Chapter 7

Cultural Diversity in Cross-Border Alliances

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Introduction

Increasingly, firms are using cross-border alliances to strengthen and maintain their position in the market place. Although often seen as a relatively fast and efficient way to expand into new markets and incorporate new technologies, the success of cross-border alliances is by no means assured. To the contrary, such alliances often fall short of their stated goals and objectives. While some failures can be explained by financial and market factors, the failure of others can be traced to neglected human resource issues and activities associated with managing the cultural diversity present in these organizations. This chapter describes the special challenges that cultural diversity creates for effectively managing human resources within cross-border alliances. Drawing upon the extensive literature regarding the management of domestic alliances and domestic diversity, we offer suggestions for how human resource management practices might be used to improve the success of cross-border alliances.

Regardless of industry, it appears that it has become all but impossible in our global environment for firms to successfully compete without growing and expanding through deals that result in cross-border alliances (CBAs) (Lucenko, 2000). In some industries, e.g., insurance, cross-border alliances provide a means for moving into new markets. In other industries, e.g., pharmaceuticals and software technology, small enterprises that are developing new products may enter into alliances with larger firms that can more efficiently manufacture and distribute those products. Other reasons for cross-border alliances include gaining access to the talents of another country's labor market, acquiring access to new technologies, controlling distribution channels, exploiting new opportunities created by government deregulation and privatization, and to facilitate rapid inter-organizational learning.

These drivers of cross-border alliances are expected to intensify in the future, as globalization continues – even in the face of difficult economic conditions (Charman, 2000; Cyr, 1995; Doz and Hamel, 1998; Hitt, Harrison, and Ireland, 2001; Inkpen and Beamish, 1997; Lane, Salk and Lyles, 2001; The Economist, 2000). For example, the U.S. biotechnology industry is characterized by networks of relationships between new biotechnology firms dedicated to research and new product development and established firms in industries that can use these new products, such as pharmaceuticals. In return for sharing technical information with the larger firms, the smaller firms gain access to their partners' resources for product testing, marketing, and distribution (Liebeskind, Oliver, Zucker, and Brewer, 1996). Big pharmaceutical firms such as Merck or Eli Lily gain from such partnerships because the smaller firms typically develop new drugs in as little as five years, versus an eight-year average development cycle in the larger firms (Robertson and Jett, 1999; Schonfield, 1997; Sager, 1996).

Types of Cross-Border Alliances

When using cross-border alliances to implement their business strategies, firms have many options. Representing the least intense and complex form of cross-border alliances are licensing agreements and various forms of limited partnerships. These are governed primarily through legal agreements and they often require very little adjustment or change in the normal operations of the firms involved. More complex forms of cross-border alliances include international joint ventures (IJVs), international acquisitions, and international mergers. Typically, these forms of cross-border alliances involve interdependencies that cannot be managed merely through legal agreements; the firms involved must learn to manage their operations in ways that take into account similarities and differences between the partners. In this chapter, we focus on international joint ventures and international mergers or acquisitions to illustrate the issues associated with cultural diversity in cross border alliances. (For a more detailed discussion of these topics, see Schuler, Luo and Jackson 2003). Note, however, that issues of cultural diversity may become even more complex in other forms of cross-border alliances, such as those that involve a large network of organizations linked together through various forms of interdependencies (e.g., see Doz and Hamel, 1998). Despite several differences among these forms of cross-border alliances, the success of each requires effectively managing issues that arise due to the many types of cultural diversity present in the organizations created by such alliances.

International Joint Ventures (IJVs) In an international joint venture, two (or more) parent firms from different countries establish a new legal entity that is subject to the joint control of the parent firms. This new entity is located outside the country of at least one of the parent firms (Shenkar and Zeira, 1987). In an international merger, two firms headquartered in different countries agree to integrate their operations and share control of a newly established firm. Typically, in both

international joint ventures and international mergers, a new identity is established for the new legal entity.

Davidson-Marley BV is an example of an international joint venture created as a 50-50 partnership. This IJV was formed in order to supply instrument panels to Ford Motor Company, which was developing its world car concept. The joint venture allowed Marley Automotive Components, in the United Kingdom, to meet Ford's requirements for its suppliers, and it met the desire of Davidson-Textron, in the United States, to expand into Europe. Prior to the IJV, Marley was a licensee of Davidson. Based on their past experiences with each other, managers at the two firms felt confident that they could succeed in establishing an IJV, which they chose to locate in The Netherlands. Throughout this chapter, we use the Marley-Davison case to illustrate how cultural diversity can affect the management of an international joint venture. More details about the evolution of this IJV can be found in Schuler and van Sluijs (1992), Schuler, Dowling and DeCieri (1992), and van Sluijs and Schuler (1994).

International Mergers and Acquisitions (IM&As) In an international acquisition, a firm headquartered in one country acquires and fully controls a firm headquartered in another country. In the case of an acquisition, the acquired firm ceases to exist as a legal entity and the acquired firm takes on the identity of the acquiring firm. The majority of acquisitions are friendly – that is, the acquired firm solicits bids and enters into an acquisition voluntarily. Sometimes, however, a firm becomes a takeover target. A takeover acquisition usually occurs when an unsolicited bid is made for a poorly performing firm. Although mergers, acquisitions, and takeovers are technically different, it's common to refer to all three means for combining the operations of two firms as mergers and acquisitions, or just M&As (Deogun and Scannell, 2001;Charman, 1999).

Four Prototypical Approaches to Managing Cross-Border Alliances

Many specific conditions present in a particular cross-border alliance determine the challenges of managing cultural diversity that will be faced by members of the alliance. For example, the number of organizations involved and the number of countries involved can be only two, as would be true if two domestic organizations from two countries enter into a merger or acquisition. However, the diversity may be greater if either company involved in the merger or acquisition has international operations, or if either company has recently engaged in other mergers or acquisitions.

For an international joint venture, at least three organizations are involved – two parents and the venture itself – and by definition the companies are located in at least two countries. But this is just the simplest scenario. When the joint venture is located in a third country and/or when more than two parent firms collaborate to form the joint venture, then challenges of managing cultural diversity increase accordingly. In the Marley-Davidson example, three countries and three organizations were involved: Davidson-Textron was located in the United States,

Marley was located in the United Kingdom, and the Marley-Davidson venture was located in The Netherlands.

Regardless of the number of companies and countries involved, however, the general management approach used in cross-border alliances can be characterized as fitting one of four approaches. These approaches reflect substantially different ways to deal with the cultural diversity that is present in any cross-border alliance. As illustrated in Figure 7.1, these approaches can be labeled portfolio, blending, new creation, and absorption.

Portfolio	Blending	New Creation	Absorption
Maintain separate cultures	Choose the best elements from each culture	Develop a new culture that fits the new organization	Assign legitimacy to one culture and expect assimilation by members of the other culture
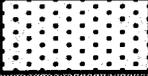
Figure 7.1: Four approaches to managing cultural diversity in cross-border alliances

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Portfolio In the portfolio approach, managers in the organizations involved in the alliance retain a great deal of autonomy. Although the alliance creates legal and economic interdependencies, the top management team assumes that the organizations involved in the alliance will continue to operate more or less as they had operated prior to the formation of the alliance. Presumably, the strategic value of the alliance does not require integrating the separate organizational systems, so cultural diversity is "managed" by maintaining segregated organizations. This scenario often occurs when one firm acquires another firm in order to diversify into another business or region and then allows the acquired firm to operate as a relatively autonomous subsidiary. For example, when Nestle purchased Purina, in expanded into pet foods and did not attempt to merge the Purina operations with other Nestle units.

