MANAGING HUMAN RESOURCES IN CROSS-BORDER ALLIANCES

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> It's clear that you cannot stay in the top league if you only grow internally. You cannot catch up just by internal growth. If you want to stay in the top league, you must combine.
>
> Daniel Vasella, CEO, Novartis (Herper, 2002)

INTRODUCTION

The media often portray business organizations as warring enemies who 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.

Successfully managing strategic alliances is surprisingly difficult, however. The 1998 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

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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 HR issues that would require their attention (Apfelthaler, Muller & Rehder, 2002).

STRATEGIC ALLIANCES AMONG FIRMS

In general, *strategic alliances* involve two or more firms agreeing to cooperate as partners in an arrangement that's 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 also are common. Ford, for example, has equity in both foreign and 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 non-equity 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, Oliver, Zucker & Brewer, 1996).

In this chapter, we focus on strategic alliances between firms that are headquartered in different countries. We refer to these as *cross-border alliances,* or CBAs. Cross-border alliances 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 & Hamel, 1998; Yan & Luo, 2001).

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

A non-equity cross-border alliance 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. Non-equity alliances have great freedom to structure their assets, organize their production processes, and manage their operations. This type of alliance can be developed quickly to take advantage of short-term business opportunities, then dissolved when their tasks are completed. Among the many types of non-equity alliances are joint exploration projects, research and development consortia, co-production agreements, co-marketing arrangements, and long-term supply agreements.

International joint ventures and international mergers & acquisitions are two major types of equity-based cross-border alliances. Such arrangements typically represent a long-term collaborative strategy. Furthermore, equity-based alliances require active day-to-day management of a wide variety of human resource (HR) issues. Some of the HR issues that are critical to the success of equity-based cross-border alliances may also arise in non-equity cross-border alliances, but they may be less central to the success of the alliance. In equity-based cross-border alliances, 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 cross-border alliances to managing HR issues in non-equity alliances, most of our discussion focuses on describing the challenges of managing human resources in equity-based cross border alliances. 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 cross-border alliance. 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 international joint ventures, 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 international joint ventures 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 their markets (Geringer & Hebert, 1989). Another reason to form joint ventures is to gain rapid access to new markets. Learning is another objective behind many international joint ventures. 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 auto industry, for example, Ford, General Motors, Daimler-Chrysler, Nissan and Renault formed an international joint venture, Covisint, in order to manage their supply chains using business-to-business e-commerce (Greenhalgh, 2001). Ford's former CEO Jac Nasser explained the reasoning behind the formation of this IJV: "We see this technology [e-business] as so powerful that, for it to be optimized, we need it to become an industry standard. So, rather than have 15 different standards out there ... we figured out that it would be more efficient if the basic architecture was common." Assuming Covisint succeeds, it will fundamentally alter supply chain relationships within the automobile,industry.

For various reasons, managing IJVs successfully is difficult, and many ultimately fail. IJV failures often stem from poor management of human resource issues. Prior to formation of an IJV, human resource management professionals can help the potential partners assess their cultural compatibility. As the new entity is formed, recruiting and selecting of key executives to staff the IJV becomes critical. With the staff in place, HRM practices that align employees' skills and motivations with the business objectives of the IJV can determine whether it ultimately achieves the desired outcomes (for an example of a model for strategic staffing in IJVs, see Petrovic & Kakabadse, 2003).

INTERNATIONAL MERGERS AND ACQUISITIONS (IM&AS)

Companies today need to be fast, efficient, profitable, flexible, adaptable, future-ready and have a dominant market position. Without these qualities, it is virtually impossible to be competitive in today's global economy. In addition to participating in strategic alliances to develop the capabilities they need to compete, many firms evolve and grow through mergers or acquisitions. Among the most significant transnational merger and acquisition deals in recent years are Daimler-Chrysler, Chase J. P. Morgan, McKinsey-Envision, UBS-Warburg-Paine Webber, Credit Suisse-DLJ, Celltech-Medeva, SKB-Glaxo, NationsBank-Bank of America, Vivendi-Universal, Pfizer-Warner Lambert, Nestle-Purina, and Deutsche Telekom-Voice Stream. Although global economic and market conditions move up and down, the future appears ripe for a continuation of international merger and acquisition activity.

In a merger, two companies agree to join their operations together to form a new company in which they participate as equal partners. In an acquisition, one firm buys controlling or full interest in another firm with the understanding that the buyer will determine how the combined operations will be managed. The majority of acquisitions are friendly - that is, the acquired firm solicits bids and enters into an acquisition voluntarily. Sometimes, however, a firm becomes a takeover target. Although mergers and acquisitions are technically different, it's common to refer to all these means for combining the operations of two firms as mergers and acquisitions, or just M&As (Charman, 1999; Deogun & Scannell, 2001).

Some observers argue that the increased pace of international mergers and acquisitions is a major driving force behind the development of multi-government agreements and rules for business conduct (Tyson, 2001). IM&A deals can have enormous economic and social consequences. They can quickly put the major competitors within a country out of business, and they can determine whether, how and where people work. Gaining government approval for international M&As is sometimes difficult, but the initial step of gaining approval usually proves to be far easier than successfully managing the new entity.

As is true for international joint ventures, international mergers and acquisitions unfold through many stages. At each stage, success requires effectively managing many human resource (HR) issues. This involves identifying the HR issues and their implications for human resource management activities.

