

# **A Re-Evaluation of Corporate Culture Versus National Culture in the Formation of International Strategic Alliances: a Theoretical Discussion**

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## **Abstract**

*International strategic alliances have become overwhelmingly used in today's business environment. However, most of these alliances feature a very high rate of unsuccessfulness. Usually, business partners' cultural distance is regarded as one of the main reasons that lead these alliances to their failure. Therefore, it is thought that companies belonging to similar national cultural environment are more likely to form a successful alliance.*

*This paper attempts to criticize this view. It does not aim at denying the importance of national culture reflections, but it would rather suggest to assume corporate culture as the main proxy to assess the likelihood that two companies might form a successful business relationship.*

## **Introduction**

Strategic alliances have become an outstanding feature of today's business environment. Firms engage in such alliances because they not always own sufficient resources to keep abreast with a very changeful and varied business context. Through these alliances, firms aim at gaining those skills, abilities and technologies they lack, in order to achieve their strategic goals and enhance their competitive advantage worldwide. Moreover, international strategic alliances grant firms a further benefit: the chance to enter a specific foreign market with fewer risks and costs than in the case of a Foreign Direct Investment (FDI), both in the case of Greenfield investment and of Mergers&Acquisition (M&As).

Though these alliances have become overwhelmingly used, their failure rate is surprisingly high, with an average life span of seven years (Bleeke and Ernst; 1995). The failure of a business alliance is often referable to profound differences between business partners. Parkhe (1991) recognizes two kinds of diversity that feature a strategic alliance: Type I diversity "deals with the reciprocal strengths and complementary resources furnished by the alliance partners" (p. 580); Type I diversity is, therefore, the necessary requisite upon which the alliance is built. Type II diversity, on

the other hand, refers to specific partners' characteristics that go beyond technical and operational aspect. In his research, Parkhe (1991) maintains that only if alliance partners learn and adapt reciprocally, the alliance is likely to enjoy longevity, being longevity a proxy for alliance success. Indeed, thanks to learning and adaptation, Type II diversity is likely to shrink, leading alliance partners to take advantage of the synergies that spring from sharing their resources for the attainment of their common goals.

Type II diversity is often linked to the problem of national culture distance between international business partners. A considerable cultural distance is thought to lead to the failure of an international strategic alliance because it can increase role conflict, by implying contrasting expectations, which are embedded in each company's national culture. In the wake of such considerations, the acknowledgment and awareness of national culture characteristics have been thought to be extremely important, since they are thought to be likely to smooth the relationship between business partners. Thus, many scholars have addressed this issue, by conducting researches and surveys in the attempt to define specific national culture features. This body of literature rests essentially on one hypothesis: the more we know about who we are dealing with, the more the relationship we establish is likely to enjoy longevity and effectiveness. Within this corpus of literature, some theories and models are regarded as crucially relevant to the formation and conduction of international business relationships, in this case an international strategic alliance.

Hofstede's "4+1 dimensions" (1980, 1984) defines national cultures along four main dimensions (Power distance, Uncertainty avoidance, Individualism/Collectivism and Masculinity/Femininity), plus another dimension (Long-term/Short-term orientation) which was added for the purpose to catch eastern countries cultural attitude, too (Hofstede and Bond, 1988). In 1981, Hall proposed another model, according to which cultures could be either High Context or Low Context: the former refers to nations where relationships are context-dependent, thus relying heavily on the rules that direct the situation itself. On the other hand, Low Context countries refer more deeply on universal rules to build a relationship. Finally, Trompenaars (1994) proposed a model which appears to be very close to Hofstede's, since he defines national culture on the basis of five categories for the same aim: picturing a national culture. These categories are Universalism/Particularism, Individualism/Collectivism, Neutral relationship/Affective relationship, Specific relationship/Diffuse relationship and Achievement/Ascription).

These models are regarded as crucial for companies aiming at establishing a business relationship with foreign counterparts, since the categories they present are believed to provide an adequate overview of national characteristics, thus making the choice of business partners easier.

Actually, the categories highlighted by these models could assist the assessment of the degree of compatibility of two companies having different nationalities.

