

Alliance Forms and HR Issues, Implications and Significance

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Alliances are increasingly important forms of organization for many companies (Osborn & Hagedoorn, 1997; Inkpen, 2002; Luo, 2000; Schuler, 2001; Narula & Duysters, 2004; Ernst & Halevy, 2004; Yeheskel, Newburry, & Zeira, 2004; Bouchet, Soellner & Lim, 2004). And there is no apparent reason for this trend not to continue as pressures from global competition, the need to learn quickly and the need to wisely use valued scarce resources are likely to be with us for some time (Arino & Reuer, 2004). But, as organizations know, it is one thing to form an alliance and quite another thing to make it succeed (Isabella, 2002). And with so many reasons for forming alliances, organizations want them to be as successful as possible. Examination of many alliances failures, in conjunction with the reasons for their establishment, indicates that the quality of human resource management can be critical (Schuler, Jackson, & Luo, 2004; Briscoe & Schuler, 2004). Much of what we know about alliance success and failure, however, comes from the research in international joint venture alliances. And while this form of alliance is used extensively throughout the world and has many implications for human resource management, there are many other forms of alliances that are equally prevalent (Narula & Duysters, 2004).

Thus the purpose of this chapter is to extend our knowledge of human resource management in all forms of alliances (Shenkar, 2004). We propose to do this by expanding from our understanding of human resource management in international joint venture alliances. But we first describe the several forms of alliances and then describe in more detail a four-stage model of human resource management in international joint ventures. We suggest that these four stages can be adapted to all forms of alliances because all share varying amounts of complexity and complications and the potential for conflict, uncertainty and instability. These in turn can

serve as roadblocks and barriers to three needs common to all forms of alliances, including the needs for learning, economies and efficiencies and control. And because these conditions are amenable to human resource management activities, as the form of alliance goes from relatively simple to much more complex, the significance and importance of human resource management increases. Using three theoretical perspectives, we offer five testable propositions for further research on human resource management in alliances.

Alliances

Alliances, in general, involve two or more firms agreeing to cooperate as partners in an arrangement that's expected to benefit both firms (Hagedoorn, 1993). Sometimes alliances involve one firm agreeing to cooperate with another firm, and sometimes the result is the creation of a third company, a joint venture (Gulati, 1998; Koka & Prescott, 2002).

A *non-equity 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 form of alliance can be developed quickly to take advantage of short-term business opportunities, and 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 (Osborn & Hagedoorn, 1997; Child & Faulkner, 1998; Luo, 2000; Arino & Reuer, 2004).

Equity-based alliances can be classified into domestic and international. Such arrangements typically represent a long-term collaborative strategy (Luo, 2000; Arino & Reuer,

2004). Furthermore, equity-based alliances require active day-to-day management of a wide variety of human resource (HR) issues (Isabella, 2002). Some of the HR issues that are critical to the success of equity-based international or cross-border alliances may also arise in non-equity alliances, but they may be less central to the success of the alliance. In equity-based alliances, however, long-term success is impossible unless HR issues are managed effectively (Child & Faulkner, 1998). There are many lessons, however, that *may* be transferable from our discussion of equity-based alliances to managing HR issues in non-equity alliances.

Because the bulk of the research on alliances *vis-à-vis* human resource management is based on international alliances or international joint ventures (IJVs) we wish to investigate the extent to which human resource management (HRM) lessons in IJVs are transferable to other forms of alliances. We propose to do this by extending our discussion of human resource (HR) issues and implications in alliances more broadly by back filling on domestic equity and non-equity alliances using an existing model of human resource management in international joint ventures and three theoretical perspectives. We first review the existing work on international joint ventures and the work specifically about human resource management in international joint ventures and then extend this knowledge to human resource management in alliances more broadly. Throughout this chapter the term *HRM* refers to the organizational function of managing people assets within organizations, while *HR* identifies issues, implications, policies and practices that are relevant to and should be addressed by HRM.

International Joint Ventures

International joint ventures 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 (Luo, 2000; Schuler et al., 2004). 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; Arino & Reuer, 2004). 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 and multiple countries (Schuler & Tarique, 2005). Joint ventures that are launched by home-country based (foreign) and host-country based (local) firms appear to be the dominant form of joint venture partnership (Luo, 2000). Because the creation of an IJV involves establishing an independent organization, the need to establish effective HR practices capable of dealing with two or more organizational cultures and national cultures is particularly evident in this type of alliance (Schuler, 2001; Schuler et al., 2004).

Reasons for International Joint Ventures

International joint ventures have become a major form of entry into global markets (Evans, et al., 2002; Luo, 2000; Barkema et al., 1997). Harrigan (1986) and Luo (2000) argue that there also are many other reasons that companies form IJVs. The most common reasons include capturing increased economies of scale (Newburry & Zeira, 1997), being cost effective and efficient in height of the globalization of markets (Datta, 1988; Harrigan, 1985, 1986), gaining local knowledge and local market image and channel access (Gomes-Casseres, 1989; Harbison, 1996; Lasserre, 1983), learning and transferring that knowledge (Mudambi, 2002; Cyr, 1995; Lei, Slocum & Pitts, 1997; Inkpen, 2002), and supporting company strategies for internationalization (Evans, et al., 2002) (see Schuler et al., 2004 for a more detailed treatment).

Knowledge and Learning. Of the above, a reason that has gained heightened recognition is learning and knowledge, sharing and transfer (Inkpen & Tsang, 2004; Foss & Pedersen, 2002; Inkpen, 2002; Reid, Bussier, & Greenway, 2001; Child & Faulkner, 1998; Shenkar & Li, 1999).

In many industries, increasing global competition and unabated technological advancement have resulted in a wide range of international collaborative alliances intended to access knowledge, skills, and resources that cannot be internally produced by organizations in a timely or cost-effective fashion. Companies which are capital/resource rich but knowledge poor are particularly attracted to this type of venture.

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 (Cyr & Schneider, 1996; Luo, 2000).

Using and relying on external learning and knowledge transfer are challenging and complex (Mudambi, 2002; Inkpen, 2002; Barkema, et al., 1997). 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 (Arino & Reuer, 2004).

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 (Inkpen, 2002).