THE ROLE OF HUMAN RESOURCE MANAGEMENT

Human resource management (HRM) refers to all of the dedicated activity that an organization uses to affect the behaviors of all the people who work for it (Jackson & Schuler, 2003). Because the behaviors of employees influence profitability, customer satisfaction and a variety of other important measures of organizational effectiveness, managing human resources is a key strategic challenge for all companies, and particularly so for those engaged in cross border alliances (Briscoe & Schuler, 2004).

Every organization, from the smallest to the largest, engages in a variety of *human resource management activities.* Human resource management activities include formal policies and everyday practices for managing people. Policies are statements that offer a general statement of how people will be managed. For example, there may be a policy to reward employees for their performance to the, organization. HRM practices then take the next step and provide offer a more specific statement of how people will be managed For example the practice of paying commissions based on individual sales performance is a practice that would be consistent with an HRM policy of rewarding employees for performance. Another practice that would also be consistent with this policy would be offering team-based incentives that are tied to the performance of a team against stated team goals.

The more systematically HRM policies and practices are matched to the company, the more financially successful the company is likely to be (Becker, Huselid & Ulrich, 2001). This principle is as true for the successful management of cross-border alliances as is it for organizations in general. And, as is true for business in general, the stakes are high. Successful cross-border alliances make create new jobs, improve the economic conditions of a community, and produce wealth for shareowners. Conversely, failed cross-border alliances may mean lost jobs, loss of tax revenue, declining share values, and even the eventual demise of companies. In the remainder of this chapter, we describe some of the human resource issues that arise in CBAs and discuss their implications for a variety of human resource management activities (Briscoe & Schuler, 2004).

INTERNATIONAL JOINT VENTURES

International joint ventures (IJVs) are legally and economically separate organizational entities created by two or more parent organizations that collectively invest financial as well as other resources to pursue certain objectives. IJVs **are** typically used when the required integration between the partners is high and the venture business is characterized by uncertainty and decision making urgency (Doz & Hamel, 1998). Although an overwhelming majority of international joint ventures involve only two parent firms (one from a foreign country and the other from the local country), some ventures may consist of multiple participants. Joint ventures that are launched by home-country based (foreign) and host-country based (local) firms are the dominant form of joint venture partnership. Because the creation of an IN involves establishing an independent organization, the need to establish effective HR practices is particularly evident in this type of CBA.

REASONS FOR FORMING IJVs

International joint ventures have become a major form of entry into global markets (Barkema, Shenkar, Vemeulen & Bell, 1997; Evans et al., 2002). Harrigan (1986), but there also are many other reasons that companies form IJVs. The most common reasons cited in the literature are:

- To gain technical and administrative knowledge, to learn, and to transfer that knowledge (Cyr, 1995; Lei, Slocum & Pitts, 1997; Mudambi, 2002);
- Host government insistence (Gomes-Casseres, 1989; Shenkar & Zeira, 1987);
- To gain rapid market entry and catch more customers (Berlew, 1984; Harbison, 1996; Shenkar & Zeira, 1987; Sparks, 1999);
- To capture increased economies of scale (Newburry & Zeira, 1997);
- To gain local knowledge and local market image and channel access (Gomes-Casseres, 1989; Harbison, 1996; Lasserre, 1983);

- To obtain vital raw materials (Shenkar & Zeira, 1987) or technology (Gomes Casseres, 1989);
- To spread the risks (Pucik, 1988; Shenkar & Zeira, 1987);
- To improve competitive advantage in the face of increasing global competition (Porter, 1990);
- To support company strategies for internationalization (Evans et al., 2002).

Of these, the reasons that appear to gaining substantial momentum are learning and knowledge, sharing and transfer (Child & Faulkner, 1998; Foss & Pedersen, 2002; Reid, Bussier & Greenway, 2000; Shenkar & Li, 1999). In many industries, increasing global competition and unabated technological advancement have resulted in a wide range of cross-border collaborative partnerships intended to access knowledge, skills, and resources that cannot be internally produced by organizations in a timely or cost-effective fashion. Organizational learning has long been considered a key building block and major source of competitive advantage (Badaracco, 1991). A global alliance is not only a means by which partners trade access to each other's skills but also a mechanism for actually acquiring a partner's skills. In bringing together firms with different skills, knowledge bases, and organizational cultures, IJVs create unique *learning opportunities* for the partner firms. By definition, alliances involve a sharing of resources. This access can be a powerful source of new knowledge that, in most cases, would not have been possible without the formal structure of an IJV. As such, IJVs are no longer a peripheral activity but a mainstay of competitive strategy. IJVs forge new knowledge transfer pathways, across both technologically and traditionally linked positions.

Using and relying on external learning and knowledge transfer is challenging and complex (Barkema et al., 1997; Mudambi, 2002). A fundamental impediment to inter-partner learning and knowledge transfer originates from the nature of knowledge involved. Codified *explicit* knowledge is generally transparent and readily accessible and transferable; but many elements of knowledge transferred between IJV partners are tacit. *Tacit* means that the knowledge is deeply embedded in organizational routines (e.g. structure, rules, and policies) and difficult to codify and teach. In organizations, tacit knowledge involves intangible factors embedded in personal beliefs, experiences, and values. It is also stored organically in team relationships. If two firms seek transfer of the knowledge that is explicitly codifiable (e.g. patents), they normally choose international licensing instead of the IJV. When the knowledge is tacit, thus uncodifiable in the license contract, the IJV becomes a better device for transferring or sharing this type of knowledge.

