

Formation of an International Joint Venture: Davidson Instrument Panel*

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Executive Summary

Going international no longer is a matter of choice for many U.S. firms. Yet the risks and costs associated with "going global" are enormous. Many things can impede success when setting up an international joint venture (IJV). With systematic planning and foresight, however, these barriers can be reduced to mere road bumps. This article identifies and discusses these barriers, including several human resource management (HRM) issues. How these barriers can be addressed systematically is illustrated through a case study of Davidson Instrument Panel and its joint venture with a partner in England

Ok, so you're thinking about manufacturing and selling your company's wares abroad, but you're more than a little daunted by the risks. Why not join forces with a foreign partner? That way, you can split the start-up costs, and divide up any losses, not to mention gaining quicker international credibility, smoother distribution, and a better flow of information. Then again, maybe you'd rather not share your potential profits---or the secrets of your company's success---with anyone. That's fine. But don't be surprised if, after trying to crack a foreign market on your own, you develop a new enthusiasm for joint ventures" (Hyatt 1988, p. 145).

Even if you haven't attempted to crack a foreign market on your own, you may be ready

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for an international joint venture (IJV). Such is the case with many U.S. firms today, especially since the advent of Europe 1992 and recent events in Eastern Europe. In fact there may be little real choice for firms that desire to expand globally. According to Nicholas Azonian, (Vice President of Finance at Nypro, an \$85 million plastic injection-molding and industrial components manufacturer in Clinton, MA with a presence in six countries and four IJV factories in the U.S.): 'Without these foreign ventures, we'd be very limited in terms of our knowledge, our technology, our people, and our markets. We'd be a smaller company in every sense of the word" (Hyatt, 1989).

Of course, the benefits of IJVs are not limited to small companies. Sales of companies in which Corning Glass has a joint partnership are nearly 50 percent higher than the sales of its wholly-owned businesses. According to James Houghton, Corning's CEO, of international- opportunities and joint venture alliances:

"Alliances are the way to capture that window. By marrying one party's product to the other's distribution, or one party's manufacturing skill to the other's R&D, alliances are often quicker than expanding your business overseas-and cheaper than buying one" (Stewart 1990).

With high failure rates and increasing competitiveness, launching an IJV offers little guarantee of success. Some of the most significant barriers to success involve people L-sues--issues relating to international human resource management (HRM). This article describes many of the issues associated with forming and managing IJVs and illustrates how one IJV is addressing many of them. Because this venture is in the early stages of formation, this article ad

dresses only critical start-up barriers. A subsequent article is scheduled to describe more extensively issues related to establishing the HRM practices to be used in the facility. Another article is scheduled to describe how everything is working and what adjustments have been made. The current article addresses the IN from the viewpoint of its U.S. partner, Davidson Instrument Panel. Subsequent articles will reflect viewpoints of the British partner and the joint venture itself.

Davidson Instrument Panel

Davidson Instrument Panel is one of 33 divisions of Textron, an \$8 billion conglomerate headquartered in Providence, RI. Davidson and its two sister divisions (Interior Trim and Exterior T4n) make up Davidson-Textron. All three divisions are component suppliers to automotive original-equipment manufacturers. Davidson-Textron is the largest independent supplier of instrument panels for the U.S. automobile industry.

Originally begun as a maker of rubber products for drug sundries in Boston in the early 1850s, Davidson moved its operations to Dover, NH in the 1950s. Its headquarters now are in Portsmouth, NH, where staff of fewer than 50 oversee the operation of two manufacturing plants- one in Port Hope, Ontario and another in Farmington, NH. The 1,000-person operation in Port Hope is unionized; the 900-person operation in Farmington is not.

The nature of the US automobile industry has changed dramatically during the past 20 years, and the effects have been felt by all the "Big 3" auto makers. As the automobile industry has become globalized, success has turned on quality products that fit right and perform smoothly and reliably. But while quality has become a major concern to the auto industry, so have cost and innovation. New products and new technology are vital to the success of the Big 3, but without cost reduction, new products cannot be offered at competitive prices.

The characteristics of the auto industry are reflected in the companies supplying it Davidson Instrument Panel is no exception. To succeed, the company must adapt to the demands of the new

environment. Doing so will bring rewards-such as market share and, perhaps even more important an extensive, cooperative relationship with the Big 3. Essentially, the days of multiple bidding-where winning meant delivering at the lowest cost with no assurance that the next year's bid would be the same-are gone. Today, automobile companies use *solesourcing* for many of their supply needs. Accompanying this is a greater sense of shared destiny and mutual cooperation:

"The component suppliers are having to change with the times. The multinational car manufacturers increasingly want to deal with multinational suppliers, giving them responsibility for the design and development of sub-assemblies in return for single supplier status" (Financial Times, 1990).

