

MNE Strategic Alliances Benefits Risks and Growth

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The ultimate goal of MNE is expansion and profit. The business expansion requires forming alliances with other corporations. The corporations have usually been exploitative towards other corporations and competitors, focusing only on the benefits. However, such an endeavor is dangerous in the globalized market. More hostility in a virtually connected world would cause harm to the corporations more than help them in gaining profits. Therefore, corporations focus on strategic alliances to gain benefits and expand their businesses. Strategic alliances help corporations form social networks, enhance trust, share knowledge, negotiate innovations, increase momentum, understand cultural, language, and social perspectives, and bridge economic and geographical distances. These all matter when expanding businesses and earning profits. The coordination assists the companies to develop together instead of growing apart. It helps them fight the threats and risks together with understanding. Some might argue that alliances enhance the risks of betrayal and dishonesty, but with defined boundaries, it might be helpful. Moreover, the strategic alliances do not suggest avoiding proper planning and entering a venture. It rather means the venture benefits both parties, such as providing a competitive advantage. For instance, for a computer company, it might be difficult to enter a new furniture market, but partnering with IKEA or any other furniture company would assist the computer company in entering the business easily. Therefore, the MNE strategic alliances assist the MNEs in expansions, collaborations, security, understanding, productivity, and performance, although they might have some problems.

Through strategic alliances, the companies “change their competitive tactics, not the competitive goals” (Hamel et al. 1989). The changing competitive tactics assist in forming alliances that are based on the competitive goals of each MNE. Every corporation uses alliances to gain corporate benefits by sharing the risks and investments. It provides innovative ways of learning as two companies with different goals come together, they learn, develop, and engage in business ventures together. They reduce cultural, language, and social differences, helping the companies to come closer and fight the barriers together. Hence, the cooperation “becomes a low-cost route” to gain market access (Hamel et al. 1989).

Benefits of Strategic Alliances for MNCs

Expansion: The strategic alliances provide the MNE with the required resources in the form of skills, market, technology, product competence, and investments. The combined ventures bring companies together, which enhances skills as the companies can learn from each other. It assists companies in gaining competitive skills without new hiring. As the companies do a cost-benefit analysis, they form

partnerships with companies that can provide support and be beneficial for the companies. They agree to support each other in skill building and using each other's specialties to advance common goals. Consequently, cooperation helps companies access top-skilled workers without the cost of hiring and paying. The skilled labor enhances benefits for both companies as it increases productivity and saves unnecessary costs, it helps them expand their businesses. They can provide the required training and mentors to learn new skills that will be beneficial for both parties. Also, it is essential for companies to take into account the needs of their customers, which is why they focus on building the skills that would assist the companies in gaining the product that is needed for the venture. Hence, the skills are polished and enhanced due to the alliances.

It provides an opportunity for companies to access resources and the market. The alliances provide both parties access to the new market for selling their products. It saves energy, research, and time for the company to build rapport with the new market, which they get access to due to the alliances. It enables them to access the markets that their partners have access to for operational purposes and to launch a new product. Access to the market of the allied companies is one of the reasons that corporations enter into these ventures. The ventures enable them to take advantage of the available opportunities and resources of the ally to expand their businesses. This is especially true when entering a new market in a different geographical territory or while launching a new product that is not the company's specialty. In the different geographical regions, it becomes really hard to establish oneself as the forces and culture might not support the product or ideology. Alliances play a positive role in helping corporations enter a market that has already developed relationships. It assists in outsourcing products with the help of partners. Partnering provides complementary benefits for alliances.

A strategic alliance is essential for providing technical support and expertise. Agreements with a partner who has a strong technological base help the corporation gain access to the technology of their partner corporation. It provides technical support and assistance with expertise. The technical resources are shared and assist the companies in working efficiently. The companies can share the technology to assist each other in growth and production. Such sharing can enhance quality and efficiency for both corporations. As firms form alliances to gain complementary skills and benefits from the partnership, it becomes crucial to consider technology. It is also necessary because most of the operations depend on technology; the technological support and complementary skills in technology would be beneficial for any company that is considering expansion through joint ventures.

