

Global Business Strategy (Chap 7)

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Issues to be covered

- Method of reaching international markets and strategic alliance
- Strategic alliance case: electronics industry
- Alliance management (post partnership activities)
- Example: PPP (Public Private Partnership) for Infrastructure business (the government as a partner)

What ifs in your business

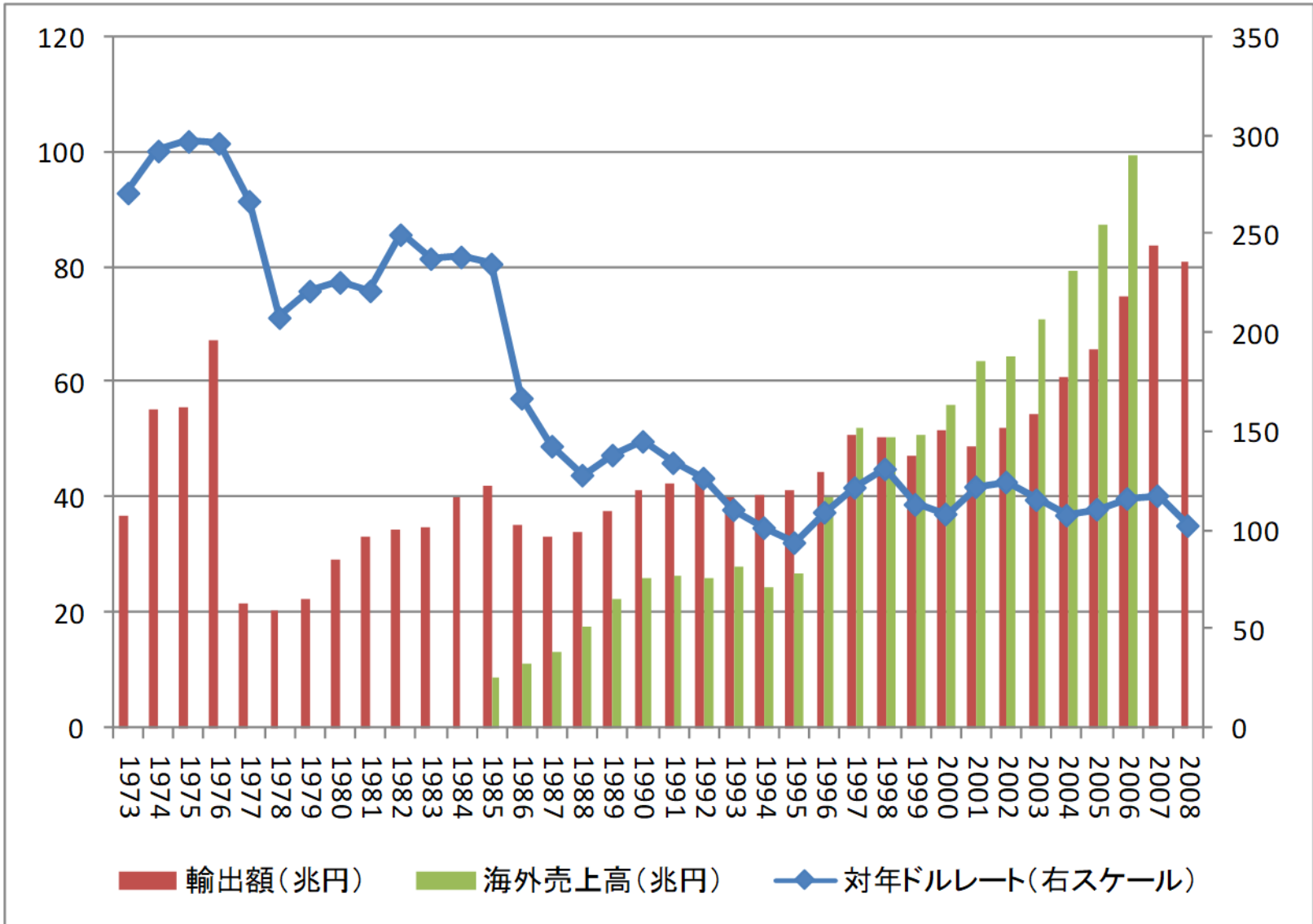
Case 1: Your company is exporting products to China, but local competition becomes intense and market share decreases.

