Cross-cultural Strategic Alliances: Lessons from Swedish Firms in Eastern and Central Europe

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This study aims to explore factors affecting the formation and operation of strategic alliances, and the impact of these factors on performance. The underlying premise being that different cultures affect strategic alliances differently. The study is based on the analysis of 20 alliances between firms in Eastern and Central Europe and their Swedish partners. Significant differences were found across countries. The paper concludes with implications for managers responsible for managing international alliances in terms of effectiveness of their role, as well as their cultural awareness and ability to deal with cultural differences.

National culture is defined as the values, beliefs and assumptions learned in early childhood that distinguish people in one nation from those in another (for example, Adler, 1986; Hofstede, 1991; House, et al., 2004). Studies attempting to measure the impact of national culture go back to the early 60s (for example, Haire, et al., 1963; Hofstede, 1980, 1983, 1984, 1991; Laurent, 1983, 1986), while the relationship between national culture and business practices has drawn considerable academic interest over the recent years (for example, Alder 2002; Dorfman and Howell, 1988; Galliers, et al.,1998; Garfield and Watson, 1998; Gitman and McDaniel 2008; Hasan and Ditsa, 1999; Luthans, et al., 1993; Offermann and Hellmann, 1997; Thatcher, et al., 2003; Thomas and Ely, 1996; Trompenaars, 1997). This relationship between culture and business practices becomes more complex when firms internationalize and transactions and exchanges take place beyond national borders, and managers of these firms find themselves confronting and managing the impact of the (often unfamiliar) national culture of another (host) country on their business operations and performance. In other words, while managing internationalization poses a greater challenge in itself (Abraha and Mukhtar, 2002; Contractor 2t al., 2007; Ghoshal and Nohria, 1989; Hoc et al., 2013; Roth, 1995; Sanders and Carpenter, 1998; Tihanyi and Thomas, 2005), adding the cultural dimension makes it even more challenging.

Formation of strategic alliances is one way for firms to seek internationalization. However, national cultural differences between alliance partners can challenge the development of successful relationships (Day, 1995; Sirmon and Lane, 2004; Lambe et al., 2002), and may restrict alliances from accomplishing their goals (Brannen and Salk, 2000; Leisen et al., 2002). Management of these aspects therefore merits attention if firms are to reap rewards and maximize potential from international alliances. Harris (2004), for example, argues that if European Union is to succeed, it is necessary for the 25 member states to devote more attention to the factors of culture and business. The underlying premise being that alliance denotes a sharing of activities between the partners and therefore demands that more integrated and deep relationships be established and maintained. However, such harmonization cannot materialize until and unless the cultural aspects are managed professionally and successfully by the alliance partners. Knowledge of cultural awareness, dynamics of culture, behavioral practices, and ability to deal with cultural differences are necessary to operate in international market (Daniel et al., 2004).

Against this background, this study aims to explore factors affecting formation and operation of strategic alliances, and the impact of these factors on performance. The analysis is based on the study of alliance partnerships between firms in Eastern and Central Europe (ECE) and their Swedish counterparts.

Research framework

While motives may vary from firm to firm, three commonly cited objectives of firms seeking strategic alliances are *resources*, *learning* and *performance* (Inkpen and Beamish, 1997; Chetty and Wilson, 2003; Sirmon and Lane, 2004). Resources are defined as facilities that make firms more capable of carrying out their operations in conformity with the specified goals; learning is the ability to get things done more effectively; and performance is the outcome of an organizational process or an activity.

For example, while a local (host-country) firm may be in need of learning of new technology and market know-how so that their products and services can be more competitive in the world market, foreign firms may be seeking local (host-country) resources and local (host-country) know-how to participate in privatization programs in the region (Filatotchev et al. 2003). Fahy et al. (1998) examining British-Hungary alliances identify market-seeking motives and resource-seeking motives where the former is a strategic response to eastern European market opportunities, while the latter concerns skilled- and low-cost labor and government incentives. Osland and Yaprak (1995) and Medcof (1997) emphasize learning in strategic alliances. Meyer (2004) also argues that sharing of resources can lead to mutual learning for alliance partners.

