The Steps to Attract Multi-National Corporations: A Case Study on İnci Akü

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Abstract
The objective of this paper is to uncover the practices of local firms providing the capabilities and resources to them, which attract multi-national corporations (MNCs) for joint venture. The changing market dynamics with globalization lead to the increasing dominance of MNCs even in the markets of developing countries. One of few strategic alternatives remaining to local firms is to develop complementary capabilities to those of MNCs. Thereby, they may leverage the global power of MNCs instead of struggling with them. Although previous literature explains the criteria that MNCs search for, there is a lack of studies showing the practices enabling local firms to meet these criteria. For this reason, the case study in this research examines the practices adopted by Turkish company İnci Akü so that they can accomplish to establish an international joint venture with one of the global leader firms GS Yuasa in the battery industry. The results show that the prior partnership experience, organizational culture, and geographically dispersed customer portfolio of İnci Akü were effective in this alliance. This study uncovers the theoretical and managerial relevance of these results as well.

Keywords: joint venture, inter-organizational collaboration, asymmetric strategic alliance, social capital, social network

1. INTRODUCTION

The expansion of markets that firms need to cover requires wider range of capabilities. Thus, firms aiming to be competitive at global scale seek for lucrative strategic alliances. The main motivation is to find a strategic partner having complementary capabilities and resources that firm lacks. International joint venture is one form of the strategic partnership based on equity sharing in which the parent companies establish a new start-up legally having separate entity. International joint ventures have become popular among these types of strategic partnerships because they diminish both the opportunism risk in market relationships and management costs associated with organizational hierarchy (Barringer and Harrison, 2000).

Parent firms forming the international joint ventures may differ in terms of their size, market share, and reputation. Whereas there are international joint ventures established by firms having equal power, there exist also other ones for which the power asymmetry across parent firms draw an attention. Considering the motive of international joint venture as the synergy creation through capability and resource complementation, it is not surprising to witness international joint ventures established by big multinational corporations (MNCs) and local firms. These two parties benefit differently from this type of asymmetric relationship. While MNCs can expand into new markets easily owing to local dominance of relatively smaller firms, local firms capitalize on the technical, organizational, and reputational support of MNCs.

MNC is usually the party having a bargaining power in the forming phase of international joint ventures. That is to say, MNCs may select among from many local firms because its entrance into market can significantly change the competitive dynamics in that market. No domestic firms wants to compete with these MNCs, instead, they desire to increase its competitiveness through a possible joint venture with them. Therefore, local firms need to meet the criteria of MNCs such as fast market entry, marketing and distribution systems, local identity, and foreign experience (Geringer, 1991; Luo, 1997). Local firms aiming to meet these high levels of standards should have long adopted the necessary practices and strategic moves before.

The aim of this paper is to delineate the practices and acts of firms in the course of time, leading them to meet the criteria of MNCs for an international joint venture. This study tries to discover the underpinnings of qualifications that local firms have possessed which MNCs search for the partnership. To that end, this study examines the case of joint venture in battery industry from the perspective of local firm. The industry leader Japanese firm, GS Yuasa and the growing Turkish firm, İnci Akü have recently established a joint venture with the name of İnci GS Yuasa. The interview made with the Japanese deputy managing director of current joint venture, Mr. Yuji Hashimoto, first reveals the criteria that GS Yuasa was searching for the partnership. Then, the interview made with managing director of İnci GS Yuasa, Mr. Cihan Elbirlik, enables us to get insights how İnci Akü's practices and organizational culture over time have addressed the criteria of GS Yuasa. Finally, Mr. Mustafa Zaim, the executive board member of İnci Holding, gives information on the negotiation process for joint venture.

The results show that the İnci Akü's organizational culture, foreign partnership experience, location providing fast market entry, and geographically diversified customer portfolio have played major role in its getting ahead of its local competitors to be the partner of GS Yuasa. This finding has important theoretical and managerial implications. First, the efforts of local firms to keep its current links and establish new links over different geographical areas appeal MNCs more than the ones failing to diversify its social capital. That is to say, if firms constrain their links with few numbers and in small geographical area, they are less likely to benefit from the opportunities that strategic partnership with big MNCs can provide. On the other hand, this study gives the managerial guidelines to local firms how they can possess the qualifications needed to attract MNCs. The case study examining the practices of İnci Akü before the joint venture may inspire many other start-ups aiming to grow by exploiting the external resources of industry's huge global powers.

