Conclusions on a Strategy for Foreign Partners

Introduction

Over the course of the past six chapters we have laid out a number of themes and ideas about the relationship between the partners in international joint ventures in Russia. We began with a brief history of the Russian oil industry and the role of foreign actors within it, highlighting the varied fortunes of large companies such as Shell and BP down to the smaller players such as the Canadian independents who formed JVs in the early post-Soviet period. We discussed the fact that, after an initial surge in activity in the 1990s, there was a hiatus in significant foreign company activity after 1998 (with the notable exception of TNK-BP), but over the past two to three years IOCs have once again begun to focus on Russia as a core part of their global growth strategy, making an analysis of the key drivers of successful partnership a very relevant and current topic.

We then presented a theoretical debate about the formation of joint ventures in the oil and gas industry, and discussed the factors which influence the bargaining power between the partners. We did this in the particular context of a weak institutional environment, which we argued has been prevalent in Russia throughout the post-Soviet era, although in different forms under the three presidents who have been elected in that period. We argued that local knowledge of the business environment, and in particular the use of contacts, influence and relationships, is a key skill used by domestic entrepreneurs to build their businesses, and is also used as their core offering to any joint venture formed with a foreign company. Meanwhile the foreign company brings their more international skill-set of technical expertise, management experience and, where needed, financing. Our analytical interpretation of the relevant academic literature then suggested that the balance of bargaining power within joint ventures was established in an implicit “race to learn” in what is effectively a “competition for knowledge”, with the winner likely to
be the partner who could most quickly acquire his counterpart's skills. We further suggested that, given the complex and enigmatic nature of local knowledge, this competition was more likely to be won by the domestic partner, giving him an inherent competitive advantage in any joint venture.

We then used a number of case studies and interviews with foreign and domestic actors in the Russian oil and gas industry to support the concept of the importance of local knowledge as part of the relationship between the two partners. All the foreign partners, whether successful or not, acknowledged that an understanding and ability to deal with local political, operational, financial and other business issues was vital to the ongoing development of their business in Russia. Furthermore, some foreign partners also recognized that they had relied too heavily and for too long on their domestic partner, and had ultimately been undermined by their inability to demonstrate an increase in their own local knowledge. Others decided either to make a big effort to develop a personal local network, and thus balance their domestic partner's biggest strength, or to try and provide an ongoing incentive to their partner to use his abilities for the general benefit of all the shareholders in a corporate structure.

Statistical analysis of a survey of foreign joint venture partners who operated in Russia between 1991 and 2003 also helped to provide some numerical evidence to support our theories. Local knowledge was identified as the most important contribution made by domestic partners, and the importance of this local knowledge was emphasized by the manner in which more successful foreign partners harnessed it. Across all the joint entities that we analysed, the most important catalyst of greater foreign partner success was an increase in foreign partner control over local knowledge issues, and this was especially true in traditional single asset joint ventures. Meanwhile, a potential alternative route to success was seen as the use of a corporate model in order to create a structure within which all the partners were encouraged to direct the use of their skills towards the overall success of the entity rather than compete with their partner for greater individual success.

In this concluding chapter we will therefore attempt to re-define the bargaining model for international companies in the Russian oil and gas industry, to identify the key drivers for success and to outline the strategic thought process that we believe can lead not just to greater achievement of an IOC's objectives but also to a mutually beneficial outcome for both parties that can enhance the long-term relationship between foreign and domestic actors. In addition, we will also outline some tactical steps that we believe can help to form an analytical foundation for foreign companies seeking to build a profitable and sustainable business in settings such as Russia, where local knowledge is clearly a key element of the commercial and political environment.