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International Strategic Alliances

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Abstract: **This Paper International Strategic Alliances describes about how companies globally depend on other companies for their mutual benefit. Covering various parts of International Strategic Alliances like scope, types, nature, it will give the reader a huge detail into the vast topic.**

Keywords: **International Strategic Alliances, scope, types, nature.**

I. INTRODUCTION

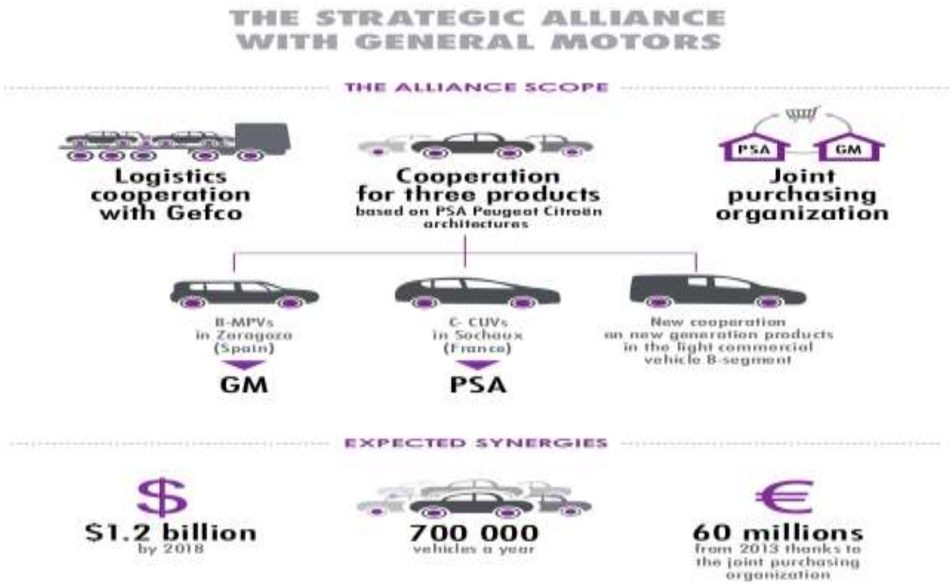
Every MNC is not capable of making itself a standalone firm in front of the present global village. Companies come together to get their work done and in such a way which benefits either of the participating firms. This is called an International Strategic Alliance. This is what this journal is going to teach you.

II. OPENING CASE

A global strategic Alliance with General Motors:

On 29 February 2012 PSA Peugeot Citroën and General Motors announced the creation of a Global Strategic Alliance built around two main pillars: the sharing of vehicle platforms and the creation of a global purchasing joint venture. In March 2012, as part of a capital increase with preferential subscription rights of roughly €1 billion, General Motors became the number-two shareholder of PSA Peugeot Citroën with 7% of total capital.

On 20 December 2012 PSA Peugeot Citroën and General Motors announced further developments, details of which were disclosed on 24 January 2013 at a press conference given by Steve Girsky, vice chairman of General Motors and chairman of Opel's Supervisory Board, and Philippe Varin, Chairman of the Managing Board of PSA Peugeot Citroën. Definitive agreements on purchasing, logistics and joint vehicle development have been signed in line with the original schedule.



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III. NATURE OF STRATEGIC ALLIANCES

Strategic Alliances are mutual corporate agreements made between two or more companies in order to attain mutual objectives especially profits. There are more than 500 alliances in the airlines industry and a lot more in the Automotive industry. In the above case taken where Peugeot Citroen gets into an alliance with GM (General Motors), the main point to be noted was regarding the scope or longevity of the assumed project. No two or more companies would come along if they realize that their actions will lead to failure of their work. It involves a lot of costs, not only in the form cash but also time and energy.

Alliances are not made for the short term but it is for the long term. Companies cannot realize their purposes in a single year but it takes a whole lot more than a year. In the preceding example what we can see is that Peugeot Citroen and GM are in for an alliance not for just this year. They have also made plans for 2018 and their countries of operation like Sochaux in France and Zaragoza in Spain. If noticed there also counts made in the number of vehicles to be launched in the coming financial year i.e. 700,000 and an estimated deal of $ 1.2 Billion.