Blending The blending scenario arises when top managers expect the two (or more) organizations involved in the alliance to come together or merge into a new organization that retains the best aspects of the alliance partners. In this scenario,

the intent is to manage cultural diversity through integration, with members of each culture adapting to the other culture. The blending approach may be used in a joint venture or a merger or an acquisition, but it is perhaps most common in M&As that occur within an industry between firms that are believed to complement each other's strengths and offset each other's weaknesses.

Presumably, Daimler and Chrysler executives intended to use blending to make that deal a success. During the initial stages of the merger, Chrysler President Thomas Stallkamp indicated that Daimler intended to adopt Chrysler's product development methods, which emphasized teamwork rather than individual-oriented work procedures. Chrysler in turn would adopt Daimler practices such as rigid adherence to timetables and their methodological approach to problem solving.

New Creation A third scenario arises when the partners agree to create a new firm that is truly different from either of the original partners. This is most likely to occur for joint ventures, especially if the joint venture is located in a country other than the countries of the parent firms. The Davidson-Marley IJV is one example of this arrangement. The parent companies established a greenfield plant in a third country. During the formation and development stages of the IJV, managers from the parent firms agreed that they wanted to hire Dutch managers for the IJV and give them great autonomy in making decisions about the plant's design and operation. In reality, managers from the parent firms developed fairly detailed plans before hiring the IJV managers, so the diversity management approach for the new plant actually fell somewhere between "new creation" and "blending" (Schuler and van Sluijs, 1992).

Mergers may also be initiated for the purpose of creating a new organization, although it seems to be less common. One indication that a merger is intended to form a new creation is that the resulting firm takes on a completely new name. Novartis, which was created through a merger of Sandoz and Ciba-Geigy, is one example. Novartis also is an example of a merger that might seem to not involve differences in national culture, because Sandoz and Ciba-Geigy were both headquartered in Switzerland. In actuality, however, a large portion of Ciba-Geigy's pharmaceutical business was based in the United States, while Sandoz's pharmaceutical base was in Switzerland. Thus, what may appear to be a domestic merger in fact required managing a create deal of diversity created by differences in national cultures.

Absorption Finally, in some acquisitions, the buyer clearly intends to take over and control the target. The target firm may be an attractive candidate for an acquisition because it has some valuable assets, yet for various reasons it is clear that the target firm cannot continue to survive on its own. In this scenario, the expectation is that the target firm will lose its identity and adopt the management practices of the acquiring firm. In other words, the target firm is expected to assimilate into the acquirer. This is what happened in Pfizer's hostile take-over of Warner-Lambert. When Pfizer acquired Warner-Lambert, they adopted a few of Warner-Lambert's practices, but observers say that little of the Warner-Lambert culture remains today. Not surprisingly, most of Warner-Lambert's top-level

managers have left the firm, leaving a top management team that is not much more diverse today than it was before the acquisition.

We assume that each of the four approaches described above can be an effective way to manage cultural diversity in a cross-border alliance. These approaches are more likely to be successful if they have been intentionally adopted by top managers and communicated to employees in the relevant organizations. By making explicit the guiding philosophy that underlies subsequent planning and decision making, managers can more easily align their own actions to be consistent with the philosophy, and employees should be able to more accurately interpret managerial actions. The consequences of these philosophies can affect cross-border alliances differently at each stage in their evolution.

Stages in the Evolution of Cross-Border Alliances

Each of the four alternative approaches to managing cultural diversity in cross-border alliances has associated with it different challenges that must be overcome in order for a cross-border alliance to eventually succeed. Furthermore, these different challenges arise at different stages in the evolution of an alliance, so we briefly describe these evolutionary stages next.

IJVs and IM&As are distinct types of cross-border alliances, and the management literatures that have developed to address these different types of alliances have evolved with little reference to each other. One consequence of this history is that different terms have been used to describe the stages through which IJVs and IM&As evolve. To simplify our discussion, Figure 7.2 describes the general stages that occur during the formation and life of both types of alliances (cf., Schuler, 2001; Schuler and Jackson, 2001).

Stage 1—Precombination and Initial Planning
• Identifying reasons for the alliance and setting objectives • Identifying and evaluating potential alliance partners • Negotiating the arrangement
Stage 2—Development
• Choosing locations for the operations • Establishing the structure • Recruiting and retaining key talent
Stage 3—Implementation
• Establishing the vision, mission, values, strategy • Developing management policies • Translating policies into managerial practices and behavior • Staffing and managing the employees

Stage 4—Advancement and Beyond
• Monitoring the organizational culture • Learning from the alliance partner • Transferring new knowledge throughout the organization (and back to the parent, for IJVs)

Figure 7.2: Evolutionary stages of cross-border alliances

Initial planning All types of cross-border alliances involve an initial planning stage. For IM&As, this stage is somewhat more regulated than for IJVs. Nevertheless, for both types of alliances, the common activities include identifying reasons for the alliance and setting objectives, identifying and evaluating potential alliance partners, and negotiating the arrangement. In many cases, formal assessments of cultural issues that might influence the success of the alliance are conducted at this stage, but sometimes this assessment occurs later or perhaps not at all.

Formation and development During formation and development of the alliance, the their implications of cultural diversity usually become more apparent although they may not be fully understood. As the new entity is formed, recruiting and selecting of key executives to staff the new organization often is viewed as a key task, so cultural differences in how to recruit and evaluate candidates are likely to become salient. As employment contracts are negotiated, cultural differences related to monitoring and compensation key executives also usually become apparent.

Implementation During implementation, a key management task is aligning employees' skills and motivations with the business objectives. Cultural issues that arise during the implementation stage may be many or few, depending on the partners' general approach to managing the alliance. If one or more of the partners feels the new organization must be managed in a way that is consistent with their culture (i.e., the blending approach), then managing country, industry and corporate cultural diversity may all be salient issues at this stage. However, if the partners agree to adopt a portfolio approach, then challenges associated with managing domestic cultural diversity may be salient for the venture managers.

Advancement During the advancement stage, knowledge transfer is a key issue. At this stage, the salience of cultural diversity may again be relatively great or small. If the new organization has been managed using a hands-off approach, then little attention will have been devoted to dealing with the cultural differences between the partners. In order for knowledge sharing to occur, however, issues of cultural diversity will now have to be addressed. If, on the other hand, a blending approach was used, the cultural differences will be smaller at this stage, so transferring knowledge now may be easier.

In the Davidson-Marley example, several expatriate managers were assigned to work in the IJV for limited periods of time. Originally, the expatriates carried knowledge from the parents to the IJV. Later, when they returned to the parent firms, the repatriated managers transferred knowledge learned in the IJV back to the parents. The use of a few expatriates early in the life of the IJV was an example of the parent firms deciding to compromise their approach to managing cultural diversity. Their long-term plan called for the IJV to operate as an independent organization, but the parent firms also wanted to continue to learn from the IJV and transfer new knowledge back into the parents. Apparently, they believed that their own managers could more easily transfer the new knowledge being created back to the parents. Also, the presence of these expatriates in the early days of the IJV ensured that the IJV did not develop an organizational culture that clashed sharply with the organizational cultures of the parent firms.