Efficiencies and Economies. In addition to the growing importance of learning from IJVs and alliances more generally, is another significant reason and that is to gain and retain management and organizational efficiencies and economies. These economies and efficiencies can result from combining operations, building upon the experiences of existing management and taking advantage of the latest in technologies, e.g., when establishing a new facility (Luo, 2000; Newburry & Zeirra, 1997; Data, 1988).

While there are several other reasons for establishing and operating IJVs, we propose to use these two as a basis for our initial extension of the relationship between IJVs and HRM to other forms of alliances because they are closely aligned with the rationale that link and

differentiate varying forms and types of alliances is developed below. But in proposing these two reasons we are obliged to incorporate another consideration into our extension and this consideration is the need for the parent(s) to exercise control over the IJV (Luo, 2000; Geringer & Frayne, 1990, Frayne & Geringer, 1990).

Control. Without the ability to exercise control, it can be more difficult for a parent to establish conditions to maximize learning for itself or perhaps even the IJV system and to also gain and retain the managerial and organizational economies of scale and efficiencies, and to also protect shareholders' assets and "brand image," as in the very unfortunate situation at the Union Carbide Corporation (UCC) operation in Bhopal, India that was an IJV (50% UCC) in which parent company's shareholder value and its reputation, as well as thousands of lives, were lost (Harry, 2004). As a consequence, parent companies engage in numerous strategies to maintain control (Narula & Duysters, 2004; Luo, 2000).

Thus our proposed description of the general relationship between HRM and alliances is based on what we refer to as three needs in alliances: 1) Learning and knowledge transfer; 2) Management and organizational economies of scale and efficiencies; and, 3) Controlling. The utility of these three will hopefully become more apparent in the discussion below of the four-stage model IJVs and the associated human resource management and organizational issues and implications.

HRM in IJVs

The organizational and human resource issues in IJVs are clearly very extensive (Child & Faulkner, 1998; Schuler, 2001). They, however, can be refined and categorized into several stages, which begin with the development of the IJV itself by the two (or more parents) and go through the advancement of the IJV itself (Evans, et al., 2002; Schuler, 2001; Pucik, 1988;

Makhija & Ganesh, 1997; Lei, Slocum & Pitts, 1997; Lorange & Roos, 1992). The four stages of the IJV process are shown Exhibit 1 representing the entire IJV system. Shown in each stage are the organizational and human resource issues most applicable to the IJV system. These in turn become the basis for identifying the HR implications for each stage. We propose that aspects of these stages are applicable in varying degrees to other forms of alliances as well (Isabella, 2002). That is a reason we describe them in some detail. Even greater detail is provided in Schuler (2001). Another reason is to review the existing literature on HRM in IJVs. Future research can tailor these HR implications to the organizational and human resource issues that are uniquely associated with other forms of alliances.

Insert Exhibit 1

About Here

Stage 1- Formation: The Partnership. To manage an IJV for success, it is important to understand joint venture formation as including the seven aspects shown in Exhibit 1. Potential partners in an IJV need to separately determine their reasons for using an IJV as part of their business strategy. Also noted above, these include several reasons within the major categories of: a) minimizing the sum of production and transactions costs (Hennart, 1991); b) improving one's competitive position (Gomes-Casseres, 1989); c) acquiring knowledge (Kogut, 1988); (d) increasing one's acceptance and legitimacy (Pfeffer & Cohen, 1984); and (e) gaining a new source of skills to improve one's human capital (Cascio, 1991).

Early planning in joint ventures is especially important in order that differences in cultural and management styles between the parents and the venture are considered (Datta & Rasheed, 1993). Without planning the likelihood of reaping the gains from the IJV is diminished (Cyr, 1995; Pucik, 1988). Differences in partners on such qualities as culture, managerial styles, intentions, absorptive capacity, and objectives of the IJV and even the role of the HR department can be part of an HR plan that includes an audit of these qualities (Pucik, 1988).

Selecting the manager for new business development is important. These managers are the linkages between the two parents and the linkages with the JV itself. Although the CEO or COO of the parent may spot IJV opportunities, it is the manager for new business development within an organization who is responsible for making the IJV happen (Schuler, Dowling, Jackson, & DeCieri, 1991). In this capacity, this manager is likely to interact with a counterpart in the other parent. Together these two may begin the activities remaining in Stage 1. Thus they set the stage to link with the IJV itself. Consequently, the selection of this person is critical in the entire IJV process including the contract negotiation process (Arino & Reuer, 2004). The more knowledge and experience this individual has, particularly in IJVs, the more likely the IJV will be a success.

Potential partners can come from past JVs, suppliers, competitors, and, other firms. Potential partners from past alliances or joint ventures offer more information about themselves (Child & Faulkner, 1998). Past experience enables the organization to not only learn about the IJV process itself but also about the styles, operations, goals and practices of the other potential partner and build upon previously created trust (Isabella, 2002). Similar patterns of familiarity may exist with suppliers, but in those relationships the amount of control over the supplier has often been substantially greater than over another past partner. Thus there is likely to be less

amount of IJV relevant knowledge about suppliers. Increasingly, competitors are a major source of potential partners (Pucik, 1988; Cyr, 1995; Lei, Slocum and Pitts 1997). These potential partners are likely to offer knowledge complementarily instead of only compatibility; thus the potential for learning may be greater. The relationship, however, may thus be more unstable, particularly if the motivation of the partners is competitive rather than collaborative (Doz & Hamel, 1998).

Partner selection determines an IJV's mix of skills, knowledge, and resources, its operating policies and procedures, and its vulnerability to indigenous conditions, structures, and institutional changes (Luo, 2000; Child & Faulkner, 1998; Geringer & Herbert, 1991). In a dynamic, complex, or hostile environment, the importance of local partner selection to IJV success is magnified because the right partner can spur the IJV's adaptability, strategy-environment configuration, uncertainty reduction and contract negotiation process (Luo, 1998; Arino & Reuer, 2004). Lei, Slocum and Pitts (1997) hypothesize that the selection of the partner should include an analysis of the nature on importance of the JV's task to the partner, the type of knowledge involved, and the nature of the partners reward system. These factors are central to promoting alliance-based learning for one or both partners. Again, the analysis of these factors has different implications depending upon whether the organization is selecting for longer-term cooperative partners or shorter-term competitive partners (Child & Faulkner, 1998; Doz & Hamel, 1998). The implications for human resource management are substantially different in these two scenarios (Pucik, 1988).