Thus, it is not unusual for design engineers from suppliers to provide full engineering design of the components they will supply their customer

An important aspect of this new cooperative, sole-sourcing arrangement adopted by the Big 3 automotive makers is the willingness to conceptualize and form longer-term relationships. For Davidson Instrument Panel, this has meant the opportunity to establish an IJV.

In the summer of 1989, Davidson agreed to establish an IJV to supply instrumental panels to a Ford Motor Company plant in Belgium beginning in 1992. They chose as their partner for this venture a British firm named Marley.

What seemed like a good opportunity, is not always a success, of course. U.S. studies estimate the failure rate of IJVs between 50 and 70 percent (Harrigan, 1986; Levine and Byrne, 1986). Because this new IJV is in its early stages, evaluation of its success would be premature. Probabilities of success can be estimated by comparing the actions of Davidson Instrument Panel to the recommendations of others and against mistakes made by others in their early stages. These comparisons may offer guidance to firms seeking to "go global" through such alliances.

IJVs

Although there is no single agreed-on definition of an IJV, one definition is: "A separate legal organizational 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, 1987a).

Using an IJV as a mode of international business operation is not new (O'Harne, 1989a, 1989b, 1989c). But economic growth in the past decade of global competition, coupled with shifts in trade dominance and the emergence of new markets, has contributed to a recent increase in the use of IJVs. According to Peter Drucker, IJVs are likely to grow in importance in the 1990s- "You will see a good deal of joint ventures, of strategic alliances, of cross-holdings across borders. Not because of cost, but because of information. Economists don't accept it, but it is one of the oldest experiences, that you cannot maintain market standing in a developed market unless you are in it as a producer. As an exporter, you will be out sooner or later, because you have to be in the market to have the information" (Drucker, 1989).

Reasons for Forming an IJV

Harrigan (1987a) argued that since a joint venture draws on the strengths of its owners, it should possess superior competitive abilities that allow its sponsors to enjoy synergies. If the venture's owners cannot cope with the demands of managing the joint venture successfully, Harrigan advised the owners to use nonequity forms of cooperation such as cross-marketing and/or cross-production, licensing, and research-and-development consortia. Some companies shun joint ventures, preferring 100 percent ownership to the drawbacks of loss of control and profits that can accompany shared ownership (Gomes-Casseres, 1989). However, many firms, regardless of previous international experience, enter into IJV arrangements. The most common reasons cited in the literature are.

- increased economics of scale (Datta, 1988, Morris and Hergert 1987; Roehl and Tn4 1987)
 - gain local knowledge (Datta, 1988; Lasserre, 1983; O'Reilly, 1988) and local market image (Gomes-Casseres, 1989)
 - obtain vital raw materials (Shenkar and Zeira, 1987b) or technology (Gomes-Casseres, 1989)
 - spread the risks (Morris and Hergert, 1987; Shenkar and Zeira, 1987b)
 - improve competitive advantage in the face of increasing global competition
 - cost-effective and efficient responses forced by globalization of markets (Datta, 1988; Harrigan 1987a, 1987b; Shenkar and Zzka, 1987b)
- For many firms, several of these reasons apply. Some of the outcomes above may be unanticipated but later recognized and welcomed. For example, Nypro entered into a joint venture with Mitsui to operate a factory in Atlanta that could serve as a U.S. source for videocassette parts to Enplas, a Japanese concern. Enplas taught Nypro some lessons in both cost-saving management skills and quality control, according to Gordon Lankton, Nypro president and CEO:
- "Why did you reject this shipment?" Lankton would ask. "The label on the box," they would answer, "was crooked." "We eventually learned," says Lankton. Now, Nypro's Atlanta plant is its most productive, with sales per employee averaging \$2,000. By comparison, most of Nypro's other nine plants hover around \$1,250 (Hyatt, 1988).
- For Davidson Instrument Panel, gaining local knowledge, spreading risks, improving competitive advantage, and becoming more global were
- host government insistence (Datta, 1988; Gomes-Casseres, 1989; Shenkar and Zeira, 1987b)
 - to gain rapid market entry (Berlew, 1984; Morris and Hergert, 1987; Shenkar and Zeira, 1987b; Tichy, 1988)

important reasons for their IJV. In addition, they wanted to extend their relationship with Ford Motor Company as much as possible-and being a sole-source supplier would mean working with the customer as much as possible.