The general approach to managing diversity taken by the organizations involved cross-border alliances has important implications for the issues faced at each stage of the development. If an acquiring firm expects to use the portfolio approach and allow an acquired firm to operate more or less autonomously, then there may be little need to invest resources in assessing the fit between the corporate cultures of the two firms during the initial planning stage. Assessing cultural fit at this stage may also seem relatively unimportant if the acquired firm expects to impose its own culture on the acquired firm. In contrast, assessing cultural fit and understanding the implications of cultural differences is more likely to be a high priority during the planning stage if the blending or new organization approach is adopted.

Failure and Success in Cross-Border Alliances

With the importance of and need for cross-border alliances' growth, and the base of experience expanding, it may seem reasonable to also assume that success is more likely to occur than failure in these types of combinations. In fact, the opposite is true.

Failure Rates Statistics show that fewer than 20 per cent of all mergers and acquisitions in the United States achieve their financial objectives. In Europe, where international mergers and acquisitions (IM&As) are more common, success rates are very similar (Charman, 2000). Estimating the success rates of IJVs is more difficult, due in part to the different objectives that partners often have for such alliances. Learning and other nonfinancial goals may be met even when an IJV looks unsuccessful in terms of profits or other bottom-line indicators (Schaan, 1988).

Reasons for Failure Cross-border alliances between businesses fail for a variety of reasons, and often several reasons operate simultaneously. Typical reasons for failure include:

- Unrealistic expectations
- Hastily constructed strategy, poor planning, unskilled execution
- Inability to unify behind a single macro message
- Talent is lost or mismanaged
- Culture clashes between the partners go unchecked
- Lack of trust between managers from the previously separate firms
- Unexpectedly high costs associated with the transition and co-ordination

Of these, clashing cultures is among the most cited reason, and often this reason is intertwined with other reasons (Bianco, 2000; Weber 2000). In cross-border alliances, culture clashes are common, e.g., clashes due to differences in corporate cultures and clashes due to differences in country cultures. Of course, the two types may be related, and in any event they are difficult to disentangle from each other. The situation that DaimlerChrysler faced is not uncommon. Despite proclamations indicating that executives were hoping to blend together the best aspects of each company, the lack of true sharing and co-operation was soon evident – for example, Daimler executives refused to use Chrysler parts in Mercedes vehicles. Although DaimlerChrysler was "one" company in name, two separate operational headquarters were maintained; one in Michigan and one in Germany. Two years after this merger was legally completed, Daimler's Chief of Passenger Car's, Juergën Hubbert, was quoted as saying, "We have a clear understanding: one company, one vision, one chairman, two cultures" (The Economist, 2000).

The Nature of Cultural Diversity in Cross-Border Alliances

In this chapter, we use the term culture to refer the unique pattern of shared assumptions, values, and norms that shape the socialization, symbols, language, narratives and practices of a group of people. Thus, culture provides a context for interpreting events and assigning meaning (Rafaeli and Worline, 2000; Trice and Beyer,, 1993; Denison, 1996). Cultures develop in both large and small groups of people, so cultural differences occur at many levels. Some cultural differences become most evident when comparing large geographic regions, while others can be found at the level of countries, regions within countries, industries, organizations, occupational groups, demographic groups within a country, and so on. For any particular international joint venture, merger or acquisition, cultural differences at many or all of these different levels are likely to be relevant. The specific nature and location of a cross-border alliance determines which elements of culture become most salient and require the most attention.

National Cultures

Depending on the cultural distance between the national cultures involved in a cross-border alliance, managing differences in country cultures or regional cultures may be of relatively great or only minor significance. In some cross-border alliances, such as those between U.S. and Canadian business, differences in country cultures are relatively small. In others, however, cultural differences is such key areas as leadership styles and decision making procedures can be substantial (Brodbeck et al., 2000). Even when an alliance occurs between companies within a single country, cultural differences may be significant due to regional differences. A study of more than 700 managers in large cities in China suggests that there are at least three distinct regional subcultures in that country. Thus, cultural diversity may create just as great a challenge for an alliance between companies from different regions in China as it would for other cross-border alliances (Ralston, Kai-Cheng, Wang, Terpstra, and Wei, 1996).

Variations (or similarities) in the institutional environments of the alliance partners may further complicate (or help to alleviate) the challenge of managing differences due to national cultures. For example, the European Union, the Asia-Pacific Economic Cooperation, and the North American Free Trade Agreement all represent institutional arrangements that seek to provide a common framework or perspective that can be used to guide some relationships between companies in the member countries (see Luo, 2000). As these institutional arrangements become more well established, it is likely that cross-border alliances within an economic trade region will become easier even in the face of significant differences in national cultures. Nevertheless, even within economic trade zones, differences in institutional arrangements among countries result in differences in the functioning of corporate boards and top management teams as well as approaches to managing an organization's human resources (Brewster, 1995; Glunk, Heijltjes, and Olie, 2001; Mayer and Whittington, 1999).

Industry Culture Similarly, differences in industry cultures may be important in some cross-border alliances and nearly irrelevant in others. Industry boundaries are both fuzzy and unstable, so the question "What industry are we in?" isn't always easy to answer. Furthermore, some companies compete by constantly pushing at the boundaries of the industry and, eventually, redefining the industries in which they compete (Hamel, 2001;Hamel and Prahalad, 1994). Nevertheless, companies within an industry experience similar patterns of growth and eventually a common industry culture may develop. Unfortunately, there is very little empirical research evidence available to use in understanding industry-based cultural differences. An exception is the work of Hofstede (1997), who suggested that industry cultures can be described using four dimensions: employee-oriented vs. job-oriented; parochial vs. professional; open vs. closed system; and loose vs. tight control. Although Hofstede's dimensions for describing industry differences have not been widely used in empirical research, his work supports the assumption that cultural clashes are more likely to be disruptive in alliances that are formed by firms that formerly had competed in different industries.

Organizational Cultures

As is true for industry cultures, describing differences in organizational cultures can be difficult because there has been little empirical work directed at understanding the nature of these differences and how they are manifested across different countries (Adler and Jelinek, 1986; Aquinis and Henle, in press). One popular typology for describing organizational cultures uses two dimensions to create a typology of four cultures, with each culture characterized by different underlying values. In this typology, one dimension reflects the formal control orientation, ranging from stable to flexible. The other dimension reflects the focus of attention, ranging from internal functioning to external functioning (Quinn and Rohrbaugh, 1983; Hooijberg and Petrock, 1993).

Based on research in ten companies located in three European countries, Hofstede proposed using six dimensions to conceptualize organizational cultures (Hofstede, Neuijen, Ohayv, and Sanders, 1990): process versus results orientation; employee versus job orientation; parochial versus professional; open versus closed system; loose versus tight control; and normative versus pragmatic. Rather than reflecting different values, these dimensions reflect differences in management practices (see also Peterson and Hofstede, 2000).

Using yet a third approach to conceptualizing organizational culture, the GLOBE project (Dickson, Aditya, and Chhokar, 2000; House and colleagues, 1999) has made the assumption differences in organizational cultures can be understood using the same dimensions that differentiate among national cultures.

