The joint venture's success has been in a large part down to the TNK-BP team; Grote added, "We have recruited some excellent people with deep technical and operational capability into the joint venture." However, where the joint venture has faltered has been in the long-term alignment of philosophies of the two parties. Grote continued,

> I think that the biggest difficulty with joint ventures is that they normally occur because there is short-term alignment of objectives. The challenge is then maintaining that alignment over an extended period of time. Most joint ventures fail because the strategic alignment begins to fall apart. There are differences of objectives and it grows harder and harder to work together, whatever the size of the prize.
>
> The formation of TNK-BP presented a unique opportunity for both partners. It was, at that time, the only opportunity for BP to gain a significant presence in Russia and it remains a distinctive position today. However, our strategic ambitions have diverged and this is the issue in front of us today.

Since this interview, it has been announced that Rosneft are going to acquire the entire joint venture. In return for their shares, BP will receive shares in Rosneft and a reputed $27 billion in cash, some of which will be reinvested placing BP's stake in Rosneft at close to 20 percent.

Case 6.3 Centrica and EDF

When Centrica wanted to enter the UK nuclear energy market, they possessed the home market expertise and contacts, but neither the nuclear power expertise nor funding required. They turned to Électricité de France, one of the world's acknowledged leaders in nuclear energy, and formed a joint venture with Centrica holding 20 percent and EDF having 80 percent. The project includes a partnership in EDF's eight existing nuclear facilities as well as building several more in the next decade. Sir Roger Carr, commented, "They were good people and we were comfortable with the safety record or we wouldn't have got involved. They were our partner of choice and indeed we were their partner of choice for the obvious reasons. So far the marriage has worked." He continued,

> We have been working together now for two years. The culture fit is good; [there is] considerable transparency, a healthy debate on issues, with commitment to getting resolution. Although the actual share in the joint venture is 80 percent/20 percent, we have for the most part worked as equal partners. The people on the ground are some of the best in the world and the mutual respect is high. It has been well thought out and well executed so far, but there is still some way to go in finalizing the design and cost. In the end, it will be all about economics. We all know the risk of joint ventures is that "however they start, they always end in tears." At this stage, this one has some way to go before it feels tearful. The relationship is good.

This case highlights the importance of partner relations regardless of con-

both parties can see that they have brought key assets and resources to the joint venture—and these are acknowledged by the partner. This is then supported by a fair and open process and strong lines of communication. When one partner begins to act unilaterally or in only their best interests, the ventures fail.

Case 6.4 Fast Retailing and Lotte

Japan's Fast Retailing is best known by its iconic brands: UNIQLO, g.u., Theory, Comptoir des Cotonniers, Princesse tam tam, and Helmut Lang. They operate over 2,200 retail outlets throughout the world with roughly half in their native Japan and half internationally, which is even more notable considering they first expanded internationally only ten years ago. They have chosen to expand internationally through a variety of means including acquisition and joint venture. The most notable acquisitions include Comptoir des Cotonniers and Princesse tam tam in France and Theory in the United States. Interestingly, Fast Retailing took a minority stake in Theory in 2004 before assuming full control in 2009. This staged equity approach gave Fast Retailing considerable knowledge of Theory before acquiring the business outright and is not an uncommon approach for Japanese globalizers.

Fast Retailing chose joint venture as their route into the fast-growing and lucrative South Korean market. Partnering seemed the option most likely to generate success as Fast Retailing could then enter the market as a "local retailer." Fast Retailing chose South Korean giant, Lotte, as their joint venture partner. Lotte, one of the world's leading retail developers with an annual turnover of over $45 billion, was a natural choice. Lotte operates a series of joint ventures and is comfortable using this format. In fact, they have a very successful joint venture arrangement with another survey participant, IMAX. In addition, their premier retail spaces made them a natural candidate.

Prior to the joint venture's inception, considerable effort was expended at a senior management level in order to build a positive platform. Talks between senior management teams were extensive, and to this day they continue to meet face-to-face on a quarterly basis at the highest levels of the respective organizations. It is the senior management's deep commitment that, Fast Retailing management feels, continues to support the venture's ongoing success. In addition, Lotte sent three management candidates to Japan to undergo intensive training at Fast Retailing as well as working for three months in their retail operations. From this, Lotte management understood Fast Retailing's unique culture and ways of working. It also solidified a deep foundation of mutual trust and commitment in both parties.

The joint venture was established with a 51/49 percent ownership structure with Fast Retailing having nominal control. What developed was an organizational structure and culture of mutual trust and benefit. The senior position is shared by joint chief executives, one from each partner company. The joint venture also enjoys the full support and commitment from the senior leadership of both

contributes significantly to the venture's continuing overall success. From this has developed a win–win relationship—Lotte gets excellent tenants and Fast Retailing gets the local brand recognition and top locations. The glue that binds the relationship together is trust, as a senior executive at Fast Retailing added, "We are open to discuss everything [with Lotte] and judge everything based on mutual trust ... we have been in a good relationship with each other for a long time. We had mutual understanding before launching the JV." It is a trust built over years of mutual respect and support.

This case highlights the importance of mutual trust in successful joint ventures. In the joint ventures analyzed, the ventures' successes relied on a win–win situation that can only be built upon a platform of mutual trust. Exploitative relationships may work for a period of time but ultimately break down when the relationships become too lopsided in terms of benefit. The key to mutual trust is deep partner knowledge and cultural understanding built on extensive and ongoing communication and expectation management. Face-to-face interactions only solidify trust and commitment and ensure communication accuracy.

7 Mergers and Acquisitions

Introduction

When in doubt, acquire. That seems to be the mantra for most internationalizers. Acquisitions are the cornerstone of any expansionist strategy. They do not, however, provide all the answers in every circumstance. There are situations where acquisitions are the appropriate vehicle for growth, but they come with their own inherent risks: picking the wrong target, management's time in sourcing and in post-acquisition implementation, to say nothing of purchase price and associated premium. Most research puts the chances of successful acquiring at roughly 50 percent with cross-border transactions being even lower. Yet, as will be seen, acquisition remains the entry mode of choice. Acquisition strategy, reasons for acquiring, and key success factors and issues will be discussed in this chapter as will the related research.

The reasons for pursuing acquisitions are similar to those of strategic alliances—fast entry into a market and a need for intimate market knowledge; the difference is the level of control being exercised by the parent company. In the case of acquisition, it is total. In those cases where less than full ownership is taken, or where the local jurisdiction requires an indigenous company to retain a minority shareholding of the operation, the position is that of a shareholding, discussed in Chapter 6.

Methods of expansion and reasons for acquiring

Survey participants were asked whether they considered other methods if they acquired in a region. Over 60 percent said they did not. When asked why they chose acquisition, they gave a variety of answers. Surprisingly, control didn't feature prominently especially in light of their comments regarding joint ventures; instead speed (23 percent) was the dominant factor. Several participants (18 percent) indicated that the opportunity of an excellent target presented itself and the transaction was opportunistic while 15 percent considered all options before deciding that acquisition was appropriate for that market. Twelve percent indicated that they wanted to acquire a significantly sized presence in that country and the only way to do that was through