

# Global Business Strategy (Chap 7)

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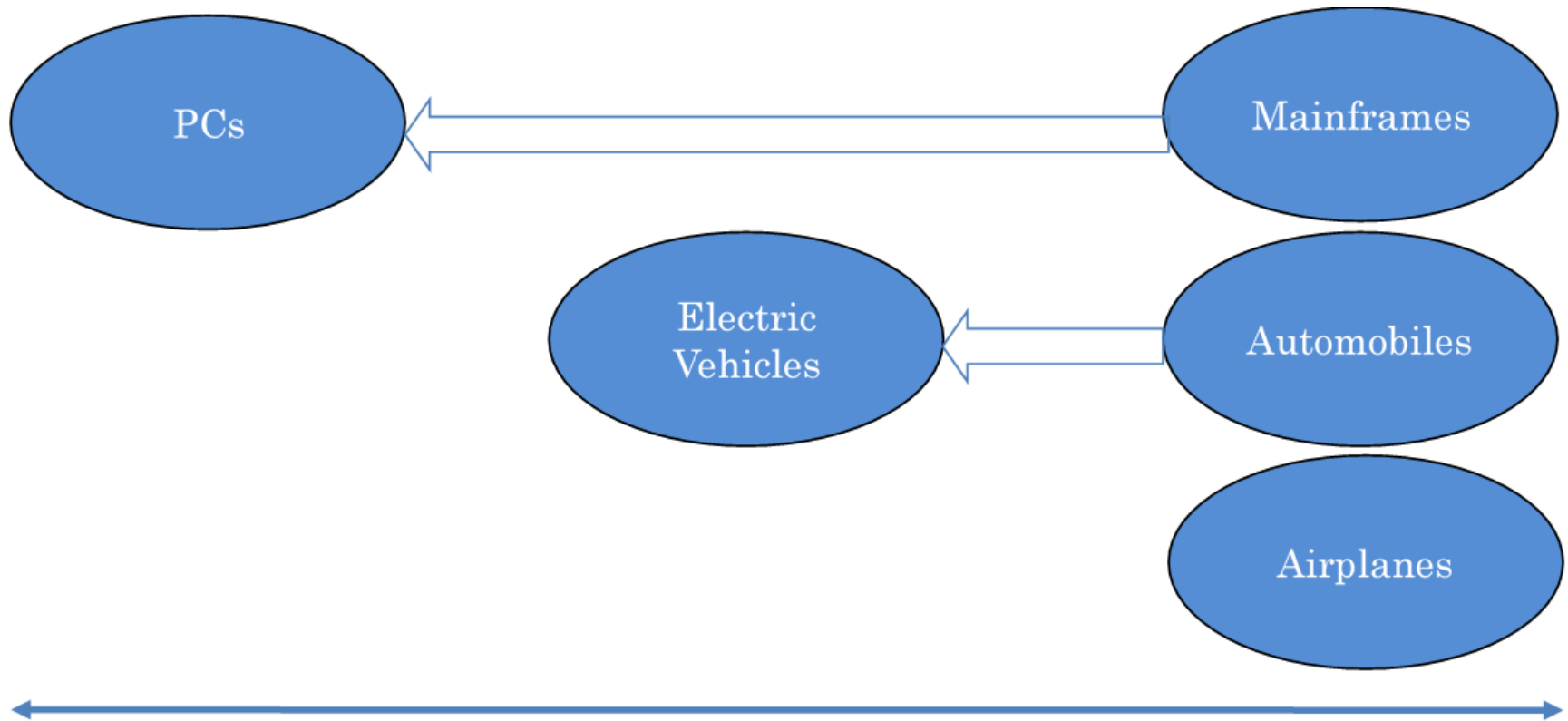
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# Recap of mini quiz

Q. Why does a Japanese car manufacture treat a shift to EV policy in China as major threat of her global business?

A. Relatively, EV has **modular product architecture** (smaller numbers of parts with less interactions among them) as compared to combustion engine car (**integrated one, or complex product**). So, EV is easier to make, and **easier for new comers to catch up** technologically, and with **less profit margin**.

