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Rajesh Kumar and Kofi O. Nti

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# National Cultural Values and the Evolution of Process and Outcome Discrepancies in International Strategic Alliances

**Rajesh Kumar**

*Aarhus School of Business, Denmark*

**Kofi O. Nti**

*University of Ghana*

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The article assesses the role played by national cultural values in shaping the evolution of international strategic alliances. The authors build on a systems dynamic model of alliance evolution in which the developmental path of an alliance depends on how the partners manage process and outcome discrepancies that may emerge during the course of an alliance. They argue that national culture affects alliance evolution by influencing partners' sensitivity to discrepancy detection, shaping the nature of attributions they make, and by affecting the partners' reactions to discrepancies. They focus on differences in three value orientations among cultures. Activity orientation, mastery over nature, and assumptions about human nature are the value orientations that affect alliance functioning. The authors argue that alliances are prone to interpretational, attributional, and behavioral conflicts originating from differences in value orientation among partners. The three value orientations are shown to be the most useful in explaining the dynamics of alliances.

**Keywords:** strategic alliances; national culture; process and outcome discrepancies

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Interfirm strategic collaboration has become exceedingly common in the contemporary global business environment. These alliances take varying forms, ranging from joint marketing and R&D arrangements to equity-based joint ventures (e.g., Das &

Teng, 1998; Yoshino & Rangan, 1995). Alliances enable firms to maximize value creation in a hypercompetitive global environment (e.g., Doz & Hamel, 1998).

Although alliances have become exceedingly popular, they are by no means easy to manage. A study conducted by KPMG noted that 60% to 70% of business alliances fail (Kok & Wildeman, 1999). A central theme in the literature is that divergent expectations among alliance partners stemming from differences in strategic objectives, culture (national or corporate), organizational practices, and/or trust may lead to opportunistic behavior on the part of alliance partners and/or may make the task of achieving interorganizational coordination problematical (e.g., Ariño & de la Torre, 1998; Barkema & Vermeulen, 1997; Gulati & Singh, 1998).

Our article seeks to develop a framework for assessing the impact of national culture on the dynamics of alliances. We build on the process and outcome discrepancy model of alliance functioning as articulated by Kumar and Nti (1998). This is a system dynamics model in which the emergence and management of discrepancies govern the evolution of alliances. We begin with an overview of our model on alliance functioning. Subsequently, we outline the importance of national cultural differences in shaping alliance evolution. We then discuss some aspects of national culture that are relevant to our theory. Next, we outline the national cultural values that influence the detection, the attribution, and the reaction to process and outcome discrepancies. Particular attention is paid to delineating the specific mechanisms by which national culture influences the different elements in our theory. We conclude by outlining managerial implications emanating from our model and suggesting future research directions.

## NATIONAL CULTURE AND MANAGERIAL BEHAVIOR

### The Nature of Alliances

Alliances are mixed-motive ventures in which partners are motivated to cooperate and compete simultaneously. Without a minimal level of cooperation, the alliance will fail to yield the expected goals, and yet unrestricted cooperation may lead one partner to take advantage of the other (Hamel, 1991). Theorists have proposed a number of models to explain the dynamic evolution of collaborative ventures (e.g., Ariño & de la Torre, 1998; Doz, 1996; Ring & Van de Ven, 1994). A common thread in these models is the emphasis on the criteria of efficiency and equity.

Kumar and Nti (1998) have complemented the work of Ring and Van de Ven (1994), Doz (1996), and Ariño and de la Torre (1998) by developing a system dynamics model to explain how alliances evolve over time. Their model highlights the role of managerial interpretation in charting the evolutionary dynamic of the alliance. Each partner evaluates the alliance outcomes in relation to its a priori expectations. If the alliance outcomes fall short of the partners' expectations, the alliance is said to experi-

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*Rajesh Kumar is an associate professor of international business at the Aarhus School of Business in Denmark.*

*Kofi O. Nti is dean and unilever professor of business at the University of Ghana Business School.*

ence an unfavorable outcome discrepancy. If the alliance partners are dissatisfied with the pattern of interaction, the alliance is said to experience an unfavorable process discrepancy. Kumar and Nti have argued that how an alliance evolves over time depends on how the partners react to process and outcome discrepancies that may emerge during the course of an alliance. An alliance tends to prosper when both discrepancies are favorable, and it may collapse when process and outcome discrepancies are both negative.

In this article, we refine the discrepancy model of Kumar and Nti (1998) and argue that the evolution of an alliance is ultimately dependent on managerial detection, attribution, and reaction to discrepancies. Suppose, for example, that the alliance experiences a process or an outcome discrepancy. For the alliance partners to even contemplate changing their strategy, they will have to perceive the discrepancy in the first place; that is, detection is a necessary condition. Assuming that a discrepancy has been detected, the alliance partners must now make an attribution: Has the discrepancy emerged because of internal factors or factors external to the alliance? If internal, is it because of self or one's partner? The attribution governs the reaction that may manifest itself either cognitively or behaviorally. If an outcome discrepancy, for example, is attributed to internal factors and the judgment is made that the partner is at fault, then the firm will try to induce the partner to modify its strategy and failing that will change its own strategy. In sum, it is the interlinkage between the three elements that crucially shapes the alliance dynamic.