Domestic Sub-Cultures

In any organization, differences in personality and behavioral styles contribute to workforce diversity. Other forms of domestic diversity are associated with membership in various demographic groups. Within the United States, research on domestic cultural diversity is based on the assumption that membership in some demographic groups results in socialization experiences that effectively create identifiable subcultures within a national population. Gender, ethnicity and age are the characteristics most often associated with demographic cultural influences. Of course, differences found among demographic groups within a country are shaped by and also contribute to the country's national culture. For example, gender differences appear to be more pronounced in some countries than others as do the relationships between men and women (Best and Williams, 2001; Williams and Best, 1990). Furthermore, in other countries, it is likely that meaningful cultural variations are associated with other demographic subgroups – for example, cultural differences due to religion may be more salient while those due to race or ethnicity may be less salient. Regardless of which other forms of diversity must be managed in cross-border alliances, domestic diversity is always an issue.

In the Davidson-Marley IJV, the Dutch workforce hired to staff the manufacturing plant shared a societal culture, but other forms of domestic diversity proved challenging nevertheless. Recruitment and selection practices intentionally

sought to represent the demographic diversity (gender, age, and so on) of the Dutch labor market within the plant. Additional diversity was introduced unintentionally, however, because employees were hired in two distinct waves. All employees who were hired had to meet the same technical skill requirements, but different personalities were sought during these two hiring waves. In selecting the first 100 employees, the IJV sought people who were willing to contribute to building up the firm in its pioneering phase. Good problem-identification and problem-solving abilities were needed. In addition, the IJV looked for employees with an international orientation because these employees would be traveling to the U.S. or the U.K. to receive training.

A Dynamic, Multi-Level Model of Cultural Diversity

Scholars who study culture at different levels of analysis disagree about how to describe cultures, the social levels of analysis at which it is appropriate to apply the concept of culture, and many other issues that are beyond the scope of this chapter. [An overview of these issues can be found in Ashkanasy and Jackson (2001). For more detailed discussions, see Ashkanasy, Wilderom and Peterson (2000)]. Without attempting to either summarize or resolve these debates, in this chapter we make some simplifying assumptions about the nature of "culture".

One assumption is that our understanding of the consequences of cultural diversity in cross-border alliances can move ahead without resolving questions about how best to assess the "content" of culture. We do not intend to suggest that empirical work of a comparative nature is unimportant. However, a complete understanding of the ways that the cultures of various subgroups are similar or different from each other is not needed in order to begin to understand how the presence of cultural differences shapes behavior in organizations. That is, we assume that the structure of cultural diversity represented in the four prototypical approaches to managing cross-border alliances, described above, has some predictable consequences, and that these arise regardless of the content of the cultural diversity present in a specific cross-border alliance.

We also assume that the behavior of an individual is influenced by multiple cultures, which are associated with the person's multiple memberships in and identification with a variety of overlapping and intersecting social entities (societies, organizations, professions, ethnic populations, and so on). These multiple cultures provide the individual with a variety of value systems (which need not be consistent with each other) for interpreting and responding to events in the environment. Depending on the social setting, some of the value systems available to an individual become more salient and important in guiding behavior. This perspective of how cultures impact behavior is consistent with social identity theory, which views social identification processes as situationally determined.

Jackson, May and Whitney (1995) developed a model to illustrate how domestic diversity influences behavior in organizations. Here we have adapted their model to illustrate how many aspects of cultural diversity can combine to influence the behavior of employees in cross-border alliances. First, we describe

the model and then we illustrate its implications for understanding the challenge of managing cultural diversity in cross-border alliances.

Levels and Dynamics of Cultural Diversity

Shown in Figure 2.3, the model recognizes that the cultural context includes several layers or levels. To some extent, these layers of culture are nested, with the more inclusive levels of culture operating as constraints around the "lower" levels of culture. For example, the organizational cultures of single-business domestic firms tend to be constrained by and reflect their country and industry cultures. We do not intend to imply that the more inclusive levels of culture determine the cultures of more delimited social systems, however. Nor do we intend to suggest that a lower-level social system is fully nested within only one higher-level social system. Indeed, for cross-border alliances, this is definitely not the case – instead, at least some individuals (e.g., the top management team) within any organization formed by a cross-border alliance are embedded in multiple organizational and country cultures, and perhaps also multiple industry cultures.

Recognizing that cultural diversity can be created in many ways, the model shown in Figure 2.1 organizes constructs into four general categories that are linked as follows: cultural diversity → mediating states and processes → short-term behavioral manifestations → longer-term consequences. The model can be used to analyze the behavior of individuals, dyads, and larger social units, such as work teams, departments, business units, and so on.

Cultural Diversity

Beginning on the left, the content and structure of cultural diversity are viewed as (partial) determinants of the way people feel and think about themselves and each other. The content of cultural diversity simply refers to the specific values, norms, language and other elements of a culture. The structure of cultural diversity refers to how cultural differences are distributed within the team or organization.