Nevertheless, a doubt could still rise. Since an international strategic alliance occurs between two companies, not between two nations, are reflections about national culture issues enough when dealing with the problem of Parkhe's Type II diversity minimization? This is the central question that this paper aims to answer. However, it is worthwhile highlighting that the reflections that will be presented will operate only at a theoretical level. This means that this paper is to be regarded as a theoretical construction, that is to say that the conclusions it will lead to, should be considered as hypothesis that might be tested empirically.

### **Can a Strategic Alliance be Based on Features of National Culture?**

Hofstede himself (1993) has always warned of oversimplifying his findings and he has shown that in most cases these results can be misinterpreted exactly because of the cultural environment, which someone had grown within. Following this perspective, the categories provided by Hall's, Hofstede's and Trompenaars' models can become a variety of stereotypes. As highlighted by Carr (2002), stereotypes exert a considerable influence mainly at the early stages of international business relationships, thus hindering any future potential transaction. The categories provided by the above-mentioned models are unquestionably more than simply folk beliefs, since they derive from scientific surveys. For this reason, Osland and Bird (2000) define them as "sophisticated stereotypes". Nevertheless, according to the authors, the results these categories generate might be joined to those of folk stereotypes, since they "reduce a complex culture to a shorthand description" (Osland and Bird, 2000. p. 358) that would be applied to all of the people of that country. This, in turn, will affect business relations, too, since companies of that country would easily be subjected to the same kind of stereotype. Therefore, the usefulness of the categories of Hall's, Hofstede's and Trompenaars' models appears to be restricted.

Furthermore, when dealing with the problem of international strategic alliances, one should bear in mind that they are international business relationship, hence a particular kind of rapport that does not only refer to intercultural concerns, but also (and perhaps mainly) to business ones. In order to better expound this concept, it could be useful to paraphrase an article presented by Varner (2000). This paper essentially deals with the issue of intercultural business communication. The basic idea Varner (2000) aims to propose is that "intercultural business communication must include business as an essential variable" (p. 39). This idea can be relocated in the domain of

international strategic alliance, hence international/intercultural business relationships. The insight on national cultural issues is incontestably valuable, since it could be regarded as a prerequisite to attain an effective international business relationship, but is not sufficient. One should bear in mind that any kind of strategic alliance does not occur between nations, but between companies, hence specific organizations that blend the influence exerted by the culture of their native country with business-related issues in a specific and unique way. Therefore, it might be argued that corporate culture, rather than national culture, should be the element to consider in the attempt to establish a business relationship with a foreign company, in this case an international strategic alliance.

In 1991, Hofstede himself addressed this issue, by pointing out six new categories that were referred to corporate culture, rather than the national one. These categories are:

