

# HUMAN RESOURCE ISSUES AND ACTIVITIES IN INTERNATIONAL JOINT VENTURES

Randall S. Schuler

ESADE

27 October 2003

Throughout the 1990's, the takeover dominated the world of corporate finance. No longer. The defining deal for the next decade and beyond may well be the alliance, the international joint venture, and the partnership. The alliance boom is most relevant in industries with rapid change. They include media, entertainment, airlines, financial services, pharmaceuticals, biotech, and high tech. Surprising, the number of alliances continue to grow, despite the fact that most studies point to high failure rates (Sparks, 1999:16).

# STRATEGIC ALLIANCES

- Technical exchanges and cross-licensing
- Co-production and OEM agreements
- Sale and distribution ties
- Joint product development programs
- JVs - domestic or international

# DEFINITION OF IJV

Although there is no single agreed-on definition of an IJV, a typical definition is: “A separate legal organization entity representing the partial holdings of two or more parent firms, in which the headquarters of at least one is located outside the country of operation of the joint venture. This entity is subject to the joint control of its parent firms, each of which is economically and legally independent of the other” (Shenkar and Zeira, 1987)

# IMPORTANCE OF IJVs

- Need for rapid response
- Manage business risk
- Soaring costs
- Face more competition
- Need for information/knowledge

# TYPES

- Cooperative-Competitive Partners
- Visible resources - invisible competencies
- Complementary structures (linked) - additive structures (scale)
- Partners (parents): same country; local host for one; number of parents; % of ownership

# REASONS

- To gain knowledge to learn and to transfer that knowledge
- To comply with host government insistence
- To gain rapid market entry and catch more customers
- For increased economies of scale
- To gain local knowledge and local market image and channel access
- To obtain vital raw materials
- To spread the risks
- To gain, hold or improve competitive advantage in the facing of increasing global competition
- For cost-effective and efficient response forced by globalization of markets

# IMPORTANCE OF KNOWLEDGE, LEARNING AND SHARING

Alliances have emerged as organization designs that enable organizations to deal with the increasing complexity of building and learning new sources of competitive advantage to compete in the global economy. In principle, all strategic alliances may be thought of as coalignments between two or more firms in which the partners seek to learn and transfer from each other knowledge of the other's products, skills, and technologies that are not available to other competitors



# TYPES OF KNOWLEDGE

- Explicit
- Tacit
- Compatible (redundant)
- Complementary (additive)
- Proprietary

# TYPES OF LEARNING

- Managing and learning from the alliance
- Learning about new environment:
  - a. government; b. culture; c. market
- Learning about the partner
- Implementing knowledge transfer

# PATTERNS OF LEARNING

## CONDITIONS FOR MAXIMUM LEARNING:

### BOTH PARTNERS HIGH IN:

- ABILITY TO LEARN—HIGH ABSORPTIVE CAPACITY
- MOTIVATION TO LEARN—NEW IDEAS
- OPENNESS TO LEARN—HIGH TRUST/LOW COMPETITION

## CONDITIONS FOR MINIMUM LEARNING:

### BOTH PARTNERS LOW IN:

- ABILITY TO LEARN—LOW ABSORPTIVE CAPACITY
- MOTIVATION TO LEARN—NOTHING NOVEL
- OPENNESS TO LEARN—LOW TRUST/HIGH COMPETITION

# CHALLENGES FROM LEARNING

- Balance
  - Asymmetry - Absorptive Capacity
  - Collaboration vs. Opportunistic Behaviors
- Openness and Willingness
- Managerial Styles/Behaviors
- Sharing and Transferring

# BASIC ASSUMPTIONS OF IJVs

- Joint ventures are learning systems and serve as vehicles for learning
- The partners in a joint venture have the opportunity to learn from each other
- Partners may not sense or seize this opportunity
- Ability, motivation and capacity for learning at the individual, group and organizational levels are critical to the success of the venture
- Success in IJVs can take on a variety of definitions and viewpoints
- Knowledge and learning can result in instability of the venture
- Different types of knowledge are transferred by different types of methods
- Different types of IJVs have different dynamics when it comes to knowledge, learning, and outcomes

- A venture with two foreign parents experiences different learning dynamics from a venture with only one foreign parent
- Sources of learning include the parents and the JV itself
- Learning and transfer of knowledge are essential for success of the venture
- There are unique issues and stages in the evolution of the IJV
- There will be conflicts at some time in the life of the JV
- There will be changing desires for control by the partners during the life of the JV and can create instability
- Staffing is a critical issue for success
- Organizational structure is critical for success
- Joint ventures are a challenge to run successfully