# Product Architecture



Modular	Product Architecture	Integral
Low	Functionality/quality/price	High
Fast	Innovation speed	Slow

Development in emerging economies  
Such as China and India

New (but  
different)  
markets

New  
competitors

CAGE/A  
AA  
analysis

Opportuni  
ty/Threats

Strength/  
Weakness

Competiti  
ve analysis

Issues for GB Strategy in Emerging Economy

- Prevent technology catching-up by local competitors (CoPS, service provision > product offering) : Chap 5
- Local partnership for risk mitigation : Chap 7
- Segmentation of market (not-so-good market): Chap 9

# 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

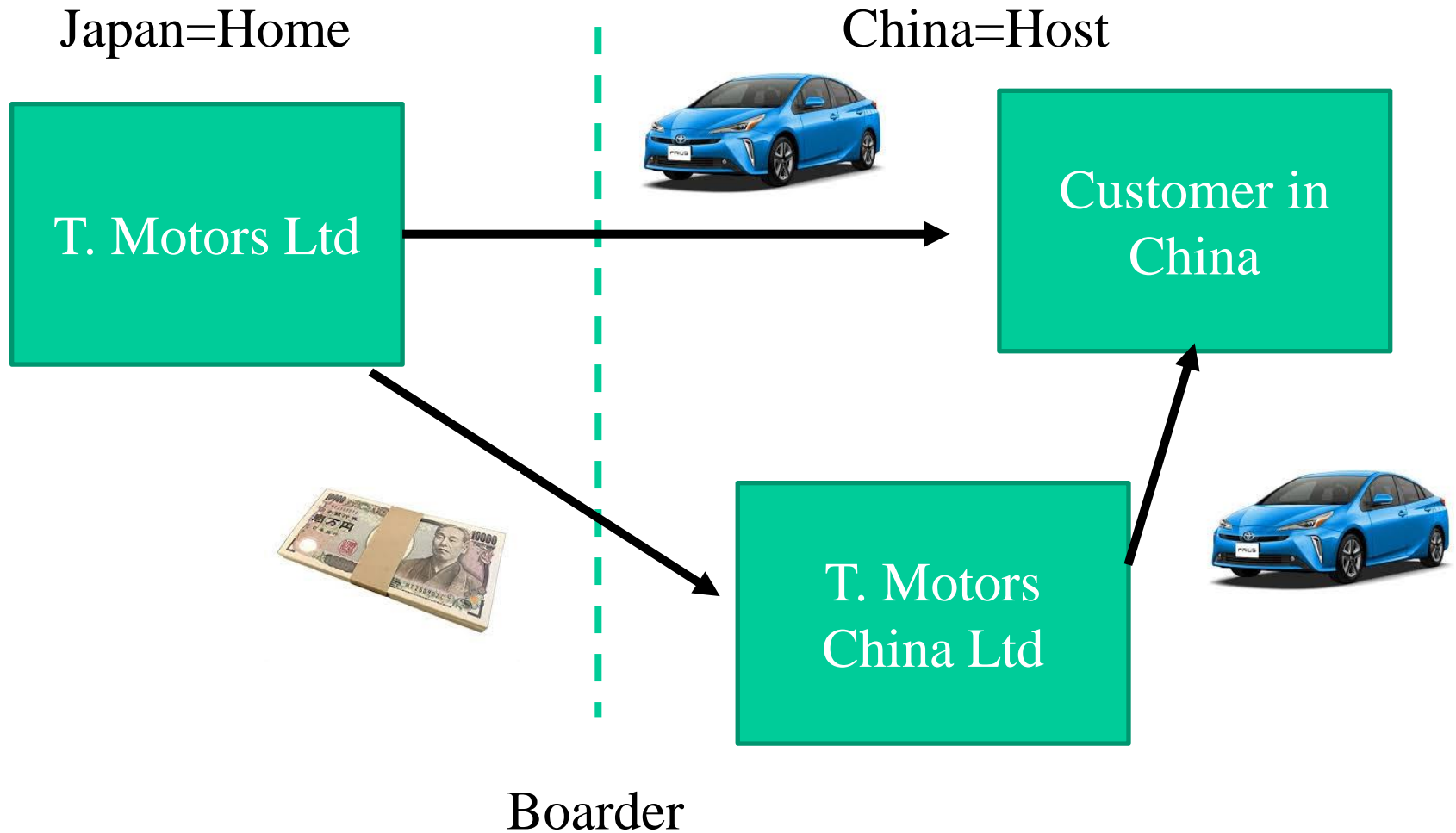
Case 1: Your company is exporting products to China, but local competition becomes intense and market share decreases.

- Reduce cost?
- New products meeting local taste?

