STRATEGIC INTERNATIONAL ALLIANCES: THE BEST PATTERN OF ENTERING INTERNATIONAL BUSINESS FOR DEVELOPING COUNTRIES & LDCs

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Abstract : This paper is a primary attempt to find out the best strategy of entering international business specially for developing countries & LDCs with limited resources and technical knowledge among the various types of entry strategies of international business. From the last few decades, most of the developing countries & LDCs have been trying to compete coming forward in the world market with their limited resources but world class-global product. And in the mean time, many developing countries & LDCs have been already successfully come forward with their products in the world market by conceiving the best strategy of entering international business actually which is fit for them. Facing crisis for various types of difficulties of global market, the least developed countries (LDCs) and developing countries are continuously developing, updating and changing their foreign as well as international marketing strategies so that they can capture the major portion of world market. In considering this reality, this study contains a primary discussion on the definition of International Business, different strategies of International Business, a literature review on SIA and analyzing how SIA can be fruitful for the LDCs and developing countries as considering 'the best pattern' among all of the various types of entry patterns of international business. This study mainly highlights, observes and evaluates 'the total SIA system presenting 'how it's the best pattern of entering international business for developing countries & LDCs' so that all types of readers i.e. teachers, students, researchers, academicians, businessmen, entrepreneurs i.e. practitioners and others can properly enrich themselves in this field because it is one of the main fact that there is a little understanding among business practitioners, entrepreneurs and business executives of developing countries & LDCs' firms regarding its formation processes, the dynamics and evolution of inter-corporate relations and what are the factors that determine the success rate in strategic alliances. Besides, from this article, policy makers can get a clear idea about the future directions for theory construction and empirical research on strategic alliances specially for the economy of developing countries and LDCs.

KEY WORDS: LDCs, IB, IIM, SIA, MNEs, MNCs, Consortia, FDI, GDP, Franchisee, Franchisor, Licensee, Licensor, DBBL, Alliances.

I. INTRODUCTION

According to World Bank, "Maximum portion of total population of developing countries and LDCs always remains in below of poverty level because of their immature economy". And so, in this era of Globalization, international trade or business is equal important for all types of economy as like developed, developing and LDCs because it can bring success to these economies through increasing the volume of exports, enhancing job opportunities, technology transfer and increasing the overall government revenue. It is not only a way to achieve economic growth but also a stimulant for social and political development. Actually, this study specially is to find out, identify and examine 'how SIA is the best pattern for developing countries and LDCs among all of the international business entry strategies and through this strategy how they exceeds the economy of developed countries'. The material of this study have been arranged as follows: section-II gives the basic idea on International Business, in section-III about the methodology and objectives of this study, section-IV discusses and presents the different strategies or patterns to go into international business, section-V is about the-introductory discussion and literature review on SIA with some examples, section-VI about some successful examples on SIA of the MNCs of developed countries, section-VII presents some practical examples illustrating 'how the SIA can be a best strategy for developing countries and LDCs', section-VIII presents the limitations of SIA and in section-IX, reaches in conclusion.

II. WHAT IS INTERNATIONAL BUSINESS

International Business are those business activities that involve the crossing of national boundaries, these includes—
Import and export of commodities and manufactured goods.
Investment of capital in manufacturing, extractive, agricultural, transportation, communication and exchanging assets.
Investment in International services like—banking, advertising, tourism, retailing and construction.
Transaction involving copyrights, patents, trademarks and process technology.
Supervision of employees in different countries –etc.

III. OBJECTIVE AND METHODOLOGY

The main objective of this study is to examine the overall importance of SIA for LDCs & developing countries and at the same time its' contribution to the development of the economy of developed countries. In this study, author doesn't try to give new idea on SIA rather than present on how it's implementation works more effectively on the products, services and companies of developing countries and LDCs into the international business arena. The other objectives of the study are:

a) to highlight the practical scenario that means successful implications of SIA in developed counters.
b) to find out the contribution of SIA towards overall GDP growth, earning foreign currency and capital formation in the total world economy.
c) to identify when and how SIA is the best strategy among all of the entering strategies of International Business.
d) to find out the proper and practical reasons for implementing SIA in business sector.
e) to help today's managers and their companies be more successful in their efforts to create, guide, and thrive with alliance strategies.
g) to find out the way how to increase the corporate capital and corporate economy of developing countries and LDCs through SIA.

f) to provide better suggestions to the Companies of developing countries and LDCs for capturing the global business as a leading one by entering into the international business.