Strategic alliances are generally categorized into three parts. Non- Equity Alliance, Equity Alliance and Joint Venture. In a Non-Equity alliance companies come together and proceed with their work but they do not assume the owners position that is they do not share equity. In an Equity alliance, companies supply equity holds to alliance companies to work on, thus assuming the owners position. In the case analyzed earlier Peugeot Citroen have come into an Equity alliance with GM. A joint venture, firms form another legally independent firm where they invest and share profits. For example Bharti and Airtel formed an individual firm called Bharti Airtel. Thus, the three International Alliances are,

1.0 Non - Equity Alliance

2.0 Equity Alliance

3.0 Joint Venture

IV. TYPES OF STRATEGIC ALLIANCES

The scope of Strategic alliances might vary according to the tasks done by the partners. There can be strategic alliance where partners take part in all the activities of the business. Whereas, there are cases where partners take care of the narrow aspects of the business like Marketing, Finance, R&D etc.

1.0 Comprehensive Alliances:

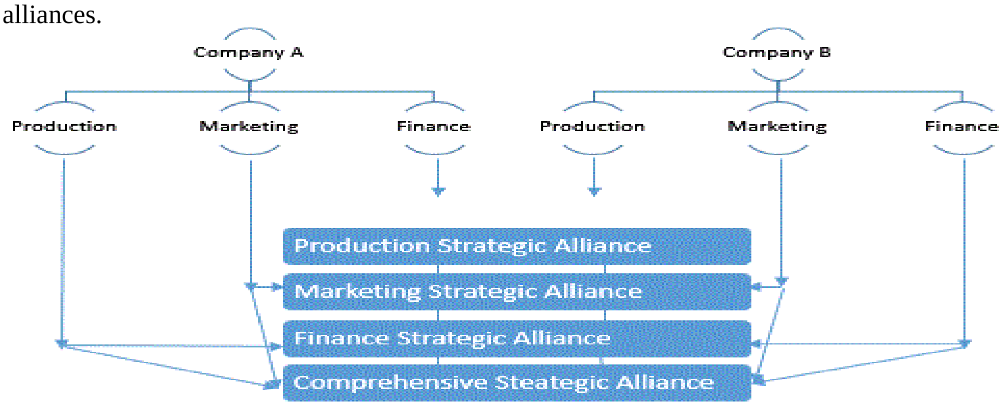
These are alliances where firms get involved in all the activities of each other. They work as a whole rather than in individual sense. They are collaborative agreements between companies. Mainly they are assumed as Joint Ventures.

They are difficult to form. There are numerous areas of collaboration to be addressed and to get into deal with. As a result such alliances normally may involve two MNC's and will upgrade over time.

2.0 Functional Alliances:

Functional Alliances have a very narrow scope. The vary from cover production, marketing, finance or R&D. The Joint venture scope is never taken up in such cases.

Production alliance is an alliance where two or more companies join together to take care of production activities. It either takes place in a shared or a common place where both companies work together. In a marketing alliance, two or more companies come together to share marketing services of each other. Similarly others like finance, R&D etc. As the name suggests Functional Alliances only focus on certain functions specifically, rather than the whole company as in the case of Comprehensive alliances.



V. FAILURES IN STRATEGIC ALLIANCES

After the Breakup: The Troubled Alliance between Volkswagen and Suzuki:

TOKYO—An international court has ordered Volkswagen AG to sell its nearly 20% stake in Suzuki Motor Corp., allowing the Japanese auto maker to extricate itself from the tie-up after a four-year struggle.

The decision, by the London Court of International Arbitration, stamps an official imprimatur on the divorce between VW, one of the world's largest auto makers, and Suzuki, which is a niche competitor globally but has a strong presence in India and other emerging markets. Their partnership went sour not long after the deal was struck in 2009, indicating the challenges facing the growing number of international alliances in the auto industry.

Though the arbitrator ruled that Suzuki could buy back its stake from VW, it also said Suzuki breached the alliance agreement. Suzuki said it might have to pay damages to the German car maker, adding that details would likely be addressed in future arbitrations.

Volkswagen said it expected an earnings boost from the sale of the Suzuki stake, which was valued at roughly $3.8 billion at the close of trading Friday. "We welcome the clarity created by this ruling," it said in a written statement.

