

Partnering as an Alternative

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Recent years have seen an increase in multinational organizations taking a different approach to foreign acquisitions. Instead of integrating the company into the larger organization and bringing all divisions under one management structure, companies are letting their acquisitions keep their autonomy. Far removed from the traditional idea of an acquisition, these new relationships more closely resemble partnerships. In these cases the management structure of the acquired firm is left intact and it immediately inherits the mission and values of the acquired company in order to develop synergies between both parties. This article uses real-world examples in the form of interviews with Tata and Godiva to not only elaborate on the virtues of a partnering approach. In addition, the authors examine the Renault-Nissan partnership in order to propose this partnership approach as not only a trend in emerging economies but rather a viable strategy for all companies regardless of economy.

Challenges of Integration

The trend in developed nations is to fully integrate the acquired company into the purchaser. However this decision often comes with a plethora of challenges. For example, integration usually involves a drastic change in the acquired firm's management. As the purchased firm is brought under a new management structure its existing officers either have reduced roles or are laid off, leading to a dip in employee morale and higher turnover. In addition, the process of integration entails the development of common procedures and reporting relationships; complex, time-consuming activities. They tie up management's time and resources. These additional integration costs may eventually outweigh the added value of the acquisition: Daimler's much-lauded acquisition Chrysler for \$36 billion in 1998 resulted in the latter company's eventual sale in 2007 for the relatively low price of \$7.4 billion.

Why Partner?

Emerging multinational companies have sought a partnering approach to acquisitions as a way to solve some of the difficulties of acquiring another company. In the partnering approach the acquired firm's management structure is left intact. This shortens the adjustment time for the purchased company and allows its employees to resume normal business more easily since the

company remains essentially unchanged. In addition, by partnering with a company in another industry or another market the purchasing firm gets the full benefit of the company's expertise in its own (the acquired firm's) market. Instead of using its own managers to conduct business in a market it has little experience in, the acquiring firm just lets its partnering firm(s) conduct business as usual. Instead of replacing management, the multinational firm inculcates the acquired firm with its values and mission to make sure that both companies have the same goals, but are allowed to pursue those goals in their own way.

Partnering has additional positive effects in the cases of employee turnover and morale. Keeping the management structure intact is a sign of confidence in the acquired firm and disabuses employees of the notion that poor performance led to the takeover. Jim Goldman, Godiva's CEO reflected positively on the company's acquisition by Ülker Group despite the fact the two companies were in different markets. Ülker's executives sit in on board meetings but overall do not interfere in Godiva's operations. Goldman said that he feels "committed to justify the trust in me. I tell our people that we're lucky we have a parent willing to invest in us even in this economy. We have a huge obligation to deliver."

Advice for U.S. Companies

Partnering did not just work out for Godiva and Ülker. Tata Group (acquired Tetley), VIP Industries (acquired Carlton International) and Renault (acquired Nissan) have all successfully used the partnering approach to acquisition. It is important to note that the Renault-Nissan acquisition is a case of a partnering approach taking place in a developed country. However, there are reasons this strategy is so popular for emerging multinationals. First and foremost, many of them may not have the resources to manage multiple companies around the world directly. In addition, emerging multinationals tend to acquire companies with strong brands and good management, meaning a partnership approach would be a logical choice. Finally, the resources of the multinational and acquired companies are usually complimentary-not substitutes.

One challenge to partnering is that, due to the nature of the relationship the acquiring firm cannot cut costs as easily as it would in a more traditional acquisition (by downsizing or consolidating resources). Cost savings therefore are not as great as in a traditional acquisition and will take longer. Managers in companies that have used partnering successfully have demonstrated a willingness to take risks and a long-term commitment that not all shareholders may be willing to accept.

In summary

Partnering is a trend in emerging multinational companies that has changed the way acquisitions are seen in business. In many ways, this type of approach seems ideal for emerging companies: it does not tie up large amounts of resources or managers' time to integrate both firms; it favors a risk-taking attitude and allows the company to take full advantage of the acquired firm's physical and human capital. However, just because it is popular among emerging multinational firms does not mean that partnering is not a viable option for established companies. In some cases, such as the Nissan acquisition it can actually lead to benefit both parties. Though not a panacea,

partnering does deserve a closer look as managers decide how to keep their firms competitive in a changing environment.

Above article is a summary is based on the Harvard Business Review Article “Don't Integrate Your Acquisitions, Partner with Them” by Prashant Kale, Harbir Singh, Anand P. Raman Publication date: Dec 01, 2009.