Failure in IJVs

IJV failure rates (50-70 percent) reflect the difficulty of establishing a successful IJV. Reasons for failure include:

- 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
- markets disappear
- technology involved does not prove as good as expected

Failure rates are difficult to measure. The criteria for defining success or failure depend on the parent companies' expectations and motives for establishing the joint venture. "Joint ventures can be deemed successful in spite of poor financial performance, and conversely, they can be considered unsuccessful in spite of good financial performance" (Schaan, 1988). For example, financial performance may take second place to profits from management fees or royalties from technology transfer.

It's A Marriage

Many writers compare IJVs to a marriage (Tichy, 1988). The analogy seems to spring from those factors necessary for success, and problems inherent in UVs due to their contractual nature. To manage an IJV for success, it is important to understand the joint venture process which includes these five parts:

1. finding an appropriate partner
2. courting (the pre-nuptial process)
3. arranging the marriage deal
4. launching the venture (the honeymoon period)
5. building a successful ongoing relationship

Observers (Gomestasseres, 1987; Harrigan, 1986; Lyles, 1987) have suggested that effective use of joint ventures requires managers to develop special liaison skills to cope with the mixed loyalties and conflicting goals that characterize shared ownership and shared decision making. Joint venture managers also need to have-and to instill-team-building values and receptivity to ideas generated outside the organization.

Increasingly it is recognized that good joint venture marriages are not created with a handshake and a stroke of the pen. Instead of rushing headlong into a flurry of strategic partnering, savvy managers now are moving slowly into long-term relationships with their cross-national counterparts. They are trying to avoid many of the mistakes created by the "knee-jerk" ventfining behaviors of the early 1980s. One way to help make an IJV work is to establish equal partnerships. According to James Houghton of Coming Glass, "To work alliances must be true marriages, not dates. A fifty-fifty deal usually works best because it commits both parties to I success" (Stewart, 1990). In addition-according to Gordon Lankton of Nypro-"Just finding a knowledgeable partner for a joint venture isn't enough, though- You have to make sure that partner's long-term goals are in sync with your own" (Hyatt~ 1988).

Critical Issues In Managing IJVs

Consensus has it that the very nature of joint ventures contributes to their failure: they are a difficult and complex form of enterprise (Shenkar and Zeira, 1987b, p. 30) and many companies initiate IJVs without My recognizing and addressing the major issues they are likely to confront (Morris and Hergert, 1987). Success requires adept handling of three key issues. Below, we describe each of these key issues. We then discuss how Davidson is preparing to deal with them.

Issue 1: Control

Who actually controls the operation can depend on who is responsible for the day-to-day management of the IJV. 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. Of course, loyalty to the parent cannot be guaranteed. "The ability to appoint the joint venture general manager increases the chances that the parents' interests will be observed, but it is no guarantee that the joint venture general manager will always accommodate that parent's preferences" (Schaan, 1988, p. 14).

Top managers 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 to protect their interests. 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.

Issue 2: Conflict

Business and cultural differences between UV partners often create conflict. Working relationships must be based on trust. Because joint ventures are inherently unstable relationships, they require a delicate set of organizational and management processes to create trust and the ongoing capacity to collaborate. This means that senior executives must be involved in designing management processes 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/vAn cimate (Tichy, 1988).

Many misunderstandings and problems in IJVs are rooted in cultural 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, if not destructive. The big challenge is to work through top management disagreements and avoid deadlocks (Thomas, 1987).

Issue 3: Goals

The partners in an IJV often have differing goals. This is especially likely when an IJV is formed as a solution for reconciling incongruent national interests. For example, a parent may be obliged to share ownership with a host government despite its preference for complete ownership and control. In such a case, the two partners are likely to be concerned with different constituencies; business strategies may differ as a result. For example, the local partner may evaluate strategic choices based on how effective they are likely to be in the local market while the multinational parent would favor strategies that maintain image and reputation in the global market (J. Gomes-Casseres, 1989). Cultural differences also may impact strategy. For example, Americans are alleged to have a shorter-term focus than the Japanese (Webster, 1989).

Differing levels of commitment from the UV partners 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 be 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 IJV can contribute to success or failure (Bere, 1987).

