Course Learning Outcomes for Unit V

Upon completion of this unit, students should be able to:

5. Explain and discuss global thinking and the value of adaptation in an intercultural, multi-cultural, and multi-diverse business environment.
   5.1 Explain reasons why strategic alliances are growing exponentially.
   5.2 Identify the categories of strategic alliances.
   5.3 Explain challenges MNCs face in evaluating alliance success.
   5.4 Discuss the reasons for use of e-commerce in conducting international business.
   5.5 Discuss how MNCs must address key barriers to e-commerce strategy formulation and implementation.

7. Compare and contrast business practices from cultures around the world.
   7.1 Recommend factors to be considered in choosing the right alliance partners.
   7.2 Discuss the influence and importance of culture in trust and commitment when establishing strategic alliances.
   7.3 Explain how MNCs must deal with global cyber space security and the cultural obstacles they face.

Unit Lesson

As we proceed in this course, we continue to explore key areas of multinational business operations from international perspectives. In this unit, our scope will be on international strategic alliances and multinational e-commerce covered in chapters 9 and 10 respectively.

Strategic alliances are growing at an increasing rate, especially in the BRIC (Brazil, Russia, India and China) countries. Thanks to its ease of establishment, flexibility and relaxed regulations in target countries, amongst others. Although, alliances fail largely due to poor management design and complexities arising from partnering with foreign companies, benefits abound. Such benefits include sharing of risks, sharing of technology, economies of scale, access to lower-cost materials and labor, ability to meet local government regulations, and access to knowledge of local market. Multinationals must understand the steps to be taken to be successful.

Multinationals planning on establishing a strategic alliance relationship must decide where to link in value chain, go through the rigorous process of potential partner based on certain required variables, choose an alliance type, negotiate an agreement, build the alliance organization, and build trust and commitment. The continuation of the alliance depends upon performance assessment, which confirms that strategic objectives have been met. Otherwise, the alliance is terminated. In some cases, instead of terminating the alliance, management may decide to review the alliance implementation process with the plan of installing corrective measures.
Unarguably, the most important decision in forming a strategic alliance is choosing the right partner. To be successful, MNCs cannot afford to make mistakes in partner selection. Key factors in partner selection must include: the ability to seek strategic complementarity (similarity of strategic objectives between partners), the ability to access partner’s complementary skills, the ability to seek companies with compatible management styles, mutual dependency, avoidance of anchor partners (partners stalling development of strategic alliance due to inability to meet financial obligations), avoidance of elephant-and-ant complex (inequality in sizes of potential alliance companies), the ability to assess potential partner’s operating policy differences, and the ability to assess the difficulty of cross-cultural communication. Naturally, the initial investigation conducted during the search for a strategic alliance partner would uncover the above selection criteria. If the investigation in selecting the partner does not present sufficient favorable results, while there are some attractions, the seeker is advised to proceed with caution.

In choosing the alliance type, there are three main categories: the informal international cooperative alliance (ICAs) (agreement to cooperate on value chain not legally binding), formal international cooperative alliance (a non-equity alliance with formal contracts stating specific contributions of each partner), and international joint ventures (IJVs) (a separate legal entity where two or more companies have ownership provisions). The decision on which type of alliance to establish depends on strategic objectives of management. But, IJVs especially, must be able to address certain key negotiation issues before signing on the dotted line. These key factors include: (a) types of products or services to be provided (b) location of the alliance (c) laws governing the alliance operation (d) partner responsibilities (e) royalties or profit allocation (f) form of company organization (g) ownership of technology developed during alliance (h) potential target market (i) need for prenuptial agreement and (j) dissolution process.

In any relationship, the basic elements of commitment and trust cannot be underestimated. Strategic alliances are not an exception. Another layer of complexity is added to trust and commitment elements of alliance relationships when we consider the marriage of different cultures. Most alliances fail when the initial commitment and trust dissipate. For strategic alliances to work, the partners must be able to go the extra mile in ensuring that the alliance works. Such may require attitudinal commitment, whereby there is identifiable willingness from the partner to dedicate resources, effort, and take risks. Another is fair exchange, which takes place when the partners receive benefits based on equal contributions. But, as the alliance relationship blossoms, a cumulative commitment arises. Such commitment involves the partner’s evaluations, expectations, and concerns regarding the potential. The driving force here is that strategic goals are achieved. However, building trust requires picking your partner carefully, aligning your strategic goals with those of your partner, aiming for win-win situations, investing in multi-cultural training, investing in direct communication, and finding the right level of trust and commitment.