- Reduce cost?
- New products meeting local taste?

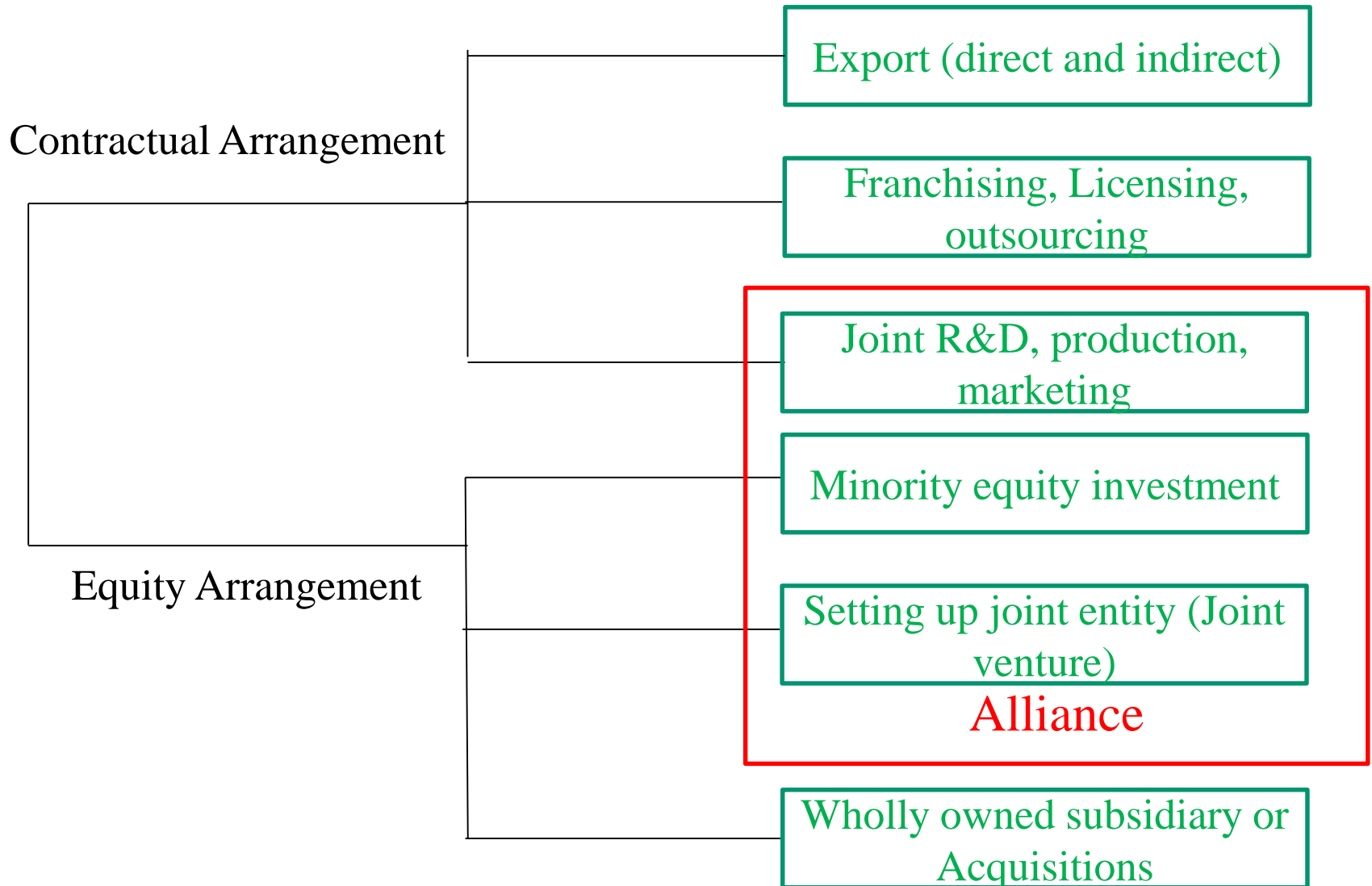
Case 2: Your customer company (your company is a auto parts supplier) demands you to open your factory in China.