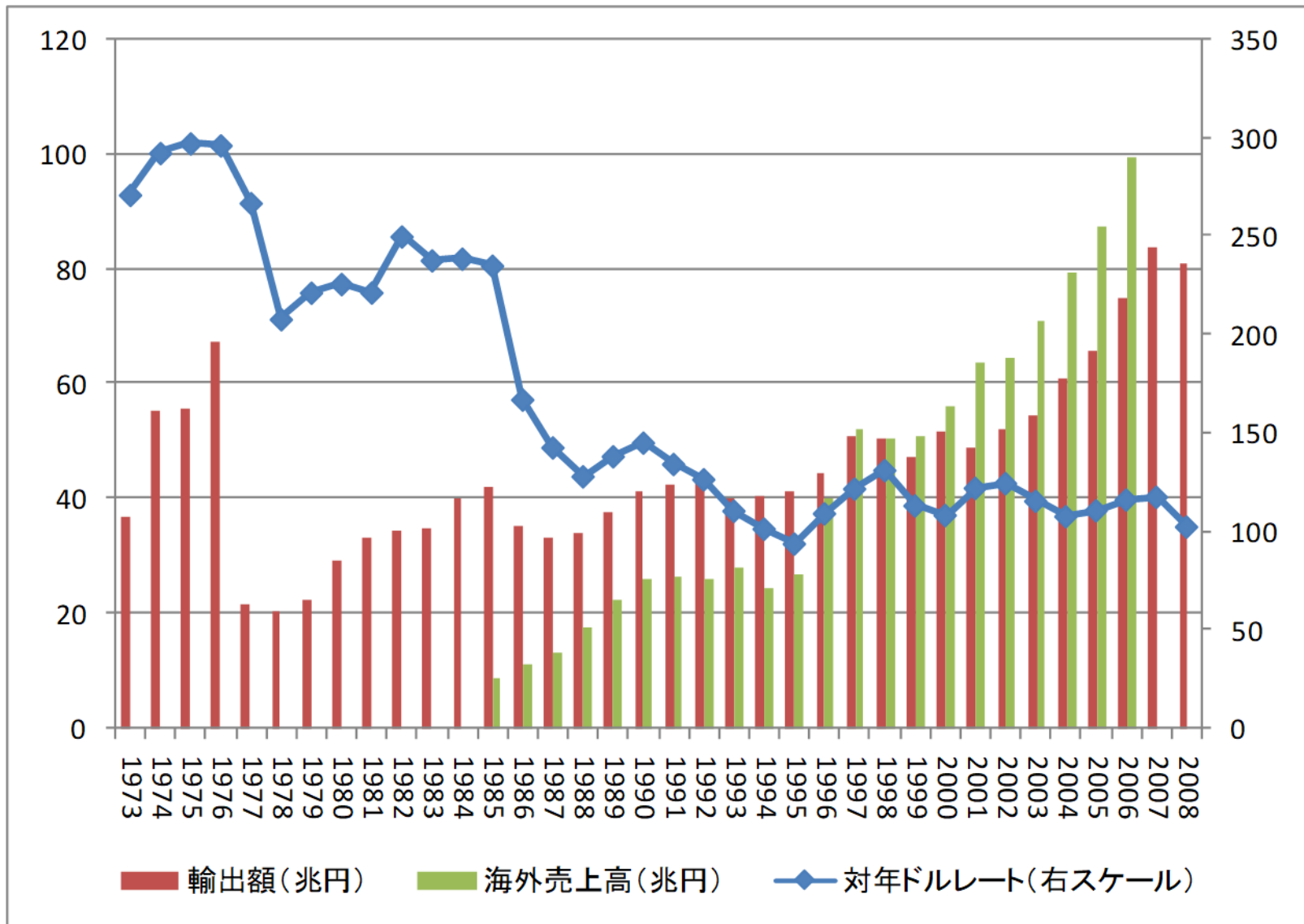
Case 2: Your customer company (your company is an auto parts supplier) demands you to open your factory in China.

- 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 FDI (Foreign Direct Investment)