# REASONS FOR FAILURE

- Partners not clarify each other's goals and objectives
- Negotiating teams' lack of JV experience
- Lack of realistic feasibility study
- Lack of clarity about capabilities of the partner
- Partners fail to learn about each other
- Failure to judge impact of venture on the parent organization

- One partner learns faster than the other thus reducing partner dependency
- Partners cannot get along
- Managers from different partners within the venture cannot work together
- Managers within the venture cannot work with the owners' managers
- Partners simply renege on their promises
- Partners fail to trust each other
- Partners fail to learn from the other
- Markets disappear
- Technology involved does not prove as good as expected
- Competitive forces change



- Inability of the parent to learn from the JV
- Unwillingness of the parent to learn from the JV
- Lack of appropriate organizational structure, managerial roles and leadership
- Lack of adjustment to the stages of IJV development
- Unwillingness/Inability to learn
- Unwillingness/Inability to transfer/share knowledge

# HR ACTIVITIES, POLICIES AND PRACTICES ASSOCIATED WITH IJVs

- Environmental analysis
- Organizational structure, design, strategy, values, mission and culture
- Human resource planning
- Job design and job analysis
- Recruitment, selection and orientation
- Training, socialization and assimilation
- Performance and career management
- Remuneration (compensation)
- Employee welfare
- Communications
- Union Relationships

# FOUR STAGE MODEL OF THE IJV PROCESS

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

# RELEVANT THEORETICAL PERSPECTIVES

- General Systems Theory (Katz and Kahn; Wright and Snell)
- Role Behavior Perspective (Katz and Kahn)
- Institutional Theory (Meyer and Rowan)
- Resource Dependence Theory (Pfeffer and Cohen)
- Human Capital Theory (Becker)
- Transaction Costs Theory (Williamson)
- Agency Theory (Jensen and Meckling)
- Resource-Based Theory (Porter; Barney)
- Organizational Learning Theory (Cohen and Levinthal)
- Information Processing Perspective (Daft and Weick))
- Selection Theory (Boudreau and Rynes)

# IJV STAGES, ISSUES AND GUIDELINES

- Stages
- Organizational/HR Issues and Implications
- Guidelines

## Stage 1 - Formation: The Partnership

- a. Identifying the reasons for forming the IJV
- b. Planning for the utilization of its potential benefits
- c. Selecting a manager for new business development
- d. Finding potential partners
- e. Selecting a likely partner(s)
- f. Resolving critical issues and building trust/cooperation
- g. Negotiating the arrangement

## Organizational/HR Issues

## HR Implications

### Stage 1 - Formation

- Identifying reasons
  - Planning for utilization
  - Selecting dedicated manager
  - Finding potential partners
  - Selecting likely partners
  - Resolving critical issues
  - Negotiating the arrangement
- The more important learning is the greater the role for HR
  - Knowledge needs to be managed
  - Systematic selection is essential
  - Cast a wide net in partner search
  - Be thorough for compatibility
  - Ensure extensive communications
  - More skilled negotiators are more effective
  - Integrative strategies for learning

# Guidelines for Stage 1

Guideline 1: When learning is important to the IJV parents, HRM activities should identify and develop the absorptive capacity of the parents.

Guideline 2: HRM activities should contribute to ensuring that there is a high degree of fit between potential partners..



Guideline 3: HRM activities should be designed to build trust between the partners. This will increase the ability of potential partners to address and resolve the potentially divisive issues related to control.

Guideline 4: The use of HRM activities that promote effective conflict resolution should be used to enhance the likelihood of IJV success.

## Stage 2 - Development: The IJV Itself

- h. Locating the IJV--dealing with the local community
- i. Establishing the right management structure
- j. Getting the IJV top team

## Stage 2 - Development

- Locating the IJV
- Establishing the right structure
- Getting the right senior managers
- 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

## Guidelines for Stage 2

Guideline 5: When deciding where to locate the IJV, a key HRM activity should be assessing the needs of all the primary stakeholders.

Guideline 6: In order to ensure the long-term success of an IJV, state-of-the-art HRM policies and practices should be used to ensure that a high-quality IJV management team is recruited and retained.