Davidson's Preparation for These Critical Issues

Management at Davidson Instrument Panel recognized the importance of these three issues

to their IJV. They were careful in selecting a partner, based on more than 25 years of licensing experience in Western Europe with four different licensees. From these potential partners they chose the one (Marley in England) with whom they had the most in common. This commonality included:

- both use consensus-style management
- both are part of a larger organization that is relatively decentralized
- both desire to move to the continent with a manufacturing presence
- both have similar views on how to grow the business
- both have similar philosophies on how to run a business and how to manage human resources
- both desire a fair and open relationship

These several dimensions of commonality should help minimize the difficulties that can arise due to differing goals and objectives.

Thus far, the parents have made several strategic decisions in establishing the IJV, including where to locate the new plant and who will be responsible for what functions. Davidson's preferences for how these decisions would be made were important influences in its selection of Marley as a partner. Located in Europe, Marley gave Davidson knowledge of the market far more than this, it gave them functional fit and personal contacts. While Marley understood the marketplace, Davidson had expertise in manufacturing the administrative systems. Thus, while Davidson supplied the technology and the systems, Marley supplied knowledge of the markets and the contacts needed to get the plant built.

Locating the Facility

Where to locate the plant was an important decision and an early test of the parents' compatibility. Together, the parents gathered extensive information and visited many sites. Of value here was Davidson's position as a division of a large conglomerate that could provide tax

and legal guidance. (Textron had an office in Brussels that provided this service.) During the initial site-selection process, Davidson collected information related to possible locations from the U.S. consulates of the relevant countries. According to Joe Paul, Vice President of Administration at Davidson, the consulates provided extensive information about business conditions; they also provided names and telephone numbers of employment agencies, training centers, union officers, and local business organizations. Davidson also acquired information from DeutscheBank, the international banker for Textron.

The decision was made to locate in Born, the Netherlands. This decision was made after considering and eliminating France, West Germany, and Belgium. These four nations were possibilities because of their proximity to the Ford plant in Genk, Belgium and because all four governments offer cash grants to firms locating in the coal region these nations share. With relatively high unemployment the governments of the four nations offer incentives to firms regardless of parent-company nationality. The particular site in the Netherlands was selected because it is within 30 minutes of the Ford plant a location which would facilitate compliance with Ford's just-in-time requirement.

According to Jonathan T. Hopkins, Vice President of Worldwide Business Development at Davidson, the location also was selected in part because labor unions in the area indicated a willingness to consider accepting job flexibility and a relatively small number of job classifications. These features were important to both parents because they operate using principles of employee involvement and egalitarianism. Both parents want these principles reflected in the management style of the new plant in Born. Davidson's experience in running a unionized plant in Canada proved valuable to foreseeing some of these labor-related issues.

Another important consideration was the availability of job applicants. The area now has a 15 percent unemployment rate. In addition, two government-controlled firms are expected to privatize and downsize, thus increasing the pool of applicants with work experience. These considerations were deemed by the parent

companies to be more favorable in the Netherlands than in the other three nations.

HRM Issues

As the establishment of the IJV between Davidson Instrument Panel and Marley continues over the next twelve months, six HRM issues are likely to unfold (Shenkar and Zeira, 1990). In light of the shared goals and objectives of the two partners, the extent to which these issues become problem areas may be minimal. Nevertheless, the substance of these issues needs to be addressed explicitly (Lorange, 1986).

Assignment of Managers. 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 human resources must have a cultural dimension. Recognizing the importance of key personnel appointments, the parents have agreed to collaborate in the selection of a General Manager. They already have agreed on the search firm that will help them identify candidates, and they now are in the process of jointly deciding the final criteria to be used in the selection process. Although the selection criteria are not yet finalized, Davidson has expressed some desire to have a person with manufacturing experience in plastics who is from the Netherlands. Once this individual is selected (scheduled for early 1991), (s)he will come to Davidson's headquarters in New Hampshire for several months. During this time, the individual will become familiar with Davidson's technology, manufacturing systems, and HRM practices and philosophies.

Specific selection, performance appraisal, and compensation practices will be left to the discretion of the new General Manager, but it is expected that this individual will adopt the Davidson-Marley philosophy of employee involvement participation, job flexibility, egalitarianism, and teamwork. These are practices both parents adopted in their own operations to facilitate high quality. Davidson and Marley feel that local labor councils are flexible and open

to these practices, but the task of actually negotiating specifics will be done by the IJV's management staff. At that point control issues are likely to become salient

Transferability of Human Resources. Are the parents willing to transfer critical human resources to the new business venture? Given the long time frame of most joint ventures, strategic human resources sometimes have to be transferred from the parent on a net basis during the initial phase. In this case, because of the skills of the two partners, Davidson Instrumental Panel is supplying the human resources relevant to the manufacturing systems and the administrative systems. Marley is responsible for actually building the plant but Davidson is designing the interior of the facility to fit their technology. In addition, Davidson already has assigned three Design Engineers from its facility in Walled Lake, MI to be expatriates in Europe. These engineers work with 14 contract designers recruited in Europe to design the component that will be manufactured in the plant Marley has located a Sales Manager in the Netherlands, and win supply sales and marketing support to the company.