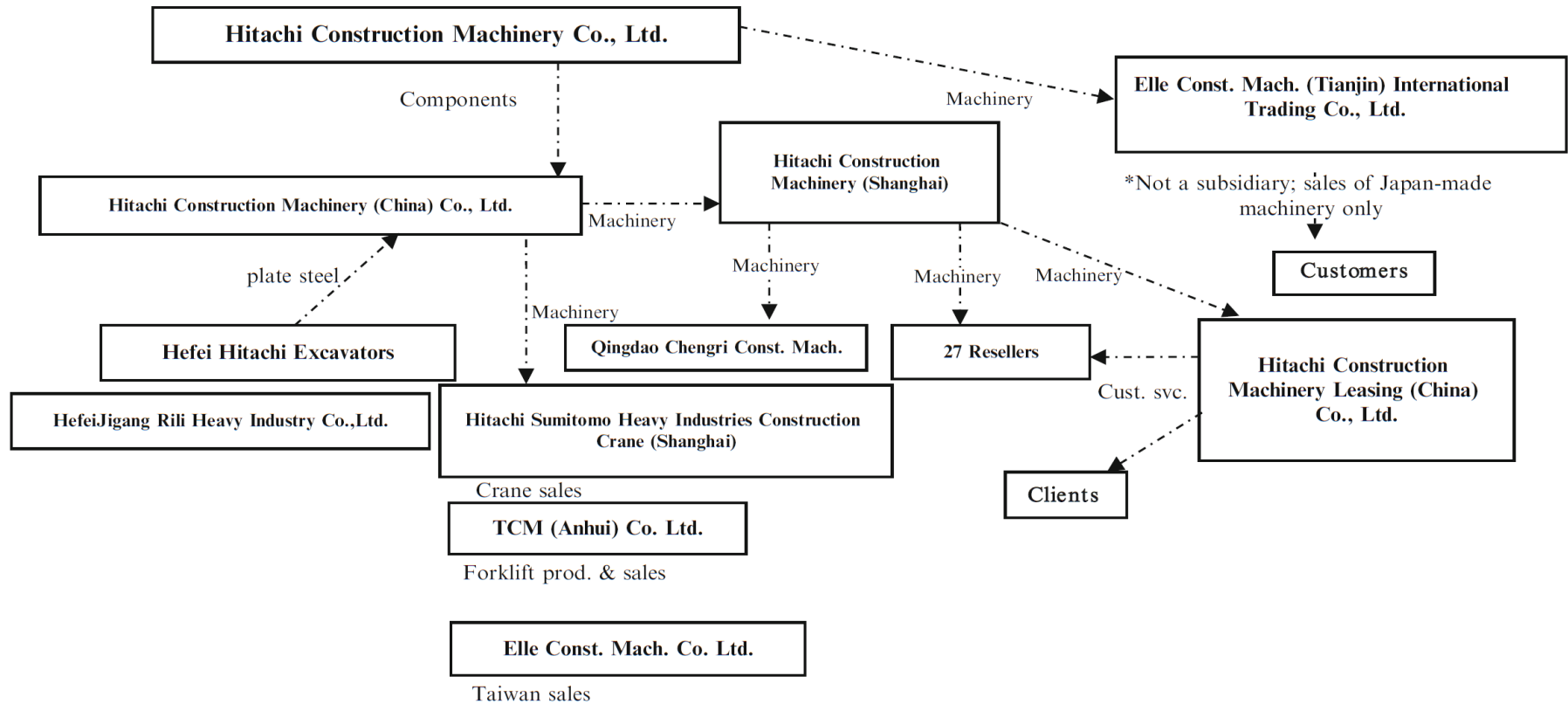


# Export vs Foreign Direct Investment



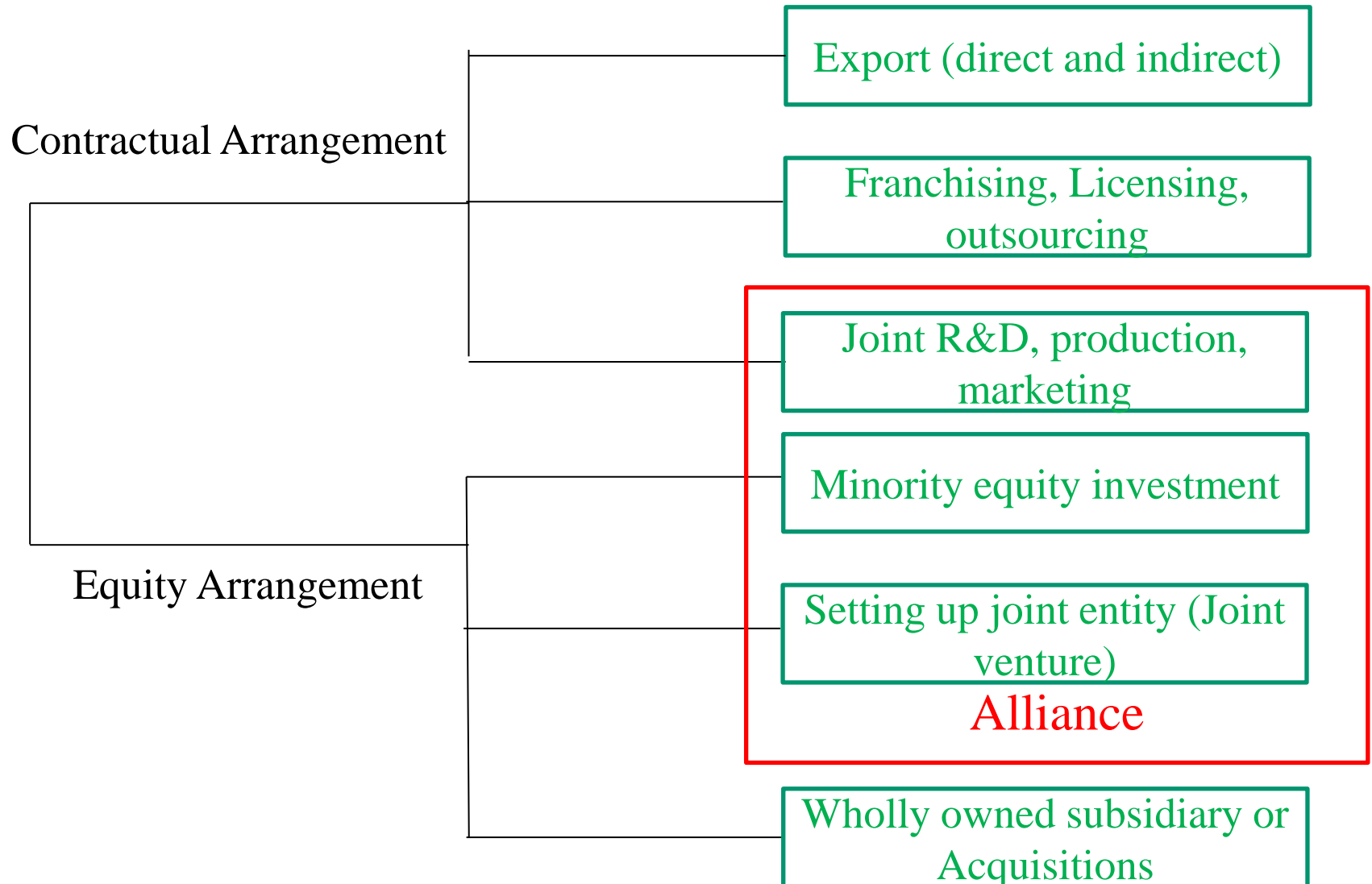


# Hitachi Construction Machinery Subsidiary in