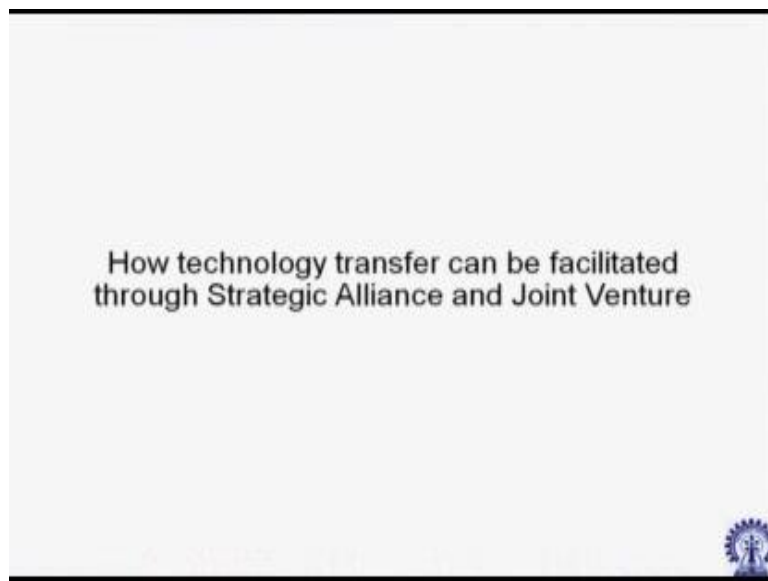


Technology Transfer through Joint Venture
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Lecture – 05
Implication on Stakeholders.

Welcome to the fifth lecture on transfer of technology through strategic alliance.

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In this lecture, I will concentrate more on implication on the stakeholder. Now, until now I talk with you what is the strategic alliance. Then, I have talked with you the contractual negotiation and contractual aspect. Then, I have talked with you regarding the opportunities and the risks, which is there in strategic alliance. Then, I talk with you legal or regulated compliances, which you need to follow in case of strategic alliance.

Now, I am going to talk with you on implications on stakeholders. Now, you know, when you use the word stakeholder, we basically mean that the part is, who are associated with these strategic alliance. So, until now whatever the lecture I have given to you, I have indicated strategic alliance means mainly the two party. One of the party, who is bringing the technology; another party, who is absorbing the technology. And then, I have discussed with you the different forms, which might come out of these particular strategic alliance Now, I want to talk with you that how it is going to benefit or how it is going to impact on these stakeholder into this particular process.

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In doing that, what I did? I have basically divided the entire thing into couple of pointers. The first one is relating to the risk sharing. Now possibly, by now you could understand what the risk I wanted to, may, I wanted to talk with you. Now, in a strategic alliance or SA, the risk may be from the perspective of the finance, risk may be from the perspective of the political scenario, risk may be from the perspective of the geographical locations where you want to do carry out the business corruptions, so much, so forth.

In my last lecture, I have elaborated on those particular issues. Now, whenever you know there is a parties in a particular business, he, the parties might have a capability or the risk bearing capacity for a particular type of risks. Let me explain couple of them. So, you could get a benefit out of this particular process.

Now, a company which is a Switzerland company wanted to set up their business in India. And that particular company is not aware about the Indian market. Now, where they want to set up the company? They want to set up the company in West Bengal. Now, what is the risk, potential risk that West Bengal might have? Potential risk West Bengal might have relating to a very strong labour union or very strong trade union. So, if that a company comes in India and put up the, you know, factory here, they might face a lot of resistance from the local trade union. Like, somebody was telling me, “See, some of this European countries (Refer Time:4:24) very flexible. In fact, it is very beneficial towards the labour. But, even after giving the benefit also, there is a possibility that the

local labour union want more than whatever these particular companies are promising or they are asking something, which is very absurd.

Now, this is a risk. Right. Now, how you are going to manage? So, you need to have a local partner who understand this particular labour market, and who can able to manage these particular labour union. And, they can really keep this particular trade union under the control or workmen into the track for the purpose of this business.

So, what I am trying to talking about understanding of the risk is sometimes you will find better with the party in that particular strategic alliance. Similarly, the person who is, you know, bringing the technology, he might aware of the risks better in R and D because they are doing this particular R and D for a long period of time. And, they know how to manage the risks into that particular R and D, which is available. Or, they might be aware of better how to control the process risks into a particular production time. Or, they might be aware of you know how to, you know, control these foreign currency fluctuation risk, when they are doing the business into the different market.