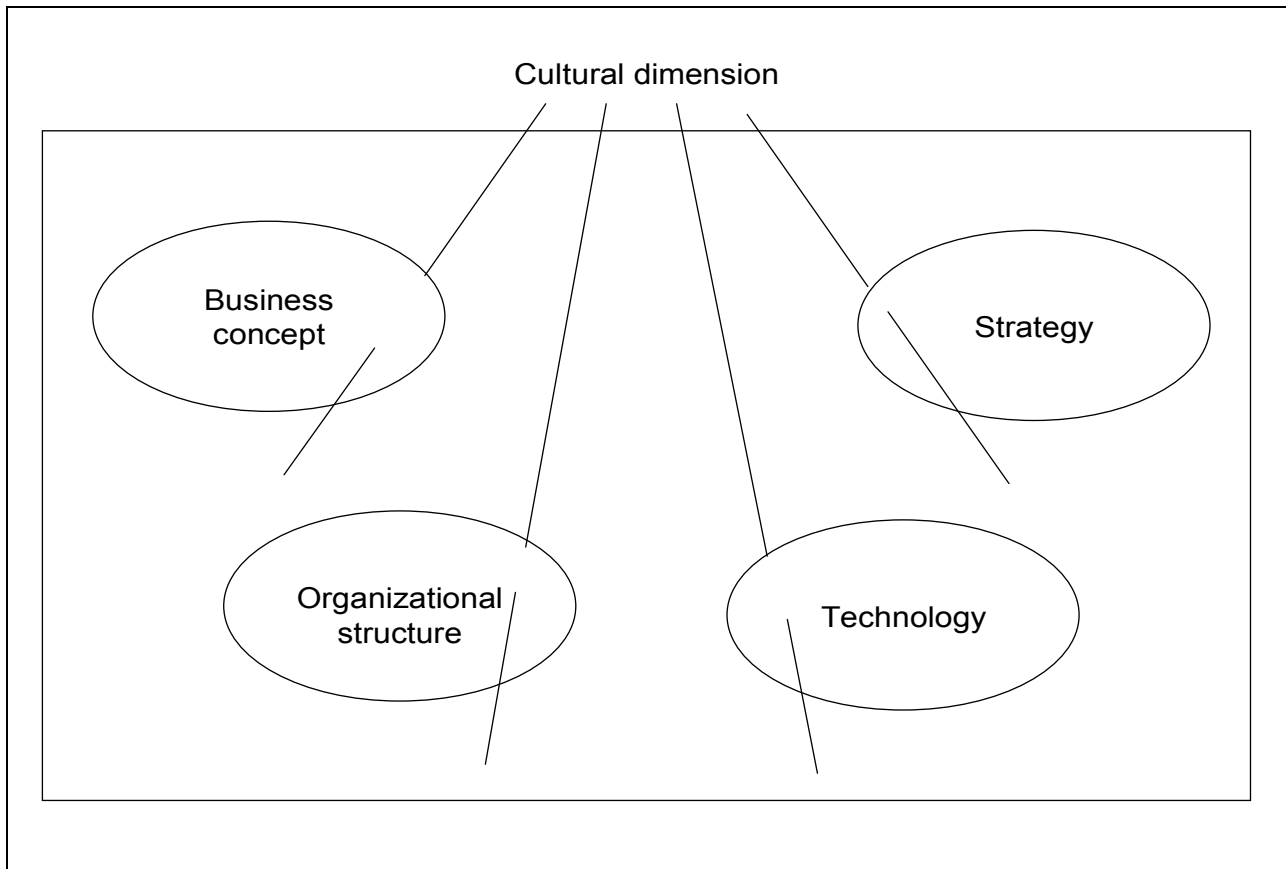
1. Process- oriented/Results-oriented culture: the former is essentially focused on how things within the organization are done; whereas, the latter focuses mainly on the outcomes produced by decisions and actions in the organization
2. Employee-oriented/Job-oriented culture: the former mainly relates to the people within the organization and the roles they hold; whereas the latter largely concern the accomplishment of the tasks related to a specific job, regardless the person who holds it.
3. Parochial/ Professional culture: in the former type of culture, people identify almost completely with the organization, which they work for, because they believe that the norms that regulate the company blend both people's professional and private life. On the other hand, in professional culture, people tend to detach their private and their professional life; thus, the norms they follow at work do not mirror those that rule their every-day life.
4. Closed-system/Open system culture: members of an open-system culture show a very receptive attitude towards newcomers; as opposed to closed-system culture, where people are secretive even among insiders.
5. Tight-control/Loose-control culture: the former type of culture features organizations controlled by formal and sometimes restrictive norms. Whereas, Loose-control cultures show a high degree of informality, and bureaucracy is minimized.
6. Normative/Pragmatic culture: the former culture can be related to process-oriented culture, because it attaches much attention to the way in which things are performed and they wish rules to be followed to the letter. Similarly, pragmatic cultures are tightly linked to results-oriented ones, i.e. they wish their goals to be attained and they ease the path towards the achievement of these goals through a very flexible set of guidelines.

The above-presented categories are undoubtedly a step forward towards the acknowledgment of corporate culture as the key element to take into account when in front of the problem of forming and conducting an international strategic alliance. However, though they shift the target of analysis from the national to the corporate level, these categories might have a restricted application, as well. This occurs because they still consider such cultures mainly as a set of values and rules that aim at identifying the way, according to which people behave within the organization. In order to achieve this goal, mainly social-relationship issues are taken into account. However, this paper attempts to suggest regarding corporate culture as a blend of both social and business issues, thus translating it into a thorough code of behavior. The nature of this latter view of corporate culture will be expounded in the following session.