One point of clarification is useful here. Our discussion focuses on unfavorable process and/or outcome discrepancies, for these are conflict situations, and it is under these conditions that an alliance experiences the potentiality of a series of recurring crises. It is the effective management of these crises that determines how the alliance develops over time (e.g., Dyer & Song, 1997; Lin & Germain, 1998).

### **The Relevance of National Culture**

In this article, we examine the impact of national cultural values on discrepancy management. Although we do not wish to claim that national culture is the only determinant governing alliance dynamics, it provides the institutional setting within which firms make strategic decisions (Hill, 1995).

A number of studies have demonstrated the importance of cultural differences in shaping the dynamics of international alliances. In a study of Japanese-U.S. cooperative alliances, Johnson, Cullen, Sakano, and Takenouchi (1996) demonstrate that cultural sensitivity among partners was crucial in trust building. As they note, "The marriage of firms from different cultures creates a potential for opportunism, conflict, and mistrust" (p. 1000). In a study of international joint ventures, Barkema, Bell, and Pennings (1996) note that an international joint venture is less likely to survive when the cultural differences between alliance partners are large. The fundamental reason for this is that managers socialized in different national cultures are likely to have different frames of reference, and it is the differences in frames of reference that may give rise to opportunism and/or coordination problems. If a focus on culture is justified, then why a focus on national as opposed to corporate culture? First, it is useful to rec-

ognize that although national cultural differences are rooted in differences in values, differences in corporate culture are rooted in differences in organizational practices extant in that firm (Hofstede, Neuijen, Ohayv, & Sanders, 1990). Although values are acquired in the early years of one's life, organizational practices are acquired through organizational socialization. The fundamental values are already entrenched by the time that the individuals are socialized by the organization (Schneider & Barsoux, 1996). One major consequence of this is that although corporate culture may have the potential of mitigating the impact of national cultural differences, it perhaps can do that only imperfectly. Laurent (1986) notes that although organizational culture may help to modify behaviors, beliefs, and values, it is not capable of modifying the core assumptions derived from national culture. Laurent's observation has been underscored in a study of international joint ventures in Hungary (Meschi & Roger, 1994). The authors found that national cultural differences had a greater impact on the functioning of international joint ventures than did corporate culture differences. The fundamental point to be made here is that although corporate culture differences among partner firms stemming from differences in history, the task environment, and size are not unimportant and although they may lessen the impact of the national cultural dimension, they cannot eliminate it entirely.

#### **The Dimensions of National Culture**

Notwithstanding the seminal contribution of Hofstede (1980, 1991), disagreements persist as to the most appropriate definition of national culture and/or how it ought to be measured. Redding (1993) raises the issue as to whether Hofstede's dimensions adequately capture the interpretative aspect of culture. Triandis (1995) suggests that there are potentially many definitions of culture, each of which is valid in its own terms. Thus, the investigator's definition of national culture must be adapted to the goals that the investigator is trying to pursue. If the investigator is primarily concerned with studying behavior, then a definition that emphasizes the behavioral aspect is appropriate. If, by contrast, the investigator is interested in managerial perceptions and cognitions, then a cognitive definition is likely to be more useful.

Given our focus on interpretation as governing the alliance dynamic, a definition that explicitly taps into the interpretative system of the alliance members is more useful for our purposes. The value orientation framework developed by Kluckhohn and Strodtbeck (1961) taps into the implicit assumptions of a culture that constitute the core aspects of a culture (Schein, 1985). This framework is derived on the assumption that all societies face a similar set of problems, but how they deal with these problems is culturally variable. Different cultural groups have different preferences for dealing with a similar set of problems. The different preferences are described as "variations in value orientations."

Kluckhohn and Strodtbeck (1961) outline five major value orientations along which cultures differ. The value orientations identified by them are as follows:

- Relationship of humans to nature: Is the desirable goal to achieve mastery over nature, live in harmony with it, or be subjugated to it?

- Time orientation: Is it desirable to have a past, present, or a future orientation?
- Assumption about human nature: Are individuals primarily evil, are they good, or are they a little bit of both?
- Activity orientation: Is it desirable to have a doing as opposed to a being orientation?
- Relationships between people: Is it desirable to be responsible for others or should one primarily look after oneself?

It is important to be cognizant of the implicit assumption in this framework “that all variations of a particular value orientation exist in a given culture” (Lane, DiStefano, & Maznevski, 1998, p. 32). What varies across cultures is the dominance of different variations and not the absence of any one particular orientation. It is also worth noting that many of the studies seeking to examine the impact of national cultural differences on alliance functioning have been primarily empirical in character. A theoretical perspective that seeks to elucidate the specific mechanisms through which cultural differences shape alliance functioning is as yet lacking in the literature, and it is this gap that we seek to fill.