So, what I am trying to talking about, whenever you are doing a business in case of strategic alliance, the risk is not a strategic issue; because I try to indicate in the last lectures of mine that it though there is a several kind of risks, which you are going to find while you are doing the business. And then, I said that it might be something which is a predictable in nature, some of the risk which is not predictable in nature and some of the risk which you need to keep on monitoring over the time. And then, you should understand that who is going to better handle which kind of risks. And accordingly, you basically share that particular risk between these two alliance partner, so that you know even if there is a something which you face in the future, it can be sorted out with the promptness, at the same time with the efficiency which might help in doing the business or carrying the business in much easier manner.

Now, the next issue is relating to the cost sharing. You know, sometimes to enter into a particular industry or particular segment, the entry cost is very high. The entry cost is high because of the regulatory compliance because of capital intensity, which is required for establishing that particular production facility because of the market structure, so much, so forth.

Take an example. You want to produce; you want to, you know, manufacture passenger jet. If you want to manufacture a passenger jet, your entry cost itself is very high. And many of the time, if it is in a particular newer market or unknown market, you need a partner who is going to share that particular cost. So, the cost sharing in a strategic alliance is quite an important issue. And, you should know how you are going to share this particular cost; because sometimes you will find, if you are domestic partner and you are basically bringing kind of a land or may be the raw material or maybe, you know, labours into that particular thing. It is more cost effective to you.

Similarly, if your foreign partner brings the technology, bringing the process, bringing the know how, bringing the superior management technique, it will be easier for him. So, it will be less costly to that particular person because he is already in to that particular process. What he required to do? He required to sweep that particular thing into this particular (Refer Time: 09:13). So, the cost sharing is one of the very important thing, in case of strategic alliance. And many of the time, we will find the strategic alliance gives a very cost effective solution through this particular sharing process, which is not possible by any existing company. If they wanted to grow in an organic manner; organic manner means they have to, you know, develop everything within their organisation system, either it is a production or it is a product or maybe, you know, the superior technical know how. So, if they wanted to develop within this particular organisation, it is become costlier. It is not cost effective.

The third thing is that scale of economics. You know, many of the time you will find that because of this alliance you can really expand the business, the way you want to do the business; because if you can, you know, expand the business into a particular market in a horizontal manner or may be labourer market in a horizontal manner. You can bring the benefit of the scale of economy to your customers.

So like a, you know, you will find these multinational retailers, which they are growing in the different market because they are passing through these, you know, economic benefit to their customers. And that is the reason they became more and more popular to the customers because people do try to get a better product in a cost efficient manner from any other business market. Similarly, this is true for, you know, the service providers like, you know, those people who basically run the careers. Here career and all those thing, they will find that if they can have a large number of the fleet or they can have a

business into the different market or if they can have an alliance in a different market, they can produce in a much better manner.

Similarly, you know scale of economics also helps in geographical location also because if you have a more geographical risk, then in that case it brings the cost of transportation through this particular scale of economy. So, in a scale of economies have a lot of benefit which you potential partners or both the partners can reap a benefit out of this particular thing.

The next one is a market power like, you might find that your alliance partner might have a huge market power into a particular market, where you do not have an existence. At the same time, you will find your foreign partner might have a particular market power in that particular country itself. Now you will find a, you know, in case of the automobile sector, please do use this particular market power very frequently. Like, when in India Renault wanted to start their business.

What they do is they try to find out the auto major Indian auto major, one of the Indian auto major like Mahindra. And, they have started their joint venture or the strategic alliance. And, started producing the certain car because for the Renault it was required to understand the Indian market. And, they wanted to get this particular market power through the alliance partner because by that time, when they have entered into these strategic alliance. Mahindra has a lot of a business in Indian automobile sector. And, they are one of the very powerful, you know, car makers or you know automobile maker in Indian market.

So, through this process they could penetrate in Indian market. They could get the learning about the Indian market, they could understand the customer preference relating to the car, they could understand the cultural preference relating to the car in Indian market, so much, so forth. So many of the time, we need to understand or to get the market power, you need to have a, you know, local alliance. And, these particular local alliance give you a better understanding of that particular market itself. And, may be after that you know after that particular alliance is over or the time of the alliance is over, you can come independently into that particular market; because by the time you have your man power, you have your establishment, you have your own supply chain or delivery system set up, so much, so forth.

Now, next one is access to the specialized resources. Now, you know, some times you will find the people who have a kind of a specialization into a particular area. And that particular area, that particular specialization is very proprietary to that particular company itself. And, if you wanted to expand that particular market, then in that case you require to acquire that particular specialization into that particular market. And then, in that case also the strategic alliance is very important like a, you know, people say that, well, if you wanted to manufacture, you know, the helicopter in India. Then, you need to bring some technology which is very competitive, which is a fuel efficient and which is a low maintenance.