Davidson also will be supplying the new Controller who will install the administrative systems. Textron's accounting firm, which has offices in the U.S. and Europe, is ready to provide assistance to the Financial Officer who will eventually be selected for the IJV. (Textron's accounting firm also serves Davidson.) Davidson's accounting procedures will have to be adapted to the European environment which will be done through the accounting office in Europe assisting the new Financial Officer. Overtime, remaining HRM decisions will become the responsibility of the IJV as it begins to operate like an independent business organization.

Manager's Time-Spending Patterns. 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 operating and strategic tasks, sufficient human resources must be allocated for 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 de-

mands for short-term results on the IJV, this may leave it with insufficient resources to staff for strategic self-renewal. In this particular case, the need for strategic planning and new business development is somewhat less due to the expected availability of a major customer, namely, Ford Motor Company. In addition, Marley's marketing expertise and knowledge of the continent should serve as a support mechanism that minimizes the time the new IJV initially needs to spend on longer-term issues. Over time, the balance between focus on operations versus strategic planning will shift as the IN becomes more independent and the short-term operating tasks become more manageable.

Human Resource Competency. Deciding how to evaluate IJV managers will be 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 incompetent managers. Performance evaluation therefore is important. The long-term relationship and shared objectives of Davidson and Marley make inappropriate staffing decisions less likely in this case. Also, early decisions to limit reliance on expatriates to the controller and three Design Engineers are likely to minimize problems arising from off-loading surplus managers.

Management Loyalty Issues. Management of loyalty conflicts must be considered an integral part of the HRM of IJVs. Assigned executives (expatriates) usually are loyal to the IJV and are expected to stay with the IJV for a long period of time. If a conflict arises between parents and the IJV, management can be expected to side with the IJV. For Davidson and Marley, the assignees of Design Engineers and the Controller are primarily for start-up purposes. These employees' loyalty may remain with Davidson because of the explicitly temporary nature of their assignments.

Career and Benefits Planning. A recent survey of expatriates found that 56 percent felt their overseas assignments were either immaterial or detrimental to their careers (Wall Street Journal, 1989)-a finding which indicates potential motivational problems any IJV may encounter. The

motivation of executives assigned to an IN 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.

Apart from career-path disturbances, the assignment to an IN post usually requires relocation to a foreign country-with all the disruption to family and social life that such a posting entails. Benefits packages must be designed to maintain the economic and social lifestyle of the manager so that the individual does not lose through the IJV assignment. In the present case, the number of expatriate employees involved is so small these issues have not been considered major. They will become more significant with the assignment of the Controller. At that time, Davidson's own experience with research-and-development expatriates and the experience of Textron will be helpful.

Lorange (1986) argued that IJVs must have their own, strong, fully fledged HRM function. The individual in charge must establish ways to work closely with each parent company, particularly during the early years. The two major roles of the IJVs HRM function are: (1) to assign and motivate people via job skills, compatibility of styles, and communication compatibility, and (2) to manage human resources strategically, so that the IN is seen as a vehicle to produce not only financial rewards, but also managerial capabilities that can be used later in other strategic settings. To the extent an IJV is staffed with temporary managerial assignees, transferring people to an IJV every few years would not be result in strategic continuity of management.

In addition to the two major HRM roles noted by Lorange (1986), the new IJV will have to establish its own set of human resource practices, policies, and procedures. It will immedi-

ately use these to staff the new operation. We look forward to tracking this process with the new General Manager, before and after production has begun.

Summary

In this article, we discussed several sources of potential risk for IJVs. A comparison of the research literature with the experience of one IJV (that of Davidson Instrument Panel in the U.S.

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- Lyles, M.A. "Common mistakes of joint venture and Marley in England) provided suggestions for U.S. firms contemplating an IJV in the near future. We also discussed several international HRM issues associated with IJVs, focusing on the initial human resource planning and selection decisions that two partners face in forming an IJV. Finally, we identified several unfolding international HRM issues that the two partners-Davidson and Marley-are likely to face over the next 24 months. These issues will be followed and will become subjects of subsequent articles.
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