### **DISCREPANCY DETECTION, ATTRIBUTION, AND REACTION MODEL**

Our model of discrepancy detection, attribution, and reaction is a cognitive and a behavioral model. The frames of reference used by managers in detecting and determining the causal attribution for discrepancies constitute the crucial element in our theory. In a cross-national alliance, the frames of reference are likely to vary, and it is this variation in the frames of reference that accounts for conflicting managerial perceptions and reactions.

The model that we outline is a three-phase model that may be best described as a discrepancy detection, attribution, and reaction model. At the discrepancy detection stage, we have an interpretational conflict stemming from the failure of the alliance partners to arrive at a commonly shared interpretation of the problem. If the partners are unable to arrive at a common interpretation, they may be forced to reevaluate the alliance. The reevaluation may lead one or both of the alliance partners to exit from the alliance if a mutually satisfactory readjustment does not occur.

At the attribution stage, we may have an attributional conflict stemming from the fact that the alliance partners offer different explanations for the emergence of a discrepancy. Although this again poses coordination problems, it also raises new ones, as the partners differ in how actively they seek to manage these problems. A reevaluation may induce the alliance partners to exit from the relationship if a satisfactory readjustment does not occur.

Finally, at the reaction stage we may have a behavioral conflict, stemming from the emergence of behavioral incompatibility among the alliance partners. If the behavioral incompatibility is severe enough, and no outside intervention occurs, the partners may seek to dissolve the alliance.

### National Culture and Discrepancy Detection

Discrepancy detection involves a comparison between an actual outcome and the desired or the expected outcome. (This holds for both process as well as outcome discrepancies.) It is shaped by the evaluation of stimuli or cues that managers are confronted with on a day-to-day basis as well as by expectations concerning desired outcomes. It is a process that involves managers paying attention to events or cues that are unexpected. The unexpected events and/or cues must accumulate to a level at which they can no longer be conveniently ignored. There must be a certain minimum threshold level necessary for categorizing unexpected events as requiring managerial attention. The threshold level will be culturally variable. Some alliance partners may be sensitive even to the slightest of unexpected occurrences, whereas the other partner or partners may tolerate greater variation. Similarly, expectations concerning desired outcomes are also likely to be culturally dependent.

Which cultural values within Kluckhohn and Strodtbeck's framework can explain these variations? It will be recalled that Kluckhohn and Strodtbeck (1961) draw a fundamental distinction between cultures in terms of their activity orientation; that is, there are some national cultures in which accomplishments are valued highly, and there are cultures in which being, that is, existential spontaneity, is highly valued. Cultures that are doing oriented stress task accomplishment. In these cultures, the *raison d'être* for any strategic action is the recognition that it will lead to the successful realization of a goal or goals. The nonattainment of a preset goal generates tension that needs to be satisfactorily resolved. In a being-oriented culture, as Lane et al. (1998) note, "It is more likely that decision criteria are emotional, rewards are feeling based, and the degree of concern for output and performance is variable, a function of individual spontaneity" (p. 43).

This would suggest that managers who have been socialized in doing-oriented cultures will be more sensitive to cues suggesting the existence of an outcome discrepancy vis-à-vis managers who have been socialized in being-oriented cultures. Furthermore, managers who have been socialized in doing-oriented cultures will have a lower threshold for evaluating the existence of an outcome discrepancy vis-à-vis managers who have been socialized in being-oriented cultures; that is, any deviation from expected outcomes (no matter how small) will be taken seriously. It is also likely to be the case that managers who have been socialized in doing-oriented cultures will have a more consistent threshold for evaluating the existence of an outcome discrepancy vis-à-vis managers who have been socialized in being-oriented cultures; that is, the expected outcomes for evaluating discrepancies will not fluctuate randomly. Managers who have been socialized in being-oriented cultures will be more sensitive to cues suggesting the existence of process discrepancies. In a being-oriented culture, issues of interpersonal relationships acquire greater salience than do issues pertaining to task accomplishment. Any cues suggesting that the relationship between the alliance partners is not all that it ought to be will be taken seriously. Indeed, it is the strength or the weakness of the relationship as gauged by managers in a being-oriented culture that will determine how they manage the discrepancies that emerge in an alliance. In particular, although managers in a being-oriented culture may be particularly sensitive to



process discrepancies, they may be reluctant to communicate the existence of these discrepancies to their partner, fearing that it may worsen the relationship. This leads us to the following proposition:

*Proposition 1:* Alliance partners from doing-oriented cultures will be more sensitive to outcome as opposed to process discrepancies. Partners from being-oriented cultures will be more sensitive to process as opposed to outcome discrepancies.