China



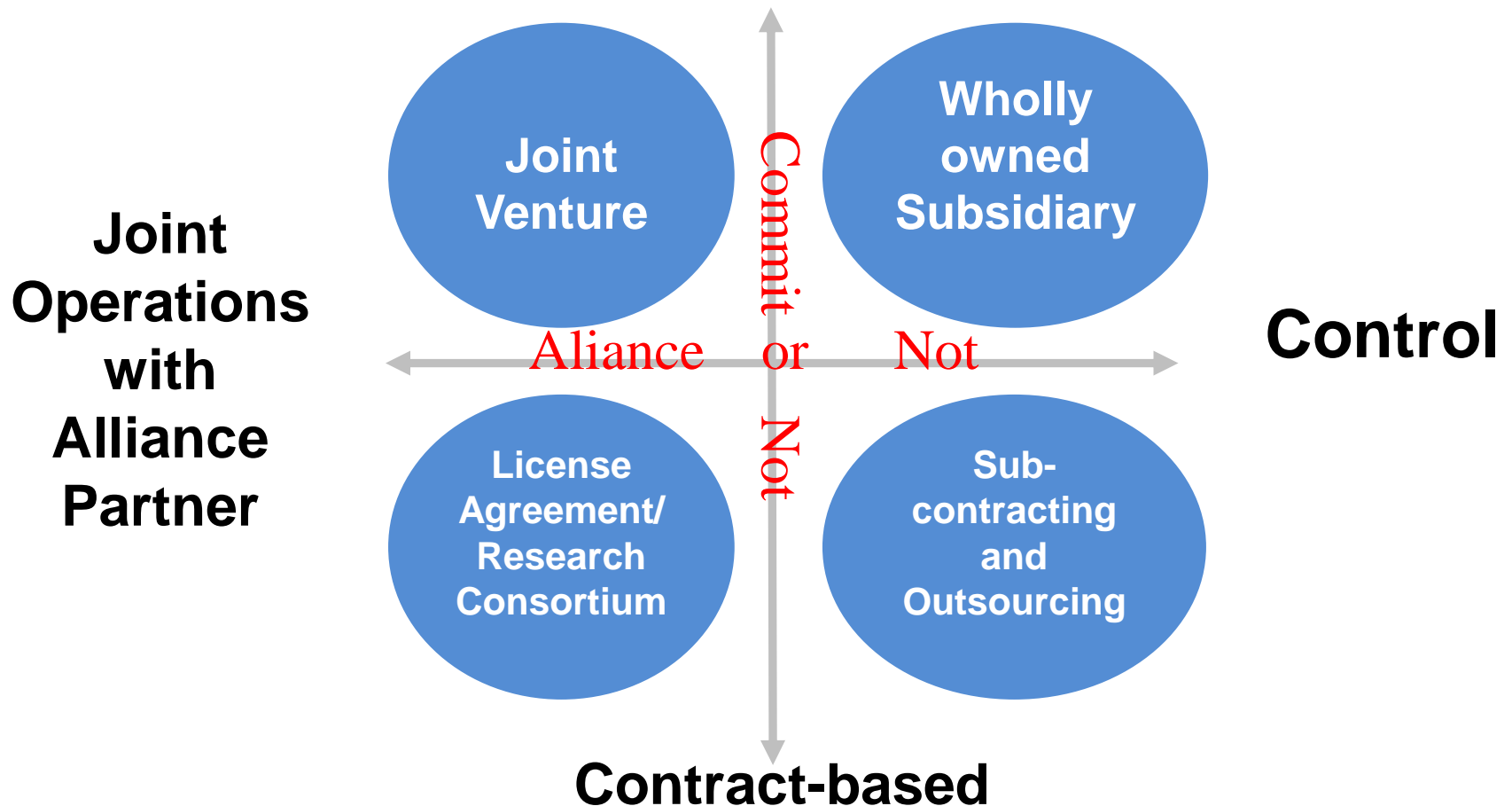
**Fig. 8.2** Structure of HCMC and its subsidiaries (*Source:* Interviews with Hitachi Construction machinery personnel)