Based on this evidence, our conceptual framework is built on interactions between *resources* and *learning*, which in turn, leads to the outcome of the alliance process, or what we term *performance*. The degree of learning and exchange of resources in international alliance depend on how close the partners are in respect to their values and beliefs, and also how effectively they can handle their cultural differences. From this viewpoint *culture* is an independent variable that affects resources and learning, and the interaction of these two variables results in performance. The four variables (i.e. resources, learning, performance and culture) are defined as follows.

Resources: Barney (1991) classifies resources into physical resources (technology, firm’s plant and equipment, and access to raw material), human capital resources, and organizational capital resources (firm’s formal reporting structure, planning, controlling, etc.). While, Hyder and Ghauri (2000) classify resources as input, capital, manpower, technology and market.

Learning: Lyles (1994) and Pucik (1988) conclude that alliances are formed to pool complementary bits of knowledge. Inkpen (1996) argues that without an alliance, access to the partner’s skills would probably be restricted, limiting opportunities for learning. Even need and opportunity for learning cannot guarantee that a successful learning would be possible. The learning that takes place between the partners is usually asymmetrical because all partners do not have the same ability and competence to learn (see Hamel 1991). If the motive for learning has been crucial, partners will assess its activities in terms of it. Poor learning will in this case will lead to poor performance.

*Performance: M*easurement is important because alliance partners may have certain expectations. Realizing these outcomes may require adaptation, exercising more control, raising more funding or extending further cooperation by the partners (Hyder and Eriksson, 2005) which may comprise tangible returns, (i.e., cost reduction, higher profit, increased sales, market entry, penetration, defensive performance such as blocking competitive actions), and intangible returns, (i.e., experience of collaboration, access to new contacts and strengthening of current contacts, increased competitive strength). How partners came to an agreement may not be directly measured, but their impact can be felt and assessed from the survival and growth of the alliance. As alliance is a dynamic process, performance measured form a long-term perspective is therefore more appropriate.

Culture: Culture is a shared system of meanings that dictate what we pay attention to, how we act and what we value (Trompenaars, 1997). Differences in values and way of thinking are important in alliances because people with different cultural backgrounds come in close contact, negotiate and interact in such activities. Hofstede (1991) presents his famous four cultural dimensions, i.e. power distance, individualism/ collectivism, masculinity/femininity and uncertainty avoidance, in grasping cultural differences between countries. *Power distance* describes how different countries handle the fact that people are unequal. The focus is on the type and preference of relationship between people who do not have the same status, for example boss and subordinate. *Individualism* describes the difference between cultures where ties are loose and in collectivist societies, people are integrated and acting in groups. *Masculinity* concerns the extent of emphasis on work goals (earnings, advancement) and assertiveness, while femininity refers to personal goals (friendly atmosphere, getting along the boss and others) and nurturance. Masculine societies define gender roles more rigidly than feminine societies. The last dimension *uncertainty avoidance* shows to what extent members of culture feel threatened by uncertain and unknown situations.

However as alluded to above, alliances are not without challenges and become complicated further due to cultural differences between the foreign and local partners. Against this background, we therefore focus on the role of culture on the exchange of resources and learning, and how it impacts the level of alliance performance. Specifically, the following research questions are posed in relation to ECE countries' alliances with Swedish firms.

1. What role does culture play in ECE countries in forming and operating alliances with the Swedish firms?
2. How does the impact of culture on process of learning and exchange of resources affect performance of ECE countries-Swedish firms' alliances?

Since this study aims to examine Swedish firms' alliances in ECE countries, it is critical to define what is meant by 'ECE countries' as there has been a tendency among Western researchers to treat Eastern and Central Europe as a homogeneous block of countries with similar social, cultural and economic background, drawing 'universal' conclusions that are often over simplified and generalized. For example, these countries are equated with unstable turbulent environment (Hoskisson et al., 2000), and societies that are particularistic, medium to high individualistic, specific, ascribed (non-achievement oriented), outer directed, and synchronous / polychronic (Hampden-Turner and Trompenaars,1993).

This generalization is rooted in the fact that for over 50 years the ECE countries maintained a closed and centralized economy focused on production and supply with no market orientation, and collectively represented a different way of living and thinking as part of the same rigid political conviction and ideology. Not surprisingly, the complete isolation of these countries generated suspicion and distance within the west and academics were no exception.