The perspective on IJVs reflected in the discussion and propositions in this chapter and the current literature is that alliances that are intended for the longer term (Doz & Hamel, 1998; Child & Faulkner, 1998). While they may involve cooperative or competitive partners, it

appears that cooperative partners may help increase the chances of success, and the effectiveness of the learning process itself (Isabella, 2002; Child & Faulkner, 1998; Doz & Hamel, 1998; Pucik, 1988; Cyr, 1995). Consensus has it that the very nature of joint ventures contributes to their failure: they are a difficult and complex form of enterprise (Shenkar & Zeira, 1987) and many companies initiate IJVs without fully recognizing and addressing the major issues they are likely to confront (Morris & Hergert, 1987; Arino & Reuer, 2004). Success requires adept handling of three key issues: control, trust and conflict. Control, along with trust and learning, is one of the most important and most studied topics in the alliance literature (Luo, 2000; Schuler et al., 2004; Geringer & Hebert, 1989; Yan & Gray, 1994; Inkpen & Currall, 1999). Control is defined as a purposeful and goal-oriented activity that influences the acquisition, interpretation and dissemination of information within an organizational setting (Simons, 1987, 1994). This definition highlights the information/knowledge qualities of IJVs. Thus, not surprisingly, Hamel (1991) and Doz & Hamel (1998) suggest that learning can be the most important lever in IJV control.

Makhjia and Ganesh (1997) suggest that learning is a central process in IJVs and IJV control mechanisms directly impact the learning processes. They suggest that IJV control mechanisms have unique information-processing properties that encourage certain flows of information (Child & Faulkner, 1998; Luo, 2000). Nooteboom et. al. (1997) suggest that trust may become a substitute for control and that as trust increases the need for formal control mechanisms decreases. Who actually controls the operation can depend on who is responsible for the day-to-day management of the IJV (Baliga & Jaeger, 1984). Ownership distribution may matter less than how operating control and participation in decision-making actually is apportioned (Harrigan, 1986). For a parent with minority ownership, for example, the right to

appoint key personnel can be used as a control mechanism (Schaan, 1988). Control can be achieved by appointing managers loyal to the parent company and its organizational ethos (Killing, 1983). Of course, loyalty to the parent cannot be guaranteed: “The ability to appoint the joint venture general manager increases the chances that the parent’s interests will be observed, but it is no guarantee that the joint venture general manager will always accommodate that parent’s preferences” (Schaan, 1988: 14).

Top managers, however, will be expected to make decisions that deal with the simultaneous demands of the parents and their employees in the enterprise. At times, such decisions will by necessity meet the demands of some parties better than those of other parties. If the partners do not anticipate such decisions, they may fail to build in control mechanisms, for example in the contract itself, to protect their interests (Isabella, 2002; Luo, 2000; Schuler et al., 2004; Arino & Reuer, 2004). Weak control also can result if parent-company managers spend too little time on the IJV, responding to problems only on an *ad hoc* basis. Finally, control-related failures are likely to occur if control practices are not re-evaluated and modified in response to changing circumstances (Doz & Hamel, 1998; Inkpen & Currall, 1998; Arino & Reuer, 2004).

Inkpen and Currall (1997) define trust as a reliance on another partner under a condition of risk. Four dimensions of trust include: 1) communication and information exchange; 2) task coordination; 3) informal agreements; and 4) surveillance and monitoring which indicate the absence of trust. Trust is positive because it strengthens interorganizational ties (Fichman & Levinthal, 1991), speeds contract negotiations (Reve, 1990) and reduces transactions costs (Bromiley & Cummings, 1993). Trust is not only a control concept in the alliance relationship,

but a dynamic and potentially unstable one as well. Many researchers state that alliances should be established in the spirit of trust and commitment (Yan & Gray, 1994; Parkhe, 1993):

“The disaster comes when both sides distrust each other’s intentions and start doing things that feed that distrust.”

It appears that learning and trust are positively related while trust and the use of informal and formal controls are negatively related (Sabel, 1993; Yan, 1998; Dyer, 1997; Nootboom, et al 1997). Since learning is a critical component of alliance longevity, and stability, establishing mechanisms to ensure that trust increases benefits the relationship between alliance partners (Child & Faulkner, 1998; Doz & Hamel, 1998). Thus a partner needs to reduce the likelihood of engaging in opportunistic behavior when the balance of power shifts in its favor (Inkpen & Currall, 1997). Partners need to resist the “race to learn” at differential rates because this will shift the balance of power and the focus of dependencies.

Because alliances are inherently unstable relationships, they require a delicate set of organizational and management processes to create trust and the ongoing capacity to collaborate (Isabella, 2002; Johnson, Cullen, Sakano & Takenouchi, 1996). This means that senior executives must be involved in designing management processes that might be explicitly outlined in contract negotiations that 1) provide effective ways to handle joint strategy formulation, 2) create structural linkages, 3) provide adequate day-to-day coordination and communication, and 4) establish a win/win culture (Child & Faulkner, 1998; Arino & Reuer, 2004). It is also important that senior executives establish mechanisms to manage conflict.

Differences in such parent qualities as relative power, levels of commitment, experience with IJVs, goals, size, location of parents, and cultural similarity can lead to complications, uncertainty, and conflict, (Killing, 1983; Anderson & Weitz, 1989; Parke, 1991; Lin & Germain,

1998). Many misunderstanding and problems in alliances are rooted in managerial differences (Datta, 1988). Differing approaches to managerial style are one area that can create problems. For example, one party may favor a participative managerial style while the other may believe in a more autocratic style of management. Another area that can be problematic is acceptance of risk-taking when one parent is prepared to take more risks than the other. Such differences often make the process of decision-making slow and frustrating. The resulting conflict can be dysfunctional, and diminish control, learning and efficiencies.

Differing levels of commitment from the two parents provide yet another source of difficulty (Datta, 1988). The commitment of each partner reflects the project's importance to the partner. When an imbalance exists, the more-committed partner may feel frustrated by the other partner's apparent lack of concern; or the less-committed partner may feel frustrated by demands and time pressures exerted by the other more-committed partner. The level of commitment by parties to the alliance can contribute to conflict and even to success or failure (Bere, 1987).