This proposition suggests, first of all, that the alliance partners either may not be able to arrive at or, alternatively, may take a much longer time in arriving at a shared interpretation of the problem confronting the alliance. Under these circumstances, it is conceivable that the discrepancies being experienced by the alliance may expand, rendering what may have been a relatively less difficult problem at the onset a much more intractable one later on.

### **National Culture and Discrepancy Attribution**

A shared interpretation of a problem is a necessary first step confronting alliance managers as they seek to tackle the emergence of discrepancies in process and/or outcome, as the case may be. It is, however, by no means sufficient. Even if the partners arrive at a shared interpretation, they may still differ concerning the origins of discrepancies. Conflicting interpretations at this stage may as yet undermine the alliance.

A discrepancy is by definition an unexpected event. It is also an unwelcome event for it threatens to undermine managerial control. It is widely recognized that unexpected events stimulate attributional reasoning (Wong & Weiner, 1981). Causal attributions provide an answer to the question "why?" Given the unexpectedness of the event, individuals are motivated to discern the causes underlying a given event. The cause may be either internal or external. One of the most robust findings in Western social psychology concerns the "fundamental attribution error," that is, the tendency to explain an actor's behavior in terms of dispositional as opposed to situational causes (Ross, 1977). When alliance managers are confronted with discrepancies (be they outcome or process), they will be motivated to find an explanation for those discrepancies. The critical issue is, What kinds of attributions do managers in different cultures make and for what particular reasons?

The idea that culture shapes the nature of attributions made by individuals socialized in different cultures is now a widely accepted axiom (Markus, Kitayama, & Heiman, 1996; Miller, 1984; Morris & Peng, 1994). It is even asserted that individuals from different national cultures may differ in the frequency with which they make attributions. As Markus et al. (1996) note, "Attributions or causal explanations may not be as common, as desirable, and as socially scripted and recurrent among Asians as for Americans and Europeans" (pp. 877-878). Both of these findings may be related to the value orientation model proposed by Kluckhohn and Strodtbeck (1961). The recognition that Asians are more inclined to make situational attributions whereas Americans and Europeans are predisposed toward making dispositional attributions reflects a deep-rooted Asian value stressing harmony with nature, contrasted with the European and American perspective that emphasizes achieving mastery over nature. When



individuals are concerned with maintaining harmony with nature, they are emphasizing mutual interdependency in which ascribing causality to the actor is neither feasible nor desirable. On the other hand, when individuals are striving for achieving control over the environment, ascribing causality to the actor is critical because such causality energizes and directs behavior. The difference in attributional style is also reflective of the Asian tendency to emphasize relationships as the foundation for social action, which is again in direct contrast to the European and American view that focuses on the individual as the foundation for social action.

Kluckhohn and Strodtbeck's (1961) dimension, dealing with relationships between people, is consistent with this observed difference in attributional style. When relationships have primacy over the individual, behavior is not autonomously determined. As Markus and Kitayama (1991) note, an individual's behavior is "determined, contingent on, and to a large extent organized by what the actor perceives to be the thoughts, feelings, and actions of others in the relationship" (p. 227). It is the situational context and not the individual disposition that drives the action. The critical implication of all of this is that managerial judgments are likely to be crucially shaped by the cultures in which the managers have been socialized. Managers socialized in cultures in which harmony with nature is the operating norm are more likely to engage in situational as opposed to dispositional attributions. The contrary holds for managers socialized in cultures in which control over nature is the dominant norm.

#### **Outcome Discrepancies and the Nature of the Attributional Dynamic**

What determines the nature of the attributions made by alliance managers when an outcome discrepancy is recognized by the managers? The managers have the choice of making either a situational attribution (the alliance is generating losses because the market conditions have changed) or a dispositional attribution (we or our partner has not put in sufficient effort or the motives for alliance formation have changed). What kind of attribution is likely to be resorted to by alliance managers? Consistent with what we have argued earlier, we offer the following proposition:

*Proposition 2:* Alliance partners from cultures in which attaining control over nature is the norm will make dispositional attributions for outcome discrepancies. Partners from cultures in which harmony with nature is the norm will make situational attributions for outcome discrepancies.

Thus, alliance partners situated in cultures in which attaining control over nature is the dominant norm will offer the explanation that outcome discrepancies are reflective of managerial errors committed either by them and/or their partner. Alliance partners situated in cultures in which harmony with nature is the operating norm will discount this explanation, suggesting instead that outcome discrepancies stem from shifts in external environmental conditions. Most significant, the alliance partners will be implicitly challenging each other's interpretation without necessarily being aware of this fact. In the event that one or both of the alliance partners perceive an outcome discrepancy, but the partners differ in the attributions that they make, the partner or partners that perceive a severe outcome discrepancy and consider it to be a product of dispositional forces will make every effort to remedy this situation. Intensive negotiations will be

undertaken to get the other partner (having a situational attributional bias) to commit to actions to redress the ongoing discrepancy. In the event that the alliance partners are unable to adequately resolve the attributional conflict, the conflict is likely to escalate. New issues are likely to arise, previous understandings and commitments reexamined, and a shadow cast over the relationship. This does not, of course, mean an automatic exit from the alliance, but it does increase the stress level for the partners in the alliance. Although the alliance may survive, it may not necessarily provide the foundation for the deepening of the relationship.