# Method of reaching international markets



# “Alliance” or “Solo”

**Equity Investment**



# Mini Case: JV or 100% subsidiary

## Setting

Electronics firms seek for FDI in China

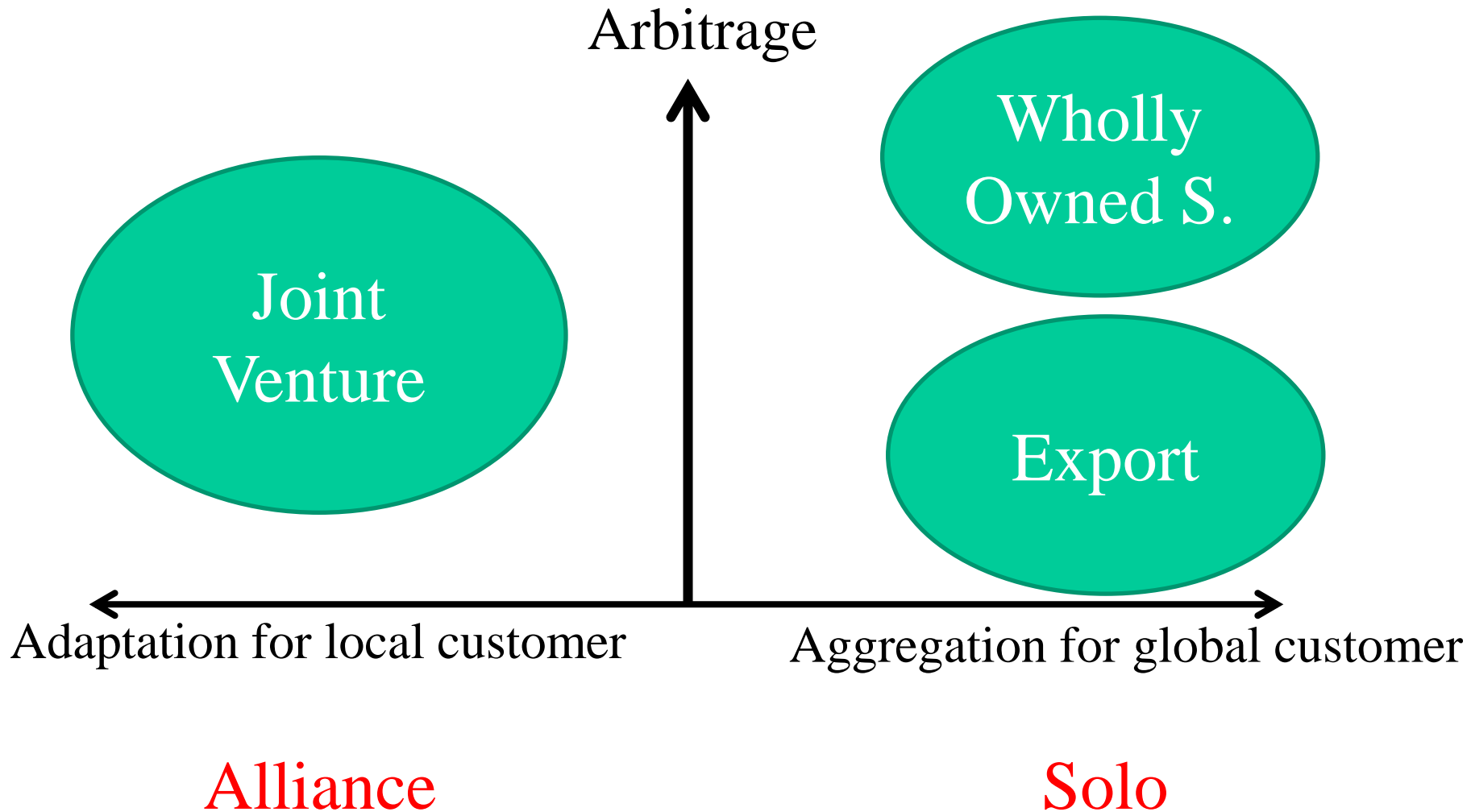
## Discussion point

- 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)

# AAA and Entry Strategy ?



# 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 Regulations over FDI

## 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