The study is mainly based on secondary data and the data have been collected from the reference books and journals about which the author has been said at the end of this paper.
The study also has been constrained by inadequate data and relevant studies and in this study, there has been not used any types of mathematical materials because it is fully a primary descriptive study about the practical implication of SIA. The author has been mainly dependent on electronic secondary data owing to the fact.

IV. DIFFERENT STRATEGIES OR PATTERNS TO GO INTO INTERNATIONAL BUSINESS

When a company makes the commitment to go international business, it must choose an entry strategy; this decision should reflect an analysis of market potential, company capabilities and the degree of marketing involvement.

In this context, a company has four different alternative patterns to involve in International business, they are : A) Exporting-Importing B) The Internet C) Contractual Agreement D) Foreign Direct Investment-FDI.

A) Exporting-Importing:

Exporting can be either direct or indirect; with direct exporting the company sells to a customer in another country. Indirect exporting usually means that the company sells to a buyer in the home country which in turn exports the product (Cateora, Philip.R. and Graham, John L.2001). *for example-BANGLADESHI GARMENTS PRODUCTS*. On the other hand, by 'Importing' company engage in international business buying its' raw-materials from foreign countries, *for example*-when a garments factory buys or imports raw materials and machineries for producing its final product, that is importing (Onkvisit, Sak & Shaw, Jhon J.2002).

B) The Internet:

Although in its infancy, the Internet must not be overlooked as a foreign market entry method. Initially, Internet marketing focused on domestic sales. However, now-a-days, a large no. of companies has started receiving orders from customers of foreign countries by International Internet Marketing(IIM) (Cateora, Philip R. and Graham, John L.2001).Now-a-days, most of the world famous MNCs are developing their strategies and web-design in such way so that they can process the order of their foreign buyers by using internet.

C) Contractual Agreement:

Contractual Agreements are long- term non equity associations between a company and another in a foreign market. Contractual Agreements generally involve the transfer of technology, processes, trademarks or human skills.Contructual agreements includes:

C.1. Licensing- it's an agreement that permits a foreign company to use industrial property that means-patents, trademark, copyrights and technical knowledge. A licensor (parent company) allows a foreign company (licensees) to manufacture a product for sale in the licensee's country and sometimes in other specified markets. In general, a license contact should include these basic elements: product and territorial coverage, length of contact, quality control, grant back and cross-licensing, royalty rate and structure, choice of currency and choice of law(Onkvisit, Sak and Shaw, John L.,2002).The main disadvantage of this mode is lacking of control over technology (HILL W.L.,Charles 2008). *for example*, *RANGS ELECTRONICS*, *COCA-COLA*, *KFC* etc. In here, Parents Company permits and controls various types of business(sister concerns) into the other nations for a certain period.

C.2. Franchising- it's a rapidly growing form of licensing in which the franchisor provides a standard package of products, systems and management services and the franchisee provides market knowledge, capital etc. Franchising is the fastest – growing marketing strategy. The Franchising system combines the knowledge of the Franchisor with the local knowledge and entrepreneurial sprit of the franchisee (Cateora, Philip R. and Graham, John L.2001). *for example*, *NOKIA* (runs operation in our country by combining our skill, technical and entrepreneurial knowledge with them), *COCA-COLA* (same as *NOKIA*), *KFC* etc. In here, Parents Company or Franchisor does not only permit but also operate or combine their knowledge with franchisee or sister concern for a certain period and can control the franchisees or sister concerns by reducing technical and entrepreneurial knowledge from corporate level. The main disadvantage of this mode is lacking of control over quality (HILL W.L., Charles 2008).

C.3. Joint ventures- it's simply a partnership formed by two or more individuals at corporate level that means two or more investors sharing ownership and control-it's like licensing and involve certain risks as well as certain advantages over other forms of entry into a foreign markets, joint ventures is one kind of SIA but all SIA is not joint ventures (Cateora, Philip R and Graham, John L.2001). *for example*, now-*COCA-COLA* is going to joint venture to bottle soft drinks in Ukraine-(actually, *COCA-COLA* enters into the international business by using various types of contractual agreements, like-franchising,licensing,joint- venturing etc. for selling their products in different countries) and in our country, *DUTCH-BANGLA BANK* (join venturing :Bangladesh and Netherlands)etc.