So, you might find these particular technologies or these particular know how is available with some particular, you know, companies, in some of the countries; it is not available worldwide. So, then in that case you need to access the particular resource because that particular resource is available with them only. This is also true in case of the pharmaceutical because you will find some molecules is available with some of the companies, who has basically developed. This is also true in case of IT and ITES, IT infrastructure, IT product. You will find some of the people, who has created kind of a market standard or they have basically got all the technology within their phone. Or, if there is a technology, which is, you know, developed in that particular area have been acquired by them.

So, if you wanted to have that particular kind of technology or wanted to do the business into that particular domain, you need to have that particular expertise and specialized resources, which is available into a particular group of people or particular people or particular organisation or particular companies. So, you know accessing the specialized resources. It, you know, strategic alliance help you to get access into this particular specialised resources.

The next important thing is a learning. Now, when you, I use the word learning, it is a wider communication. The learning might be from the different aspect like, you know, learning might be from the understanding of the market; learning might be the consumer behaviour; learning might be how the people, who are the part of your work force behave particularly into a particular market; learning might be relating to the demand of a particular product; learning might be the socio-political environment of a particular

market; learning might be relating to, you know, relating to the business community. Business community is behaviour pattern to their competitors.

So, you know, when I am talking about the learning, it is a pretty wide area of understanding, pretty wide area of the understanding. And, there you need to understand that how your competitor into that particular market do behave, if you wanted to do a successful business. And that particular learning became pretty easy, if you are going to take a local partner with your business. Like, you know, if you look into the recent, some of the strategic alliance, you will find that Tata has joint with Singapore alliance. And, there is another local partner with this particular alliance, and they have started with the group called Vistara.

And, they have basically chosen this particular local partner because Singapore alliance chosen this particular local partner because they wanted to learn about the Indian market partner. And, these are the two people who are quite knowledgeable about the Indian market scenario and for the matter relating to the aviation market too.

So, you know, for getting learning, may be another example I can give, like you know, when the Walmart wanted to enter in Indian market, they do the partnership with the Bharti because they wanted to have a learning about, you know, Indian way of doing the business because India has a very peculiar way of doing this particular business. And, India do have a lot of business custom which varies from the different, which varies in the different state.

So, if you wanted to really understand the Indian market, then you need to have a local partner to enter into. And, this is not only in India, this is true for all over the world. Like, you know, if you want to do the business in Europe, then possibly you need to have a local partner in all the European countries because Europe do have a lot of variation into the culture, behaviour pattern, customer behaviour, customer need and possibly you will appreciate this particular fact that culture play a lot of role in businesses.

So, you know, one should have a good learning capacity or one should be flexible to learn about the particular market. And as quickly as you learn, you will have a better advantage to position yourself in to this particular market. And that is the reason, you know, if you are going to take an alliance into a local market, it is easy for you to do this particular thing.

And, for that matter let me tell you, if you get your local partner into that particular market. It is also cost effective from the perspective with the learning because many of the knowledge; you do not learn many of the thing. We do not learn through our mistake because sometimes mistakes are very costly. So you should be careful in, I mean, you should be careful in your approach. At the same time, you know, if you get somebody who is a local partner, this will help you into this particular learning process.

Now, the last one is a relating to the option on new market opportunities. And, this is only can be helped by those particular people, who has a deep understanding about that particular market itself. Like, you know, you want to bring kind of a new technology into a market, which is going to affect the people's regular habit. And, what are that opportunity to bring that particular technology? Because it might so happen that your technology might be very superior. It might be cutting edge, but it has not been accepted by the people. May be because of the complexity, which you have this particular technology or may be people are accustomed with a particular technology is so much that people are not interested for any alternate technology or efficient technology, (Refer Time: 21:08) to bring it into this particular market.

Let me give you example. In Indian market, you will find people has chosen GSM in a better manner than that of a CDMA technology. I have been given; you know, I have been given the understanding by my friends, who are the technologists that CDMA technology is better than GSM technology. But, in India you will find the people like a GSM technology. And, when I ask some of the people who are basically traded in the mobile market, they say GSM gives a lot of flexibility to the people to right from changing their handset or changing their feature than that of a CDMA technology. And that is a reason people are, you know, strict with this particular GSM.

So, you know that is what I am trying to drawing your attention. Many of the time, you have to understand that what are the opportunities available or new opportunities are available into that particular market. It is not necessary that if you can bring the better technology. It will be accepted by the people. And that particular new opportunity can be, you know, given or can be, you know, clarified by your local partner better, if you are entering into a new market.

So, what I wanted to draw your attention into these particular lecture that there is a potential benefit, if you wanted to enter into the alliances, strategical alliances. And, it basically is out. You are doing the business into a new market. At the same time, it is also help the domestic (Refer Time: 22:53) to get the age over their competitor into that particular market itself.

So, thank you for your patience hearing.