In resolving conflicts, Lin and Germain (1998) found that a problem solving strategy seems to be more effective than strategies involving compromise, force, or legalisms. They also found that parents with more experience in IJVs with each other tended to codify few understandings and so relied on their knowledge of/and trust in each other rather than detailed contracts intended to deal with all eventualities. With experience, the IJV parents get to know each other better and develop ways of resolving differences (Inkpen & Crossan, 1995).

Not surprisingly, the quality of IJV contract negotiations during the IJV formation can have an impact upon three consequences of importance: IJV formation satisfaction; IJV process performance; and IJV overall performance (Luo, 1999; Lei, Slocum & Pitts, 1997; Arino & Reuer, 2004). Central to the quality of the contract negotiations are the bargaining processes and

strategies used by each of the partners (Aldrich, 1979; Green & Walsh 1988; Yan & Gray, 1994; Arino & Reuer, 2004). For partners interested in learning, approaching the negotiations with a problem-solving strategy would appear to be effective. The need for this strategy to be carried out by the negotiators would therefore be important. Establishing trust and mutual understanding, perhaps through previous experience, would aid in establishing the culture for the problem solving strategy. Here HR activities can play an instrumental role, for example, in the selection of the negotiator (Child & Faulkner, 1998; Arino & Reuer, 2004). The characteristics of the contract negotiator(s) can also have an impact on the success of the IJV. These characteristics include cultural similarities, personality and skills, and loyalty. Selecting on these characteristics and ensuring that they are supported and rewarded are important human resource management contributions (Arino & Reuer, 2004).

Stage 2- Development: The IJV Itself. Once the IJV process has been formed, there are several important activities that must be addressed in the development of the IJV itself as shown in Exhibit 1 (Isbella, 2002; Child & Faulkner, 1998). Where to locate is an important decision. It can be decided to locate the IJV itself in a third country or in the country of one of the partners. Locating in a third country may diminish “the home field advantage” for either partner, however, it may increase the complexity and complications and need for more information gathering and broader expertise because several of the local stakeholders, e.g., trade unions, political officials, members of society, and regulators, may be unknown to foreign partners (Schuler & Tarique, 2005). Locating in the country of one partner, however, may give a “local knowledge” and control advantage. If, however, this knowledge is shared with the other partner, the advantage can move to the partnership and the IJV itself rather than one partner.

In developing the IJV a major consideration is providing appropriate structure. Two aspects of structure are particularly important: a) one is the extent to which the IJV will be able to make its own decisions, adapt to the local environment, and operate on its own; and b) the second include the methods or processes by which the IJV will be attached or integrated into the parent(s) in order to provide a transfer of knowledge, learning and other resources (Hill & Hellriegel, 1994; Doz & Prahalad, 1981; Doz & Hamel, 1998). If the design grants a great deal of autonomy to the IJV, then the parents confront the question of how to control the IJV and integrate the IJV with the parents in order to provide the parents the opportunity to learn and transfer information and knowledge from the IJV, and yet enable the IJV to be effective locally. Such control, information and knowledge flow can be facilitated by formal methods such as detailed documents of conduct, and agreed upon exchanges of specific information; and/or by informal means such as the selection processes used by the IJV and/or personnel transfers and assignments between the IJV and the parents (Makhija and Ganesh, 1997). Used in combination, the formal and informal methods may facilitate the transfer of both explicit and tacit knowledge as well as control of the IJV by the parents.

The members/positions of the IJV top team include the board of directors, the managing director (general manager), and the chief operating officer. The selection of the various members of the IJV is an important process in itself, and in combination with the design of the appropriate structure (Harvey, Spier, & Novicevic, 1999; Hamel, 1991; Makhija & Ganesh, 1997; Pucik, 1988; Cyr, 1995). Together these activities highlight the interdependence of individual and organizational capabilities and characteristics for the IJV to be locally effective and for the parents to be globally effective as well as have information and knowledge transfer occurring in order to build absorptive capacity and social capital in the IJV (Inkpen & Tsang,

2005). Extending the arguments of Beamish (1985), Hergert and Morris (1988) and Lorange and Roos, (1992), without developing a learning (absorptive) capability in the IJV itself, the IJV process will be come unstable. Just as distrust will develop between partners who are asymmetric in learning, so will it develop between the IJV itself and the parents. The impact will be a greater desire by the IJV for independence from the parents, thereby reducing the parent's control, global effectiveness, and opportunity for learning (Child & Faulkner, 1998).

When both parents are interested in the IJV and want it to succeed, they appear to get involved in all the key decisions made early on as reflected in the contract negotiation (Arino & Reuer, 2004). Under these conditions, the board of directors is likely to be composed equally of representatives of the parents and the IJV (internal and external to these entities). The chief operating officer, if not the managing director/general manager may be selected from the source providing the most experience with the operation of the IJV.

Stage 3- Implementation: The IJV Itself. The implementation stage of the IJV process involves the four sets of activities shown in Exhibit 1. The vision, mission, values, strategy and structure of the IJV need to support, encourage, and reward learning and the sharing of knowledge (Slocum & Lei, 1993). They also need to support the other needs of the business, the needs of the parents, and the needs of the other multiple stakeholders, in other words, the IJV system. With a high quality top management team in the IJV, the vision, mission, values, strategy and structure are more likely to be crafted to fit the local needs as well as those of the parents. At this point, it is clearly not in the interest of the IJV to ignore the linkages with the parents. For the parents, willingness to trust the IJV top management team to act in their interests and at the same time the interests of the IJV is critical (Child & Faulkner, 1998; Schuler, Dowling & De Cieri, 1992; Schuler & Van Sluijs, 1992; Van Sluijs & Schuler, 1994; Inkpen & Dinur, 1997).

The entire set of the HR policies and practices needs to be created for the IJV. The factors that these policies and practices need to reflect include the IJV's: (a) vision, mission, values, culture, structure, strategy; (b) labor market; (c) need for global integration with parent(s) such as for knowledge transfer; and (d) differences between the country cultures of the parents and the IJV (Schuler & Tarique, 2005). Who actually develops the HR policies and practices can range from one of the parents to the IJV exclusively. The more that the development is left with the IJV, the greater likelihood that the practices will be effective for local adaptation, but not as effective for the parents, global integration and learning transfer (Child & Faulkner, 1998). High quality top managers, however, are likely to develop locally responsive HR policies and practices with sensitivity to the parents' considerations. Possibly some policies will be non-negotiable and have to meet parents' standards, e.g., ethical, safety/environmental whereas other policies, e.g., working hours, compensation and benefits, can be much more locally adaptable.

