MANAGING HUMAN RESOURCES IN CROSS-BORDER ALLIANCES

RANDALL S. SCHULER, SUSAN E. JACKSON, AND YADONG LUO

Managing Human Resources in Cross-Border Alliances

Across the globe companies are seeking alliances with companies in other countries and forming cross-border alliances (CBAs). These collaborations are some of the most complex and exciting in the business world. But while CBAs offer multinational companies a way into the global marketplace, there is no guarantee of success.

Managing Human Resources in Cross-Border Alliances looks at the business and human resources issues that arise through these collaborations, positing that it is the handling of these issues that can determine the CBA's success. The book takes readers through the two main kinds of CBA, international joint ventures (IJVs) and international mergers and acquisitions (IM&As), explaining how each type works and which human resource (HR) issues arise. As well as analyzing these issues and explaining the relevant management, economics, and sociological theories, it uses short end-of-chapter case examples and in-depth end-of-text case studies to provide numerous practical examples.

The first major textbook that seriously studies HR issues in a cross-border alliances context, this book offers both students of HR/international business and practicing HR professionals frameworks for truly understanding the complexities of the area.

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Randall S. Schuler, Susan E. Jackson and Yadong Luo

Globalizing HRM
Paul Sparrow, Chris Brewster and Hilary Harris

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Foreword

This book is the first volume in the series Routledge Global Human Resource Management. The series examines human resource management (HRM) policies and practices in domestic and multinational companies throughout the world.

Several books in this series, including this first volume, are devoted to HRM practices in multinational companies. Some books focus on specific areas of HRM policies and practices, such as renumeration, staffing, training and development, and labor relations. Other books address special topics that arise in multinational companies. This first book, for example, addresses the special topic of managing cross-border alliances.

In addition to books on HRM in multinational companies, several other books in the series adopt a comparative approach to understanding human resource management. The books on comparative human resource management describe the HRM policies and practices found in domestic firms located in various countries and regions of the world. The comparative books utilize a common framework that makes it easier for the reader systematically to understand the rationale for the human resource management practices in different countries.

The series Routledge Global Human Resource Management is intended to serve the growing market of scholars and practitioners who are seeking a deeper and broader understanding of the role and importance of human resource management in companies as they operate throughout the world. With this in mind, all books in the series provide a thorough review of existing research and numerous examples of companies around the world. Mini-company stories and examples are found throughout the chapters. In addition, each book in the series includes at least one detailed case description that serves as a convenient practical illustration of topics discussed in the book.

Because a significant number of scholars and practitioners throughout the world are involved in researching and practicing the topics examined in this series of books, the authorship of the books and the experiences of companies cited in the books reflect a vast global representation. The authors in the series bring with them exceptional knowledge of the HRM topics they address, and in many cases have been the pioneers for their topics. So we feel fortunate to have the involvement of such a distinguished group of academics in this series.

The publisher and editor also have played a major role in making this series possible. Routledge has provided its global production, marketing, and reputation to make this series feasible and affordable to academics and practitioners throughout the world. In addition, Routledge has provided its own highly qualified professionals to make this series a reality. In particular we want to indicate our deep appreciation for the work of our editor, Catriona King. She has been behind the series from the very beginning and has been invaluable in providing the needed support and encouragement to us and to the many authors in the series. She, along with her staff, has helped make the process of completing this series an enjoyable one. For everything they have done, we thank them all.

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This book contains eight chapters. Chapter 1 introduces the concepts of “cross-border alliance” and “human resource management” (HRM) as they are used throughout the book. Chapters 2 and 3 are devoted to describing the nature of IJVs and their related human resource (HR) issues. Chapters 4 and 5 provide similar treatment for international mergers and acquisitions. Chapters 6 and 7 address several topics that are relevant to both IJVs and IM&As, including trust, cooperation, conflict management, collaboration, structure, exit, and managing cultural diversity. Chapter 8 describes how members of an HRM department can facilitate the effective management of IJVs and IM&As.

Virtually everyone in a company can participate in the management of cross-border alliances. However, HR professionals – including both the HR leader and the HR staff – should be uniquely capable of leading a systematic discussion of human resource management issues in CBAs.

Finally, in addition to the primary chapters, two detailed case studies of company experiences are provided in the Appendixes. These cases are used throughout the book to illustrate key points, but the full Appendixes may prove useful to those who are interested in additional details.