# 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.

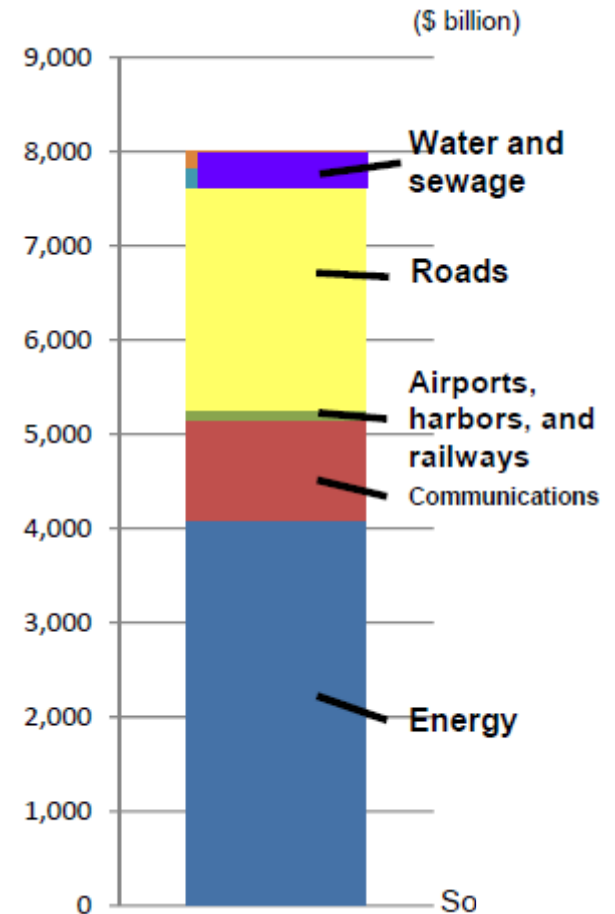
# Supplementary Contents

# Growing importance of strategic alliance

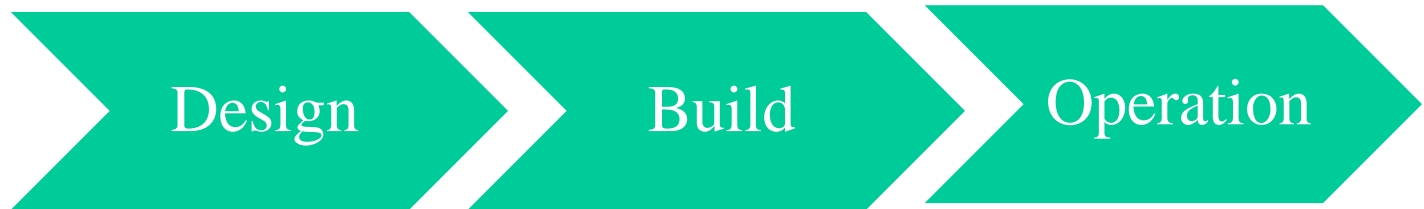
Strategic alliance	Regular JV
Core business	Non core business
Wide area and broad terms	Specific area (ex. SPC)
Sometimes multiple counter-parts	One to one
Cooperation and competition (Co-petition)	Specific purpose (ex. Risk mitigation)