C.4. <u>Consortia</u>- it's are similar to the joint venture and could be classified as such except for two unique characteristics, they are-

i) it's an entry strategy that typically involve a large no. of participants &

ii) it frequently operates in a country or market in which none of the participants of the same business are currently active Consortia are developed for pooling financial and managerial resources and to lessen risks (Cateora, Philip R. and Graham, Jhon L.2001). *<u>for example</u>*, Construction Business. In this business, the main contributor is the owner of land and here, owner is the non-competitive factor among all other contributors in this business. Besides, various types of Software Making Firms which are related to expand its business in our country-like *'MICROSOFT'*. 'Consortia' involves in such countries where other competitors are absent & latest -

C.5. <u>SIA</u>- it's an international business relationship of different companies of different countries to share risk in achieving a common objective(Cateora, Philip R. 2001) that means –when a company is strong in R&D and weak in Marketing skills then it seeks an alliance to offset its' weakness and at that time another company provides the Marketing skills to successfully market the products and thus both are gainer by earning profit, SIA may be the result of mergers, acquisitions, joint ventures and licensing agreements (Onkvisit, Sak and Shaw, Jhon J 2002). *<u>for example</u>*, *IBM* (produces only desktop & laptop computers' monitors and it's alliances with various types of printers' company like-*DELL,COMPAQ, HP, CANON* etc), *MICROSOFT* (produces many types of software but it's alliances with computer hardware making companies) – etc). In this perspective, we can say-joint venturing, franchising and licensing are also one type of SIA but when you can't identify the business agreement of different companies of different countries in a specific form then it must be into this form that is 'Strategic International Alliances (SIA)'.

D) Foreign Direct Investment-FDI:

Foreign Direct Investment means investment within a foreign country, *<u>for example</u>*- recently, *EXIM BANK* opens a foreign exchange firm in England. FDI is the key way to increase national revenue and expand any country's share in world trade and investments.

V. LITERATURE REVIEW ON STRATEGIC INTERNATIONAL ALLIANCES (SIA)

Now-a-days, Strategic International Alliances (SIA) is the most favorable and cost-effective strategy out of all theses modes of entering international business discussed above. It may also essential in any entry mode which has already been used. Actually, it (SIA) has grown in importance over the last few decades as a competitive strategy in global marketing management. However, to attain a clear conception on it and to prove 'how it is the best among all of the international business entry modes for developing and least developing nations' we have to go the following discussion.

"SIA is concerned specifically with Strategic Alliances between firms from different countries. Strategic Alliances run the range from formal joint ventures in which two or more firms have equity stakes to short-term contractual agreements in which two companies agree to cooperate on a particular task (HILL W.L., Charles 2008)". On the other hand, Most of the International Businessmen believe--"SIA is an International Business Relationship to co-operate out of mutual needs of different companies (IVAN HOFFMAN, B.A., J.D.)".

SIA has become quite fashionable for new media and Internet companies to form "strategic alliances." The parties often talk about this relationship as though there were actually some legal validity to it. It makes for wonderful cocktail party talk until there is a problem and then the parties may come to find out that they have created not a "strategic alliance" but a "monster". On the other hand, he added, "Strategic Alliance"-the term merely is lay talk for describing some form of relationship but is not, in itself, a legal relationship. It is not like a partnership or a joint venture that has a long standing history in both statutory and case law.

Actually, A Strategic International Alliance (SIA) is an international business relationship established to co-operate out of mutual need and to share risk in achieving a common objective(Cateora, Philip R. and Graham, John L.2001)- *<u>for example</u>*, "When a company is strong in research and development (R&D) skills and weak in the ability a successfully market a product may seek an alliance to offset its weakness then one or another partner to provide 'marketing skills' and other to provide 'technology and product'. In this way, through these strategic alliances, they all can establish a business relationship and work together to achieve a common objective in International Business.

A strategic international alliances (SIA) implies that –

there is a common objective of two or more companies.
one partner's weakness is offset by the other's strengths.
reaching the objective alone would be too costly, take too much time, or be too risky.
together their respective strengths make possible what otherwise would be unattainable.

So in a short-senses, we can say that it is a synergistic relationship established to achieve a common goal where has both parties' benefit, *For example, we can present the SIA of three (3) companies –*

Three (3) Companies' Alliances-"C-ITOH (Japan), TYSON FOODS (USA) & PROVEMEX (Mexico)"-

It is an alliance that processes Japanese style "Yakitori" a kind of snack for export to Japan and other Asian countries. Each company had a goal and made a contribution to the alliance.