The ideas and suggestions offered throughout this book are grounded in the experiences of numerous managers at the companies cited in these chapters. We thank them for the information and insights they have shared related to managing CBAs. We also thank Paul Stonham, editor of the *European Management Journal* at the European School of Management in Oxford, for his permission to use the cases on the Davidson-Marley BV international joint venture; James Scoville at the University of Minnesota for granting us permission to use his case, Precision Measurement of Japan; and Hugh Scullion, Strathclyde University, for contributing the case example of Rolls-Royce PLC. Finally, we wish to express our thanks to Joanna Eriksen at Rutgers University for all of her efforts in preparing the manuscript of this book. Without her professional dedication, this project would not have been completed in a timely and efficient manner.

Randall S. Schuler
Susan E. Jackson
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Managing human resources in cross-border alliances

I personally see more consolidations, more partnerships, more strategic alliances, and more acquisitions.

Jac Nasser
Former CEO, Ford Motor

Merging a U.S. and a European company, as we have done, is a particularly complicated process. The management styles are totally different. People have different views on how to manage a global organization. The British and American philosophies are so apart on those subjects they're almost impossible to reconcile.

Jan Leschly
Former CEO, GlaxoSmithKline

The media often portray business organizations as warring enemies that define their own success by the demise of their competitors. Executives sometimes use similar imagery to motivate their "troops." What such images ignore are the strong interdependencies among business organizations and the degree to which cooperation results in mutual gains. Just as nations have discovered the benefits of economic cooperation, businesses have learned that success often depends on forming strategic alliances. As a result of the formation of strategic alliances among companies often viewed as fierce competitors, industries are sometimes completely transformed (Freidheim, 1998).

Successfully managing strategic alliances is surprisingly difficult, however. The recent DaimlerChrysler cross-border merger illustrates some of the management challenges inherent in managing cross-border alliances. Competitive forces in the global auto industry initially led the two companies to merge. The combination looked good on paper, but cultural differences interfered with management's ability to quickly reap the economic benefits they had anticipated. Clashes due to differences in country cultures and company cultures nearly doomed the new company's success. It seemed to take years for management to focus on a common vision and agree to the need for a single unifying culture. Although the alliance seems now to be succeeding, the initial years of difficulty might have been avoided if the managers had understood and appreciated the many human resource (HR) issues that would require their attention (Apfelthaler *et al.*, 2002).

Strategic alliances among firms

In general, *strategic alliances* involve two or more firms agreeing to cooperate as partners in an arrangement that is expected to benefit both firms. Sometimes strategic alliances involve one firm taking an equity position in another firm. In the most extreme case, one firm acquires the other firm. But less extreme equity positions are also common. Ford, for example, has equity in both U.S. and non-U.S. auto parts producers, but it has not acquired these companies. Many strategic alliances do not affect legal ownership, however. In the airline industry, a common type of alliance is between an airline and an airframe manufacturer. In high-tech industries, strategic alliances allow older, established firms to gain access to the hot new discoveries being made by scientists in universities and in small, creative organizations. For example, the U.S. biotechnology industry is characterized by networks of nonequity relationships between new biotechnology firms dedicated to research and new product development, and established firms in industries that can use these new products, such as pharmaceuticals. In return for sharing technical information with the larger firms, the smaller firms gain access to their partners' resources for product testing, marketing, and distribution (Liebeskind *et al.*, 1996).

In this book, we focus on strategic alliances between firms that have their headquarters in different countries. We refer to these as *cross-border alliances* (CBAs). Presumably, such alliances are formed because they promise to help the firms involved achieve some of their strategic objectives. Thus, CBAs can be defined as partnerships that are formed between two or more firms from different countries for the purpose of pursuing mutual interests through sharing their resources and capabilities (Doz and Hamel, 1998; Yan and Luo, 2000).

As is true for strategic alliances in general, there are many types of CBAs. Two broad categories of CBAs are those that involve equity investments and those that involve no shared equity or joint capital investment.

Nonequity cross-border alliances

A nonequity CBA is an investment vehicle in which profits and other responsibilities are assigned to each party according to a contract. Each party cooperates as a separate legal entity and bears its own liabilities. In recent years, many cooperative programs between firms involve joint activities without the creation of a new corporate entity. Instead, carefully defined rules govern the allocation of tasks, costs, and revenues.