Certainly, behaviors and styles of managers in organizations have a significant impact on the ability and willingness of a firm to learn (Frayne & Geringer, 2000).

For example, learning requires managers to be open and willing to -suspend their need for control. While firms and individuals need the ability and willingness to learn as they enter into the IJV formation process, they also need to be transparent so that others may learn as well (Child & Faulkner, 1998; Hamel, 1991). Thus both partners need to have similar qualities that support learning if the partnership is to have a longer-term success (Doz & Hamel, 1998; Hamel, 1991; Lyles, 1987; Parkhe, 1991; Pucik, 1988). Because learning capability can quickly lead to attaining competitive advantage (Prahalad & Hamel, 1990), asymmetry in learning capability can soon lead to partnership instability and dissolution.

FOUR STAGE MODEL OF IJVs

As introduced earlier, the organizational and human resource issues in IJVs are clearly very extensive (Child & Faulkner, 1998). They, however, can be further refined and categorized into several stages, stages that begin with the development of the IJV itself (Evans et al., 2002; Lei, Slocum & Pitts, 1997; Lorange & Roos, 1992; Makhija & Ganesh, 1997; Pucik, 1988; Schuler, 2001). The four stages of the IJV process include:

(1) Formation: The partnership stage
(2) Development: The IJV itself
(3) Implementation: The IJV itself
(4) Advancement: The IJV and beyond

These four stages include activities that begin even before the IJV itself is formed and concludes with the relationship among the three entities, two partners and one IJV. The HR issues in each stage of the IJV process are numerous as illustrated in Fig. 1.

MANAGING HUMAN RESOURCES IN IJVs

As summarized in Fig. 1, the formation and operation of an IJV raises many HR issues that have implications for how the partners (the IJV parents and the BY itself) manage their human resources. Many of these implications are grounded in the assumption that IJV parents and the IJV itself are all interested in learning (Parkhe, 1991). Organizations can support learning, knowledge flow, sharing and transfer by ensuring that their employees possess and exhibit role behaviors such as:

Stage I - Formation: The Partnership

a. Identifying the reasons for forming the IJV

b. Planning for the utilization of its potential henelits

c. Selecting a manager for new business development

d. Finding potential partners

c. Selecting the partncr(s)

Understanding control, building trust, managing conflict

g Negotiating the arrangement

Stage *2 - Development: The IJV Itself*

h. Locating the IJV and dealing with the local community

i. Establishing the appropriate structure

j. Getting the IJV management team

Stage 3 - Implementation: The IJV Itself

k. Establishing the vision, mission. values. culture and strategy

l. Developing the HRM policies and practices

m. Dealing with unfolding issues

n. Staffing the 1JV

Stage *4 - Advancement: The IJV and Beyond*

o. Learning between partners

p. Transferring the new knowledge to the parents

y. Transferring the new knowledge to other locations

Fig. J Four Stage Model of HR Issues in International Joint Ventures. *Source: R. S.* Schuler, S. E. Jackson, and Y. *Luo, Managing Human Resources in Cross-Border Alliances* (Routledge Publishing, 2004). Used with permission.

- Openness;
- Systemic thinking;
- Creativity;
- Self-confidence;
- Empathy.

The parent and the IJV benefit from human resource management practices that support and reinforce these role behaviors Qackson & Schule , 2000, 2003; McGill, Slocum & Lei, 1992).

MANAGING HUMAN RESOURCES IN IM&As

International mergers and acquisitions represent the end of the continuum of options companies have in combining with each other. Representing the least intense and complex form of combination is licensing. Next come alliances and partnerships and then joint ventures. Mergers and then acquisitions conclude the combination options. In a merger, two companies come together and create a new entity. In an acquisition, one company buys another one and manages it consistent with the acquirer's needs.

Many companies seem to be confronted with the need to do mergers and acquisitions, yet the odds of doing so successfully are relatively low. These odds can be increased, however: firms that have gained more experiences and that take a systematic approach to learning from experiences in their deal making are more likely to be successful (Arndt, 2000; Ashkenus, DeMonaco & Francis, 2000; Fendt, 2002a). As part of their systematic approach to completing successful IM&As, managers pay attention to HR issues that exist throughout the stages of international mergers and acquisitions. On the other hand, with there being more 1M&-As overall, there are more inexperienced executives, too. Inexperienced executives are less proactive, tend to underestimate HR issues and therefore not to involve HR or only late in the process (Fendt, 2002b; Levinsohn, 2002).

The key HR issues that arise in IM&As vary somewhat depending on the specific circumstances or type of IM&A under consideration. Some mergers are "mergers of equals." Examples of these include the merger between Citicorp and Travellers forming Citigroup; and between Ciba-Geigy and Sandoz forming Novartis. Other mergers take place between firms that are clearly unequal - at least in total size and market value. Similarly there are various types of acquisitions, e.g. those involving acquisition and integration such as those typically made by GE, Siemens and Cisco Systems; and those involving acquisition and separation such as between Unilever and Bestfoods. There are also friendly acquisitions and hostile acquisitions, although cross border hostile acquisitions are relatively rare (Evans et al., 2002). Acknowledging the different types of mergers and acquisitions is necessary in order to understand the many different HR issues that arise in IM&As. For example, a merger of equals often compels the two companies to share in the staffing implications, whereas a merger of unequals results in the staffing implications being shared unequally (Kay & Shelton, 2000). In this chapter, we can barely briefly touch on the HR issues associated with the different types of IM&As (for a more complete discussion, see Schuler, Jackson & Luo, 2004).