Assessing strategic alliances poses challenges to multinationals especially if the alliance contribution cannot be quantified with "hard" facts on financial statements. When the alliance assessments can be conducted using financial metrics of sales, return on investment, and other financial ratios, multinational management can determine direct benefits of the alliance. For those that provide indirect strategic contributions, some other softer metrics (alliance satisfaction, goal attainment, capturing market share, or harmony amongst partners) will have to be used. In general, since measurement of alliance contributions may be problematic, emphasis should be on assessing the alliance based on initial strategic goals and whether those goals have been achieved.
The second part of this unit discusses e-commerce strategies and structures. Since you are familiar with most e-commerce terms by way of daily use of the Internet and exposure to technology literature, this brief second part will be devoted to principal areas of the chapter most relevant to multinational management operations. Specifically, we will superficially identify major attractions of e-commerce, steps for successful e-commerce strategy, barriers to e-commerce and how to eliminate them. Lastly, and very briefly, we will explore multinational e-commerce strategy formulation.

The multitudinous benefits of using the Internet for providing information, conducting business, and educating consumers make the use of the Internet unarguably desirable. The allures of e-commerce include significant cost reduction, readily available technology, improved efficiency, convenience of use, speed of access, absence of cultural conflicts and differences, absence of cross-border transaction complexities (e.g., tariffs), and the ability to customize websites for customers. In building websites, multinationals must decide whether to create a *standardized website* (one-size-fits-all) or a *localized website* specifically adapted to local cultures. But e-commerce companies lacking the IT resources may outsource technical capabilities by employing the services of *e-commerce enablers* which are e-commerce companies that provide software and services that translate websites and information, and calculation of shipping costs, value-added taxes, and duties.

For multinationals to be successful in the international cyber space, particular attention must be paid to e-commerce basis strategic development. Fundamentally, the MNC must have strong leadership, be able to build on current (already successful) business model, meet challenges and address obstacles in e-commerce organizations, properly allocate resources, develop a working strategy, develop effective e-commerce system and be able to measure success with essential metrics.

Because of the hypercompetitive environment in which multinationals operate, the latter must have in its weaponry essential tools in addressing the key barriers to e-commerce strategy formulation and implementation. Such barriers include, but are not limited to: shortage of skilled, trained information technology personnel, lack of awareness of e-commerce technology and benefits, inability to find partners that are strategically compatible, cyber space security, lack of trust between partners, insufficient IT infrastructure, and difficulty in integrating current system with e-commerce. Multinationals engaged in e-commerce must be able to address the aforementioned bottlenecks.

Multinationals that conduct e-commerce must be able to develop information systems equipped with the ability to rapidly respond to growth challenges; make decisive moves relating to creativity, innovation, and flexibility; attract and retain specially trained IT staff, and develop an effective management team. Addressing e-commerce security, the gamut of which are bank fraud, hacking, and software piracy, poses unique challenges to all organizations using the Internet. Multinationals must be concerned with consumer confidentiality, information availability, data integrity, and authentication while dealing with myriad industry-specific regulations, as well as multi-government requirements. While the concerns cannot all be totally addressed, the silver lining is that over-the-shelf and customized firewalls, anti-virus software, and data encryption are readily available to multinationals.

This unit has exposed us to the dynamics of strategic alliances and the challenges multinationals face in setting up strategic alliances. Furthermore, we have been able to understand how MNCs address these challenges, as
well as implications for strategic development and formulation in addressing these challenges. We superficially discussed the importance, benefits and challenges in e-commerce and how multinationals can capitalize on its allures which simultaneously dealing with major concerns that may negatively impact the operations of not only multinationals, but other organizations that depend on the use of the Internet for survival and continuous operation.

**Supplemental Reading**

Click [here](#) to access the Chapter 9 Presentation in PowerPoint form. Click [here](#) to access a PDF version of the presentation.

Click [here](#) to access the Chapter 10 Presentation in PowerPoint form. Click [here](#) to access a PDF version of the presentation.