Managing

Cultural Differences in Alliances

Even for those who've traveled it before, the road to a strong, profitable strategic alliance can be tortuous. Consider Corning, Inc., for many the model of alliance mastery. In 1973, their confidence bolstered by over 35 years of successful, high-profile alliances, the glass technology company created a cross-Pacific partnership with Samsung, the electronics manufacturer, to produce cathode ray tubes for South Korean display terminal and television manufacturers.

Part of the alliance's allure for Corning was that Samsung had also created alliances and knew what it was doing; the Korean company's executives understood the critical factors of alliance success and the constant attention such a relationship required. For the most part, the alliance developed and operated smoothly, both companies marching toward common objectives. Then, to everyone's surprise, the venture hit a cultural landmine the moment it became profitable. Corning, driven by its ingrained corporate philosophy and the scrutiny of Wall Street, moved to issue dividends to its stockholders. Samsung, guided by its own distinctive culture and the philosophy of its Korean investors, couldn't imagine not pouring profits back into the business to boost market share.

Despite the long alliance-building experience each partner brought to the partnership, the differences between each company's *reaction* to reaching the shared objective of profitability were not apparent when the partnership began. Had it not been for the partners' alliance expertise and experience, this sudden issue could have led to the demise of an otherwise successful venture. Instead, Corning and Samsung reached a satisfactory compromise that allows the alliance to continue to this day. And as a result, Corning now addresses the subject of dividends with prospective partners before they enter new alliances.

According to industry estimates, strategic alliances will generate between sixteen and twenty five percent of corporate value by 2005, approximately $40 trillion; it is clear that alliances are quickly becoming one of the primary vehicles for expanding economic growth and driving convergence in the marketplace. Furthermore, the opportunities and demands of globalization and the exponential advances in technology will inspire even greater use of alliances in the near future to drive corporate growth and profitability. Unfortunately, as many as 70% of all strategic alliances are considered failures. By carefully steering their venture through an unexpected, dangerous pass, Corning and Samsung narrowly avoided the disaster that befalls companies for whom alliances are appealing, but who lack the experience and skills that such complex business relationships require.

Alliance Failure

Despite the lessons of the Corning-Samsung alliance and other accounts of alliances teetering on the precipice of cultural discord, alliance failure is often blamed on other, more readily defined reasons. Indeed, a summary of the data collected from the Conference Board's survey of 455 CEO's reveals that cultural mismatch is believed to be one of the *least* important causes of alliance failure[1]

Figure 1: Reasons for Alliance Failure

Reasons for Alliance Failure

1. Overly optimistic.
2. Poor communication.
3. Lack of shared benefit.
4. Slow results for payback.
5. Lack of financial commitment.
6. Misunderstood operating principles.
7. Cultural mismatch.
8. Lack of alliance experience.

While the broadly-defined "cultural mismatch" is cited less frequently than other reasons for alliance failure, it is interesting to note that the two suspects that bracket it on the Conference Board list are "misunderstood operating principles" and "lack of alliance experience." Both "operating principles" and "alliance experience" (or lack thereof) are, in fact, cultural attributes of any organization. More importantly, the five most cited reasons for alliance failure are each the direct consequence of cultural mismatch. Indeed, the Conference Board list itself suggests a general failure of managers to recognize the cultural roots of alliance difficulties, except to employ the vague term "cultural mismatch" as a blanket explanation for an alliance that has gone wrong in ways too complex or numerous to identify.

This is not to suggest that cultural differences doom a prospective alliance. Strategic alliances, after all, are formed to unite culturally different partners in pursuit of a common objective. Successful alliance leaders manage the relationship in the context of the partner's cultural differences, finding ways to create value from complimentary differences and reduce the impact of those differences that impede alliance success.

[1] Spekman, Robert E. Alliance Competence. New York: John Wiley & Sons, Inc., 2000.

Critical Success Factors of Alliances

The complexity and dynamic nature of a strategic alliance offer powerful opportunities for value creation that simply aren't available to the company that decides to go it alone. At the same time, the disparate cultures the partners bring to the relationship can breed conflict and distrust. The successful alliance keeps its collective mind open to different ways of approaching a common goal; while the partners work toward specific, clear commonly-defined objectives, the actual day-to-day pursuit is more a function of collaborative discovery, rather than the execution of a predefined tactical plan articulated in a contractual agreement. For many first time alliance managers, this is not a comfortable way to work.