In addition, the HR issues to be addressed in IM&As may differ depending on the objectives behind the deal. Among the numerous reasons for companies to merge or acquire are these:

- To Promote Growth;
- To Manage Technology;
- As a Response to Government policy;
- To Take Advantage of Exchange Rates;
- As a Response to Political and Economic Conditions;
- Reduce Labor Costs and/or Increase Productivity;
- To follow clients;
- To Diversify and Manage Risk;
- To Achieve Greater Vertical Integration;
- As a response to shareholder and/or analyst pressure for growth, innovation, internationalization, etc.

In recent years, people-related reasons have become more common and with industrialized countries' dramatically aging population until 2020, this motive is likely to increase in significance: for example, engineers and scientists are in high demand worldwide and as this demand will go up, the supply will go down (Prognos World Report, 2001). In industries where intellectual capital is critical to business success, as it is for semiconductor and optical networking firms, technically skilled employees are seen as more valuable than the company's product. Some banks even make dollar estimates of the value of a firm's employees, e.g. by applying metrics like price-per-engineer. When Broadcom bought chipmaker SiByte, it can be said to "have paid $18 million per engineer" (Creswell, 2001). Of course, such deals can only be successful if the employees in the target firm agree to stay after the deal is completed. Retaining talent after any merger or acquisition can be difficult. It may be even more difficult when employees in the target firm are expected to shift from working for a well-regarded domestic firm to working for a foreign-owned company, which may have less status or prestige or is simply unknown.

Next, we describe a simple three-stage model of the IM&A process and use it to outline several HR issues that arise during IM&As. This model provides the foundation for developing propositions regarding how effective human resource management can contribute to IM&A success:

THREE STAGE MODEL OF MERGERS AND ACQUISITIONS

Figure 2 summarizes the HR issues to be addressed in three stages of the IM&A process. The three stages shown are: (1) pre-combination; (2) combination and integration of the partners; and (3) solidification and advancement of the new entity (Evans et al., 2002; Habeck, Kroger & Tram, 1999; Schuler & Jackson, 2001). These three stages are applicable to most of a firm's business functions (finance, marketing, distribution, IT, manufacturing, etc.), but we highlight here only the issues that are most closely associated with managing human resources.

Stage 1: Pre-combination

The pre-combination stage includes all of the activities that occur before the IM&A is completely legally. Thus it includes the process of determining the reasons for becoming involved in a merger or acquisition (as a buyer or a target), searching for possible partners (whether domestic or international), evaluating the alternatives, selecting and negotiating with a specific partner, and planning for the eventual implementation of the deal. In many respects, these activities are quite similar.to those conducted during the Formation Stage of an IJV.

The activities in Stage I establish a foundation for stages 2 and 3. For example, in order for Stage 2 to be effective, it is important that the partners have already carefully planned and prepared for it during in Stage 1. According to some estimates, lack of integration planning is found in 80% of the IM&A's that under-perform (Habeck et al., 1999).

A key HR activity in Stage I is the performance of a HR due diligence. The HR due diligence process should assess the human capital of an organization. It is, however often carried out by lawyers and financial experts focusing on financial costs and contractual obligations. If **HR** is involved in this process it will go beyond to give insight in how much a business is supported by its human capital, what culture drives the company and how does it impact on performance, what added value is the human capital capable of creating in a merger and how can it best be released and developed (Daniel & Metcalf, 2001; Devine, 2002).

Stage I: Pre-Combination

Identifying reasons for the IM & A

Pormine IM & A scam/leader

Searching for potential partners

Selecting a partner

- Planning for managing the process of the IM and/or A

Planning to learn from the process

Stage *2-Combination and Inte,Ircuion*

- Selecting the inter ration manager
- Designing/implementing teams
- Creating the new structure/strategies/ leadership
- Retaining key employees
- Motivating the employees
- Manaeing the change process
- Communicating to and involving stakeholders

Deciding on the HR policies and practice

Stage *3: Solidification and Assessment*

- Solidifying leadership and staffing
- Assessing the new strategies and structures
- Assessing the new culture

Assessing the new HRM policies and practices

- Assessing the concerns of stakcholdcrs
- Revising as needed
- Learning 1' rum the process

Fig. 2. HR Issues in Three Stages *of IM&As. Source: R. S.* Schuler, S. E. Jackson and Y. *Luo. Managing Human Resources in Cross-BorderA lliances* (Routledge Publishing, 2004). Used by permission.

Stage 2:. Combining and Integrating the Companies

The stage of combination and integration begins after a merger or an acquisition is announced and pre-combination activities are completed. The general approach used to integrate and combine IM&A firms can be characterized as fitting one of four approaches: portfolio, blending, new creation, and assimilation (Schuler et al., 2004).

In the portfolio approach, managers in the two companies retain a great deal of autonomy. Although the alliance creates legal and economic interdependencies, the top management team assumes that the two organizations will continue to operate more or less as they had operated prior to the IM&A. Presumably, the strategic value of the alliance does not lie in the integration of the separate organizational systems, so differences are "managed" by maintaining segregated organizations. This scenario often occurs when one firm acquires another firm as a pure investor or in order to diversify into another business or region and then allows the acquired firm to operate as a relatively autonomous subsidiary.