An instance of this attributional dynamic can be found in the alliance between an American company, Borden, and a Japanese company, Meiji Milk, that collapsed in the early 1990s. Borden had entered into an alliance with Meiji Milk with the objective of selling its products through Meiji's distribution network. The alliance had been forged in 1971 between the two companies. The alliance prospered until the time that the market conditions were unfavorable for the venture. Borden became concerned when it saw that its market share was stagnant (Ono, 1991). The company felt that its partner was not doing enough to reverse the deteriorating situation. The Americans were making a dispositional attribution consistent with the American value orientation that stresses the importance of attaining control over nature. The Japanese, by contrast, had a very different perspective on the situation. They felt that the Japanese market was not developing in the manner that the Americans expected it to develop and that this was the underlying reason for the sluggish sales of Borden's products (Katsuki, 1990). In making this argument, the Japanese were making a situational attribution for the outcome discrepancy. This is consistent with the Japanese value orientation that emphasizes the importance of harmony with nature (Harris & Moran, 1990).

### **Process Discrepancies and the Nature of the Attributional Dynamic**

Process discrepancies relate to the pattern of interaction among alliance partners. The emergence of these discrepancies imposes significant stress on the relationship. To what can the alliance partners attribute the emergence of a dysfunctional pattern of interaction? We propose that alliance partners have two alternative options. They may, on one hand, attribute the negativity of the interaction to the dispositional properties of their partner. In other words, the alliance partner may be viewed as untrustworthy or lacking in commitment or ability to achieve the agreed on goals. Alternatively, these discrepancies may be attributed to situational factors and, in particular, to the inadequacy of the managerial mechanism governing the alliance partners.

Kumar and Nti (1998) define managerial mechanism as a system of governance characterizing an alliance. The decision-making process, mechanisms for conflict resolution, and human resource practices are examples of activities that define governance. What determines that the alliance partners use either a dispositional (characteristics of the partner) or a situational (managerial mechanism) attribution for explaining process discrepancies? More specifically, Kluckhohn and Strodtbeck's (1961) value orientation, pertaining to the assumptions members of different cultures make about the character of human nature, appears quite pertinent to us in making this determination. If managers belonging to a particular cultural grouping operate on the assump-

tion that human nature is good, they will be unlikely to attribute process discrepancies to the dispositional characteristics of their partners. These discrepancies will be attributed to a dysfunctional managerial mechanism, implying a shared failure on the part of the alliance partners. If, on the other hand, the assumption is made that the human nature is mixed, that is, a mixture of good and evil, then alliance members will attribute the discrepancy to the dispositional properties of their counterparts. We, therefore, develop the following proposition:

*Proposition 3:* Alliance partners from cultures in which human nature is presumed to be good will attribute process discrepancies to a dysfunctional managerial mechanism, whereas partners from cultures in which human nature is presumed to be mixed or evil will attribute process discrepancies to lack of commitment or trust on the part of their partner.

Divergent attributions add another layer of complexity inasmuch as these attributions have the potential of heightening the intensity of the conflict. (Although this may be true for all discrepancies, it is particularly problematic for process discrepancies because these discrepancies already contain within themselves a latent emotional element.)

Unresolved attributional conflicts pertaining to process discrepancies cannot be indefinitely contained. In other words, we would argue that due to the highly emotional character of these conflicts, one or all of the alliance partners may find it difficult to persist with the status quo for any extended period of time. Either the conflict has to be resolved in a manner satisfactory to all, or alternatively, the partner or partners will seek to exit from the relationship.

One example that well illustrates this proposition can be seen in the alliance between Suji, a major Japanese manufacturer of telecommunications equipment, and INS, an American company that was a major provider of value-added network services within the United States (Davidson, 1994). The problems in this joint venture began to emerge when the first president of the joint venture, who was Japanese, died suddenly. The Japanese subsequently appointed Kenzo Satoh as the new president of the venture. The Americans not only questioned the qualifications of the Japanese nominee to lead the venture but felt that Suji was using the joint venture as a means for accommodating one of their executives who was retiring from the parent company. The Americans reacted to this process discrepancy by proposing the name of another individual to lead the company. The American choice was the marketing manager of the joint venture, but when his name was proposed to the Japanese, the latter rejected it unambiguously. The Japanese felt that the Americans had been too hasty in judging Mr. Satoh and had made their decision without even meeting him. The alliance partners evaluated the process discrepancy from very different perspectives. The American culture views human nature as being a mixture of good and evil, and for that reason the Japanese actions were viewed with a tinge of suspicion. Americans felt that the Japanese were trying to gain control over the venture through the appointment of Mr. Satoh, and their actions reflected a lack of commitment or trust on their part. The Japanese culture, by contrast, views human nature as being essentially good (Lane et al., 1998) and, for that reason, found it hard to understand why the Americans were ques-

tioning their motive in appointing Satoh. Indeed, as they pointed out to the Americans, they had as much to gain or lose from the venture as their American counterparts, and it was not in their interest to appoint an incompetent person to the position.