The specific circumstances of a particular cross-border alliance mean that both the structure and content of cultural diversity may be somewhat unique to each alliance. For example, in the development stage of IM&As, the structure of organizational-level diversity within the integration teams is likely to be balanced (or, some might describe it as polarized), especially if the partners adopt a blending approach for managing diversity. If each of the partners is a domestic firm with little societal-level diversity represented, then the integration team also will be balanced in terms of societal cultural diversity. In this situation, the alignment of societal and organizational membership reinforces the cultural divide between the subgroups within the team, creating a cultural fault-line (Lau and Murnighan, 1998).
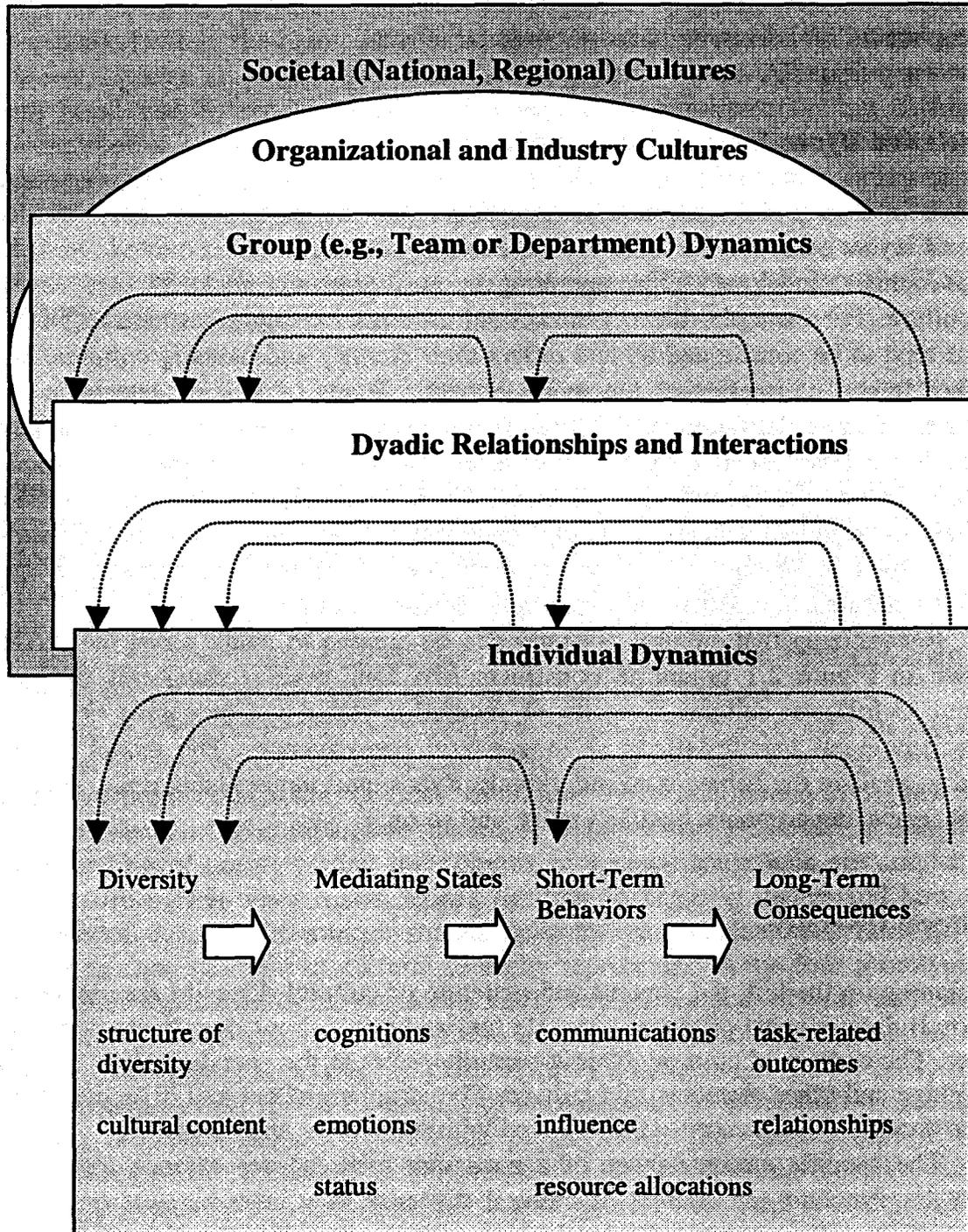
Figure 7.3: The dynamics of cultural diversity in IJVs and IM&As
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Next, consider the example of an IJV that is located outside the countries of the two parents and staffed completely with local talent. In that case, there may be little societal diversity within the IJV. Nevertheless, if employees were hired from the local external labor market, a great deal of organizational and industry-based diversity may be present. If the local labor market for jobs is demographically

diverse, and if employment practices encourage hiring across the full range of the labor force, then demographic diversity will also be present in the workforce. Under this scenario, the expectation might be that the structure of diversity should not create a strong fault-line or polarization between any two groups. Nevertheless, cultural faultlines and polarization may arise even under this type of scenario.

In the Davidson-Marley IJV, a cultural fault-line was inadvertently created among employees in the Dutch manufacturing plant. The fault-line developed because employees were hired in two distinct waves. The first group of 100 employees who were hired worked in a start-up operation and were deeply involved in working out the details of how the operation was run. After the new plant was established and growing, the IJV hired 200 more employees. For this wave of hiring, they sought people who were willing to accept and adjust to the management practices of the now-thriving operation, and who could work well in teams. Thus, differences in the job tenure of employees were aligned with differences in personality. Furthermore, due to the timing of the hires, these two waves of employees found themselves working under different employment contracts. And, due to the seniority differences in the two groups, those who were hired first were always assigned to more advanced job categories and received higher pay. This divide within the workforce created unexpected conflicts, and in retrospect, the HR manager realized that it would have been better to hire on a continuous basis rather than in two distinct waves (van Sluijs and Schuler, 1994).

The content of cultural differences has received the most attention in past research. However, research on group dynamics clearly shows that the structure of cultural diversity has important consequences. For example, inter-group conflict is almost inevitable when cultural fault-lines are present, regardless of the cultural values or norms that separate the groups. In contrast, when differences are more broadly distributed and diffuse, problems of co-ordination may be more problematic than overt conflict, especially in the early stages of a group's development. However, given enough time, very diverse multinational teams in which there is no opportunity for nationality-based cliques to form can overcome these problems and outperform more homogeneous teams in the long run (Earley and Mosakowski, 2000).

Mediating States and Processes

Mediating states and processes refer to the individual thoughts and feelings through which the effects of cultural diversity are translated into observable behaviors. These mediators include emotional reactions (e.g., attraction, discomfort, and admiration) and cognitive structures (e.g., mental models and stereotypes) as well as perceptions of status and power.

Emotional Reactions Regardless of the basis for identifying people as similar or dissimilar, people tend to feel more comfortable with and positive about others who they perceive to be similar. Loyalty and favoritism characterize interactions with similar others while distrust and rivalry characterize interactions with those

who are dissimilar. The tendency to be attracted to and biased in favor of similar others is so pervasive that it operates even when people judge their similarity based on meaningless information (such as randomly determined group membership).

At the level of teams and larger organizational units, feelings of attraction or liking among members translate into group cohesiveness. Although there has been little research on the effects of shared societal, industry or organizational cultures on group cohesiveness, there is a great deal of evidence showing this effect of similarity for other background characteristics, including age, gender, race, education, prestige, social class, attitudes and beliefs (Jackson et al., 1995). As will soon become apparent, this similarity-attraction-cohesiveness dynamic can have important consequences for the emotional landscape within which members of cross-border alliances conduct their work.

Cognition Cultural diversity also shapes the cognitive landscape of cross-border alliances. In order to simplify and make manageable a world of infinite variety, people naturally rely on stereotypes to inform their evaluations of others, guide their behavior towards others, and predict the behavior of others. Mental models are another cognitive short-cut for making sense of a complex world and deciding how to act. In work organizations, the mental models of employees may include beliefs about the priority assigned to various performance objectives (e.g., speed versus friendliness in customer interactions) and well as beliefs about cause-and-effect relationships (e.g., what a group should do if it wants to increase speed). The content of stereotypes and mental models reflect past experiences, and are almost inextricably bound up with the content of a culture (e.g., see Beyer, 1981; Leung, 1997; Leung, Au, Fernandiz-Dols, and Iwawaki, 1992). Furthermore, stereotypes and mental models influence what aspects of the environment people attend to and they guide the actions people take. Thus, they can either contribute to or interfere with co-ordinated action. When cultural diversity results in greater diversity of stereotypes and mental models, misunderstandings among employees are more likely, so more time and effort will be needed to avoid or correct the harm that such misunderstandings may cause.

Status Even in the flattest and most egalitarian social systems, some groups enjoy more status than others. Although cultures differ in the role that status plays in shaping interactions, status differences are recognized in all cultures.

In cross-border alliances, status hierarchies may reflect differences in the sizes and reputations of the organizations involved, as well as the specific circumstances of the alliance. Although we know of no research that has investigated status dynamics within joint ventures or M&As, anecdotal evidence suggests that employees of acquired firms experience feelings of lost or lower status. Status relationships may also be shaped by an acquiring firm's use of the absorption approach to managing cultural diversity, which implies that the culture is to be subsumed or obliterated.