The blending scenario arises when top managers intend for the two organizations to come together or merge into a new organization that retains the best aspects of the original partners. In this scenario, the intent is to manage diversity through integration, with members of each organization adapting to the procedures and culture of their alliance partner. The blending approach is perhaps most common in IM&As that occur within an industry and between firms that are believed to complement each other's strengths and offset each other's weaknesses.

But surely management style, organization, and market share could have been improved without a merger? "No," Vasella replies. "The merger was the trigger we needed to rethink our focus and re-challenge ourselves. We needed to create a whole new corporate culture. The creation of a new company with a new name committed to innovation gave us a competitive advantage" (Hanes, 1999).

A third scenario arises when the partners agree to create a new firm that is truly different from either of the original partners. As we have already seen, this is typically what partners agree to do when then enter into a joint venture, especially if the IJV is located in a country other than the countries of the parent firms. Creating a new organization is the goal of some mergers also, although it seems to be less common. One indication that an IM&A is intended to form a new creation is that the resulting firm takes on a completely new name. Novartis, which was created through a merger of Sandoz and Ciba-Geigy, is one example. Although it is not strictly speaking an international M&A, cultural differences of these two global life science players were important.' Having experienced a merger of similar size in 1970 with Ciba and Geigy and having seen that for two decades people tended to blame "those of Ciba" or "those of Geigy," the merging partners set out to do it right this time. They focused strongly on culture from the start and spared no effort to cre-.. ate a totally new culture from day on. The name Novartis, describing the innovation focus of the new organization and bearing no association with either of the previous names should be its symbol. No energy should be lost with turf wars. Rather should all efforts be focused on the common project: "(...) is like having a child: Each parent looks for resemblances in the eyes and face. But the child has its own identity. Both sides will need to step back a bit and not impose their own culture on it" (Smith, 2000).

Finally, in some acquisitions, the buyer clearly intends to take over and control the target. Typically General Electric and Siemens do this with many of their acquisitions (Javidan, 2002). Such experienced integrators use proven integration processes which they regard as critical growth competencies. Consequently, they invest time, people, and resources to develop the processes, functions and responsibilities, checklists and full-time integration managers long before IM&As occur (Bogan & Symmers, 2001). The target firm may be an attractive. candidate for an acquisition because it has some valuable assets, yet for various reasons it is clear that it cannot survive on its own. In this scenario, the expectation is that the target firm will lose its identity and adopt the management practices of the acquiring firm. In other words, the target firm is expected to assimilate into the acquirer such as what happened when Deutsche Bank acquired Bankers Trust (Atlas, 2002). This is also what happened in Pfizer's hostile take-over of Warner-Lambert. When Pfizer acquired Warner-Lambert, they adopted a few of Warner-Lambert's practices, but observers say that little of the Warner-Lambert culture remains today. Not surprisingly, most of Warner-Lambert's top-level managers left the firm.

Regardless of the specific approach, all acquisitions require some degree of integration of systems and processes in order to achieve key synergies. Successful integration is a key challenge in Stage 2 of IM&As. If the firms don't succeed in integrating their activities, the results are predictable. According to recent studies, poor integration accounts for declining productivity, leadership attrition, low employee morale, and failure to meet financial goals (Bobier, 2000).

Because Johnson & Johnson engages in so many mergers and acquisitions, they have been able to study their own experiences and learn from the successes and failures. This company's research clearly indicates that a systematic, explicit integration process is at the heart of successful mergers or acquisitions. Furthermore, J&J has learned the importance of tailoring decisions about how to approach the task of integration to take into account the specific strengths and weaknesses of the acquired company. J&J has also learned that Stage 2 should proceed as quickly as possible - the sooner the process begins, the better. Ideally, decisions about the management structure, key roles, reporting relationships, layoffs, and restructuring should be announced within days of signing. Creeping changes, uncertainty, and anxiety that last for months are debilitating and drain value from an acquisition (Bobier, 2000).

Stage 3: Solidification and Assessment of the New Entity

As an IM&A takes shape, it faces issues of readjusting, solidifying and fine-tuning. These issues take on varying degrees of intensity, although not importance, depending upon the approach to integration that the firms adopt. The intensity can be quite high for an international merger of equals that is intended to lead to the creation of a new entity, and failure to address the HR issues effectively is likely to mean that the intended strategy is never successfully implemented. For Daimler-Chrysler, Stage 3 lasted more than two years (Muller, Green & Tierney, 2001). During that time, they grappled with all of the HR issues listed under Stage 3 in Fig. 2.

Like IJVs, effectively managing international mergers and acquisitions requires dealing successfully with many significant HR issues. Each stage of the IM&A process presents new challenges as well as new opportunities to create value by managing people effectively (Briscoe & Schuler, 2004).

CROSS-BORDER TRAINING AND DEVELOPMENT INITIATIVES FOR IJVs AND IM&As

As the above discussion suggests, there are many HR issues to manage in IJVs and in IM&As. One such issue is improving the cross-cultural competencies (e..g. knowledge, skills and abilities) of IJV and IM&A employees to help them adjust to new cultural environments and to help them interact and work effectively with people from a variety of cultures. In the remainder of the chapter we describe how two human resource management practices, cross-border training initiatives (CBTIs) and cross-border development initiatives (CBDIs), can be used to improve the cross-cultural competencies of IJV/IM&A employees.