There are many organization and HR issues that unfold as the IJV gets set up, including: the assignment of managers, managers' time-spending patterns, top management evaluation, managing loyalty issues, and career and benefits planning (Briscoe & Schuler, 2004; Shenkar & Zeira, 1990; Dowling, Welch & Schuler, 1999). The substance of these issues needs to be addressed explicitly by any IJV (Luo, 2000; Lorange, 1986). Each partner may place differing priorities on the joint venture; therefore, a partner may assign relatively weak management resources to the venture. To be successful, the assigned managerial resources should have not only relevant capabilities and be of adequate quality, but the overall blend of these managerial resources should reflect a balance of the interests of both parents and of the IJV. Because these assignments could be perceived as attempts to control the IJV (Pucik, 1988), it could be argued that the IJV's top management should have the final say in the staffing of any positions within

the IJV itself. Where trust needs are high, however, and the parents have the needed competencies, the parents may be able to dictate initial and temporary staffing needs.

The IJV has to carry out a set of operating duties simultaneously with its development of new strategies. This raises the issue of the appropriate emphasis to give to operating tasks and strategic tasks, and the need to allocate sufficient human resources to both. The situation is similar to that of an independent business organization: the IJV must be able to draw sufficient human resources from the operating mode to further develop its strategy. If the parent organizations place strong demands for short-term results on the IJV, this may leave it with insufficient resources to staff for strategic self-renewal. This is likely to be intensified if the IJV has to look for a customer base to support its existence. Over time, the balance between focus on operations versus strategic planning may shift as the IJV becomes more independent and the short-term operating tasks become more manageable.

Deciding how to evaluate IJV managers is another major challenge. It has been claimed that several joint ventures have failed because of inappropriate staffing (Lorange, 1986). Myopic, biased parent organizations may make poor selection decisions, or they may be tempted to use the IJV to off-load surplus. Performance evaluation of the top IJV management team, therefore, is important (Child & Faulkner, 1998). Parents and the IJV need to be sensitive to the potential need for dual loyalties. For short-term expatriate assignments the potential may be moot, but for longer term expatriate, parents may have to expect, even desire, to have their employees develop dual loyalties. Dual loyalties may help facilitate the control and, transfer and sharing of knowledge, because the employees can be trusted by the parents and the IJV itself.

It has been reported that more than 50 percent of expatriates feel their overseas assignments are either immaterial or detrimental to their careers (Briscoe & Schuler, 2004) – a

finding which indicates potential motivational problems any IJV may encounter. The motivation of executives assigned to an IJV can be enhanced by the creation of a clear linkage between the assignment and an assignee's future career. Some assurance of job security may be needed to offset perceived risks. As with any overseas assignment, assignment to a joint venture may make the manager's future career appear uncertain. If the parent company has not thought through this issue, this uncertainty may be justified. Thus, parent organizations should offer career planning to counter the ambiguity and risks associated with an IJV assignment, and to limit the potential for unsatisfying repatriation experiences. (Shenkar, 1995; Brewster & Harris, 1999; Black, Gregersen, Mendenhall & Stroh, 1999; Caligiuri & Lazarova, 2000). They can also keep regular contact with the IJV, possibly through the use of mentors or even a specific department within the parent organizations.

Finally, the success of the IJV rests upon getting the right people, at the right place at the right time. Sources of staffing for the IJV include parents, local country nationals, third country nationals, international itinerants (independent expats for hire), competitors, suppliers, customers, and universities (Harry & Banai, 2005). The selection criteria include ability to perform the job, acceptance of the mission, values, strategy, structure, policies and practices of the IJV, motivation and ability to learn and share knowledge (Harvey, Spier & Novicevic, 1999; Child & Faulkner, 1998).

Stage 4: Advancement – The IJV and Beyond. The advancement stage of the IJV process involves: learning from the partner, transferring knowledge and learning to the parents, and transferring knowledge and learning to other locations. As the IJV becomes established, the partners relationship continues to evolve (Child & Faulkner, 1998). In the views of Luo (2000) and Doz and Hamel's (1998), learning and adjustment by the partners are the key to alliance

longevity and the avoidance of premature dissolution. If partners learn at unequal rates, the relationship can be inherently and inevitably unstable (Makhija & Ganesh, 1997; Inkpen & Beamish, 1997). As partner A's learning surpasses partner B's, the bargaining power of partner A increases. At this stage, partner A can engage in opportunistic, self-interested behavior or engage in forbearance (Inkpen & Curall, 1999). As partner B sees partner A engaging in forbearance, partner B's need for control decreases and the level of trust between the two partners grows. If partner A engages in opportunistic behavior, partner B attempts to increase control, and thereby the level of trust diminishes (Inkpen & Currall, 1999). Thus, when both partners trust each other, learning and knowledge transfer can continue (Schuler, et al., 2004; Inkpen & Tsang, 2005).

Parents may still find that building trust with the IJV itself is important. Without trust, the IJV may try to avoid transferring learning and knowledge to the parent. What is transferred instead is merely information. This may be more likely as the IJV grows and establishes its own identity and seeks independence from the parents. In general, mechanisms for knowledge and information transfer that can be used include top management support, staff rotation, staff training and development, site visits, rewards and recognition, repatriation management (Lei, Slocum & Pitts, 1997; Inkpen & Currall, 1997; Inkpen & Crossan, 1995; Cyr, 1995; Collins & Doorley, 1991).

Thus far, learning and knowledge transfer have occurred from one partner to another and from the IJV itself to the parent. In both cases the parent organization is gaining new learning and knowledge that can be used for its internal operations or for its next IJV process (Child & Faulkner, 1998; Doz & Hamel, 1998). While consideration for transferring this learning and knowledge to future IJV will enter into the complexities of partner selection described in the first

stage, transferring learning and building social capital to other units within the organization is more straight forward and more under the control of the organization (Inkpen & Tsang, 2005). Nonetheless, managers are involved and need to be encouraged to behave in ways that facilitate learning and knowledge transfer, e.g., cooperative, team-oriented behaviors. To continue to get these needed behaviors, performance management (including selected performance measures) and reward systems (including non-financial rewards) need to be aligned with those behaviors. Thus, there are both organizational level and individual/group level implications in transferring learning and knowledge of other locations.

