, but post-acquisition implementation risks and poor target-choice risks | |

: Adapted from Hermann and Datta (2006).



## Conclusion

The route to internationalization has changed significantly since its study as an academic subject began 40 years ago. Originally organizations were thought to internationalize along lines that were familiar to them: culture, proximity, language, or through networks of connections to avoid the liability of foreignness. Rapid world changes have meant this is not necessarily the case any more with organizations now being born global and opportunistic globalizers and as such not following traditional approaches. Five areas are seen to be fundamental when making the decision of how to enter the local market: speed, control, resource allocation, local awareness, and risk evaluation. From these, the globalizer can judge which approach is optimal for the situation. The various modes of entry are discussed in the following chapters.

### Case 4.1 Teva Pharmaceuticals

Teva, the world's largest producer of generic pharmaceuticals, are the most global organization in the survey with 96 percent of their sales coming from outside their native Israel. They pursued global growth originally through joint venture, moving to acquisitions, and now they use a combination of the two. Their original venturing came out of necessity. Shlomo Yanai, former CEO of Teva, explained Teva's expansion and their initial use of joint ventures,

> Historically, when we were small we found that the core element of the business, which we needed and we didn't have, would take us a long time or was going to be very expensive. Then we would co-venture with companies to complement what we missed. For example, if we had a product but we didn't have the go-to-market assets, then we joint venture with a company that had these capabilities.

Once Teva grew their capabilities, they pursued less joint ventures and more acquisitions. Lately, however, they have begun using joint ventures again to share risks or development costs, which, in pharmaceuticals, can be very high. They have also returned to using joint ventures to provide complementary skills. Yanai continued,

> We pursue joint ventures when we think that there is some expertise or excellence that we don't have and it's much better to save time and to join forces together with that excellent or competent company in order to get a better result than doing it by ourselves. For example, we joined together with Procter & Gamble when we found that in a certain part of our business we needed branding power.

Teva have used joint ventures as a way to reduce risk when entering a market. One example is their market entry into Japan. At the time, Japan was the second largest pharmaceutical market in the world with only a 17 percent penetra-

to the difficulty in entering Japan as a foreign entity, Teva entered the market via a small joint venture. Yanai continued,

> We first did small joint venture [in Japan] because we said we needed a local partner to help us understand this market ... and for the next three years together we actually studied the Japanese generics market, and we did even a small acquisition just to test the waters. Only after three years when we really felt we understood [the Japanese market], and of course the opportunity showed up, we went for the major move and we acquired a company at the level of $1 billion.

Teva bought Taiyo, Japan's third largest generic pharmaceutical company in May 2011. In addition, Teva bought out their joint venture partner and merged that operation into Taiyo thereby creating a commanding position in the Japanese generic pharmaceutical market.

This case demonstrates two points. The first is using different FDI methods in order to best implement a corporate strategy. In the beginning, Teva used joint ventures to "borrow" the competencies of other organizations because they simply didn't have the resources internally. When they had sufficient resources to acquire targets, they used them successfully capturing technology, innovation, and market share. Today they continue to collaborate with other market-leading organizations when appropriate instead of bolstering their own competing resources internally. Rather they use those resources for other strategic opportunities. In some cases they do this to reduce risk and capital expenditure.

Secondly, Teva used joint venture as a means of learning about a very foreign market rather than entering blindly and buying without adequate market and cultural understanding. They entered Japan in a very limited fashion as they got to know its unique features and characteristics before ultimately pursuing a substantial acquisition. This supports one of the key success factors of the survey participants: those who have entered markets most successfully have done so with full knowledge of the local market.



# 5 Nonequity Modes of Investment

## Introduction

There is no wider or more ambiguous subject in this book than the strategic alliance. Strategic alliances are the catch-all phrase used to suggest a long-term working relationship between two separate organizations. Outsourcing, long-term supplier relationships, licensing agreements, and agency agreements all fall under the heading of nonequity alliances—the organizations hold no equity in the other partners but can influence their actions. They differ from joint ventures and minority equity stakes that are the most common forms of equity alliances. Nonequity alliances are discussed in this chapter as is research on alliances that doesn't differentiate between alliance types.

## General strategic alliance research

In research, there is often little differentiation between types of strategic alliances as many share the same similarities. Because of this, research on strategic alliances often fails to differentiate between the levels of collaboration or mutual reliance and characterizes them as the same. This oversimplifies the relationships and overriding factors that influence the success of the various types of alliances.

Strategic alliances, including both contractual and collaborative alliances (discussed later in this chapter), are the mainstay of emerging markets, accounting for over half of market entries into Latin America, Asia, and even Eastern Europe (Adarkar et al., 1997). There has been an explosion of strategic alliance activity in the past 20 years (Gulati, 2007) as markets have opened up for inward investment. Research has found that the world's top 500 global businesses have on average 60 *major* strategic alliances in addition to countless less strategic relationships (Dyer, Kale, and Singh, 2004).

Yet strategic alliance performance has been, at best, mixed. Some organizations have been able to parlay their alliances into financial success such