## Stage 3 - Implementation: The IJV Itself

- k. Establishing the vision, mission, values, strategy and structure
- l. Developing the HR policies and practices
- m. Dealing with unfolding issues
- n. Staffing and managing the employees

# Stage 3 - Implementation

- Establishing the vision, mission, values, the strategy and structure
- Developing HR policies and practices
- Dealing with unfolding issues
- Staffing and managing the employees
- These will provide meaning and direction to the IJV and employees
- Need to design policies and practices with local - global considerations
- These will impact what is learned and shared
- The people help make the place

## Guidelines for Stage 3

Guideline 7: In order to ensure the IJV's long term success, the IJV should develop its own vision, mission, values, culture and strategy.

Guideline 8: If tacit knowledge is to be learned and transferred, HRM activities should reflect a long-term orientation. Conversely, if explicit knowledge is of primary concern, HRM activities that reflect a short-term orientation may be more effective.

Guideline 9: Career Planning and benefits should be offered to managers assigned to the IJV in order to ensure a successful IJV process.



## Stage 4 - Advancement: The IJV and Beyond

- n. Learning from partner (each other)
- o. Transferring the new knowledge to the parents
- p. Transferring the new knowledge to other locations

## Stage 4 - Advancement and Beyond

- Learning from the partner
- Transferring the new knowledge to the parents
- Transferring the new knowledge to other locations
- Partners need to have the capacity to learn from each other
- HR activities need to be established to support knowledge flow to the parents and learning by the parents
- Sharing through the parents is critical

## Guidelines for Stage 4

Guideline 10: Partners should continually assess and calibrate their learning capabilities to ensure that learning symmetry is maintained.

.Guideline 11: As the IJV matures, investments in improving formal and informal communications should be made to increase the likelihood of knowledge flow and learning among partners.

Guideline 12: Continuous evaluation and adjustment of all HRM activities is required to ensure the IJV's long-term success.

# Roles for HR Department

- Getting involved early
- Building learning into the partnership agreement
- Communicating strategic intent
- Maintaining HR input into the partnership
- Staffing to learn
- Setting up learning-driven career plans
- Using training to stimulate the learning process
- Responsibility for learning should be specified
- Rewarding learning activities
- Monitoring the HR practices of the partner

# Roles for HR Leader

- Partnership
- Change Facilitator
- Strategy Implementor
- Strategic
- Innovator
- Collaborator

# Competencies for HR leader

## **Business competencies**

- Industry knowledge
- Competitor understanding
- Financial understanding
- Global perspective/knowledge
- Strategic visioning
- Partner orientation
- Multiple stakeholder sensitivity

## **Leadership competencies**

- Strategic analysis
- Managing cultural diversity
- Creator of learning culture
- Planning skills
- Adaptability
- Learning facilitator
- Value shaper

## **Change and knowledge management competencies**

- Consulting and communicating
- Group process facilitation
- Designing and working in flexible structure
- Partnering and parenting
- Negotiating
- Network building
- HR alignment
- Managing learning transfer

# GOING FORWARD

- Implications
- Thanks for your continued interest and support



# LEVELS OF LEARNING

- Individual, Group, Organizational
- Unconscious - Experiential - Nonsystematic
- Conscious - Vicarious - Systematic

# IMPORTANCE OF HRM IN IJVs

- Organizational level issues
- Individual/Group level issues
- Multiple stakeholder sets
- Reasons for failure

# Categories of Organizational/HR Issues in IJVs

## Organizational Level:

- Parent-to-Parent Relationships
- Parent-to-IJV Relationships
- IJV-Environmental Contextual Relationships
- Parent characteristics

## Individual/Group Level:

- Employees learning and sharing relevant knowledge
- Employees having the competencies for the IJV
- Employees engaging in the appropriate behaviors and attitudes
- Employees with the needed levels of motivation for performance and for commitment to the organizations
- Individuals attracted to join the IJV

# Organizational Stakeholders and Examples of Their Concerns

## Employees

- Fair Treatment
- Satisfaction/morale
- Employability
- Safety and health

## Shareholders & Owners

- Shareholders return
- Return on sales
- Return on Assets
- Return on investments

## Society

- Legal compliance
- Social responsibility
- Ethical management practices
- Concerns for the environment

## Strategic Partners

- Reliability
- Trustworthiness
- Collaborative problem solving

## Customers

- Quality Service
- Quality products
- Speed and responsiveness
- Low cost
- Innovation