- How to manage initial investment?
- This customer's demand is enough to pay for the investment? How to find a new customer (local automotive company)?

Export vs Foreign Direct Investment

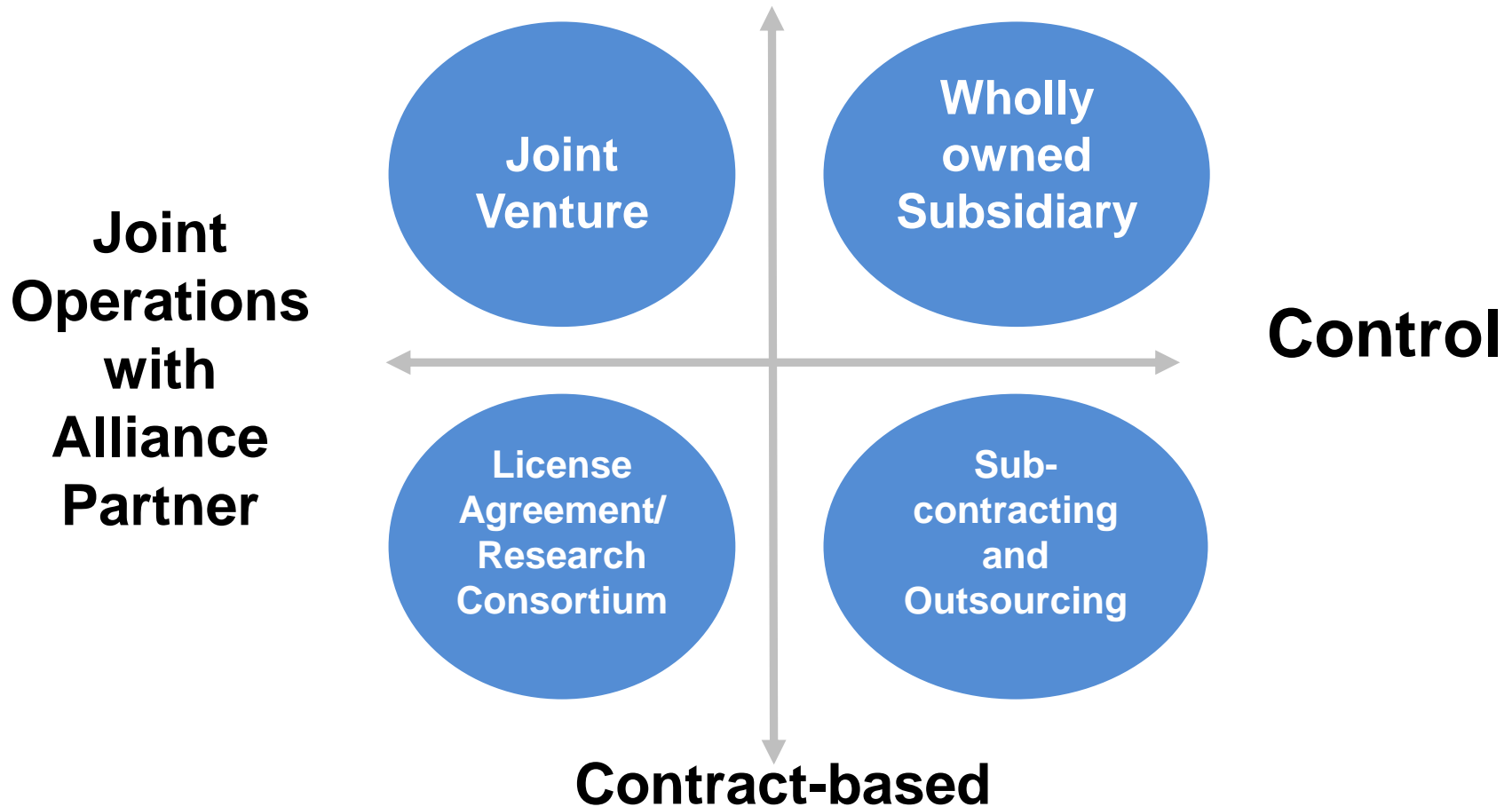


Method of reaching international markets



Typology of alliance

Equity Investment



Mini Case: JV or 100% subsidiary

Setting

Electronics firms seek for FDI in China

Discussion point

- JV or 100% subsidiary (upsides, downsides)
- JV mitigates risks? What kinds of?
- Any particular risks associated with JV?

Why alliance? with whom?

- Mitigation of risks associated with initial investments? (Lower entry barriers)
 - What about exit cost?
- Complementarity of managerial assets?
 - Local networks, channels, etc.
 - Any difference by AAA triangle?
- Local regulations, government relationship
 - Compliance with local regulation (automobile industry in China)
 - In case of “by invitation” (Shiseido in China, Suzuki in India)

Growing importance of strategic alliance

Strategic alliance	Regular JV
Core business	Non core business
Wide area and broad terms	Specific area (ex. SPC)
Sometimes multiple counter-parts	One to one
Cooperation and competition (Co-petition)	Specific purpose (ex. Risk mitigation)

Strategic alliances in electronics industry

◆ Semiconductor

- NEC electronics + Renesas Electronics -> Merged and divested out “system LSI factories” to TSMC

◆ Flat panel display

- Sony + Samsung (Korea) -> divorced
- Panasonic + Pioneer -> acquired
- Shape + Hong Hai (Taiwan) -> not reach agreement

◆ Home appliance

- Panasonic + Sanyo Denki -> acquired only PV and divested out home appliance to Haier

◆ Computers and telecom equipment

- Oracle + Sun
- SAP + Microsoft + HP

Post partnership management

Why?

- Contract is not perfect, complete mutual understanding in impossible in due diligence process. A form of partnership may be determined by partner (country).
- A lot of contingencies during contract period (international alliance take a long time relationship, dynamic environmental change in emerging economies).

What?: Formal governance (such as contract and equity ownership) and informal governance (mutual understanding and trust)

- Trust lowers coordination cost (cooperative behavior toward any contingency)
- Trust is build through (1) cyclical process of bargaining, (2) interactions, (3) commitment and (4) executions (Ring & Van de Ven, 1994).

Forms of post partnership management

1. Greater alliance experience
2. Dedicated alliance management function
3. Process to learn and accumulate know-hows from experience