Moreover, strategic alliances divide the cost. It reduces investment costs, technical costs, training costs, and market research costs, and it divides the risks as well. When a company forms partnerships with other companies, the company reduces the harm from a new business venture to half because the partner is responsible for the costs as well as risks. Therefore, it increases the responsibilities and cautiousness of both partners to be careful. If anything goes wrong with planning or implementation, it can cost both partners. Consequently, all the included companies provide standardized planning. It also helps companies to face their competition effectively because hostility toward a company that has friends and strong connections is riskier than having a hostile attitude toward a single competitor.

Hence, it assists corporations in preventing their competitors from creating problems. Additionally, two companies aligning against one would pave the way for better innovations to compete with the competitors. More people with various expertise can come up with better ideas than a single company operating on its own might not be able to generate, making the strategic alliances wiser options for MNEs.

Reduction of Distance: Multinational Corporations seek a reduction of distance when they form alliances. The distance is of four types: geographic, political, economic, and cultural distances. The alliances with the local companies are crucial for the MNEs to progress in their business ventures. Otherwise, the MNEs would face challenges in dealing with the geographic differences. Some would suggest opting out of a country where the cultural, administrative, geographic, and economic distances would be the barrier, but that is not the solution (Ghemawat). A company cannot opt out of entering a market that is suitable for the product and business because they are different. The associations aim to bridge the gap and provide a market for the corporation to operate.

As the land is far away from the place of origin of the MNEs, it becomes a problem when operating the business, hiring, and setting up the business on another piece of land. Therefore, it becomes difficult for the MNE administration to move to another country to set up a new business. However, the alliances help MNEs in establishing a new setup or accommodating them in their space. They can operate from the same space as the local companies, but the MNEs need to form alliances with competitive and well-established companies to be able to advance their business. A new business might not be as helpful unless the two businesses work together to grow.

Cultural distance and MNE strategic alliances are much debated because many believe the culture impacts the MNE and its strategy hugely. However, others have found it has little impact on the entry levels if market forces favor the establishment of MNE. Also, the MNE would prefer a joint venture when the cultural differences between the countries are larger, but the MNE will own a venture if the cultural differences are low. It is to reduce the uncertainty and problematic aspects of cultural differences, such as individualism-collectivism, masculinity-femininity, bribery, corruption, etc. Additionally, the studies suggest that performance increases when the company is a subsidiary venture in larger distance companies, but is low in joint ventures. Hence, cultural distance plays a crucial role. It is essential to understand, appreciate, and account for cultural differences in order to improve the performance of MNEs. The MNEs are required to tailor their practices and norms according to the cultural norms of the countries where they enter to gain better profits. Therefore, cooperating with local companies will help MNEs understand the culture and cultural barriers. It will assist them in understanding whether starting a subsidiary would be beneficial for the company in the long run or not. The studies show that cultural distance affects larger companies less but has a greater impact on smaller firms. For an established MNE, the cultural differences do not matter as it has standardized values and a culture of its own that it incorporates to fill the gap, but it addresses some of the cultural differences. Hence, cooperation becomes essential for MNEs to judge the prospects of their ventures in different countries. The cultural differences can have a negative impact unless the corporation addresses the cultural concerns. Associations with local companies will be

helpful in addressing cultural differences.

The political distance can pose serious threats to the companies through expropriation, political instability, and transfer risks. Joint ventures might help reduce these risks for MNEs. Expropriation is when a government nationalizes the companies. It takes over all the private companies or only foreign companies with or without compensation, which discourages foreign investment as well as the companies from expanding. Sometimes, the government also targets corporations using high taxes to make it less profitable for companies. They can also take over the property rights of foreign companies, which restricts the companies from using the business for profit. The constant interference from the government restricts corporations from operating at their own pace to gain profit or success. Another problem with macro risks is terrorism and a hostile political environment. Although the MNEs do their research regarding political stability, it cannot be predicted. Terrorism or civil war might interfere with the operations and productivity of the companies. Consequently, the MNEs will refrain from doing business in such countries. Lastly, the transfer risk imposes limits on transactions between the countries. It is done by increasing tariffs or restricting imports and exports. This makes it unfriendly and unprofitable for companies to invest in a country that is troublesome for MNEs. Regardless of these restrictions, some MNEs tend to operate in these restricted countries. With strategic alliances, the MNEs can minimize these risks and divide the losses. Alliances are not acquisitions, which means that the government might not have restrictive policies towards the local businesses, as all governments provide leverage for their companies to grow. It gives some shield from government interference. It allows the companies to operate in a country, avoiding major restrictions, but terrorism and political unrest might negatively affect the companies. Even in such circumstances, the risks and threats are divided, providing some immunity from the shock and losses. Therefore, joint ventures reduce the risks for all the involved parties, which is not possible in an acquisition.