### NATIONAL CULTURE AND REACTION TO DISCREPANCIES

The last element of our theory deals with how alliance partners from different cultural backgrounds may react to discrepancies, assuming that they have successfully overcome the previous hurdles. We base this on the assumption that partners desire to reduce discrepancies, and we sketch out the implications of our theory for the developmental path of an international alliance as it experiences outcome and process discrepancies.

#### **Outcome Discrepancies and the Developmental Trajectory of International Alliances**

Outcome discrepancies experienced by alliance partners in international alliances may be subject to either dispositional or situational attribution. We have suggested that a dispositional attribution is more likely when the alliance partner comes from a culture that values control over nature, but a situational attribution is more likely when the alliance partner comes from a culture stressing harmony. Alliance partners desire to reduce unfavorable discrepancies. When alliance partners make a situational attribution for an unfavorable outcome discrepancy, they tend to eliminate the discrepancy cognitively, that is, through a reformulation of expectations. The alliance may be terminated if expectations are reduced below the necessary sustainable level. If, on the other hand, a dispositional attribution is made for the outcome discrepancy, an alliance partner will tend to eliminate the discrepancy behaviorally by changing the level of effort. Increased effort is made in the hopes of enhancing the performance of the alliance. But the effort will be decreased if the cost appears to be higher than the expected benefits. Increased effort may manifest itself in a number of different ways. For example, the partner could seek to manage the alliance more actively than had been done in the past or provide new capital or new technologies. The alliance may be terminated if effort reduction continues to be the preferred option. This leads us to develop the following proposition:

*Proposition 4:* Alliance partners from cultures in which mastery over nature is the dominant value will tend to react to outcome discrepancies by demanding more effort from themselves or their partners. Partners from cultures in which harmony with nature is dominant will tend to react to outcome discrepancies by changing their own or partner's expectations.

When an alliance partner seeks to demand more effort from its partner, whereas the other partner, on the contrary, is seeking to influence the expectations of its partner, behavioral incompatibility will emerge. Each partner through its own actions will be disconfirming the expectations of the other partner. Although in the early stages this lack of coordination may be overlooked or deliberately ignored, an accumulation of

such incidents will surely cause the alliance partners to review the intentions of their counterpart in the absence of any other information to the contrary. This may lead the alliance partners to reopen old issues that may have been settled otherwise or to ruminate on their past interactions as a way of making sense of the present situation. Appropriation concerns may intensify, heightening concerns about the credibility of one's partner. As partners get more wary of each other, minor issues will become an irritant, until a critical point is reached when one or both of the partners decide that the costs of continuing with the alliance (economic, psychological) offset the corresponding benefits.

The relationship between Alpha Gearing Systems Shanghai Co. Ltd. (a manufacturer of products/services for producers of vehicles) and San Yu Moped operation illustrates this proposition well (Everatt, 1999). Alpha Gearing Systems Shanghai represented a joint venture between Alpha Gearing Systems Inc., a company based in Illinois, and Kai Machines, which was one of China's major producers of gearing systems for mopeds and motorcycles. The San Yu Moped operation also represented a joint venture between San Yu, a company based in China, and Excel Motors, a U.S.-based company in which San Yu held 80% equity. Alpha Shanghai wanted to become the most important supplier for the San Yu Moped operation by supplying quality parts in a timely way. The relationship began with much enthusiasm. Alpha Shanghai signed a contract with San Yu to supply parts for 6 months, but this contract was signed without a firm agreement on price. Alpha Shanghai expected this to be the basis of a long-term contract with San Yu, but after the 6 months were over, San Yu indicated that they were still not ready for a long-term contract and that they wanted to sign another 6-month contract. Although no irreparable damage had as yet been done, Julie Nelson, general manager of the joint venture, began to entertain some suspicions about the intentions of San Yu. The problems continued to worsen, in that although Alpha Shanghai was continuing to ship parts to San Yu, the parties had not as yet agreed on the price. After 9 months had elapsed, there was still no long-term contract between the companies. Concurrently, San Yu had not paid anything to Alpha Shanghai for the parts that the company had already supplied to them. Although this was considered to be standard practice in China, Julie Nelson could not tolerate the existing situation any more. She informed San Yu that they would receive no further parts from the company until the time that payment was received. Under these conditions, San Yu did make the payment but pointed out to Nelson, "You realize, you're the only company who has gotten paid" (Everatt, 1999, p. 17). Nelson's response was, "We thank you for that, but still, you owe me more money, and you're not getting more parts till you pay me for the next shipment" (Everatt, 1999, p. 17). Nelson also communicated to San Yu that "either we get a contract or we're going to get out of the business" (Everatt, 1999, p. 17).