Some advanced questions

1. Similar process to post merger integration?
2. Alliance with government, NGOs?
3. Alliance portfolio management

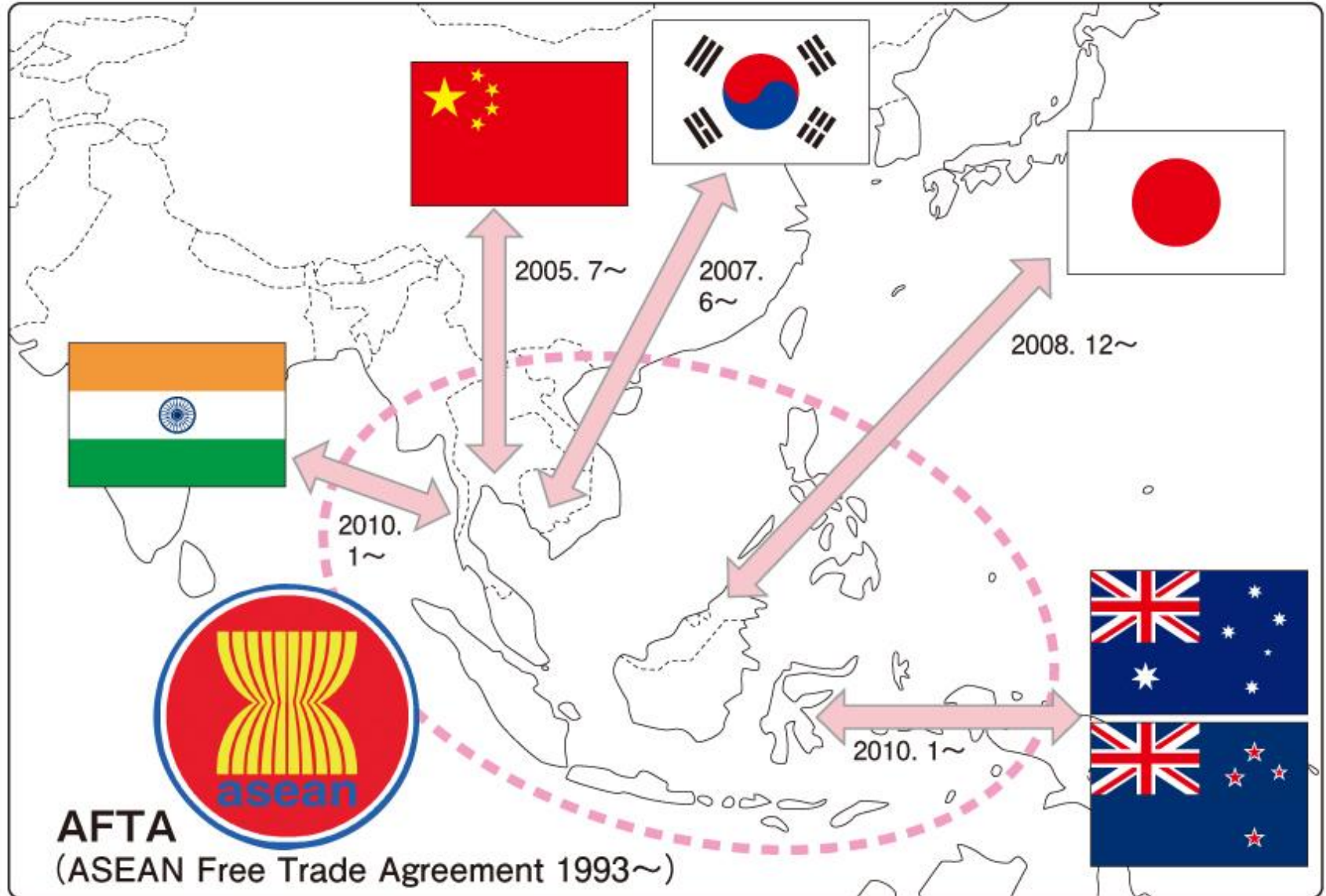
Local Government as a partner in emerging economies :why?

- Administrative distances are greater for developing economies. (WTO, FTAs ... but...)
- Institutional fragileness in government agencies: limited human resource capacities, fragile legal institutions and discretions of local government officers.
- Risk management perspectives; understanding local government incentives (sometimes government officer individual level) and relationship building is important.

What is WTO?

- World Trade Organization (HQ: Geneva, UN organization, 151 countries, established in 1995, former GATT)
- WTO principles
 - MFN (Most Favorable Nation) 最惠国待遇:
Exception for regional integration (FTA, EPA)
 - NT (National Treatment) 内国民待遇
- WTO rules
 - Tariffs in goods and services: ITA (Information Technology Agreement)
 - Trade Related Investment Measures (TRIMS)
 - Trade Related Intellectual Property Rights (TRIPS)
 - Government procurement, safety regulation, anti-dumping, safe guard rules etc.