The decision, which Suzuki said it received late Saturday, highlights the obstacles confronting second-tier automakers that lack the financial resources and scale of major automakers in an increasingly costly and competitive sector. Automakers face rising development costs to meet tougher fuel-consumption regulations, and deep-pocketed technology companies such as Google Inc. are entering the industry.

Osamu Suzuki, the 85-year-old chief executive of the Japanese car maker, said that his company won't seek new partners soon.

"The premise of our future is that we will be independent," he said during a news conference on Sunday.

When the two companies entered their partnership, Suzuki hoped to tap Volkswagen's advanced fuel-efficient technology, while Volkswagen coveted the Japanese car maker's expertise in small cars and India.

Suzuki's Indian subsidiary, Maruti Suzuki, is the best-selling auto maker in that rapidly growing market.

In 2010, Volkswagen purchased a 19.9% stake in Suzuki for about €1.7 billion, or approximately $1.9 billion at current exchange rates.

But differences in corporate culture soon emerged. Volkswagen alleged that Suzuki breached the alliance agreement by buying diesel engines from Fiat SpA of Italy; Suzuki denied that this was against the terms. In late 2011, Suzuki filed for arbitration, demanding that Volkswagen return its stake in the Japanese car maker.

While the dispute was a headache for Volkswagen, which hoped to fill in the missing pieces of its global portfolio, it had a bigger impact on Suzuki, which was left to develop its own fuel-efficient technologies.

The dispute also delayed the Japanese auto maker's efforts to rejuvenate its leadership, because it had expected the court to reach a decision earlier. The company held off on changes to its top executive ranks until June, when Mr. Suzuki handed over the titles of president and chief operating officer to his son Toshihiro.

The elder Mr. Suzuki said he couldn't wait any longer for the arbitrator's decision, or else the automaker would be left behind. He stayed on as CEO.

On Sunday, when asked whether he would step down, the elder Mr. Suzuki said he hadn't thought about it.

Over the past two years, Suzuki has developed new fuel-efficient technologies on its own.

Unsettled issues remain over the alliance dispute. Suzuki is set to purchase the shares from Volkswagen based on the market price, but the companies didn't say when the buyback would take place.

Suzuki executives also didn't say whether the company would have to raise fresh capital to do so, or whether the Japanese automaker would cancel the shares it buys back. Suzuki owns a 1.5% stake in Volkswagen. It will consider what to do with those shares, said Vice Chairman Yasuhito Harayama.

Critical Analysis:

With a mutual objective to achieve resource and market, Volkswagen and Suzuki made an agreement to fall together and make an International Strategic Alliance. Volkswagen needed to enter the quickly developing Indian market. However, its inability to make small cars, and no such partner company which can help it get into the Indian market, there was always a resistance. In India, Suzuki had a great hold over the market. Suzuki could actually help Volkswagen enter Indian market. Suzuki on the other hand lacks innovation on gas-electric, electric vehicles and other fuel-effective cars. This collaboration can give the advancements the others need which make this association happen. Volkswagen accepted such proposal to use Suzuki's hold over the Indian market. Suzuki on the other hand accepted this proposal to build their international forms and use Volkswagen's advance resources for manufacturing their automobiles.

Reasons for Break-up:

In March 2011, VW termed Suzuki as its 'associate' in its annual report. The disagreements between the two partners only escalated.

Cultural mismatch:

Keeping in mind the end goal to the social contrasts, they neglected to construct shared trust. European organizations were quick in deciding, yet here and there things are somewhat diverse in Japanese Society.

Disagreements in technology sharing:

Volkswagen and Suzuki neglected to share innovation to one another. They needed the cutting edge innovation from one another however are not willing to respond.

Problems in policy and cooperation:

the media war between the organizations got more out of control by the day. They harmed one another and developed the inconsistencies between the two organizations.

VI. DEVELOPMENT OF STRATEGIC ALLIANCE

A run of the mill key cooperation development process includes these strides:

Strategy Development:
Strategy improvement includes examining the collusion's achievability, targets and method of reasoning, concentrating on the real issues and difficulties and advancement of asset methodologies for generation, innovation, and individuals.

Partner Assessment:

Partner evaluation includes investigating a potential accomplice's qualities and shortcomings, making techniques for pleasing all accomplices' administration styles, planning suitable accomplice determination criteria, understanding an accomplice's intentions in joining the organization together and tending to asset ability crevices that might exist for an accomplice.