Mastery over nature is the dominant value in the American culture, whereas harmony with nature is the dominant value in the Chinese culture (Nisbett, Peng, Choi, & Norenzayan, 2001). When outcome discrepancies emerged in the form of nonpayment by San Yu and their unwillingness to sign a long-term contract, the American manager Julie Nelson tolerated these discrepancies for a while, but the tolerance had its limits. Eventually, she gave an ultimatum to the Chinese by saying that they had better seek to resolve the discrepancies or the relationship was over. The Chinese, by

contrast, sought to reshape Nelson's expectations by pointing out that her company was the only one that had received any payment whatsoever.

### **Process Discrepancies and the Developmental Trajectory of International Alliances**

We have argued that alliance partners may attribute the existence of process discrepancy either to a dysfunctional managerial mechanism or to the lack of commitment from their partner. National cultures, which hold the view that human nature is essentially good, will attribute this discrepancy to defects in the managerial mechanism, and cultures that make the opposite assumption will make the alternative attribution. Process discrepancies are managed behaviorally. Partners that focus on the managerial mechanism will naturally solve the problem by initiating changes in the mechanism. They may, for example, advocate changes in governance or work assignments to deal with process discrepancies. Partners that focus on commitment will deal with process discrepancies by attempting to improve the relationship (Gulati, Khanna, & Nohria, 1994). This may involve unilateral acts to show commitment or to develop trust. This leads us to the following proposition:

*Proposition 5:* Alliance partners from cultures in which human nature is presumed to be mixed or evil will react to process discrepancies by changing their level of commitment to the relationship. Partners from cultures in which human nature is presumed to be good will tend to react to process discrepancies by demanding changes in the managerial mechanism.

Behavioral incompatibility is also likely to be salient when the alliance partners differ in their approaches to managing process discrepancies. In the event that one partner wants a change in the managerial mechanism, whereas the other partner seeks to lessen the commitment to the relationship, the interaction may take on all the attributes of a negative spiral. The more one partner seeks to lower its commitment to the relationship, the more the other partner will insist on strengthening or tightening the managerial mechanisms. In response to this action, the other partner will, in turn, reduce its level of commitment to the relationship.

A couple of examples illustrate this proposition well. The first example highlights the difficulties encountered by Peter Fuller, an American executive with Great Plains Foods of Iowa, in negotiating a strategic alliance with Comidas Gaucho, an Argentinean company engaged in beef processing (Rarick, 2003). Mr. Fuller traveled to Buenos Aires to conduct the negotiations, but as the case points out, he conducted the negotiations in a culturally insensitive way. Mr. Fuller initiated discussions about the business proposal when he was being entertained in one of Buenos Aires's finest restaurants, talked about his uncle who had fought in Falklands, was not as well dressed for the business meetings as the Argentinean protocol indicated, and was the last to arrive at a barbecue to which he had been invited. A combination of these different cultural faux pas led to the emergence of a process discrepancy. Scholars point out that in Spanish South America, the dominant assumption is that human nature is mixed or evil (Stephenson, 2003). The failure of Mr. Fuller to inspire confidence among his Argentinean associates is likely to have reaffirmed their original assumption about human



nature and, for that reason, to lessen their commitment to the relationship. This was demonstrated when Eduardo Guillermo, an Argentinean in the company, pointed out to Peter that

the market had potential but that he wasn't sure how the consumers would respond to the Great Plains Brand. Mr. Guillermo hinted also to the possibility that the financial requirements needed for the association may be too great for Comidas at this time. (Rarick, 2003, p. 6)

Mr. Guillermo was communicating the company's decision not to enter into the relationship in indirect terms, which is yet another cultural characteristic of the Argentineans.

The other illustration comes from a three-way joint venture involving a British, a Japanese, and a Thai company. Ferodo Ltd. (Thailand) was a joint venture between the U.K.-based automotive component group, T&N; a Thai family firm, the Boonpong Group; and JBI, a Japanese company specializing in automotive components (Butler, Cagna, & De Bettignies, 2001). T&N held 51% of the equity, Boonpong had 40%, and JBI had the remaining 9%. The joint venture had been formed with the objective of supplying automotive components (brake parts) to the automotive sector in Thailand, which had been growing rapidly. Prior to the joint venture, the Boonpong Group acted as a distributor for the U.K.-based company.