2. LITERATURE REVIEW

Inter-organizational collaboration is the means of increasing the competiveness and reducing the market risks of the parties involved. Joint ventures, cooperatives, cartels, franchising, and licencing are all types of inter-organizational collaboration but their governances differ with respect to the following three factors: i) coordination and safeguarding of resources that partners provide, ii) responsibilities of partners, and iii) the sharing of returns (Todeva and Knoke, 2005). Among these inter-organizational collaboration types, joint venture is an agreement that is more formal because its partners create a separate entity by having the proportion of equity agreed before agreement in this new entity (Das and Sengupta, 2003).

Joint venture is called international when its partners are from at least two different countries. The main motivations for establishing international joint venture listed by Geringer (1991) are as follows: government pressure and regulatory requirements, access to financial resources, government subsidies, tax credits and other inducements, experienced managerial personnel, technically skilled employees, location of joint venture facilities, lower unit costs, patents licences or other proprietary knowledge, trademarks or reputation of parent firms, rapid market entry, full line of products or services, sales to government, perceived local or national identity of venture, marketing or distribution systems, and post-sales customer service network. It is possible to summarize these under three headings: i) reducing transaction costs, ii) increasing the market power and access, and iii) getting critical operational and market knowledge (Kogut, 1988).

Considering that parent firms in international joint ventures have different organizational cultures, international joint ventures are likely to be more fragile, open to conflicts, and more risky than joint ventures established by companies within the same country (Jiang et al., 2008). For this reason, the partner selection is crucial for the longevity of the international joint ventures. Geringer (1991) broadly divides the partner selection criteria into two: i) task-related criteria and ii) partner-related criteria. For a successful choice, whereas the capabilities of partners related to operations should ideally be complementary, the partner-related criteria requires a similarity between partners to the degree that this level of similarity provides an effective coordination and communication (Parkhe, 1991). Besides, Nielsen (2007) reveals that reputation, prior experience and low country risk are antecedent factors that positively affect the performance of international joint ventures.

The dominance of MNEs is increasing day by day in all markets including in those of developing countries. This situation makes more difficult the survival of local firms. Nevertheless, local firms can shine up if they can discover the ways of providing complementary resources and capabilities to MNCs such as high agility, market knowledge, and innovation capability (Prashantham and Birkinshaw, 2008). Only if the local firms are able to propose what MNCs do not have, they may leverage the power of them instead of struggling with their destructive effects. One way of managing this is to attract MNCs and make a strategic alliance with them. These types of strategic alliances are called as "asymmetric" regarding the power inequality between partners of the joint venture (Chen and Chen, 2002).

Previous studies have attempted to explain the formation of inter-organizational relationship with various theories such as transaction cost economics, resource dependence, learning theory, and institutional theory (Barringer and Harrison, 2000). Nonetheless, these theories do not consider the factors related to the networks of firms. Therefore, it is useful to take into account the partners' network resource stocks in their forming joint ventures (Wassmer and Dussauge, 2012). In this regard, the prior partnership experience in strategic alliances (Gulati et al., 2009; Reuber and Fischer, 1997) is the indicator of the level of social capital that the firm has. As the social capital of local firms increase, they can appeal MNCs more. Another factor that can make local firms more attractive is their customers' geographical distribution. According to network theory, an actor of the network which can provide more access to other actors (i.e. more central and between nodes) are more important (Borgatti and Halgin, 2011). This implies that firms having relationships and customer portfolio geographically diversified have more critical position in network.

3. METHODOLOGY

Many studies in literature have examined the formation phase of international joint ventures in depth. However, there is a lack of studies on the asymmetric ones between local firms and MNC from the perspective of the former one. The question that should be answered is that which steps the local firms, having been the partner of MNC, took so that they could gain the merit of meeting the criteria of MNC. Since the qualitative data suits better to find the answer this type of "how" questions, this research has chosen the case study as a methodology.

The joint venture formed by GS Yuasa and İnci Akü has the characteristic attributes relevant to the type of joint venture that this research searches for. First, considering the sizes of two partners, it can be said that this joint venture is asymmetric. While GS Yuasa is a MNC that is the one of few global leading firms in battery industry, İnci Akü is strongly growing firm but its influence is relatively local yet. Moreover, the joint venture of these two firms, İnci GS Yuasa, has just been formed. This provides the opportunity of collecting more accurate and elaborate data taking into account that the memories on the process of joint venture formation is very fresh in the minds of people interviewed.

For data collection, this study first analysed the company documents and media news to prepare more relevant and direct questions in interviews. Then, it has carried out interviews with people both from two partners. Initially, the interview with the executive board member of İnci Holding, Mr. Mustafa Zaim (the parent company of İnci Akü) provided the detailed information on the prior partnering experience of İnci Akü and on the joint venture formation process of İnci Akü with GS Yuasa. Subsequently, the interview was made with Mr. Yuji

Hashimoto (deputy managing director of İnci GS Yuasa), which reveals the criteria of GS Yuasa for partner selection. Last, the interview with Mr. Cihan Elbirlik (the managing director of İnci GS Yuasa) was aiming to explore the practices that enabled İnci Akü to meet the criteria of GS Yuasa for joint venture.