CBTIs and CBDIs refer to all activities or interventions that are planned to improve the cross-cultural competencies of IJV/IM&A employees. CBTIs are generally used to improve cross-cultural competencies needed today or very soon. Usually, the main objective of CBTIs is to improve performance in a specific job by increasing employees' knowledge and skills. Examples of CBTIs include cross-cultural training (Black & Mendenhall, 1990), diversity training (Ferdman & Broady, 1996), language training (Dowling, Welch & Schuler, 1999), self management training (Frayne & Geringer, 1992), and mentoring, (Dowling, Welch & Schuler, 1999).

In comparison, CBDIs are generally used, to improve cross-cultural competencies over a longer period of time. The major objective of CBDIs is to provide employees with knowledge, skills, and abilities that are needed for future job assignments. Some of the common types of CBDIs include management education programs (Bailey & Shenkar, 1993), participation in global teams (Gupta & Govindarajan, 2002), immersion experiences in foreign cultures (Gupta Bz Govindarajan, 2002), immersion experiences in various ethnic communities (Noe, 2002), team building workshops (Evans, Pucik & Barsouk, 2002), international job rotations (Dowling, Welch & Schuler, 1999), and coaching (Noe, 2002).

CBTIs AND CBDIS IN I)Vs

As shown in Fig. 3 the opportunities for training and development activities in an IJV are many - they can focus on at least six groups of employees each having somewhat different cross-cultural competency requirements (see Bailey & Shenkar, 1993; Zeira & Shenkar, 1990 for a detailed discussion on the various employee groups in an IJV). The different groups who can benefit from CBTIs and CBDIs are:

(1) Foreign parent expatriates;
(2) Third country expatriates of the foreign parents(s);
(3) Third country expatriates of the host parent(s);
(4) Third country expatriates of the new venture;
(5) Host parent transferees; and
(6) Host country nationals (see Fig. 3 for definitions).

The different IJV employee groups highlight the complexity of issues related to designing, delivering, and evaluating CBTIs and CBDIs for IJV employees (Tarique & Caligiuri, 2003). For example, should all IJV employees receive cultural general knowledge and/or culture specific knowledge? How will CBTI for third country expatriates of the foreign parents(s) differ from CBTI for third country expatriates of the host parent(s)? Clearly, a full discussion of how an IJV can address these issues is not feasible here. Instead we briefly discuss generic training and development issues that can be applied across the various IN employee groups.

IJV employees in the first four groups are mostly expatriates (see Fig. 3) who require knowledge-based competencies to effectively work in new and different cultural environments. Knowledge based competencies include cultural general

IJV Employee Group[1]	Cross-cultural competency needs of, core IN employees[1]	CBTI/CBDI Choices[1]	Cross-cultural competency needs of non-core employees[1]	CBTI/CBDI Choices[1]
(1) Foreign parent expatriates *(employees from the foreign parents(s) headquarters assigned to the venture)*	Knowled e based cmoeten_cies		.1 competencies	
	Cultural general knowledge *Cultural specific* knowledge *Intercultural knowledge*	*Cross-cultural training* *Language training* *Self Management training* *Diversity training* Mentoring	*Cultural general knowledge* *Cultural specific-knowledge*	*Cross-cultural training* *Language training* *Diversity training*
(2) Third country expatriates of the foreign parents(s) (*employees* in the *foreign parent(s) organization who are nationals of neither the foreign parent(s) nor the* host *parents(s) country*	Skills based competencies	CRIli¢		
	Local language *skills* *Knowledge transfer skills* *Interpersonal skills* *Communication skills* *Negotiation skills* *Relationship building skills*	*Immersion experiences* *Global Teams Management education-programs* *Team building workshops* *Coaching*		
(3) Third country expatriates of the host parent(s) *(employees* in the host *parent(s) organization who are nationals of neither the foreign* parent(s) *country nor* the host *parent(s) country)*	A ili based competencies			
	Learning ability *Listening ability*			
(4) Third country				

Fig. 3.

Cross-Border Training and Development Initiatives for Various Employee Groups in an UV. *Note:* [1] Based on Baily and Shenkar (1993). [2] Portions based on Schuler (2001), and Bailey and Shenkar (1993). [3] Portions based on Bailey and Shenkar (1993), Kealey and Protheroe (1996), Schuler (2001), Gupta and Govindarajan (2002), Evans, Pucik and Barsouk (2002), and Noe (2002).

expatriates of the new venture *(employees recruited directly by the venture* who are *nationals of neither the foreign parent(s) cuuntn'nor the* host *porent(s) country)*				
(5) Host parent transferees *(employees of the* host *parent(.) t,an.srrred to the IJV)* (6) Host country nationals *(employees directly recruited and employed hY the IJV and are nationals of the* host *country)*	Knowledge based competencies *Cultural general knowledge* *Intercultural knowledge*	**CBTI** *cross-cultural Training* *Self Management Training* *Diversity Training* *Mentoring*	Knowledge based competencies *Cultural general knowledge* *huercultural knowledge*	**CBTI** *Cross-cultural training* *Diversity training*
	Skills based competencies *Knowledge transfer skills* *Inurlrersunul skills* *Communication skills* *Negotiation skills* *Relationship building skills*	CBDI *Immersion experiences* *Global teams* *Management education programs* *Team building workshops*		
	Ability ba sed-.--- -competencies. *Learning ability* *Listening ability*			