However, as these countries opened up and people in the West learned that ECE countries are in fact very different from each other in terms of their history, education, openness and business practices, academics acknowledged that eastern European market was anything but homogeneous (Rojšek, 2001). Tietz (1994), for example, made an important contribution in classifying ECE countries by population, economic strength, degree of economic liberalization, and general xenophobic temperaments and proposed three groupings, namely top (Czech Republic, Slovakia and Hungary), middle (Poland, Bulgaria and Former USSR), and bottom (Romania and Albania).

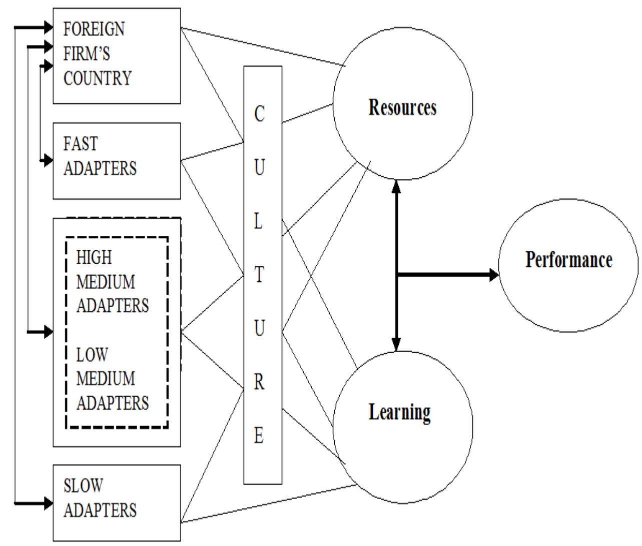
Notably, this grouping was based on analysis when the ECE transformation process toward market economy had just begun. In view of the subsequent changes, we offer a new classification broadly based on Tietz (1994), but taking into account factors such as EU membership, FDI inflows, privatization, the degree of adaptation to market economy, and economic indicators. Based on these indicators, the 15 ECE countries are categorized into fast adapters, medium adapters and slow adapters (Table 1).

Table 1: Classification of Eastern and Central European Countries

Fast Adapters	Medium Adapters	Slow Adapters
Czech Republic Slovak Republic Hungry Slovenia Poland	Estonia Latvia Lithuania Croatia	Russia and Other Soviet Republics (except Baltic states) Yugoslavia Bulgaria Romania Albania Macedonia

Based on this classification, a conceptual model is presented in Figure 1.

Figure 1: Conceptual Model



The overall performance of the alliance will naturally depend on the environment in which the alliance is located. *A priori*, therefore, we would expect the alliance within the fast adapter ECE country to be easier than the medium and slow adapter ECE countries.

Research design

The case study approach is used. Case selection was a rigorous process which went through a number of steps. First, Swedish Export Trade Council and Swedish International Development Agency (SIDA) were contacted. Second, Ministry of foreign affairs helped us to contact Swedish embassies in 15 ECE countries for getting a list of Swedish companies operating in those countries. Third, ECE embassies located in Stockholm were requested to furnish data on Swedish firms. In addition, Swedish daily business newspaper, *Dagens Industri*, was consulted. Table 2 lists the identified alliances.

The research has been conducted from a Swedish perspective and therefore only Swedish partners were interviewed. The total time deployed for the interviews was more than 60 hours. All interviewees held a managerial post and were directly involved in the alliance operation To increase the reliability of the data, the transcribed information was sent to the interviewees a few months after the actual period of interviews to check accuracy.

Table 2: ECE Countries-Swedish Alliances

Alliance	Year of Establishment	Main Industry	Swedish Ownership	Country of Operation
AX	1996	Metal products	48%	Poland
BX	1995	Plastic products	51%	Poland
CX	1997	Fabricated metal	93%	Poland
DX	1993	Building materials	34%	Poland
EX	1998	Pulp & paper	50%	Poland
FX	1998	Power & electricity	23%	Poland
GX	1992	Basic metal	50%	Hungary
HX	1990	Metal products	20%	Hungary
IX	1995	Machinery & equip.	46.5%	Lithuania
JX	1993	Textiles	45%	Lithuania
KX	1994	Medical products	n.a.*	Lithuania
LX	1995	Chemical products	40%	Lithuania
MX	1993	Automobile	49%	Lithuania
NX	1991/92	Waste management	50%	Estonia
OX	1994	Telecommunica tions	49%	Croatia
PX	1970	Machinery & equip.	50%	Russia
QX	1996	Machinery	100%**	Russia
RX	1994	Pulp & Paper	52%	Russia
XX	1995	Forestry	51%	Russia
UX	1997	Pulp & Paper	71%	Yugoslavia (Serbia)