### **A New Perspective to Identify a Company's Corporate Culture**

Defining corporate culture is certainly not an easy task. This is proved by the enormous scope and variety of definitions provided by a number of authors. Generally, corporate culture is thought to be to companies as national culture is to countries. Essentially, it aims at regulating a company's members' behavior. One of the most valuable definitions which refers to this perspective is provided by Schein (1997); the author sees culture as "a pattern of shared basic assumption that a group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (p398, 399). Following this definition, corporate culture can be seen as one of the many variables featuring a company, which is granted the same importance as its strategy, technology or organizational structure.

Alvesson (2002) proposes another perspective, according to which corporate culture is not something an organization has. Rather, corporate culture is the organization. According to this view, corporate culture does not only deal with the so-called soft elements of an organization, but takes into account the hard ones, too. The basic assumption that this perspective relies upon is that organizations are principally business associations, hence dealing with business issues, such as the market, the competitors and other business-related entities that do exert an influence on the configuration of their corporate culture. Following Alvesson (2002), many factors besides the soft ones account for the definition of corporate culture.



**Figure 1** Source: Alvesson (2000) *Understanding Corporate Culture*

Firstly, corporate culture could be linked to the company’s business concept. It is crucial for companies to have a clear idea of their business, which comes from the combination of issues related to the market where they perform their activities, the range of products/services they provide as well as the organizational structure they have adopted and the internal resources they can rely on. Therefore, “the business concept represents a harmony between the market, the product and the organization” (Alvesson, 2002. p. 72). The conceptualization of the business, which a company is dealing with, defines how the company is supposed to act in order to preserve the above-mentioned harmony.

Secondly, a very tight connection relates corporate culture and a company’s strategy. This relationship is well pictured by Brown (1995), who claims that “culture acts as a perception filter, affects the interpretation of information, sets moral and ethical standards, provide rules, norm and heuristics for action, and influences how power and authority are wielded in reaching decision regarding what action to pursue. The formulated strategy is a cultural artifact which helps employees understand their role in the organization, is a focus for identification and loyalty,

encourages motivation, and provides a framework for ideas that enables individuals to comprehend their environment and the place of their organization within it” (p. 197).

Following Alvesson (2000), corporate culture becomes a mirror of two other crucial hard components of a company, i.e. its organizational structure and its technology. The issue of ascribing decision-making powers within the organization might well illustrate the link between corporate culture and organizational structure. The configuration of decision-making power is profoundly influenced by the culture featuring a company and, in turn, deeply impacts on the structure adopted by the company. For instance, companies that exhibit a people-oriented attitude might opt for a widespread decision-making configuration. This, in turn, would lead it to adopt a flat organizational structure. On the other hand, companies featuring a task-oriented orientation are more likely to opt for a more centralized locus of decision-making, which is likely to lead to a more hierarchical organizational structure. Concerning the relationship between corporate culture and technology, we can refer to the distinction between companies featuring an innovation-oriented culture and other that show a more traditionalist attitude. The former, actually, are more likely to adopt cutting-edge technologies than the latter.

These examples do reinforce the idea that corporate culture is mainly a set of codes of behavior within the company. However, they display that such codes not only spring from social reflections, but also from business-specific issues. Therefore, this idea of corporate culture provides a comprehensive and exhaustive picture of a company, which appears to be remarkably helpful to form an international strategic alliance. In fact, it allows potential business partners to assess the overall characteristics of each other and define in a thorough way whether they would be likely to enjoy a fruitful alliance. Hence, it might be argued that the assessment of corporate culture, rather than national culture, better responds to the problem of minimizing Parkhe’s Type II diversity.

### **An Example of Potential Application of the Concept of Corporate Culture in International Strategic Alliances: the Negotiation Process**

This view of corporate culture is thought to be the one that best fits the problem of forming and conducting an international strategic alliance. As highlighted previously, for such alliances to enjoy effectiveness and longevity, straight national cultural reflections are not enough. Similarly, it could be possible to draw the same conclusions even if we turn our attention to corporate culture solely as a soft component of an organization. Whereas, if we assume corporate culture as the specific and unique blend of both soft and hard components that an organization displays, an actual

and more effective assessment of the possible compatibility between two companies can be carried out. Actually, if we think at corporate culture in these terms, a company could not only define if it would “get on well” with a potential business partner, but it would also assess whether the business concept it has elaborated, the strategy it has developed, the technology it has opted for, the organizational structure it has adopted would harmonize with its own.