Proposed Application of the Four-Stage Model to HRM in Alliances

We suggest that the four stage model we have used to describe the IJV alliance can be extended to apply to any type of alliance. It may be likely, however, that other forms of alliances, e.g., non-equity licensing agreements between two firms or even equity agreement in domestic joint ventures may involve fewer organizational and human resource issues and perhaps even fewer stages. Nonetheless, we submit that these differences among the alliances are more in degree than kind as described more fully below (Das & Teng, 2002). Thus we propose that similar models such as Exhibit 1 can be developed for several forms of alliances. Propositions can also be created using common theoretical perspectives. There may be an inflection point, however, between alliances involving only two separate companies that do not join together to create separate third entity, a joint venture. In creating a joint venture alliance, a joint venture system is created with two or more parents and the joint venture itself. Consequently, all issues involved in creating, controlling and managing at least three organizations come into being. Consequently the levels of complexity and complications increase and so also the potential for conflict,

uncertainty, and instability increase that is likely to be much greater than in alliances in which there are only two organizations. Furthermore, alliances in which there is an international dimension rather than solely domestic are also likely to have significantly more complexity and complications and thus potential for conflict, uncertainty and instability (Luo, 2000; Schuler, et al. 2004; Briscoe and Schuler, 2004; Mallik, Zbar & Zimmel, 2004).

As the above stages suggest, the formation and operation of an IJV raises many HR issues that have implications for how the IJV system (the IJV parents and the IJV itself) manage their human resources. Many of these implications are grounded in the assumption that IJV parents and the IJV itself have needs for learning, maintaining control, and gaining and retaining management efficiencies and economies. Organizations can support learning, knowledge flow, and sharing and transfer with human resource management practices (Jackson & Schuler, 2003; McGill, Slocum & Lei, 1992; Inkpen & Tsang, 2005). Organizations can also maintain control via HRM using their own selection, appraisal, and compensation practices in the joint venture and they can gain and retain economies and efficiencies through their compensation and training practices.

These three major needs in and for the IJV system, e.g., learning, control and efficiencies with their associated HR issues and implications for HRM, appear to also have application for all forms of alliances (Inkpen, 2002; Reid, Bussers, & Greenway, 2001). Their application to and future research suggestions for all forms of alliances can be based upon three theoretical perspectives: transactions cost theory, agency theory, and learning theory because they all are closely aligned with the rationale that link and differentiate varying forms and type of alliances as stated earlier. Yet other theoretical perspectives such as resource dependence, institutional, strategic human capital, collaboration, negotiation, and social capital have relevance, but are

more extensive than we have space for here (Narula & Duysters, 2004; Loess & Yavas, 2003). They are, however, worth utilizing in an extension of this chapter (Osborn & Hagedoorn, 1997; Schuler 2001). These three theoretical perspectives are briefly described here. Then their application to and research suggestions for all forms of alliances are presented.

Theoretical Perspectives for Understanding Human Resource Management in Alliances

While there are many theoretical perspectives that are used to explain various aspects of alliances, there are three that appear to be particularly applicable when discussing human resource management and organizational issues (Inkpen and Tsang, 2005).

Transaction Costs Theory

Transaction cost economics assumes that business enterprises choose governance structures that economize transaction costs associated with establishing, monitoring, evaluating, and enforcing agreed upon exchanges (Williamson 1979; 1981). Predictions about the nature of the governance structure an alliance will use incorporate two behavioral assumptions: bounded rationality and opportunism (i.e., the avoidance of forbearance). These assumptions mean that the central problem to be solved by alliances is how to design governance structures that take advantage of bounded rationality while safeguarding against opportunism. To solve this problem, implicit and explicit contracts are established, monitored, enforced, and revised. For example, the theory has direct implications for understanding how HR activities are used to achieve a governance structure for managing the myriad implicit and explicit contracts between employers and employees in an IJV system (Schuler & Tarique, 2005; Wright & McMahan, 1992). IJV partners try to establish contractual relationships with each other to reduce their

transaction costs. They find this process, however, easier to do vis-à-vis explicit, visible resources, than with invisible assets like competencies and knowledge (Arino & Reuer, 2004).

Agency Theory

Agency theory focuses attention on the contracts between a party (i.e., the principal) who delegates work to another (i.e. the agent) (Jensen and Mecklin 1976). Agency relations are problematic to the degree that (a) the principal and agent have conflicting goals and (b) it is difficult or expensive for the principal to monitor the agent's performance (Eisenhardt, 1989). Contracts are used to govern such relations. Efficient contracts align the goals of principals and agents at the lowest possible cost (Arino & Reuer, 2004). Costs can arise from providing incentives and obtaining information (e.g., about the agent's behavior and/or the agent's performance outcomes). Agency theory appears to be particularly useful for understanding executive and managerial compensation practices, which are viewed as a means for aligning the interests of the owners of a firm (i.e., principals) with the managers in whom they vest control (Reuer & Miller, 1997). It is also useful in gaining insights into how venture partners can control the behaviors of the general manager of the IJV, or how the acquiring firm can control the behaviors of the managers in the acquired firm and any other form of alliance with joint ventures, as well as the key individuals in non-equity forms of alliances.

Organizational Learning Theory

According to the organizational learning theory perspective (Kogut, 1988; Teece, 1986), prior learning facilitates the learning and application on new, related knowledge (Cohen & Levinthal, 1990). This idea can be extended to include the case in which the knowledge in question is itself a set of learning skills constituting an alliance's absorptive capacity. This capacity increases as a function of the previous 'alliance formation' experience, its learning

processes, and the need for information the alliance considers lacking in order to attain its strategic objectives (Lane, Salk & Lyles, 2001; Steensma & Lyles, 2000). In the foreign market entry, advocates of the internationalization process school (Johanson & Vahlen, 1977) have argued that firms expand slowly from their domestic bases into progressively distant areas. Learning from previous expansions is the driving force behind new investments whether in joint ventures or other forms of alliances (Barkema et al., 1997). Learning and the transfer of that can serve to benefit organizations in any form of alliance.