Contract Negotiation:

Contract arrangements includes figuring out if all gatherings have sensible targets, framing high gauge arranging groups, characterizing every accomplice's commitments and prizes and also ensure any exclusive data, tending to end provisos, punishments for poor execution, and highlighting the extent to which discretion strategies are obviously expressed and caught on.

Alliance Operation:

Alliance operation includes tending to senior administration's dedication, finding the gauge of assets gave to the union, connecting of spending plans and assets with vital needs, measuring and remunerating organization together execution, and surveying the execution and consequences of the collusion.

VII. STEP BY STEP INSTRUCTIONS TO MAKE A STRATEGIC ALLIANCE WORK

Guideline 1

Concentrate less on characterizing the strategy for success and more on how you'll cooperate.

Organizations have taken in the most difficult way possible not to go into a collusion without a point by point marketable strategy and contract. In any case, sound business arranging is just a large portion of the fight. Harping on a formal arrangement can darken the basic need to investigate and illuminate in advance the way of the accomplices' working relationship what they will do as well as how they will connect.

Individuals included in the several fizzled partnerships we have seen throughout the years have reliably indicated breakdowns in trust and correspondence and the powerlessness to determine an unavoidable progression of contradictions as the most widely recognized reasons for disappointment. Better business arranging was referred to infrequently—and all the more painstakingly made contracts never—as something that could have spared those unions.

Guideline 2

Create measurements pegged to collusion objectives as well as to union advancement.

At the point when accomplices take a seat to make collusion scorecards, they normally pick such objectives as expanded income, decreased costs, picks up in piece of the overall industry, and so forth. They then promptly start to gauge collusion execution against those objectives, regularly as oftentimes as once per month.

Once in a while, be that as it may, does a cooperation yield noteworthy results in the primary months or even in the principal year or two. By their inclination, organizations together normally require extensive speculation and exertion before a considerable result is figured it out. Gone up against with reports that demonstrate a non-attendance of result, accomplices regularly lose trust in the endeavor. Senior administrators' consideration melts away, assets are redeployed somewhere else, and spirit droops, very much of the time prompting the partnership's downfall.

Guideline 3

Rather than attempting to take out contrasts, influence them to make esteem.

Organizations partner since they have key contrasts they need to influence—distinctive markets, clients, know-how, procedures, and societies. It takes most directors in another collusion around two months to overlook this.

Indeed, in the lion's share of organizations together a huge measure of time and consideration is spent in endeavors to minimize struggle and achieve concurrence on what ought to be done and how to do it. This practice reflects more than an estimable spotlight on execution: It emerges from a profound uneasiness with contrasts and strife and a mixed up conviction that the same administration techniques that (occasionally) work inside of an organization will work just as well in a joint effort with outer accomplices.

VIII. ASSESSING STRATEGIC ALLIANCES

Step One: Clearly Define and Validate Your Market

Step Two: Develop Partner Selection Criteria

Step Three: Identify and Prioritize Partner Candidates

Step Four: Prepare "Accomplice Proposition Worksheet"

Step Five: Conduct Recruitment Call(s)

Step Six: Conduct Due Diligence

Step Seven: Negotiate Partnership Agreement

Step Eight: Develop an understanding between each other

IX. THOUGHT OF STRATEGIC ALLIANCES

Simplicity of business sector passage:

Advances in information transfers, PC innovation and transportation have made passage into outside business sectors by universal firms less demanding. Entering remote markets further presents advantages, for example, economies of scale and degree in showcasing and appropriation.

Shared dangers:

Risk sharing is another normal method of reasoning for undertaking an agreeable game plan - when a business sector has recently opened up, or when there is much vulnerability and insecurity in a specific business sector, sharing dangers turns out to be especially critical.

Shared information and aptitude:

Most firms are able in a few zones and need skill in different zones; all things considered, shaping a vital organization together can permit prepared access to learning and mastery in a region that an organization needs. The data, information and aptitude that a firm picks up can be utilized in the joint endeavor venture, as well as for different tasks and purposes.

X. CONCLUSION

After a long research regarding International Strategic Alliances, we have come to a point where we know almost all the, main things about the topic. Strategic Alliances help companies to evolve into something they are really capable of. Thus, a strategic alliance is a major key to an International business.

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