The dysfunctional effects of status characteristics are likely to be greatest when low status individuals have resources or expertise that the work group needs to perform their task, and high status people do not. Compared to those with lower

status, higher status persons display more assertive non-verbal behaviors during communication; speak more often, criticize more, state more commands, and interrupt others more often; have more opportunity to exert influence, attempt to exert influence more, and actually are more influential (Levine and Moreland, 1990). Consequently, lower status members participate less. Because the expertise of lower-status members is not fully used, status differences inhibit creativity, contribute to process losses, and interfere with effective decision making.

In newly formed cross-border alliances, observed conflicts often are attributed to disagreements that reflect an ongoing contest over the establishment of a status hierarchy among the members of the organization. In the case of acquisitions, the status hierarchy is perhaps most quickly established, with higher status going to members in the acquiring firm. In deals described as mergers, power-sharing structures may be set up to communicate the message that employees from the two firms are to be accorded equal status. Such structures seldom endure however, and a clear status hierarchy eventually emerges. Similarly, joint ventures often are structured to communicate a message of equality among the partner firms. Inevitably, however, status hierarchies emerge and become established within the joint venture firm (e.g., see Salk and Shenkar, 2001; Yan and Luo, 2001).

Short-Term Behavioral Manifestations

Short-term behavioral manifestations of cultural diversity refer to the observable interpersonal behaviors that are affected by the content of structure of diversity within a group or organization. Among the most important behaviors for understanding how diversity affects organizations are; communication, resource sharing and influence attempts.

Communication Because different cultures use different languages and communication styles, misunderstandings are common when people from different cultures attempt to communicate. Despite careful planning for the Davidson-Marley IJV, the American engineers who designed the Dutch manufacturing plant sent measurements calculated in feet, inches and U.S. gallons, which meant that local Dutch engineers had to convert all of the measurements before letting contracts and gaining approval from government officials. However, low fidelity communication and misunderstandings are not the only short-term manifestations of cultural diversity – and they may not be the most important. Cultural diversity also shapes who speaks with whom, how often and what they speak about. That is, cultural diversity shapes the structure of communication as well as its content (for examples of this in cross-border alliances, see Luo, 2001; Salk and Shekar, 2001).

In general, the structure of an organization's communication network is likely to reflect the structure its cultural diversity because, just as people are attracted to similar others they spend more time in communication with similar others (Brass, 1984; Lincoln and Miller, 1979). Although they are not well-documented, these same dynamics are likely to shape communication networks in cross-border

alliances. That is, the more diversity that is present in a cross-border alliance, the more fragmented communication networks are likely to be.

Resource Allocation Through their communications, members of an organization seek, offer, and negotiate for work-related information and resources. Each person's access to information and resources, in turn, has important consequences for the individual's performance as well as the group's performance. Access to resources also determines other important outcomes, such as whether a person can take advantage of personal and career enhancing opportunities within the organization. Research conducted in laboratory settings shows that people who are similar share resources more readily (Brewer; 1979; Kramer and Brewer, 1984; Tajfel,1978). Presumably, the same is true in organizational settings (Ilgen, LePine and Hollenbeck, 1999; Armstrong and Cole, 1996).

Social Influence The basic dynamics of social influence include attempts aimed at changing the attitudes and behaviors of others as well as the responses made to such attempts. Social influence processes appear to be a universal aspect of group behavior that is found in most cultures (Mann, 1980). Nevertheless, the specific influence tactics used and the means through which conformity is expressed are somewhat culture bound. Comparative studies of social influence reveal a variety of differences among national cultures (Smith, 2001). For example, in collectivist cultures, people are relatively more responsive to influence attempts; that is, they conform more to social pressure from others (Bond and Smith, 1996). Comparative studies also show that managers from different cultural backgrounds use different influence tactics in their attempts to influence subordinates (Sun and Bond, 1999).

Unfortunately, there have been few investigations into how influence processes are affected by cultural diversity. However, findings such as these suggest that the contours of cultural diversity in an organization are likely to shape how, and how effectively influence is wielded.

Long-Term Consequences of Cultural Diversity

So far, we have argued that the cultural diversity present in cross-border alliances has important implications for employees' emotions, cognitions, and interpersonal behaviors. In this section, we describe the longer-term consequences that are the reasons why cultural diversity is important for organizations to understand and learn to manage. Several published reviews of the extensive literature addressing this topic suggest that cultural diversity can affect organizations and individuals in a variety of ways – some effects are potentially beneficial and others may be detrimental; some are directly relevant to the organization's performance and others are personally relevant to individual employees. (For more details, see Jackson, 1992; Williams and O'Reilly, 1998; Milliken and Martins, 1996).

Potential Benefits of Cultural Diversity In alliances that adopt either a blending approach or a new organization approach, it is likely that the executives who

promoted the alliance believed that (a) the creation of an alliance would enable the partners to learn from their differences, and/or (b) the new organization would approach issues in new and innovative ways that were less likely to be found in either of the partner organizations. The establishment of NUMMI by Toyota and General Motors is a well-known example of a U.S. auto maker's attempt to learn about the lean manufacturing methods that were being used so successfully in Japan. Conversely, Toyota was able to gain access that enabled them to learn about the competitive strategies of their partner and to more easily monitor developments within the U.S. auto industry (Doz and Hamel, 1998).

When learning is cited as an objective for alliances, the learning process often is depicted as one partner learning something that the other partner already knows. In other words, learning is viewed as knowledge transfer. For knowledge transfer opportunities to be valuable, the two partners must have different knowledge bases – or example, one partner may hope to acquire knowledge that the other partner has about a national market and its culture, a different industry, or a different technology or management system, etc. This view of learning through knowledge *transfer* may understate the value of knowledge diversity in alliances where learning is a key objective, however, because it ignores the potential value of diversity as a catalyst for knowledge creation.

Knowledge creation occurs when new problems are identified or new solutions are developed to address well-known problems. For teams working on tasks that require developing new and creative solutions to problems, diverse perspectives seem to be beneficial on several counts. During the environmental scanning that occurs in the earliest phase of problem-solving, people with diverse perspectives can provide a more comprehensive view of the possible issues that might be placed on the group's agenda. Subsequently, discussion among members with diverse perspectives can improve the group's ability to consider alternative interpretations and generate creative solutions that integrate their diverse perspectives. As alternative courses of action and solutions are considered, diverse perspectives can increase the group's ability to foresee a wide range of possible costs, benefits, and side-effects. Finally, diversity can enhance the group's credibility with external constituencies, which should improve their ability to implement their creative solutions (for a detailed review, see Jackson, 1992).

It seems reasonable to assume that the presence of diversity creates opportunities for learning – including learning that occurs through knowledge transfer and learning that is associated with creativity and innovation. Unfortunately, however, there has been very little research on how cross-border alliances can take advantage of such learning opportunities. In fact, there are many reasons to believe that the partners in cross-border alliances often are not able to take advantage of the learning opportunities that their diversity presents because cultural diversity also generates conflict and turnover.

Detrimental Effects of Cultural Diversity Cultural diversity seems to interfere with the development of cohesiveness among members of an organization. An important caveat to note here, is that this conclusion is based almost exclusively on research investigating the cultural diversity associated with demographic

differences. Nevertheless, the pattern of greater diversity resulting in lower levels of cohesiveness has been found for diversity in age, gender, race, education, prestige, social class, attitudes and beliefs.

