

Tnk-bp joint venture

Business



The paper "TNK-BP Joint Venture" is a wonderful example of an assignment on business.

Why alliances are a frequent mode of entry for the oil industry in Russia

Alliances are a frequent entry mode in the Russian oil industry due to the high entry and exit barriers that are associated with the industry. The

companies must meet the Russian government regulatory framework that requires foreign firms to form a strategic alliance with a local company since oil resources and concession rights are controlled by the government.

Accordingly, the oil exploration operations are capital and machine intensive and involve high risks thus forcing companies to form strategic alliances.

Joint alliance overcomes the ownership restrictions, operations risk and enables the local companies to acquire expertise from the foreign firms

(Peng 2013). The complementary resources and capabilities brought to TNK-BP from a resource-based view

According to this view, the firms enter into a joint venture in order to acquire rare, intangible and irreplaceable resources that enable the joint venture to attain a competitive edge in the industry. BP has acquired access to oil fields in Russia and TNK-BP has acquired technical expertise. TNK-BP will acquire assets and machinery, capital and knowledge from forming the joint venture with BP. BP brought technical expertise to TNK-BP strategic alliance while AAR consortium brought oil reserves to the TNK-BP joint venture. BP needed access to TNK-BP crude in Serbia that was easy to access than unsafe deepwater drilling in Mexico Gulf (Peng 2013).

Formal and informal rules of the game governing this industry from institutional based-view

According to the institutional view, companies must be subject to their

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domestic laws such as Russian laws and thus can pursue opportunities in countries that have been blacklisted by the US government (Peng 2013). In addition, political pressures and commercial disputes are evident since the governments are interested in gaining control of the company due to the institutional framework that is characterized by senior politicians controlling the oil companies. legal hurdles such as labor law violations and social attitudes towards Russian firms are also evident in the commercial disputes (Peng 2013).

Advise on ethics to BP on both episodes of the conflict

As an ethics consultant to BP, the consultants should not take excessive dividends that drain the resources of TNK-BP and must encourage the joint venture to pursue opportunities outside Russia and Ukraine as stipulated in the joint venture agreement. TNK-BP is an independent entity that is governed by Russian laws and thus is not bound by the US state department laws and thus BP and all expatriates must comply with Russian labor laws (Peng 2013).

BP must follow all the provisions of the joint venture agreement and enhance the shared benefits by suggesting a new management structure that reflects the interests of AAR consortium and reaffirming its commitment to the success of TNK-BP. This move will minimize the political risk, ensure sharing of knowledge and facilitate learning thus leading to higher access to oil fields (Peng 2013).

BP must avoid being opportunistic and treat Russians with equal rights since it is a 50/50 joint venture and AAR Consortium must be equally represented in the board of directors. Joint ventures must benefit both the partners and BP should care about the costs, profits and not only the oil reserves. AAR

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consortium expects an acceptable return for their investment and thus BP must commit to global oil exploration in order to enhance the shared benefits (Peng 2013).

BP should not have entered in another cross-shareholding alliance with Rosneft for exploration of Russian Arctic shelf since it violated AAR's rights of first refusal. In this case, BP must facilitate communication with AAR consortium and ensure shared decision-making in order to avoid further conflicts (Peng 2013).

Stockholm arbitrator support in both episodes

In the first episode, I would support Russia since BP expatriates do not care about the high fees paid to the expatriates and are interested in oil reserves within Russia and Ukraine. BP has treated the Russians as subjects rather than shareholders through its opportunistic decisions of denying TNK-BP from expanding operations to other global markets (Peng 2013). In addition, BP utilized its cash proceeds from asset sales in Venezuela and Vietnam towards selfish objectives of clean up of oil spills and compensation costs rather than engaging in shared operations as evidenced by labeling of the countries 'tricky'.

In the second episode, I would also support AAR since BP has violated the joint venture agreement and AAR's right of first refusal for further oil exploration in Russia and Ukraine. BP has not demonstrated its commitment to shared oil exploration and global growth and thus must foster good working relationships within the alliance (Peng 2013).