To exemplify how the assessment of corporate culture could facilitate the formation and conduction of international strategic alliances, the attention might be focused on the negotiation process. This is a crucial step that lays the foundations upon which the future alliance will be built. Therefore, if it is not properly conducted, it might undermine the success of the whole relationship.

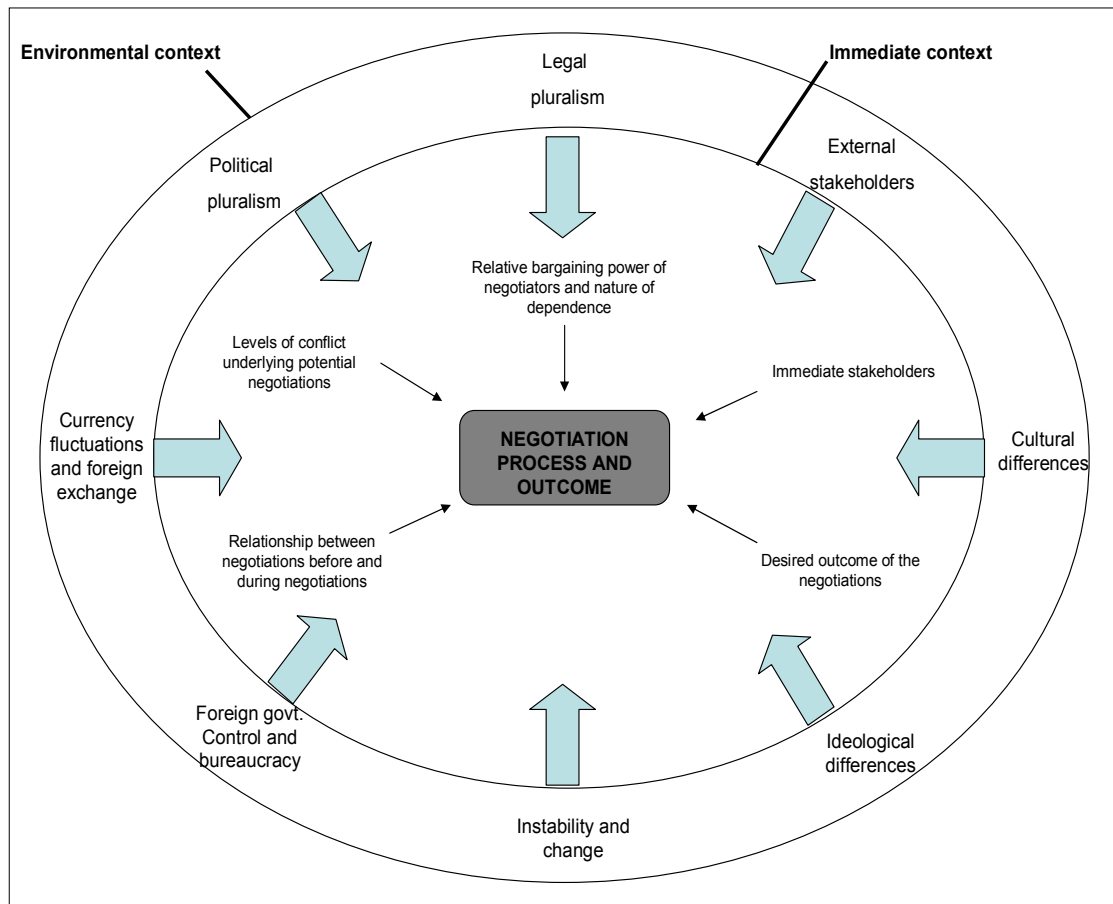
Conducting a negotiation is surely not an easy task, because the counterparts show different interests and preferences that are to be reconciled in order to allow both partners to attain the goals they aim at (Grandori, 1999). When such negotiations occur between companies belonging to different countries, commentators argue that the reconciliation of goals and interests becomes even harder, because of the potential divergence of the negotiators’ mental maps, shaped by their national cultural environment (Beamer and Varner, 2001). Such influence exerted by the negotiators’ national culture is undeniable. However, as previously highlighted, it is not enough to explain the dynamics occurring during a negotiation. On this point, Phatak and Habib (1996) maintain that international business negotiations are profoundly influenced by contextual factors running at two levels: the immediate context and the environmental context.