Free Trade Agreement / Economic Partnership Agreement (FTA/EPA)



However there are still many local restrictions for foreign firms

China's inward FDI restrictions for automotive industry

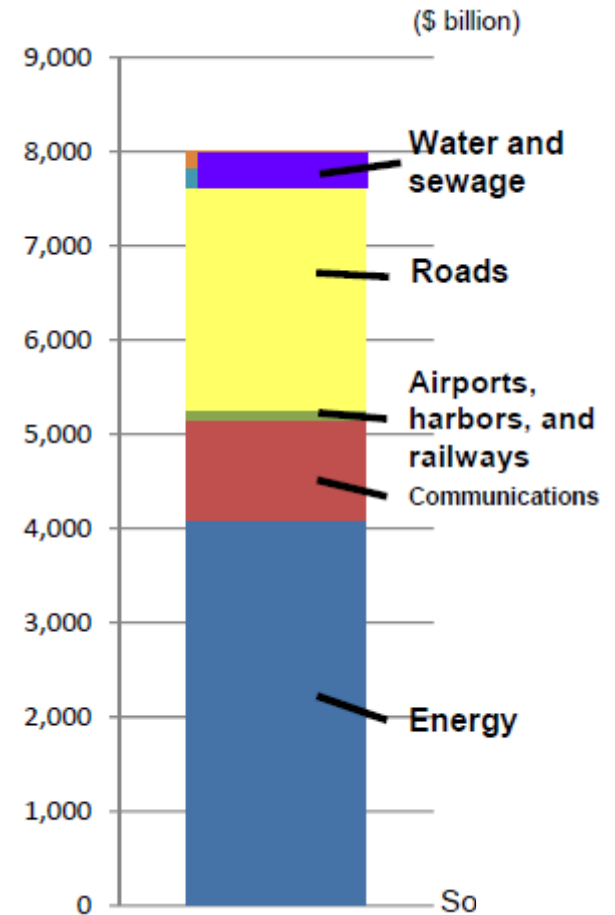
- A foreign car assembler cannot enter in China by wholly owned subsidiary (JV with domestic ones)
- The number of JV counterpart should be 1 or 2

India's inward restrictions for retail services

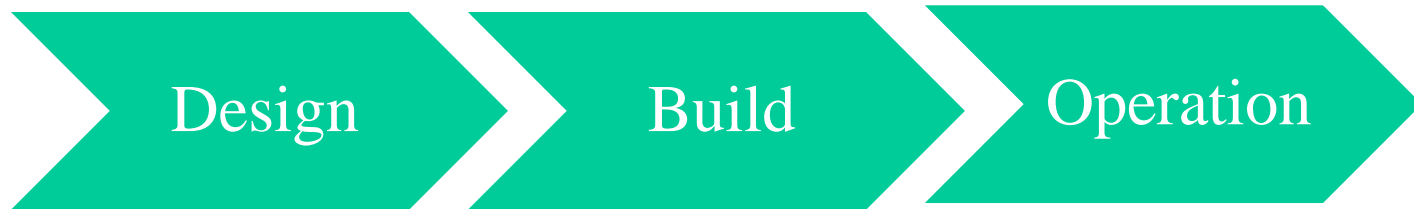
- No wholly owned subsidiary by general merchandize store (up to 51% of JV share)
- Local procurement requirements

Case: Infrastructure Export

- Infrastructure development needs in Asia until 2020 reaches \$8 trillion due to urbanization (METI estimates).
- Public money cannot cover such amount, so that PPP (public private partnership) is needed.
- Analyzing infrastructure business is important
 - Risk analysis and simulation
 - Business modeling with relevant players