***C-ITOH(Japan)*- ** goal was to find a lower cost supply of "Yakitari" because it is so labor intensive, it was becoming increasingly costly and non-competitive to produce in Japan. C-ITOH's (Japan) contribution was access to its distribution system and markets throughout Japan and Asia.

PROVEMEX (Mexico) - contribution was to provide highly cost-competitive labor. So, from this example, we can see that through this alliance, they all are benefited. PROVEMEX (Mexico) acquired the know how to debone the dark meat used in "Yakitori" and was able to vertically integrate its operations and secure foot hold in a lucrative export market.

TYSON FOODS (USA) - earned more from the sale of surplus chicken legs than was previously possible, and also gained an increased share of the Asian market. C-ITOH had a steady supply of competitively priced "Yakitori" for its vast distribution and marketing network.

So, from the above discussion, we can say that this is a collaborative relationship among the three companies with their individual strengths created a "successful alliances" in which each contributes and each benefit.

VI. SOME SUCCESSFUL EXAMPLES OF 'SIA' IN WORLD-FAMOUS MNCs OF DEVELOPED COUNTRIES

Company alliances are not new to business enterprises. Joint ventures, licensing, franchising, equity ownerships and other forms of business relationships are well-known co-operative business agreements. Many Joint ventures were established for legal and political recessions, before NAFTA (Mexico, Canada & USA), *for example*, Mexican law required 51 percent local ownership for investments in Mexico. To minimize risk in politically unstable countries, companies sought local partners to help ward off expropriation and other forms of political harassment. When political and legal reasons for SIA's still exist, the growing importance for SIAs is attributed more to competition and global expansion.
Besides, over the last few decades, it was to be more accepted by the large MNC's and foreign companies all over the world, because from this period, it expanded product lines, made the company more competitive and reduced the investment and time.

And in this scenes, IBM is the most practical example. IBM uses services of alliances with Japanese suppliers to fill out its product line –SEIKO EPSON produces several key components for IBM's proprietor, and an alliance with CANON provides the color printer used in many of IBM's desktop publishing and printing systems. The world famous MNCs like-GENERAL MOTORS CORP., BMW MOTORS, TITAN WATCHES, COCA-COLA, KFC, PEPSI also involve in such alliance. Thus SIA's involving in large co-operation like IBM and GENERAL MOTORS makes its application more acceptable to international businessmen. And so, as a university teacher of international marketing, I think, 'in Bangladesh, the Bangladeshi private universities, Bangladeshi Shrimp Exporting Companies, Bangladeshi Tea Processing Companies, Bangladeshi Garments factories and Bangladeshi other large or small companies must follow the above alliances of world-famous MNCs to earn more and more profit as well as goodwill in the today's global market arena to become as a developed one' .

VII. HOW 'SIA' CAN BE IMPLEMENTED IN THE DEVELOPING COUNTRIES & LDCs 'AS THE BEST PATTERN OF ENTERING INTERNATIONAL BUSINESS'

With the current trend toward globalization and the increasing competitive and technological challenges of today's global environment the formation of international strategic alliances for developing countries and LDCs has become an important part of many not only large but also medium or small firm's international business strategies.
Now-a-days, being a developing country 'Thailand' had developed this theory of international business for their many firms. Besides, we found that: Affiliation of this theory (SIA) in small and medium-sized MNEs of another developing country 'Korea' which favored joint ventures with local firms rather than wholly-owned subsidiaries; ownership rate was directly related to the degree of control from the parent firm; and performance was determined significantly by the degree of control exercised by parent firms and their exporting levels. Age, size, and R&D expenditures had no relationship with the performance of affiliates of small and medium-size MNEs in Korea.
Actually, in this article, the author has highlighted the implementation of SIA specially for developing countries and LDCs for becoming theses countries as a developed one. Now, we can come or see to our country 'Bangladesh' which is a developing one.