Low levels of cohesiveness can be detrimental to both organizations and individual employees. The positive feelings of attraction to coworkers which is present in a cohesive organization promote helping behavior and generosity, cooperation and a problem – solving orientation during negotiations (for a review, see Isen and Baron, 1991). Cohesiveness may also translate into greater motivation to contribute fully and perform well as a means of gaining approval and recognition (Chattopadhyay, 1999). If cultural diversity reduces these positive social behaviors, the performance of individuals as well as the organization as a whole is likely to suffer.

In addition to lowering feelings of attraction and cohesiveness among co-workers, dissimilarity often promotes conflict, which may influence one's decision to maintain membership in a group or organization. This was illustrated in a study of 199 top management teams in U. S. banks. During a four-year period, managers in more diverse teams were more likely to leave the team compared to managers in homogeneous teams. This was true regardless of the characteristics of the individual managers, and regardless of how similar a manager was to other members of the team. Simply being a member of a diverse management team increased the likelihood that a manager would leave (Jackson, Brett, Sessa, Cooper, and Julin, and Peyronnin, 1991). Presumably, more diverse teams experienced greater conflict and were less cohesive, creating feelings of dissatisfaction and perhaps increasing the perceived desirability of other job offers. Some evidence indicates that the relationship between diversity and turnover holds in cultures as different from each other as the United States, Japan (Wiersema and Bird, 1993), and Mexico (Pelled and Xin, 1997). As Hambrick and his colleagues have described, when diversity in the top management group of an IJV creates interpersonal conflict, the results is likely to be a downward spiral in the IJV's effectiveness (Hambrick, Li, Xin, and Tsui, 2001).

Implications for Managing Cultural Diversity in Cross-Border Alliances

Organizations that engage in cross-border alliances do so for a variety of reasons. Regardless of those reasons, however, they must effectively manage cultural diversity of many forms in order to achieve their objectives. Ideally, the employees who participate in cross-border alliances will be able to leverage their differences for the benefit of the organization while at the same time enriching their own experiences. But how can this ideal be achieved, given all of the interpersonal challenges that diversity creates?

Soft due diligence processes are perhaps the most widely used tools for managing cultural diversity in cross-border alliances. Through soft due diligence, alliance partners seek to identify the cultural differences that must be addressed in order for an IJV or IM&A to succeed. If cultural differences between partners are judged to be too great given the preferred approach for managing diversity

(portfolio, blending, new creation, or absorption), a deal may be halted (e.g., see Coff, 2002). More typically, the soft due diligence process is used to develop a plan for changing current HR practices or instating new ones. We cannot provide a complete discussion of human resource management in cross-border alliances here (for an excellent and more extensive discussion, see Evans, Pucik, and Barsoux, 2002). Instead, we simply provide examples of how HR practices might possibly be used in cross-border alliances to improve the ability of the organization to effectively leverage its diversity. We do not intend for these examples to serve as prescriptions for managing the many aspects of diversity present in cross-border alliances. Rather, we offer these as proposals that require verification through further research. Our proposals are grounded in the work of Allport (1954), who addressed the question of how to reduce prejudice and its negative consequences. Allport hypothesized that the following conditions were necessary in order for intergroup contact to lead to reduced prejudice: active striving toward a common goal that requires interdependent co-operation, equal status shared by members of each group, and explicit social sanctions supporting the development of intergroup relationships. After reviewing research designed to test Allport's theory, Pettigrew (1998) concluded that creating these conditions requires learning about the other group, creating positive emotions, gaining new insights, and creating behavioral change. Thus, Allport's original theory and subsequent research designed to test his theory suggests six conditions that must be created in order to effectively manage cultural diversity in cross border alliances:

1. A shared understanding of the objectives for the alliance
2. A belief that each partner contributes to the success of the alliance, and thus is deserving of equal esteem and respect
3. An organizational culture that rewards cooperation between members of different cultural groups, and penalizes behavior that appears to be biased or prejudicial
4. Opportunities for members of different cultural groups to learn about and from each other
5. Opportunities for members of different cultural groups to develop personal friendships
6. Activities that encourage everyone to reflect on their own values and gain insights into how their values influences both their own behaviors and the ways that they interpret the behaviors of others.

To maximize the probabilities of success, participants in cross-border alliances should attend to creating these conditions at each evolutionary stage of the alliance. Following these principles is likely to improve the chances of success of all types of cross-border alliances, but the criticality of each principle at each evolutionary stage may depend on the general diversity management approach being followed (portfolio, blending, new creation, absorption), as well as the total amount of diversity within the alliance.

As described next, a variety of human resource management practices may be helpful for organizations that wish to create the conditions needed for success in

the presence of considerable amounts of cultural diversity. Together, the entire set of practices should communicate a single message to employees (e.g., see Jackson and Schuler, 2003).

Work and Organization Design

Throughout all evolutionary stages of IJVs and IM&As, teams are a basic form of organization. During pre-combination and formation, teams typically serve to ensure that the perspectives of all alliance partners are represented when key decisions are made. During the early stages of evolution, teams may be used to assess cultural similarities and differences between the partners and plan for their integration. As an alliance evolves, teams may continue to be used to facilitate co-ordination on daily activities and ensure transfer of learning. In the DaimlerChrylser merger, for example, over 100 integration teams were used to handle co-ordination between the various functional areas and the different management levels in the organization (Charman, 1999). Most of the practices described below apply to the management of all the various teams and task forces likely to be present in IJVs and IM&As, as well as to the organization's workforce as a whole.

Staffing

Throughout the lives of IJVs and IM&As, numerous staffing decisions must be made, including decisions regarding who to hire, who to promote, and perhaps who to let go. In addition to ensuring that an alliance is staffed with people who have the technical proficiencies required, staffing practices can improve the organization's effectiveness by identifying individuals who are more likely to be effective working amidst cultural diversity. Staffing practices also should be sensitive to the composition of teams (i.e., the content and structure of cultural diversity).

Staffing for cross-cultural competency Based on their experiences and a review of the literature, Schneider and Barsoux (1997) proposed a set of behavioral competencies needed for effective intercultural performance. These included: linguistic ability; interpersonal (relationship) skills; cultural curiosity; ability to tolerate uncertainty and ambiguity; flexibility; patience; cultural empathy; ego strength (strong sense of self); and a sense of humor. When evaluating employees for staffing decisions, competency models such as this one provide useful guidance that can increase an organization's ability to staff its alliances with employees who easily adjust to and enjoy cultural diversity. However, it should be noted that competency models for cross-cultural adjustment often are developed based on the experiences of expatriates (e.g., Tung, 1981; Black, Gregersen and Mendenhall, 1992). While expatriate assignments may share some similarities with IJV or IM&A assignments, there also are many differences. Much more research is

needed to identify the personal characteristics most likely to contribute to success in these settings. When an organization's strategy requires that it participate in a large number of IJVs and IM&As, it has the opportunity to conduct such research. Doing so can help it further refine its understanding of how various personal characteristics relate to the performance of employees in culturally diverse organizations.

Staffing for composition Cross-cultural alliance partners often establish teams to ensure the airing of multiple perspectives prior to decision making. Especially during the early stages of the alliance's evolution, these teams often are staffed with equal numbers of representatives from each partner involved in the alliance. For example, following a merger, this tactic might be used ensure that the two companies have equal representation in the new top management team (Schwieger, Ridley and Marini, 1992). This tactic also is likely to be used when forming the board that overseas an IJV, when staffing IM&A integration and transition teams, and so on.