Discussion of Findings

Fast Adapters

The fast adapter ECE countries comprised eight alliances located in Poland and Hungary**.** The local partners were mainly responsible for supplying raw materials, while foreign (Swedish) partners' contribution was to pay a part of their investment in cash to upgrade the technical capacity of the ECE firms since these firms were reluctant to borrow locally due to high interest rates and risky financial markets.

The manpower was mostly local. The foreign partners' role was limited on-the-job training and to extend technical and managerial support to the local technicians and on-site managers. Three cultural problems were evident, namely the language barrier, indifference to time keeping, and lack of initiative. Lack of interest in taking initiatives was related to high power distance and uncertainty avoidance in the host ECE countries. Making mistakes was not acceptable in the local culture which reflected a masculine society. The overall situation improved over time with language training and hiring younger people who adapted to the western values more easily, and by sending the key technicians for raining to Sweden for training in an attempt to 'unlearn' the old ways of doing things in the communist era.

Marketing was an unfamiliar domain for the local partners who had difficulty in understanding why marketing channels were necessary and how they would work. Another learning concerned transition from the centrally planned to market economy as the local partners were able to witness the major changes relating to the transition and their gradual integration as part of the alliance. In addition, the local partners learned about the concept of service and related procedures. The foreign partners gained local market know-how, learned the local culture, and became familiar with key persons who might influence business activities. They also gained knowledge of to transform local attitudes from central planning towards market economy. Alliances which dependent on government's funds in particular actively collaborated. While the local partner used its well established contacts and references, the foreign firm utilized its international reputation, technological superiority and financing ability.

Cultural gaps emerging in the initial stages due to language, inefficiency and complicacy related to the transition process, gradually disappeared in favor of closeness and openness with the local government support and more pragmatic views of the local partners. Only one alliance was dissolved as a part of the privatization program. The Swedish partner participated in the tender but was outbid by a German company. Although the German company asked the Swedish partner to remain as a partner but the latter opted to sell its shares and leave the alliance.

High Medium and Low Medium Adapters

This group comprised seven alliances. Which partner supplied inputs depended on whether the products were locally sold or exported. Import of raw material encountered two culturally related problems, administrative bureaucracy needing detailed documentation and delays in customs clearance. These problems reflected power distance and masculine values where decisions were to come from higher authorities. The top-down decision making was a norm in Croatia. While the foreign firms mainly contributed cash, the local partners paid their equity in kind such as buildings and machinery. Foreign partners avoided borrowing from local institutions due to high and unstable interest rates. The notion of uncertainty avoidance also kept the local partners away from borrowing locally and to get involved in high risks. The legal system, which was based on the old communistic ideology, also presented problems, as did the inefficiency of the local workforce and language barriers. Marketing role was shared with the local partners focusing on the local market and foreign partners selling abroad. Doing business was based on strong relationships based on trust. The alliance in Croatia, for example, was a result of long-term relationship going back over 30 years.

Both partners learned from the alliances. The local partners became familiar with the concepts of market economy, marketing, long-term planning and how to make efficient use of resources, teamwork, how to develop the sense of personal responsibility, and delegating to others. The foreign partners gained local market know-how, learned local culture and workings of government authorities. Partners in this group as a whole and Swedish partners in particular, were successful in attaining their objectives. For example, a Swedish partner operated an alliance in Lithuania along with a local firm and a few local financial institutions as partners. Over time, the foreign firm succeeded in acquiring local market know-how and was able to begin operating independently. In another case, as a result of active exchange of complementary resources, partners were able to acquire a major market share within a very short period. Estonian and Lithuanian partners adapted easier than the Croatian to the western view of long term planning. Collaborative networks were built to reach out to prospective buyers, to create favorable business environments by changing attitudes, and to explore new business areas.

