IBUS3101 – International Business Alliances

Businesses need to create value and competitive advantage: business alliances are one way.

Strategic alliances: 2 or more separate firms; jointly create value

- 2 different home countries (e.g. Toyota and GM)
- Same home, international markets/operations (e.g. Cisco and HP)

IBAs have proliferated – accounting for significant portion of firm value; have high failure rates (estimated to be between 30 and 70%).

Alliance strategy: create and manage successful, valuable business alliances

- Need to create joint value (alliance success), but also corporate value addition.

Alliances and joint ventures

1. Alliance strategy development: careful examination of market trends, company strengths and weaknesses, relevant partner agreements – create strategy to maximise capabilities and resources.
2. Partner selection and evaluation: exploratory research; develop evaluation criteria and choose optimal partner
3. Deal structure and support: negotiation – quantitative modelling of various deal terms; result in deal structure attractive to both parties.
4. Existing alliance reconfiguration: root-cause determination of performance; implement best practice

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Alliance strategy – Bamford

From peripheral tool of management, used to enter restricted overseas markets, to centrepiece of corporate strategy and competitive advantage. Now common to see alliances account for 20-50% of corporate value.
Alliance failure: not meeting the goals of parent companies. Result of unclear strategy, poor partner choice, weak/unbalanced alliance economies, dysfunctional governance, clashing corporate culture and goals, lack of skills and parent commitment.

Alliance strategy: intent, dynamic process, logic that guides alliance decisions. Four elements:

- Design: why? (as opposed to internal capabilities; scope, partner selection, structure, negotiation).
- Management (continuous investment): launch, resolve issues, how decisions made, measuring and controlling, adjust alliance design
- Constellation: where in the business value chain and market space of the company shall alliance be formed? (define relationship, interaction, compete with other constellations).
- Develop internal alliance capabilities: skills, human resources, processes, tools and systems. Makes firm more attractive as alliance partner.

Superior performance comes from managing this array of issues (“arc of alliance strategy”)

Mastering alliance strategy: comes from deep understanding, frequent practice, wisdom.

ALLIANCE STRATEGY

Achieve corporate growth outside of IBAs
- Expand geographic boundaries
- Expand industry and technology boundaries
- Within existing boundaries

If you do not have core competence in these, form an alliance.

Access to resources outside of intra-firm:
- Replicate
- Acquire
- Alliance

Concerns of acquisition:
- Expensive
- Indigestible: indivisibility of firm-specific resources, assets, capabilities that are bundled
- Post-acquisition integration problems

ALLIANCE:
- Two or more separate firms
- Joint value creation, decision making
- On-going/extensive relationship
- “Incomplete contract”, open-ended

Advantage of alliances:
- Less capital commitment, sharing of costs
- Targeted access to specific assets, intangibles, capabilities without need of ownership
- Flexibility, options
- Manage risk

External drivers of corporate growth:
- Globalisation and emerging markets:
    - Saturated home markets, BRIC
    - Emerging markets: challenge in institutional voids, infrastructure; lack of knowledge, experience and connections
- Technology
    - Rapid evolution; rise of e-business, R&D, NPD, infrastructure
- Environmental concern
    - Green business
- Industry structure: less integrated, convergence of industries
    - Interdependent specialist firms, outsourcing, B2B
- New distribution channels

When to ally