Fig. 3. Continued)

knowledge, cultural specific knowledge, and intracultural knowledge.; These three types of knowledge provide expatriates with a good framework for understanding how cultures differ and how to effectively interact with people from a variety of cultures (Harrison, 1994) and ethnic groups. CBTIs like cross-cultural training and diversity training can provide the required level of cultural general knowledge, cultural specific knowledge, and intracultural knowledge. In addition CBDIs such as immersion experiences in foreign cultures, immersion experiences in different ethnic communities, participation in global teams, and coaching may provide the appropriate level of cultural general knowledge, cultural specific knowledge, and intercultural knowledge if the goal is to prepare UV employees for assignments they may have in the future.

IJV employees in group 5 and group 6 are considered host country nationals who require cultural general knowledge to effectively work with expatriates and require intracultural knowledge to effectively work with a diverse workforce within the UV CBTIs like cross-cultural training and diversity training can provide the required level of cultural general knowledge and intracultural knowledge. CBDIs like immersion experiences in different ethnic communities and coaching may also provide the appropriate level of cultural general knowledge and intracultural knowledge.

IN employees can further be classified as core or non-core. Core UV employees are those whose job tasks are central to the continued success of the UV. These employees are usually found in leadership positions such as an UV manager (see Frayne & Geringer, 1992) and, in general, are responsible for the day-to-day operations of the venture. For core UV employees, skill based competencies include local language skills, knowledge transfer skills, interpersonal skills, communication skills, negotiation skills, and relationship building skills. Ability based competencies include learning ability and listening ability. While CBTIs like cross-cultural training may provide some level of skills and ability based competencies, that is not the typical goal of CBTIs. CBDIs are more appropriate, and interventions like coaching and management education programs may provide the required level of skills based competencies and ability-based competencies.

CBTIs AND CBDIs IN IM&As

Similar to Bailey and Shenkar's (1993) approach of categorizing IJV employees, IM&A employees can be categorized using two criteria: (1) country of origin; and (2) pre IM&A affiliation. Figure 4 shows the three key IM&A employee groups based on theses two criteria. These groups are:

M&A Employee Group	Cross-cultural competency needs of core IM&A employees	CBTI/CBDI Choices	Cross-cultural competency needs of non core employees	CBTIICBDI choices
(1) Fuweign pate expatriates (en/i/ovees front the. loreign pnrurrr nrgunicuriom u hu are nationals of the foreign potter's home (ounirv)	nowctc ac d competencies	1'RT1	Knowledee based competencies	CBTI
	Culnu'ul general knowledge Cultural specific krunvledge Intercultural knowledge	Cross-culrurul training Language training Self nranagenrenr training Diversity minln,g Mentoring	Cultural generzl-knowledge Cultural specific-knowledge	Cross-cultural training Divershv training
(2) Non partner expatriates (Enpr/nyees rerruired direct/' hr the IM&A who are mnionuls Ofneither the lurri,gn partner's home counn¯v nor the host partner's home (ounn·v)	Skills based competencies	CBDI		
	Loral language skills Interpersonal skills Connnunit ation skills Negotiation skills Relationship building skills	Immersion experiences Global Teams Munugemeru education- progruns Team building workshops Couching		
	Ability based r.nmpetenripe			
	Learrning ability Listening ability			
t3yHnat artnpr employees iEnlplovees from the host partner org(ui: uri in trio are notiomds "('tine host partner's home counta v)	Knowledee based competencies	CBTI	Knowledee based competencies	CBTI
	Cultural general knowledge Intercultural knowledge	Cross-culnnrul rruioing sell! managemeru raining Diversity raining Mentoring	Cultural general-knowledge	C/-ass- training
	Skills based competencies	CBDI		
	lnrerper.suml.skills Cunmumicution skills Negotiation skills Relorionshi > building skills	Innnersion experiences Global teams Management education pr-ogrcuns Teurn building workshops Couclung		
	Ahilirv haled competencies			
	Leao,in,e ubi/ur Listening abilits			

Fig. 4.

Cross-Border Training and Development Initiatives in an IM&A. *Note:* [1] Portions based on Bailey and Shenkar (1993). [2] Portions based on Schuler and Jackson (2002). [3] Portions based on Kealey and Protheroe (1996), Gupta and Govindarajan (2002), and Noe (2002).

(1) Foreign partner expatriates (employees from the foreign partner organization who are nationals of the foreign partner's home country);
(2) Non partner expatriates (Employees recruited directly by the IM&A who are nationals of neither the foreign partner's home country nor the host partner's home country);
(3) Host partner employees (Employees from the host partner organization who are nationals of the host partner's home country).

IM&A employees in the first two groups are mostly expatriates (see Fig. 4) who require knowledge-based competencies to effectively work in new and different cultural environments. Knowledge based competencies include cultural general knowledge, cultural specific knowledge, and intracultural knowledge. These three types of knowledge provide foreign partner expatriates and non partner expatriates with a good framework for understanding cultural differences and the influence of these differences on interactions with people from a variety of cultures (Harrison, 1994) and ethnic groups. CBTIs like cross-cultural training and diversity training can provide the required level of cultural general knowledge, cultural specific knowledge, and intracultural knowledge. In addition CBDIs such as immersion experiences in foreign cultures and in different ethnic communities, and participation in global teams may provide the appropriate level of cultural general knowledge, cultural specific knowledge, and intracultural knowledge if the goal is to prepare IM&A employees for future assignments.