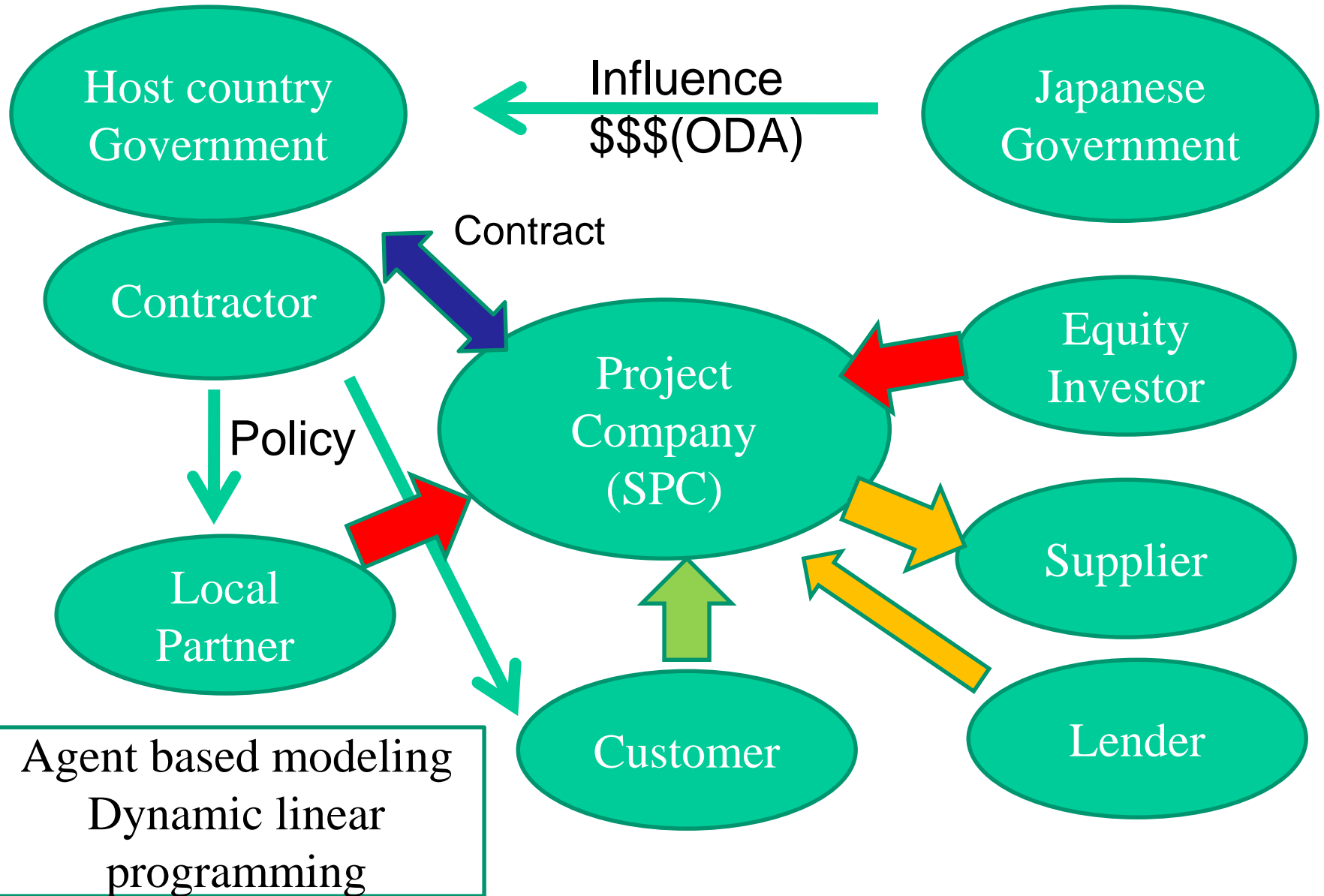


Types of PPP (Public Private Partnership)



- BOT (Build Operate Transfer): concession contract
- BOO (Build Own Operate)
- Leasing: Public leases out for private, affermarge
- Joint Venture
- Operations or management contract
- Cooperative arrangement: public supports to private

Complex system of PPP project



Risk factors in infrastructure business