Savvy alliance managers, however, know that although the "deal" is at the heart of an alliance relationship, "doing the deal" is not the first step in building a successful value maximizing alliance relationship. In fact, doing the deal is the seventh step in a multi-step process leading to alliance success.

Figure 2: Corporate Mission

Alliance success is fundamentally based on whether the stakeholders have confidence that the risk they share is commensurate with the rewards they seek. The only way to build that mutual trust is by following a comprehensive, proven process that ensures partners consider, address, and, where appropriate, resolve issues relating to 15 Critical Success Factors.

Figure 3: Critical Success Factors

Ironically, the awareness this essential process triggers causes the alliance partners to focus on the tangible elements of alliance management-- costs, logistics and timetables - often to the virtual neglect of equally, if not more important cultural elements.

What are Cultural Differences?

How a company learns and works, where it is, whom it serves and how it serves them are all manifestations of its culture. How does it deliver knowledge throughout the organization? What is the corporate structure and what practices distinguish its operations? Who are its stakeholders? What are their objectives?

About half the countries in the world have two or more significant and/or official language groups, which indicate significant regional differences. Likewise, the United States, despite the umbrella of its nationality, contains many distinct regional cultures that require consideration in the creation of any domestic and / or international alliance.

Company culture is *defined* by the answers to these questions, but *determined* by the context in which the company exists. That context is best understood by examining the three distinct, yet interdependent types of cultures affecting organizations and, ultimately, alliance partner behavior. Cultural differences are the innate differences between partners, across all three categories.

National/Ethnic Culture

National/ethnic culture is defined by the norms and values that create the society in which the partner organization is based. These cultures drive thinking, communications styles, attitude towards hierarchy, gender roles and other aspects of individual and group behavior.

For example, a culture's respect for age or seniority inevitably affects its notions of appropriate supervisor-subordinate relations. Because of the strategic nature of an alliance, a Japanese company is likely to assign their very best, most seasoned senior managers to a strategic alliance. On the other hand, a typical US company is likely assign the best and the brightest young and upcoming professionals to the same strategic alliance. While both companies feel they are fully committing their best resources to the alliance, their counterparts perceive that the other is not equally committed the alliance, creating miscommunications and distrust.

Understanding this, experienced alliance managers should consider these cultural differences when selecting alliance counterparts.

Industry/Organizational Culture
Company culture reflects the norms and values that permeate the organization. It is distinguished by: orientation towards risk, collaborative management style, maturity, corporate arrogance, level of centralization and market focus, among others.

For example, a leading manufacturer of photographic film (consumable product) and a leading photographic camera manufacturer (durable product) because of each organization's culture would differ greatly on their approach to industry system innovation. A film company looks at the development of a disposable camera as an innovative and profitable method for expanding film sales, where a camera company views the same innovation as a direct competitive threat to their core business. Conversely, a camera company looks at the development of digital photography as an innovative and profitable method for expanding camera sales, whereas the film company views the same innovation as a direct competitive threat to their core business.

Strategic alliance managers need to recognize these differences and move to clearly define the scope relationship and design the operational structure that will keep the alliance focused on achieving the goals of the alliance.

Professional Culture
Professional culture considers the norms and values embodied by professionals of a specific discipline. People in different occupations usually incorporate the professional biases associated with their roles within the organization. Over time, these professional norms and values become entrenched paradigms further affecting their roles and behavior within the organization. Additionally, these paradigms are reinforced by the company's incentive structure that rewards one discipline within a company differently from other disciplines.

As a result, professionals from different disciplines, even when part of the same organization, run into problems of miscommunication, distorted perception and ultimately distrust. The issues are magnified when the interface is between international organizations. It becomes very difficult to build trust.

For example, a medical director and a marketing manager introducing a new compound would, because of professional bias, differ greatly on how, when and what claims to make when launching the product.

Strategic alliance managers should, particularly in a cross cultural alliance, assure that the professionals assigned to an alliance interrelate primarily with a counter part with the same profession background. There is a greater likelihood that a microbiologist representing a Swedish company and a microbiologist representing a Mexican company will have very strong basis for collaboration when compared to the medical director and marketing manager mentioned above.