Slow Adapter Alliances

This group comprised five alliances, four of which were located in Russia, either with the objective of procuring local resources for international consumption by the foreign partners, or to market the foreign partners' products locally. Imports were minimal as the import policy was unstable, time consuming and subject to administrative bureaucracy focused more on formalities and documentation than concern for the quality of the products. This was a reflection of uncertainty avoidance. Language was a main barrier and often resulted in poor communication. There was a clear cultural difference between the partners in how to deal with the local distributors and marketers. While the foreign partners demanded a close collaboration with the local marketers, the local partners preferred to maintain a clear distance reflecting power distance in these alliances. Foreign partners could not communicate with the customers due to the language barrier and as a result failed to make any impact in this important decision area.

The local partners' learning concerned western way of marketing, management, planning and gaining some idea of technology and production. But the speed of learning was slow due to unwillingness on part of the local people to accept change reflective of high uncertainty avoidance. The local partners were more interested in short-term profits than in concentrating on learning for future benefits and development. The foreign firms were largely able to learn how the local countries functioned, problems dealing with the government authorities, and accepted that many things could not be done efficiently as they were beyond their control. The unstable economic conditions did not allow the partners to solve financial problems locally. There was a general acceptance that doing business in this region was difficult due to complicated administrative setup and high cultural differences between Sweden and the host countries. Cultural conflicts made things difficult in the alliances and partners differed markedly on the major objectives of running the operations.

Performance of alliances within this group was unsatisfactory. With the exception of one alliance, the local partners worked for short-term goals whereas the foreign firms' entry into the region was characterized by long-term motives and attainment of future benefits. Bringing quick change in attitude from centrally planned to market economy appeared far fetched. In Yugoslavia, due to the highly unstable political situation the factory had to be closed on several occasions resulting in major losses. While, due to continuous losses one Swedish partner withdrew from a Russian alliance. The decision to withdraw from the alliance was based on factors such as cost-ineffective production, imposition of new taxes, management and cultural conflicts, and lack of input material.

Conclusions

Impact of culture on alliances is found to be significant irrespective of the ECE country of operation. Harmonization between partners was more critical to the survival of the alliance than the availability of resources. Collaboration was easier where communication functioned well, and depended on how willing the local partners were to give up the communist ideology in favor of the market economy.

Alliances in the fast adapting ECE countries dealt best with marketing issues and adaptation of management practices. Low uncertainty avoidance in this group attracted more foreign resources and offered a more favorable business climate. In the low adapting countries, resource mobilization and efficient use of resources was a difficult task, delegation did not work, distance between the executives and employees was high, and motivation for taking initiatives was totally missing.

In low adapting countries, learning attempts largely failed due to existence of high power distance, masculinity, collectivism and uncertainty avoidance. As a result, there was resistance to change and lack of initiative. In contrast, learning was quicker and less painful in the fast adapting countries.

Due to harmonization of cultural differences between partners over time, the alliance performance was satisfactory in the fast adapting countries. While, in the case of medium adapting countries, the performance was fair but the speed of change and adaptation was comparatively slow. Attempts in bringing changes and minimizing impact of cultural differences on business activities in the low adapting countries were unsuccessful. High power distance, masculinity and uncertainty avoidance remained constant threats for operation and collaborations exacerbated by unfavorable business climate, volatile government regulations and deep-rooted bureaucracies. As a consequence, the alliances suffered major losses while local partners remained focused on the short term financial benefits.

Managerial Implications

As globalization gathers pace resulting in continuous rise in strategic alliances, business decisions in general, and effectiveness of strategic alliances in particular, are increasingly influenced by cultural diversity. Managerial implications based on findings from this study are noted below.

1. Resources, managerial and technical competencies, superiority in marketing, good products and services may not guarantee success. Cultural awareness and the ability to deal with cultural differences is essential.
2. Countries from a particular region must not be treated as necessarily homogenous as impact of culture may vary from country to country within the same region.
3. The size of the market may be an important factor in determining the geographical location of the alliance, but the operational environment is even more important. If the prevailing environmental conditions within the host country are not conducive to alliance building, the latter may constrain and outweigh any benefits that accrue from the former.
4. The operational environment of alliances is continuously evolving may change over time, therefore a long term view must be taken in decision making.
5. No immediate returns may accrue as trial and error will be more common than creating success stories, at least in the short term.

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