4. CASE STUDY

This section first gives the background information on GS Yuasa and İnci Akü. Next, it puts forward the criteria of GS Yuasa to choose its partner for joint venture. Finally, the last part reveals how İnci Akü meets these criteria, therefore, the joint venture was formed between these two firms.

4.1. Company Backgrounds

4.1.1. GS Yuasa

GS Yuasa International Ltd. is a Japanese manufacturer of automotive batteries, industrial batteries, power supply systems, switch gear, lighting equipment, ultraviolet systems, specialty equipment, and other electrical equipment. The company, established in 2004, has 10 billion yen capital stock and number of employees equal to 13609. It is the member of GS Yuasa Group which will celebrate its 100th anniversary in 2017. The vision of GS Yuasa is "Innovation and Growth". For this purpose, they give high importance to advanced technologies and customer-orientation policies. The company is currently very strong in Asian and African markets. Nonetheless, one of five strategic priorities of GS Yuasa is to expand globally based on overseas market. Thus, with the motto of growth, the company's aim is to improve its position in global market (Retrieved from http://www.gs-yuasa.com/en/company/).

4.1.2. İnci Akü

İnci Akü, established in 1984, has been growing steadily. While the number of countries to İnci Akü exports its products has increased up to 84 in 2014, which was equal to 60% of its total production. The rest of its production was for domestic market. The company was grouping its products in two categories: i) starter (products for cars, light commercial vehicles, trucks, military vehicles, and marin) and ii) industrial (traction, stationery, and VRLA-AGM). Whereas the production facility of the products in the former category locates in Manisa, İnci Akü had established an assembly facility in Ukraine to aim Russian market.

In 1993, İnci Akü formed a joint venture with French firm CEAC to expand to foreign markets. After American firm EXIDE acquired CEAC, it became the new partner of İnci Akü. The partnership with EXIDE lasted until 2005, during which İnci Akü was aiming both foreign and domestic markets. İnci Akü had to end this relationship because of the financial problems that its partner EXIDE had experienced. Later, İnci Akü has given importance to selling its products with its own brands (Çelik et al., 2015).

4.2. The Criteria of GS Yuasa for Partnership

As the global market shares of companies in battery industry is examined, Johnson Battery (U.S. firm) holds the biggest share with 40 %. Exide and GS Yuasa follow Johnson Battery by having a market share around 10 %. The main goal of GS Yuasa is to capture the market share that Johnson Battery has. The straight way for GS Yuasa to achieve this goal is to access U.S. and European markets that Johnson Battery has absolute dominance. Since Johnson Battery is U.S. based company, hence more difficult to challenge with it in U.S., GS Yuasa has primarily targeted European market for expansion.

In accordance with the objective of GS Yuasa to expand into new markets, Mr. Yuji Hashimoto listed the principal criteria of GS Yuasa in interview as: location, customer portfolio, price, number of engineers and organizational culture.

The first criterion stated in an interview is the location of partner enabling quick access to European markets. In addition, this location should facilitate the penetration of Middle East and Caucasia markets too. However, GS Yuasa was aware that the solely location was not sufficient their effective penetration. It was also important for GS Yuasa that its potential partner had already had the customer portfolio geographically dispersed. Second, as all profit seeking firms look for, another criterion of GS Yuasa was price. The next criterion in searching for partner was the number of engineers it had. Mr. Yuji Hashimoto told that it would be very costly to bring their engineers from Japan to European market, therefore, they paid attention that the local firm has high number of skilled engineers to whom the product-specifc and tacit knowledge could be transferred by Japanese engineers quickly. This criterion is explicitly the base of next criterion, organizational culture. Mr. Yuji Hashimoto defined the organizational culture as the "similar way of thinking". Accordingly, the working with local firm should have not posed to problems just because of the lack of coordination and misunderstandings.

Considering the fact that GS Yuasa first made the decision to find partner for European market four years ago, the process of finding the partner which meets the criteria of GS Yuasa ran very consistently and patiently.

4.3. The Steps of İnci Akü to Meet the Criteria of GS Yuasa

To understand the first seeds planted by İnci Akü for the partnership with GS Yuasa, it is important to state the vision of Mr. Cevdet İnci who was the founder of İnci Holding. Mr. Cevdet İnci has settled a management philosophy which encourages the growth by exploiting the collaboration with other firms. This management philosophy strongly suggests the enlargement of pie by sharing the rewards, instead of competing others to get the higher portion from small pie. In line with this strategy, Mr. Cevdet İnci and his daughters (who are successors of İnci Holding) always lean towards to the strategic alliances that his companies in İnci Holding form with foreign giant firms. This humble, eager to learn, and open-minded organizational identity converts this family firm into the one that gives birth to highly competitive companies being part of global value network.