The economic distance also plays a role in the success of a company. The differences in prices, resources, and knowledge impact the decisions of whether a company should cooperate with a foreign company. Lack of proper knowledge and wide disparities in the currencies might hinder the alliances. However, the disparities in currencies might be a force to promote such ventures. For instance, if the value of the currency of a country is low, it might be profitable for another country to invest and form alliances. It might have a low cost. Moreover, if a country has resources or cheap labor, the MNEs can ally with local companies to exploit the cheap labor.

Strategies to Form Alliances:

Hence, strategic alliances are beneficial for all the parties involved. However, the profitability of the alliances depends on strategies, social networks, which consist of “collaborative and competitive ties” (Tsai), corporate strategy, management and strategies, technology and performance, and risk-averse behavior. According to research, in 2001, 500 global businesses had 60 strategic alliances because, with the announcement of the news of alliances, the stock of the company rose one percent.

The “alliances increase the market value of \$54 million per alliance (Dyer et al., 2001). The alliances enhance the competitive advantage of the corporations. And the productivity of the companies is dependent on the strategic alliance function. It is a body that coordinates “all alliance-related activities” in the organizations and is responsible for implementing the “processes and systems to teach, share, and measure the experience of the company and its alliance management (Dyer et al.). With this kind of functional body, the alliances were able to gain 25 percent higher long-term success than the companies without the functional body. Collaborations strengthen one party and weaken another in some ways, but focusing on the negative impacts of ventures negatively affects the overall productivity of an alliance. Although one party might have a lesser share or weakness in the venture, overall, it strengthens both companies in front of other companies.

The success of alliances with the managers as they manage the whole project and their management skills become crucial. If the managers focus on the ownership and structure more than the alliance, the success rates decrease. It does not matter what percentage of shares a company owns in joint ventures. Some countries prefer to have ambiguity in their legal structures as it “creates more potential for acquiring skills and technologies” (Hamel). Additionally, the companies can build knowledge-sharing and coordination mechanisms to address the concerns of all involved parties and their concerns. The companies and managers also focus on the competitive aspects of the companies, and the joint venture must not lose its competitive ties. The competitive ties will boost the productivity and performance of the companies without debilitating their market values. Moreover, the agreements must have specific performance requirements from the involved groups, as many Japanese joint ventures seek from their partners. It allows mutual growth and skill development. For instance, the agreement between Motorola and Toshiba requires Motorola to “release its microprocessor technology incrementally” (Hamel).

Pankaj Ghemawat came up with a new framework for an international strategy for the AAA triangle to respond to the challenges of a global venture. In his framework, he presents three strategies: adaptation, aggregation, and arbitrage. Through adaptation, corporations enhance their relevance with the local companies, which increases revenues and market share for the companies. He argues that through aggregation, corporations are trying to “deliver economies of scale” through regional or global operations. And lastly, through arbitrage, the company’s focus is on maximizing profit by exploiting regional or national resources. The corporations will locate the production, supply chain, and retail in different places according to the market value. It gives the companies better profits with lower costs.

To conclude, the formation of a strategic alliance is essential for succeeding in the global market. They must focus on maximizing their benefits and expanding their corporations in the global market with strategies that boost profits without costing companies money. It can be achieved through the role of leadership and a proper alliance agreement that is flexible yet specific for both parties to benefit. However, in the process of alliances, the hierarchy must be recognized, but it must not lead to disagreements between the MNEs or the alliance-forming groups.

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