As suggested in Table 1, understanding and effectively managing cultural differences between partners enables them to avoid or eliminate the major consequences leading to alliance failure.

Managing Cultural Differences

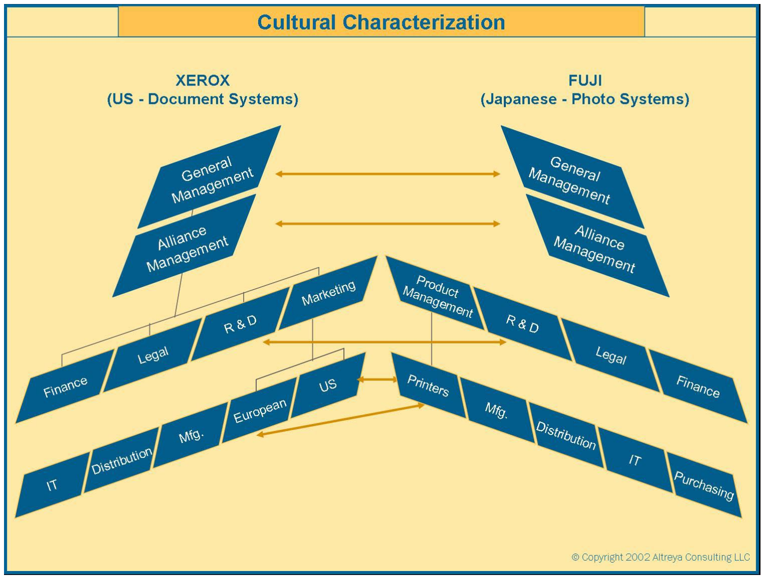
How, then, might cultural differences be made as manageable as other alliance elements? By defining, researching, simplifying, and managing them.

Defining differences: Ideally, managing the cultural differences in a cross-cultural alliance begins in the due diligence phase of alliance planning. The first step is to examine culture in a more structured way, by identifying not only the organizational structure, but the distinguishing characteristics of their national/ethnic, industry/organizational, and professional cultures.

Research: Since the layers of a proposed alliance can be identified in advance, it is possible to research and begin to manage those that portend problems. Experienced alliance professionals have developed powerful tools and processes to help anticipate and define potential cross-cultural and cross-functional problems.

In any alliance, cultural differences can occur in multiple, overlapping layers. Multinational alliances often are, but do not have to be, more complex or difficult than domestic ones. A multinational alliance within the same industry involving the alignment of a few similar functions, such as one partner's marketing group with that of another, can be less complicated than a domestic alliance involving different geographic regions, different industries and significant cross-functional relationships.

Figure 4: Cultural Characterization



Simplify: By minimizing the number of "load-bearing interfaces"—the connections upon which the alliance is built—managers can ensure that there are few, if any, barriers to communication between the most important components of the alliance. The research and development teams of alliance partners, for example, likely share common decision-making frameworks and methods, regardless of the cultural differences.

Management: Each partner must have an alliance champion—or a number of them—among the senior management team *whose primary duty is to drive the success of the alliance*. With experienced facilitators (internal or external) guiding them, these "alliance champions" can use research tools to search for a workable common ground.

In order to address the cultural differences in each alliance, the alliance champions must coordinate and supervise:

1. assessing the alliance readiness of its own organization.
2. assessing the alliance readiness of its potential partners.
3. mapping the cultural differences and similarities between partners and potential partners.
4. distilling the list into a prioritized short list of key drivers (critical success factors).
5. focusing on the key drivers that lead to alliance success.

At the same time, the alliance champion must cultivate trust by developing a "transparent" culture around the alliance, so that employees understand the new organization, and can assess both its health and their own prospects within it. Making compensation and incentive policies clear, for example, can minimize fear and distrust.

The distinguishing aspects of a firm's culture determine not only its approach to business objectives, but how those objectives are defined. Accordingly, in order to build an alliance that will serve both partners, allied companies must consider the relationship an entirely new venture that represents an amalgam of the strength each brings to the table. The companies that build those successful ventures at the speed the global marketplace requires will do so with a proven team of alliance professionals.

We all know that the vast majority of seasoned managers can negotiate a "deal". The difference between alliance success and failure however, is a function of solid alliance management processes and measures as well as cross cultural management know-how.