While representational staffing has many benefits, it may inadvertently lead to unnecessary conflict, divisiveness and turnover if it creates teams characterized by strong faultlines. Faultlines can be avoided if staffing decisions take into consideration the structure and content of diversity created by a combination of people selected to staff a team. In other words, selecting the "best" people for a team assignment involves more than evaluating the performance potential of individuals – it requires evaluating the performance potential of the team as a whole.

In addition to avoiding the creation of teams or departments with clear faultlines, staffing decisions also need to consider the status dynamics that are likely to arise within a team or organizational unit. When members of a group perceive a clear status hierarchy, lower participation and involvement can be expected from those at the lower rungs of the hierarchy, regardless of their actual expertise and knowledge.

Training and Development

Training and development activities can address a number of challenges created by the cultural diversity present in IJVs and IM&As. Training to improve cultural awareness and competencies may seem the most relevant form of training for improving inter-cultural relations, but appropriate business training should also be helpful.

Cultural awareness and competency training Perhaps most obviously, cultural awareness and competency training can quickly teach employees about cultural similarities and differences, and perhaps diminish their reliance on inaccurate stereotypes. Although stereotypes can be resistant to change, they can be modified with sufficient disconfirming evidence (Triandis, 1994).

As implied by our earlier discussion of the many types of cultural diversity present in some IJVs and IM&As, awareness training should not be limited to learning about national cultures – employees may also benefit from information about differences (and similarities) due to regional locations, industries, organizations and membership in various demographic groups. Besides imparting knowledge, effective training provides employees with opportunities to practice and hone their interpersonal skills. Nor should awareness training be viewed as a one-time event. Educational briefings may be helpful initially, but as the alliance evolves, more intensive team-building workshops and joint problem-solving sessions will likely be needed as employees experience the many implications that cultural diversity has for their daily interactions.

Business training The potential benefits of cultural awareness training seem obvious, but business training also can improve the alliance's ability to manage its cultural diversity. Business training can help to establish two of the conditions that enable diverse groups to reap the benefits of their diversity: an understanding of shared goals and mutual respect. Unless participants in an alliance believe they share the same interests, they may assume a competitive relationship exists between the alliance partners. Furthermore, unless they understand why the capabilities and resources of each partner are needed to succeed in achieving their shared goal, they may perceive that the contributions of one partner are more important, more valuable, and thus more deserving of respect. Through business training, employees in an alliance can develop an appreciation for how the capabilities and resources of each partner can contribute to success. For example, if IJV partners enter a relationship that is not based on a 50-50 equity relationship, employees in the venture may assume that higher equity partner will ultimately have more influence and control, placing the lower equity partner in a position of lower status. Yet, in such a venture, it is likely that the intangible resources of the lower equity partner are essential to the venture's success (Yan and Gray, 1994). Thus, teaching employees about the complementary value of capital and intangible resources provides employees with a solid foundation for developing mutual respect.

Performance Management

For any organization, performance management is an important and very complex aspect of human resource management. For IM&As, creating a unified performance management system is perhaps the greatest challenge faced by organizations that seek to blend two disparate cultures (Fealy, Kompare, and Howes, 2001). For IJVs, a major challenge is creating a performance management system that aligns the interests of managers in the venture with those of the parents (Evans et al., 2002). In addition to contributing to employee's performance in the technical aspects of their jobs, performance management systems can improve cross-cultural relations by ensuring that employees' efforts are directed toward shared goals, providing them with feedback that provides insights about how

people from other cultures interpret their behaviors, and rewarding them for developing the competencies required to be effective in a culturally diverse organization.

Shared goals and objectives Training programs can inform employees about the shared goals of alliance partners, but performance management systems must convince employees that the rhetoric is also the reality. Ideally, at each evolutionary stage, all employees involved will understand how their performance is assessed and how performance assessments relate to the goals for the alliance. Rewards and recognition for performance that contributes to achieving the alliance goals serve to reinforce the message.

Feedback that promotes insight The norms that govern giving and receiving feedback in various cultures differ greatly, yet in any culture giving and attending to feedback is necessary for maintaining effective relationships. Cultural differences mean that feedback communications are particularly prone to misunderstandings and misinterpretations. One response to such problems is to avoid giving feedback to people from other cultures. Well-designed performance management practices can ensure that employees receive the feedback they need in a culturally appropriate way.

Rewards for developing cultural competencies Often organizations provide training but do not mandate full participation nor do they reward employees who apply the training lessons in their work. According to a study involving several hundred U.S. organizations, the success of domestic diversity interventions was enhanced when supporting sanctions were in place. Requiring everyone to attend cultural awareness and competency training communicates their importance, as does providing rewards to employees who provide evidence of improvement (Rynes and Rosen, 1995).

Organizational Development and Change

Organizational development and change activities can serve many purposes during the formation and subsequent management of cross-border alliances. Here we focus on organization development aimed at developing the informal organization. Research and anecdotal evidence alike point to the important role of personal friendships in the success of cross-cultural alliances. For example, in explaining the factors that resulted in a successful joint venture between an Italian and U.S. firm, managers pointed to the strong friendship between the two chairmen of the parent companies. Conversely, the lack of personal friendships between employees at FESA – a joint venture between Japanese Fujitsu and Spanish Banesto – made it difficult for them to develop the level of trust that was required in order for learning and knowledge transfer to occur (Yan and Luo, 2001).

Due to the many forms of cultural diversity that often are present in cross-border alliances, employees may find it more difficult than usual to develop close

personal relationships with their colleagues from other cultural backgrounds. Yet, the positive feelings associated with one close friendship with someone from an "outgroup" culture (e.g., the joint venture partner) are likely to generalize to the entire group (Pettigrew, 1997). Thus, organizational development activities that help employees develop even a few friendships may be quite beneficial to an alliance. As is true for all HR practices, however, a major challenge is designing activities that have the intended effects across all segments of the organization. OD interventions are most effective when the assumptions that guide the OD activities fit the assumptions of the culture (Aguinis and Henle, in press Hui and Luk, 1997; Jaeger, 1986). Within culturally diverse organizations, meeting this condition is particularly challenging. The assumptions underlying an OD effort may be congruent with the cultural background of some employees, but unless there is little cultural diversity, the same assumptions will not be shared by all employees.

Conclusion

As businesses globalize, they will continue to use cross-border alliances as a means to expand and grow both their operations and knowledge base. To succeed, such businesses must effectively manage the many forms of cultural diversity inherent in such organizations. Although IJVs and IM&As represent only two types of cross-border alliances, our discussion here illustrates how cultural diversity can affect alliances of other types. The challenge of managing cultural diversity involves much more than assessing the degree of cultural fit between alliance partners and creating plans to close (or otherwise manage) the cultural gap, for example, by designing a new HR system. Creating alignment among the formal systems is a necessary first step, but additional efforts are needed to ensure that organizational structures do not create additional barriers to cross-cultural collaboration and to develop a workforce with the competencies needed to work effectively amidst cultural diversity. Additional research that examines how organizations achieve these objectives promises to improve our understanding of both how to manage cultural diversity and how to improve the effectiveness of cross-border alliances.

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