IM&A employees in the third group (e.g. host partner employees) require cultural general knowledge to effectively work with foreign partner expatriates and non-partner expatriates. In addition, host partner employees require intracultural knowledge to effectively work with a diverse workforce in the new IM&A. CBTIs like cross-cultural training and diversity training can provide the required level of cultural general knowledge and intracultural knowledge. CBDIs like immersion experiences in different ethnic communities may provide the appropriate level of cultural general knowledge and intracultural knowledge.

IM&A employees in each group can further be classified into core and non-core employees. Core IM&A employees are those whose job tasks are central to the continued success of the IM&A and are usually found in leadership positions. These employees are responsible for providing structure and strategy, managing the change process, retaining and motivating key employees form variety of cultural and ethnic background, and communicating with all stakeholders (Schuler & Jackson, 2003). The core/non-core classification has implications for skills based competencies and ability based competencies in that the competencies required to perform essential tasks will vary depending on whether the employee's job tasks are central to the continued success of the IM&A. The required skills based competencies for core IM&A employees include flexibility, and visionary skills. Ability based competencies needed by core IM&A employees include ability to recognize the relative strength and weaknesses of both companies, good listeners, and the ability to filter out distractions and focus on integrating key business drivers such as R&D and customer interfaces (Schuler & Jackson, 2003). CBTIs like mentoring may provide the required level of skills and ability based competencies. CBDIs like management education and team building workshops, however, may be used to provide the appropriate level of skills and ability based competencies if the competencies are needed in some future job assignments.

CROSS-CULTURAL TRAINING IN 13-VS AND IM&As

As shown in Figs 3 and 4, cross-cultural training is one type of CBTI that can be used across most employee groups. Cross-cultural training is defined as "any planned intervention designed to increase the knowledge and skills of expatriates to live and work effectively and achieve general life satisfaction in an unfamiliar host culture" (Kealey & Protheroe, 1996, p. 145) and has become a major form of training used by organizations (Tarique & Caligiuri, 2003). There are many reasons that IJVs and IM&As can use cross-cultural training. The most common reasons include:

- Improving cultural sensitivity by increasing knowledge and appreciation about a new country and its culture and by increasing awareness of the norms and behaviors needed to be successful in a new culture (Black & Mendenhall, 1990; Kealey & Protheroe, 1996);
- Improving cross cultural skills by increasing communication skills, transition skills, negotiation skills, leadership skills, and management skills (Kealey & Protheroe, 1996).

An important aspect of any cross-cultural training initiative involves determining how cross-cultural training effectively enhances an IJV/IM&A employee's cross cultural competencies, facilitates his/her adjustment to the new cultural environment, and improves his/her performance. Cross-cultural training literature suggests that it is important to follow a systematic approach to designing cross-cultural training initiatives to improve the effectiveness of cross-cultural training initiatives (see Tarique & Caligiuri, 2003 for a through description of the entire systematic approach). Based on Tarique and Caligiuri's (2003) five-phase systematic approach to designing cross-cultural training initiatives, a well-designed cross-cultural training initiative in an IJV/IM&A would involve:

(1) Identifying the type of IJV employee (e.g. foreign parent expatriate and third country expatriate of the foreign parent) or IM&A employee (e.g. foreign partner expatriate and non partner expatriate).
(2) Determining the specific cross-cultural competency need such as knowledge based competencies (e.g. cultural general knowledge), skills based competencies (e.g. interpersonal skills), and ability based competencies (e.g. learning ability).
(3) Establishing short-term and long-term learning goals and measures for determining short-term and long-term cross-cultural training effectiveness.
(4) Developing and delivering instructional content.
(5) Evaluating whether the cross-cultural training program was effective.

CONCLUSION

There are a significant number of HR issues in IJVs and in IM&As. Although different HR issues take priority during the four stages of IJV and the three stages of IM&As, a common objective in all stages is to anticipate and manage change, and to learn from experience. In addition, although it has not been a central theme in this chapter, managing cultural differences is a key HR issue for IJVs and IM&As, as it is for any CBA. These issues and many others associated with managing human resources in international mergers and acquisitions and international joint ventures are described in great detail elsewhere (Schuler, Jackson & Luo, 2004).

With the vast number of HR issues involved in IM&As and IJVs, the HR profession has a great opportunity to make significant contributions to the organization. The value and effectiveness of these contributions are likely to be greatly enhanced through a partnership between the HR professionals, line managers, employees and all other significant stakeholders (Jackson & Schuler, 2003).

NOTE

1. Daniel Vasella: "We [Ciba Geigy and Sandoz] had very different corporate cultures even though we were in the same town, separated only by a river. Companies can have substantial differences even if they are physically very close in proximity. Of course, there are also national differences. For example, one of my colleagues (a German in the U.S.) went with another colleague to a football game. His colleague was coaching and the gentleman's son was shooting the ball and couldn't score. My colleague thought, "What a poor shot!" while the American said, "Great try, Johnny!" I felt that this was such a wonderful example of the difference in attitude that I saw between Americans and Germans: one focuses on the effort and the possibilities for the next time, while the other thinks first about critique" (Fuld, 2000).

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