Nonequity alliances have great freedom to structure their assets, organize their production processes, and manage their operations. This flexibility can be highly attractive for a foreign investor interested in property development, resource exploration, and other production projects in which the foreign party incurs substantial up-front development costs. A partner can build into the contract an accelerated return on its share of investment to allow it to recoup its equity share by the end of the term. Further, this type of alliance can be developed quickly to take advantage of short-term business opportunities, then dissolved when its tasks are completed. Because of their ability to provide foreign investors with returns in excess of their proportional contributions to the alliances' total registered capital, nonequity alliances have been the vehicles of choice for build–operate–transfer infrastructure projects. Among the many types of nonequity alliances are joint exploration projects, research and development consortia, co-production agreements, co-marketing arrangements, and long-term supply agreements. Atlantic Richfield's offshore oil *exploration consortia* in Brazil, Ecuador, and Indonesia are examples of joint exploration projects. The arrangement allows for the exploration costs to be borne by the foreign partner, and later the development costs are shared by the home partner. Microsoft's *R&D consortium* with Qinhua University in China is another example of an international non-equity alliance. This agreement specifies a method for allocating costs to the partners, but the revenue of each partner depends on what each company independently does with the technology created.

An example of a *co-production agreement* is the alliances between Boeing and Japan Aircraft Development Corporation (itself a consortium of Mitsubishi, Kawasaki, and Fuji). Each partner is responsible for manufacturing a particular part of the product, and therefore each partner's costs are a function of its own efficiency in producing that part. However, revenue is a function of sales of the 767 by the dominant partner, Boeing. An example of a *co-service arrangement* is provided by the alliance between Delta Air Lines and Air France. These partners seek to align their commercial policies and procedures, coordinate transatlantic operations, and combine frequent flier programs. Although Delta and Air France each retain independent fleet plans, they look for ways jointly to improve operating efficiencies.

Co-marketing arrangements provide a platform in which each party can reach a larger pool of international consumers. For example, Praxair (United States) and Merck KGA (Germany) established their global alliance in 1999, through which each uses the other's distribution channels to bring an offering combining Praxair's gases and Merck's wet chemicals to semiconductor customers. This co-marketing alliance gives both parties an entrance into the other's main markets. Praxair has a strong distribution infrastructure in North America but is a small player in Europe and Asia. Merck, in contrast, is strong in Europe and Asia but absent from the U.S. wet chemical market.

In a typical *long-term supply agreement*, the manufacturing buyer often provides the supplier with updated free information on products, markets, and technologies, which in turn helps ensure the input quality. IKEA, for example, not only offers such information to its dozens of foreign suppliers but also provides them with free periodic training. Correspondingly, many of IKEA's foreign suppliers are committed to becoming its long-term exclusive suppliers.

Finally, a *co-management arrangement* is a loosely structured alliance in which cross-border partners collaborate in training (technical or managerial), production management, information systems development, and value-chain integration (e.g., integrating inbound logistics with production or integrating outbound logistics with marketing). Partnership provides an organizational vehicle for firms quickly and efficiently to acquire these managerial skills, which cannot be bought from a public market. Co-management arrangements occur because international companies often realize that their managerial skills are insufficient for running businesses abroad and, meanwhile, local companies often find that they can benefit from foreign counterparts' international experience and organizational skills. Therefore, foreign and local companies can benefit from complementary managerial expertise they contributed through an alliance (Child and Faulkner, 1998; Cyr, 1995; Hennart and Reddy, 1997; Muson, 2002; Pucik, 1988).

Equity-based cross-border alliances

International joint ventures and international mergers and acquisitions are two major types of equity-based CBAs. Such arrangements typically represent a long-term collaborative strategy. Furthermore, as we explain throughout this book, equity-based alliances require active day-to-day management of a wide variety of HR issues. Some of the HR issues that are critical to the success of equity-based CBAs may also arise in nonequity CBAs, but they may be less central to the success of the alliance. In equity-based CBAs, however, long-term success is impossible unless HR issues are managed effectively. While there are many lessons that can be transferred from our discussion of equity-based CBAs to managing HR issues in nonequity alliances, most of our discussion focuses on describing the challenges of managing human resources in equity-based CBAs. More specifically, we focus on international joint ventures and international mergers and acquisitions.

International joint ventures

An *international joint venture* (IJV) is one type of equity-based CBA. Alliance partners form a joint venture when they create a separate legal organizational entity representing the partial holdings of two or more parent firms. In IJVs, the headquarters of at least one partner is located outside the country of the joint venture. Joint ventures are subject to the joint control of their parent firms. The parent firms, in turn, become economically and legally interdependent with each other.

Firms form IJVs for many reasons. In some countries, the host government provides strong incentives to foreign firms to use joint ventures as a mode of entry into the country's markets. Another reason to form joint ventures is to gain rapid access to new markets. Learning is yet another objective behind many IJVs. By partnering with local companies instead of entering a market on their own, foreign firms can more quickly develop their ability to operate effectively in the host country. IJVs also provide a means for competitors within an industry to leverage new technology and reduce costs. In the