In Bangladesh, this concept has not yet been implemented much. On the other hand, Bangladesh has already entered into the international business with many of her products and services through other international business entry strategies as like-exporting-importing, internet, licensing. FDI etc. Recently, one of it's local company *'DISTINY-2000*' has adopted this idea in their marketing sector. But they are not going into the right implementation of SIA. As a Bangladeshi Marketing Company *'DISTINY-2000'* has made alliances with more than 100 MNCs for selling their products in our country as like ' MNCs agent'. Being conscious and patriotic customer, most of the people of Bangladesh don't accept these alliances of *'DISTINY-2000'* because it is working as like the agent of MNCs of developed countries. Actually, the author highlights about those alliances or SIA agreements where developing countries and LDCs are making alliances with other agents or sister concerns of MNCs for selling their own products, own strategies or where 'they' are the parent location of the companies. So, in this scenes, if we consider *'DBBL'* (Dutch Bangla Bank Limited (DBBL) which parent location in Netherlands which is a developing country), we see that *DBBL* is running their operations in Bangladesh with join venturing which is one the international business strategy and it has made alliances with many of our national banks through Strategic International Alliances (SIAs) like-*NATIONAL BANK LTD,MUTUAL TRUST BANK LTD,IFIC BANK LTD,THE CITY BANK LTD,STANDARD BANK LTD,TRUST BANK LTD,BANK ASIA LTD, EXIM BANK LTD e*tc. because it has more than 1100 ATM Booths which is higher than any of our national bank. So, here, we see and observe that *DBBL'*s parent location is Netherlands and through implementing SIA system , ultimately-the economy of Netherlands is more benefited than Bangladesh. At this situation, if one of national banks from Bangladesh like-*MUTUAL TRUST BANK LTD* would make alliances through SIA with foreign banks o which is running their operations in Bangladesh ,then-the economy of Bangladesh would be benefited much through this alliances of *MUTUAL TRUST BAN*K.

So, from the above discussion and examples, we can say that – if any developing country or LDCs can make successful implementation of SIA in their international business, then their economical position surely be strong in the whole world economy among others. Recently, Bangladeshi *EXIM BANK* opens a foreign-exchange branch in England . Actually, still now SIA can't be favorite to the medium and small business enterprises of developing countries and LDCs like MNCs of developed countries. For example, Bangladeshi Garments Factories, Shrimp Exporting Companies, Bangladeshi Tea Processing Companies, Bangladeshi- Ship Exporting companies etc. Bangladeshi Garments Factories can make alliances or agreements with other world famous Garments Factories or set up foreign agents (who naturally buy the garments products and services from various countries) or transferring technologies, skilled man powers and thoughts to run their operations in international business smoothly and earn more foreign exchanges and at the same way, this policies or alliances can be implemented for Shrimp Exporting Companies, Bangladeshi Tea Processing Companies, Bangladeshi- Ship Exporting companies . But most of the time these firms follow or implement exporting-importing and FDI for running their international business which is more costly than SIA. On the other hand, SIA is cheaper than any other - strategies of entering international business. For another example, we can say about *' INDIA-BANGLADESH TRANSIT ISSUE'*, actually-it's not only a political issue but also a one type of SIA which is not between two or more MNCs but between two(2) developing countries or nations in South-Asia and ' the discussion on it' should be continue from the business point of view. Without SIA no developing , under developing countries and LDCs can reach in the extreme point of economic development in this global era.

VIII. SIA'S DIFFICULTIES

Being a successful operator, sometime some SIA's can not be successful, Some fail and others are dissolved after reaching their goals. Failures can be attributed to a variety of reasons, e.g.

Sometime the selection of an entry mode in international business has become as critical decision.
Sometimes, the implementation of SIAs itself are becoming critical.
Most of the time, the nature of firms' operational (mainly for medium and small sizes) activities are not clear, etc.
Sometime alliances are costly, not only due to cash leaving the company's hands, but rather due to returns from which it could be denied.
Moreover, Alliances can create indirect costs by blocking the possibility of cooperating with competing companies, thus possibly even denying the company various financing options. For instance, an alliance with *'ERICSSON'* in the area of *CELLULAR COMMUNICATIONS* could reduce the likelihood of contracts with *NOKIA* , thereby putting the company at risk that if *ERICSSON* is weakened, so will be all the companies that depend upon it.

IX. CONCLUSION

SIA is a key ingredient for successful international business in LDCs and developing countries like ours. So, finally it is clear to say that in spite of some difficulties in the proper implementations of 'Strategic International Alliances' (SIA), it is the most favorable most attractive and most effective pattern or agreement for the MNCs and most of the FIRMs of developing Countries & LDCs for competing in the global market with the MNCs of developed countries which have already been engaged or want to be engaged in international business, because it helps to achieve their objectives in a more efficient, effective and easy way at a lower cost or with less risk than if they (MNCs) acted alone.

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