From a Thai perspective, the problems in the venture started to emerge when there was a change of management in the U.K.-based company. Mr. Subhawatt, the managing director of Boonpong Group, noted,

We all worked happily together until there was a change in management. Peter Farrell was a kind, understanding man. He had already dealt with many Asian companies and understood the different cultures. . . . Then he [Ken Lambert] came in like a god. He was tall and spoke loudly. He didn't listen to any one. He had no respect for us. . . . He and Sam Thomas just cleared out everyone who didn't perform well or listen to them, and brought in new people from the UK. Some of them had a bad attitude to the Thai people. (Butler et al., 2001, p. 9)

Lambert, by contrast, felt that he had inherited a problem when he was appointed the managing director of joint ventures at the U.K.-based company. In reviewing the Thai operation, Lambert felt that the existing joint-venture agreement was extremely one sided and that the company was not putting in sufficient effort to resolve manufacturing and marketing problems that plagued the venture. His attempts to get Mr. Subhawatt, the managing director of the Boonpong Group, to change course were not successful. In due course, Mr. Subhawatt resigned as the chairman of the board. The Thai managers clearly perceived the existence of a process discrepancy in the venture. However, the manner in which the discrepancy was managed by the British was not consistent with Thai cultural assumptions. In Thailand, the importance of generosity of spirit, that is, having a good heart, is taken to be the cultural norm and is valued highly (Roongrensuke & Chansuthus, 1998). Lambert's behavior, from a Thai perspective, did not exhibit the goodness that is so deeply valued within the Thai sociocultural context. Prior to his resignation, and in response to Lambert's concerns, Mr. Subhawatt did propose a change in the managerial mechanism as a way of dealing



with the problems. He proposed that Ferodo Ltd. be split up into three companies. The one company would have Boonpong as the majority shareholder, the other company would have T&N (U.K. firm) as the major shareholder, and the third would be a Japanese company. When Mr. Subhawatt realized that this option had already been rejected by T&N, he felt that there was no option but for him to leave. As he noted, "This was when I realized that I couldn't work with Ken Lambert. I didn't blame him for rejecting the idea, but it was the way in which Ken Lambert showed no respect for my position in the hierarchy" (Butler et al., 2001, p. 12).

## CONCLUSION

This article has developed a framework for explaining how national cultural values may affect the evolution of international strategic alliances. We highlighted and elaborated on the importance of discrepancy detection, attribution, and reaction in the process and outcome discrepancy model of Kumar and Nti (1998) and identified how national cultural values may influence these elements of the model. Three value orientations proved useful in our theory. These are (a) activity orientation, (b) relationship of humans to nature, and (c) assumptions about human nature. Activity orientation determined the partners' relative sensitivity to either outcome or process discrepancies. Whether the partners seek mastery over nature or harmony with nature determined the type of attribution they make. How the partners react to discrepancies was related to their relationship to nature and their assumptions about human nature.

This article suggests that international alliances may be prone to interpretational, attributional, and behavioral conflicts originating from differences in value orientations among the partners. The partners may differ in their perceptions and sensitivity to process and outcome discrepancies. They may offer different but culture-dependent causal explanations for existing outcome or process discrepancy. And finally, the alliance partners also may differ in the way that they react to reduce these discrepancies. Alliances among partners from different national cultures are more likely to be successful if interpretational, attributional, and behavioral conflicts among alliance partners can be effectively managed.

The model that was developed here has a number of significant implications for consulting interventions designed to improve the functioning of cross-national alliances. First of all, culturally attuned consultants can play an important role in helping the alliance partners negotiate the alliance carefully. The consultants may bring to the alliance partners' attention the core assumptions guiding their partners' behavior. This will prevent the emergence of unwanted surprises later and may enable the alliance partners to negotiate mechanisms for dealing with discrepancies in a timely way. If the consultants are brought in when the alliance is experiencing discrepancies, culturally savvy consultants can help the alliance partners accurately diagnose the nature and the origins of the discrepancies that the alliance is experiencing. A correct definition of the problem is a precondition for successful consultant intervention (Kilmann & Mitroff, 1979).

The consultants may also help the alliance partners manage attributional conflicts effectively. Attributional conflicts are dysfunctional for the alliance, for they may give rise to either retaliatory spirals in which one partner punishes the other for actions that it does not like or a defensive spiral in which a partner seeks to protect itself from its partner by more closely controlling the pattern of interaction (Rubin, Pruitt, & Kim, 1994). Their success in resolving attributional conflicts depends on their ability in seeing the alliance from the perspective of the alliance partners, that is, a heightened and an accurate understanding of the subconscious assumptions on which the partners are acting, and their ability in lessening the anxiety of either partner through thoughtful interventions. In other words, effective consultation requires skillful navigation in uncharted territories (Wells, 1998). Finally, the consultants can help the alliance partners to recraft the criteria for a successful international alliance. An international alliance may require greater time/effort to overcome cultural barriers, and this may need to be factored in when deciding to enter into such an alliance. In an era in which more and more firms from a wide range of differing cultures are crossing their national boundaries, the ability to cope with multicultural diversity is a critical asset and may well contribute to augmenting a firm's strategic capability.

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