Figure 2 displays all of the factors influencing an international business negotiation at both the environmental and immediate level. As one can easily notice, cultural differences do impact on such process and its outcomes, consequently. However, cultural elements are part of a broader set of factors, thus reducing their relative weight on the negotiation. Moreover, Figure 2 shows that all of the other factors feature a more economical and business-related nature, thus reinforcing the idea that it would be preferable to take into account the counterpart’s managerial concerns for the intent to form a strategic alliance, rather than straight national culture issues. This idea is further reinforced by the fact that business issues are not only the main factors influencing a negotiation, but also the main concerns during this process. In fact, the counterparts show a greater interest towards key points, such as organizational practices, financial standards, business laws, technology than on national cultural ones (Varner, 2000). Actually, national culture is of interest in the negotiation context only in so far it impacts on the decisions made and the actions taken by the companies involved.

Therefore, the idea of finding complementarities with regards mainly to corporate and business issues rather than to national cultural ones appears to be implicit in any negotiation



occurring for the intent of building an international strategic alliance. In this perspective, the concept of corporate culture provided previously becomes meaningful and helpful. Actually, it allows both the counterparts taking part to an international business negotiation to assess in a thorough way their operational compatibility, while it weights the influence of national culture on the two companies' business practices, without denying it.



**Figure 2** Source: Phatak and Habib (1996) *Business Horizons*

## Discussion and Hypothesis

The main contribution this paper has attempted to provide is a new perspective, thanks to which the process of forming and conducting an international strategic alliance might be eased and made more effective. In Parkhe's opinion (1991), for an alliance to enjoy longevity, a high degree of Type I diversity and a low degree of Type II diversity are desirable. In order to minimize Type II diversity, national culture's proximity between business partners was thought to be necessary. This paper might help to assist the assessment of these two kinds of diversities by suggesting to take into account corporate culture, rather than national culture for the intent to build an international

strategic alliance. Corporate culture is suggested to be considered a blend of both hard and soft components of an organization. In this sense, this view of corporate culture might not only replace national culture's issues as the main component of Type II diversity. Rather, it could be even seen as bridging the two types of diversity provided by Parkhe (1991). Hence, only by focusing on the counterpart's corporate culture, a company could be able to determine the extent of both Type I and Type II diversities, thus allowing a more reliable and efficient assessment of the likelihood to attain a successful alliance.

The conclusion this paper might lead to is that reflections on national culture compatibility are to be included in a broader set of considerations in the attempt to build an international strategic alliance, which can be all connected to the concept of corporate culture. Nevertheless, as mentioned in the introduction, such conclusion is to be regarded as running only at a theoretical level. Thus, it might be useful to assess its validity empirically.

In order to allow the empirical test of such conclusion, one should first define in a more detailed way the actual relationships running between the hard components of an organization and its corporate culture, on the basis of Alvesson's (2000) suggestion. Having established such relationship, corporate culture can become actually assessable.

The hypotheses, which the empirical research should be based on, should aim at defining the conditions, under which an international strategic alliance might enjoy success, rather than longevity, as maintained by Parkhe (1991). This suggestion refers only to alliances built only for the pursuit of specific goals and that will be dismantled right after their attainment. Hence, the success of such alliances might be seen in inverse relation to their longevity. It follows that:

*H1: other conditions being equal, the lower the distance between business partners' corporate cultures, the higher is the success of their alliance.*

Success can be assessed in many ways, such as the discrepancy between the planned goals, the alliance should lead to, and those the alliance has actually attained; or the improvement (or contraction) of the business partners' performance, profits, or returns. Finally, these latter variables can be useful even to assess the risk that might feature an alliance, regarded as the variance of performance, profits or returns.

Furthermore, it could be useful to translate the findings of H1 purposely for international strategic alliances. Hence:

*H2: other conditions being equal, the success of strategic alliances springing from the compatibility of corporate cultures occur even in the case of international alliances, despite sound differences between the partners' national cultures.*

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