# Case: Infrastructure Export

- Infrastructure development needs in Asia : \$8 trillion market 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

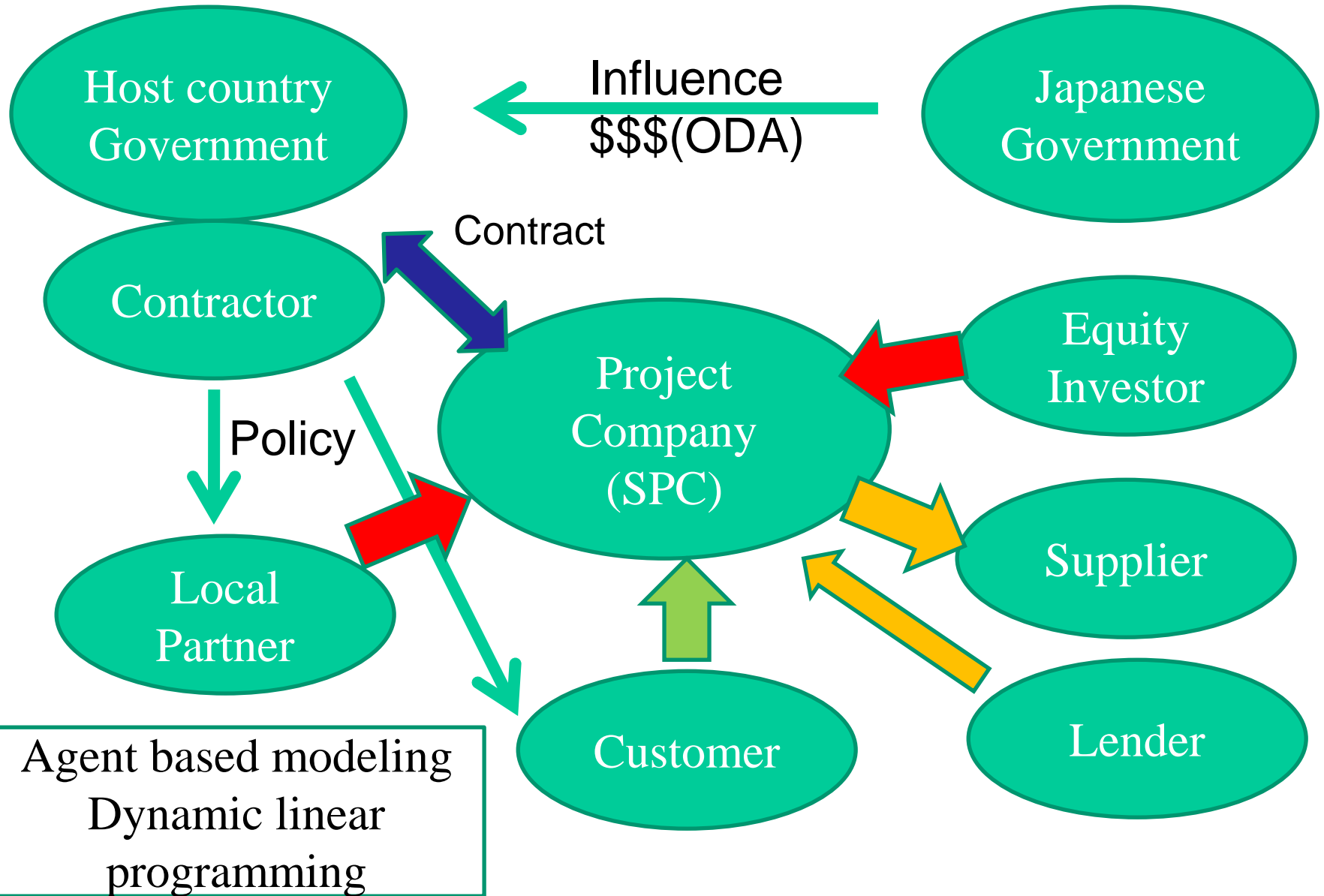


# Types of PPP (Public Private Partnership)



- 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