HRM in Varying Forms of Alliances

As suggested earlier the four-stage model of the IJV alliance may have application to many forms of alliances because the differences among them are more of degree rather than of kind with one exception. Further illustrating this is Figure 1 that depicts the relationship between HR policy and practice significance and implications and type of alliance. These relationships are proposed because as the alliance form moves from non-equity to international alliance (IJV), complexity and complications increase and the potential for conflict, uncertainty, and instability increase (Bouchet, Soellner & Lim, 2004; Luo 2000; Schuler, et al., 2001; Osborn & Hogedoorn, 1997). These result in creating challenges and roadblocks to learning, control and management/organizational efficiencies, all needs that can be addressed by HR policies and practices as discussed above (Schuler 2001).

Insert Figure 1

About Here

These relationships are proposed to have a one-to-one relationship as we move from the simplest alliance to the most complex alliance, an international joint venture with one major inflection or disruption point (Luo, 2000). Indeed as shown in Figure 1, there is a significant distinction between alliances that create a third organization (equity alliance), a joint venture and those that do not create a joint venture. Alliances without a joint venture (non-equity alliances) still have many implications for HR policies and practices, but they are proposed to be fewer than those with joint ventures. Many of the specific steps in the four-stage model for IJVs (Exhibit 1) are still likely to exist, but their complexity and complications are expected to be significantly less (Luo, 2000), thus their significance and importance are substantially less.

Propositions and Research Directions

Based upon the description of Figure 1, we propose five general propositions based upon the three theoretical perspectives to suggest future research.

Proposition 1: Complexity, complications, and the potential for conflict, uncertainty and instability increase as the form of alliance moves from non-equity alliance to an international alliance (an IJV).

As Osborn and Hagedoorn (1997) suggest varying forms of alliances are linked and differentiated by their amount of uncertainty and complexity and with these, the amount of control that can be exerted over the alliance system (the companies involved in the alliance itself). As the alliance form moves from a non-equity status to an international alliance status as

depicted in Figure 1, we propose that complexity, complications, and the potential for conflict uncertainty control and instability increase.

Proposition 2: The challenges to learning, gaining and retaining efficiencies and exercising control increases as the form of alliance moves from non-equity alliance to an international alliance (an IJV).

As a consequence of the relationships described in Proposition 1, we further propose that increasing amounts of complexity, complications and potential for conflict, uncertainty and instability will become challenges and potential roadblocks: a) to managing the learning processes in the alliance system; b) to gaining and retaining efficiencies and economies of scale; c) and to exercising control over the alliance system activities.

Proposition 3a: The implications for and significance of HRM increase as the form of alliance moves from non-equity alliance through the several stages of alliance activity to an international alliance (an IJV).

Proposition 3b: The implications for and significance of HRM are much greater for equity alliances than non-equity alliances.

HR policies and practices have the ability of providing clarity, organizational and management, to organizational and human resource phenomena. Done effectively, they are able to contribute the three needs for managing the learning processes, gaining and retaining efficiencies and

economies of scale, and exercising control over the alliance system activities. And as the alliance system moves from non-equity to an international alliance form, these three needs increase, and thus the implications for and significance of HRM will increase. While the separate HR policies and practices will all be individually and uniquely important, it is proposed that the nature of their significance will increase when done systematically across the forms of alliances.

Furthermore, it is proposed that the nature of the contributions of the HR policies and practices will vary by the stage of the alliance. This is particularly likely to be the case in comparing the two major sections shown in Figure 1 as created by the inflection point between alliances, with and without an independent third entity, the joint venture. This is proposed to be due to far fewer complexities and complications, and reduced potential for conflict, uncertainty and instability associated with non-joint venture situations compared to joint venture situations that create a third organizational entity.

Proposition 4: HR issues and implications can be developed into four stages similar for all types of alliances, although the specific content will vary.

Whether an alliance is non-equity or equity form, their alliance activity can be categorized or staged in similar ways, each with issues and implications for HRM. For example, the formation of any alliance should be based on identifiable reasons most of which will have implications for HRM. Partners will also have to be found and selected for the various forms of alliances, learning and knowledge are important and selecting partners one can learn from is important. In the development of any alliance activities about where and how the alliance will be located and staffed will arise. A manager for alliance management or new business for a non-equity licensing arrangement may be necessary to ensure that the alliance activity is managed in order to benefit

the relationship. In the implementation phase, additional staff may need to be added, either to staff the joint venture (domestic or international) or to staff a company's non-equity alliances with growing number of companies throughout the world. Finally in the advancement stage, all forms of alliances can be seen (should be seen) as providing learning opportunities and their needs to be done systematically whether it is from a joint venture and/ or other parent, or whether from the units or individuals within a company that are managing the non-equity alliance activities.

Conclusion

Alliances of all forms are growing in their importance for organizations, and the concern for understanding and managing them as well as possible, is increasing. In this chapter we have tried to highlight the role of human resource management in alliances. Because of the existing body of work in this area has largely focused on international alliances (IJVs), this chapter has sought to extend this focus by describing the potential relationships between HR policies and practices and several forms of alliances from the simplest non-equity alliance to the most complex international joint venture. This was done by utilizing the four-stage model used to describe the issues and implications for human resource management in international joint ventures.

Along with this model the key underlying phenomena in alliances were identified, those being complexity and complications; and the potential for conflict, uncertainty, and instability, all of which are proposed to increase as the form of alliance moves from a non-equity alliance to an international alliance as illustrated in Figure 1. The organizational and HR issues that arise in alliances result because these underlying phenomena become challenges and roadblocks to what

are important needs in all forms of alliances, i.e., learning, efficiencies, and control. In turn, all of them have implications for human resource management which increase in significance from non-equity to equity alliances because more is at stake as the alliances become more complex, particularly when the alliance creates another separate organizational form, the venture itself. There may be an exception to the relationships, however, proposed in Figure 1. It is argued by some that it may be more difficult to manage nonequity arrangements with reciprocal product/knowledge flows than joint ventures (Osborn & Hagedoorn, 1997). If this is the case, then it might be argued that this special type of nonequity alliance should be placed to the right of the international joint venture alliance illustrated in Figure 1. Alternatively, the horizontal axis might be based upon what is exchanged rather than the form of ownership. This being the case then, this axis might have “pure supply arrangements” to the left and to the right might be “reciprocal product/knowledge flow” alliances (Osborn, 2004). This, however, is for another paper to explore in more depth.

