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Global Expansion of Major Corporations

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Abstract: Many multinational enterprises are under intense pressure to expand their overseas operations due to globalization. To achieve this, these companies have formed international alliances with other related companies abroad. Many global companies are employing joint venture to expand in international markets. Among the companies using this strategy include Wal-Mart, which has collaborated with the Brazilian company, GrupoGarantia. Such an action is driven by the desire to access other markets located outside the borders of parent countries. Joint ventures are essential in cases where Direct Foreign Investment face strict restrictions. When a country's government employs total direct investment, a corporation can work together with an established venture in the same industry. Such an investment ensures that a multinational company is selling its outputs and inputs in that market. Enterprises can also expand their market globally through partnership. This discussion looks into the reasons behind the adoption of joint ventures as the preferred strategy to enter international markets.

Introduction

The rapid growth of globalization has put pressure on multinational enterprises to expand their operations overseas. One strategy that is commonly being practised among these corporations is the formation of international alliances with other similar companies abroad. Joint ventures are strategy being employed by many multinational companies to expand into overseas markets (Elo, 2009, p. 5). United States' Wal-Mart is an example of a multinational enterprise that has employed this strategy in an effort to introduce its operations in Brazil. In 1995, the company entered into a 60:40 joint venture with a leading Brazilian company called GrupoGarantia.

Reasons for Selecting the Strategy

There are several reasons why many companies are opting for this strategy as a way of accessing other markets outside of the parent company's borders. The behavior of American multinational corporations suggests that partial ownership of the company can be advantageous if the firm has extensive contact with the local market. However, the effective management of co-ownerships requires a lot of experience (Desai et al., 2002, p. 3). Companies with established affiliations in foreign markets are more likely to have a minority share in the stakes of newly formed affiliates.

Joint ventures are useful in a situation where there are strict restrictions on Direct Foreign Investments. When a company wants to access markets where direct investment is restricted by the country's government, such a corporation will seek an already establish company in the industry in the desired market. Through a joint venture, the multinational enterprise can expand by either selling their inputs or outputs in that market. For example, any Japanese country seeking to set up their operations in the US uses the joint venture strategy because of the strict foreign investment policy in the US. TRW Inc. has 3 joint ventures with big Japanese auto suppliers who produce steering gears and seat belts (Alkhafaji, 1995, p. 284).

In other markets such as China, the only way to expand into the market is to form a partnership with a Chinese company. Except under special circumstances, a joint venture is the only legal strategy for multinational companies to introduce their operation in Chinese markets. An example of a company that has explored China as a business premise through joint venture is the leading international energy company Shell. Shell has penetrated Chinese markets for decades. It has entered into advantageous partnerships with all the oil companies in the foreign country including China Petroleum & Chemical Corporation (Sinopec), China National Petroleum Corporation (CNPC), Shaanxi Yanchang Group Company (YCG), and China National Offshore Oil Corporation (CNOOC) (Shell.com, 2015, p. 1). A joint venture between two companies is a long-term investment of resources, facilities, and funds, which would potentially benefit both companies. The involved parties all have a share in the equity of the venture. These alliances may provide the companies with an opportunity

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to operate production facilities outside their country of origin. It is also an opportunity to market and distribute their products in foreign markets. Finally, joint ventures provide a platform for the partnering companies to transfer technology. The strategy gives the companies a chance to exploit technologies held by each participant (Yan & Luo, 2009, p. 53). Multinational companies recognise that for their companies to perform continually, they must maintain global standards. Globalization requires companies to be able to meet the needs of customers in markets all over the world. Multinational enterprises can only achieve this by continually expanding into new foreign markets.

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