The corporate philosophy built on the growth strategy via inter-firm collaboration has played major role İnci Akü's forming a joint venture with GS Yuasa. Mr. Mustafa Zaim, the executive board member of İnci Akü, told that they were aware of GS Yuasa's search for a partner on East Europe and Middle East region. Mr. Zaim listed the two alternatives that İnci Akü had at that time. The first one was to develop a strategy to challenge with GS Yuasa. The second alternative was to adopt the strategy to be the partner of GS Yuasa. Certainly, the latter alternative is superior since İnci Akü would be stronger with the support of one global giant firm. Otherwise, the former strategy, even if executed perfectly, could barely maintain the position of İnci Akü for the best scenario in markets where İnci Akü was competitive.

The corporate culture narrated above was the merit of İnci Akü that meets the criterion of GS Yuasa for its partner selection. This culture was the indicator of similarity of İnci Akü's thinking with GS Yuasa. This was what Japanese managers of GS Yuasa were searching for. They could sense that İnci Akü would be trustee partner who is always welcome to any change that provides improvement. One-year negotiation process with İnci Akü also demonstrated that two firms were compatible in terms of culture. White-collar personnel of both parties were participating into the meetings for partnership. İnci Holding (the parent of İnci Akü) gave full support during the negotiation process and never intervenes into this process until the agreement has been made between two partners. The transparency and professional management of İnci Akü persuaded and induced GS Yuasa to go forward to its objective (expanding on European and Cascadian markets) with İnci Akü.

Good and long partnership experience of İnci Akü was another important factor that appealed GS Yuasa. Mr. Yuji Hashimoto resembled joint venture to the marriage. Therefore, GS Yuasa wanted to foresee the level of congruence with its potential partners before the formation of joint venture. In 1985, İnci Akü made know-how agreement (technical and licencing) with Austrian Dr. Jungfer Baren which lasted 8 years. Then, İnci Akü formed a joint venture with French firm CEAC in 1993. After two years, when Exide (U.S.) acquired CEAC, the joint venture structure changed and hence the new partner of İnci Akü became Exide. Again, İnci Akü had to end its partnership with Exide in 2005 but this was not due to any partnership conflict. To sum up, the good partnership record of İnci Akü and its having culture of working with partner ensure that GS Yuasa is less likely to have coordination and partnership problem with İnci Akü in new joint venture.

Considering that the aim of GS Yuasa is to expand new markets (i.e. European and Middle East), the easiest way to penetrate into these over the customer portfolio of the partner firm. Besides, the location of manufacturing site was another critical factor for operational costs and fast entry into market. İnci Akü was highly competitive regarding these criteria too. The manufacturing site of İnci Akü locates in Manisa which is both close to European and Middle East markets. In addition, Manisa is very close to Izmir port via which the product cen be shipped easily to many points in Europe. On the other hand, one of most important lessons İnci Akü learnt during its partnership with Exide was to diversify its export market. Initially, İnci Akü was making all its export over the network of Exide. However, when the relationship ended, they had many difficulties. After this incident, İnci Akü diversified its customer portfolio by exporting their products to many different countries.

5. CONCLUSION

This study aims to show with which practices and acts one local firm gets the capabilities and resources necessary to attract the attention of MNC. To find the answer of this question, this research has examined the joint venture having recently been formed by İnci Akü and GS Yuasa. The interviews made with high-level managers of both two partners enables this paper to reach consistent and concrete findings. While the interview with GS Yuasa's manager puts forward GS Yuasa's motivation for partnership and the criteria they were searching in partner selection, the interviews made with İnci Akü's managers uncovers the past practices of firm leading to be partner of GS Yuasa.

Different from previous research focusing on the partnership selection criteria, this study addresses the set of acts through which family and local firms gain capabilities to meet the criteria of MNCs. Therefore, this paper examines the pre-antecedents of joint venture formations with MNCs form the perspective of local firms. The case of İnci Akü is perfect example at this point. It shows how one family firm achieves to attract the attention of one of industrial leaders in world at battery industry (GS Yuasa) through its philosophy, organizational culture, and previous partnership experience. İnci Akü's case is also highly important because other family and local firms can get İnci Akü as a role model. If they follow the path of İnci Akü and find any MNC having similar organizational culture to their own for joint venture, these firms can proceed to be an important actor at global value chain.

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