Based upon the relationships shown in Figure 1, propositions were offered that might form a basis for some further research in the area of human resource management in alliances. These propositions reflect the three theoretical perspectives of learning theory, agency theory and transactions cost theory. Future research might reflect other theoretical perspectives as well as these three. Future research might also be based upon a generic four-stage model of human resource management in alliances that is similar, yet distinct from that shown in Exhibit 1. Of course, it is also plausible to see Exhibit 1 tailored to different forms of alliances, particularly distinguishing between non-equity alliances and equity alliances, where the implications and significance to human resource management might be expected to be substantially different, at least in degree.

EXHIBIT 1

Organizational/HR Issues and

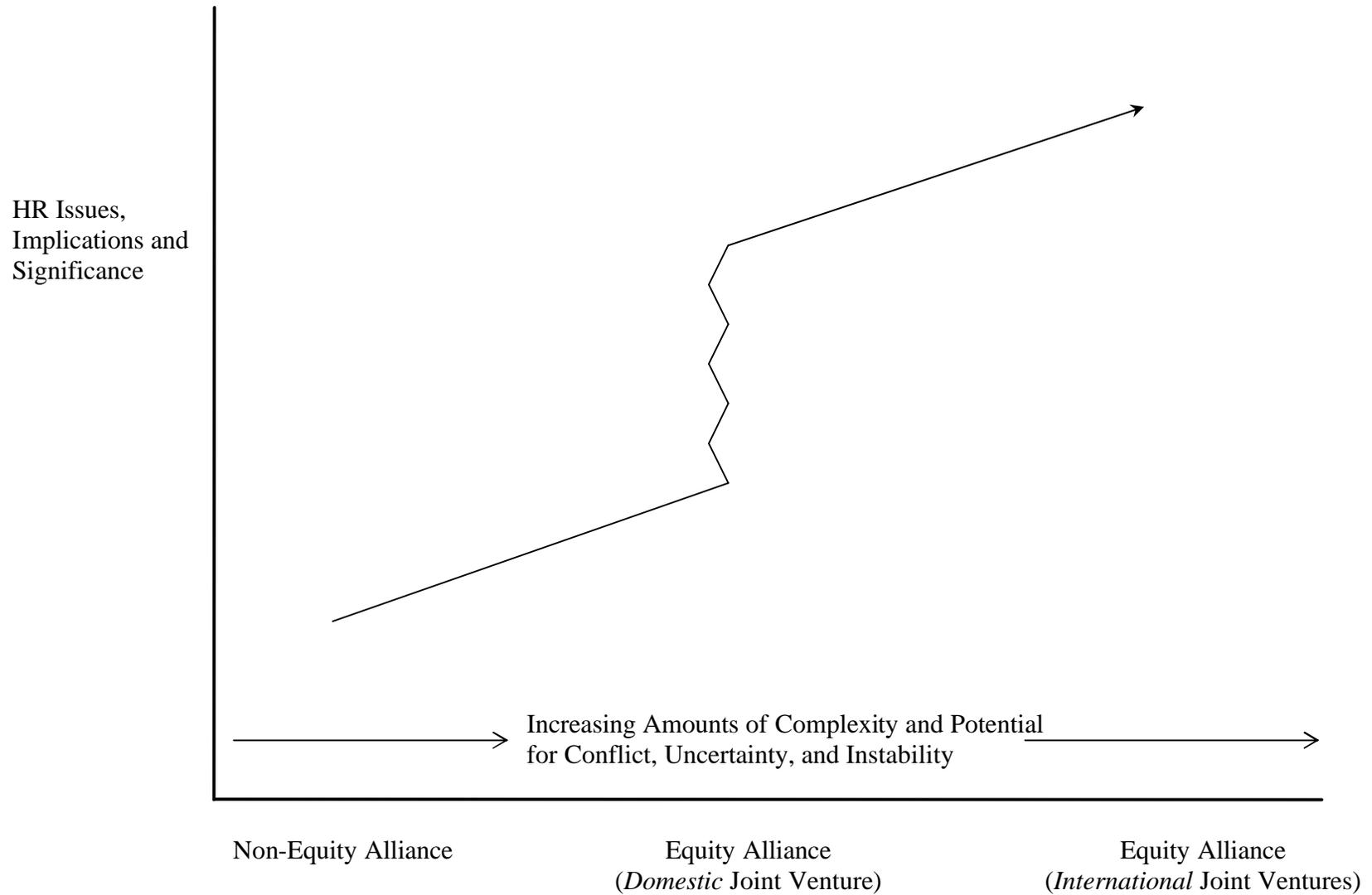
HR Implications in the Four Stages of the IJV System

<u>Organizational/HR Issues</u>	<u>HR Implications</u>
<p>Stage 1 – Formation</p> <ul style="list-style-type: none"> • Identifying reasons • Planning for utilization • Selecting dedicated manager • Finding potential partners • Selecting likely partners • Handling issues of control, trust and conflict • Negotiating the arrangement 	<ul style="list-style-type: none"> • The more important learning is, the greater the role for HRM • Knowledge needs to be managed • Systematic selection is essential • Cast a wide net in partner search • Be thorough for compatibility • Ensure procedures and communications • More skilled negotiators are more effective
<p>Stage 2 – Development</p> <ul style="list-style-type: none"> • Locating the IJV • Establishing the right structure • Getting the right senior managers 	<ul style="list-style-type: none"> • Concerns of multiple sets of stakeholders need to be considered for long term viability and acceptance • The structure will impact the learning and knowledge management processes. These are impacted by the quality of IJV managers • Recruiting, selecting and managing senior staff can make or break the IJV
<p>Stage 3 – Implementation</p> <ul style="list-style-type: none"> • Establishing the vision, mission, values, the strategy and structure • Developing HR policies and practices • Dealing with unfolding issues • Staffing and managing the employees 	<ul style="list-style-type: none"> • These will provide meaning and direction to the IJV and employees • These will impact what is learned through trust, control and conflict management • Need to design policies and practices with local – global considerations • The people will make the place
<p>Stage 4 – Advancement and Beyond</p> <ul style="list-style-type: none"> • Learning from the partner • Transferring the new knowledge to the parents • Transferring the new knowledge to other locations 	<ul style="list-style-type: none"> • Partners need to have the capacity to learn from each other • HR systems need to be established to support knowledge flow to the parent and learning by the parent • Sharing through the parent is critical

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Figure 1

Relationships Between HR Issues, Implications, and Significance and Alliance Forms



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