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Cultural distance and its implication for the duration of the international alliance in a high technology sector

Tariq H. Malik*, Yanzhi Zhao

International Centre for Organization and Innovation Studies (ICOIS), Dongbei University of Finance & Economics, Dalian 116025, China

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ABSTRACT

This study examines the role of cultural distance in the duration of an international alliance in a high technology sector. The general view is that cultural distance between international partners can hamper the duration of the alliance. We propose the alternative argument that cultural distance can be a source of the alliance duration. We use cultural distance based on widely perceived five cultural dimensions (Hofstede et al., 2010). Overall, the result supports the proposition. The distance based on masculinity, uncertainty avoidance and long-term orientation tends to increase the duration of the alliance. The distance based on power distance and individualism tends to decrease the duration of the alliance. Nevertheless, the composite measure based on all five dimensions also shows a positive effect on the duration of the alliance. The study concludes that learning alliances prefer diversity of knowledge sources. Knowledge transfer is a context dependent phenomenon. The diversity of the context delays knowledge transfer. Therefore, learning alliances tend to be longer when there is a cultural distance between international partners. The article notes some implications and limitations for the future research.

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1. Introduction

Most of the literature on international business alliance suggests that the duration of the technology alliance is shorter than its maturity. A majority of inter-firm alliance meets untimely mortality (Das & Teng, 2000; Dyer, Kale, & Singh, 2001; Park & Ungson, 1997). About 90% international alliances terminate before their maturity (Makino, Chan, Isobe, & Beamish, 2007). The short lifespan makes the alliance an interesting field of research and understanding. It is interesting for research because the alliance is a complex phenomenon, and its explanation dependents are multiple perspectives (Parkhe, 1993a). It is important for research because an unintended termination incurs high cost, increases uncertainty for the success of its objectives and decreases opportunities for its partners (Inkpen & Beamish, 1997; Madhok & Tallman, 1998). Hence, a shorter duration of the alliance is undesirable in business. Researchers face a common question, why international alliances are short-lived.

National cultural distance appears to be a common explanatory factor in the extant research. Several empirical studies have extensively used cultural distance as the main explanatory variable. For instance, some studies use national culture to explain the formation of the alliance (Mayroffer, 2004; Steensma, Marino, & Weaver, 2000; Steensma, Marino, Weaver, & Dickson, 2000). Other studies examine the link between cultural diversity and evolution of the alliance (Hennart & Zeng, 2002; Kumar & Nti, 2004). Some link cultural distance to foreign entry modes (Indora & Richards, 2007). Yet other studies

* Tel.: +65 9678 6792.

E-mail addresses: Tmalik@dufe.edu.cn, T.Malik@mbs.bbk.ac.uk (T.H. Malik), zyzhi@dufe.edu.cn (Y. Zhao).

find adverse effects of national culture on the performance of the alliance (Barkema, Bell, & Pennings, 1996; Beamish & Kachra, 2004; Kim & Park, 2002; Sirmon & Lane, 2004). Likewise, some others suggest that cultural diversity is responsible for the termination of the alliance (Folta & Ferrier, 2000a). Accordingly, cultural distance is the main impeding variable for the success of the alliance (Lenartowicz & Roth, 2004; Westwood & Posner, 1997) and its stability (Meschi & Riccio, 2008).

However, cultural distance also has potential as an enabling factor in the duration of a learning alliance. A learning alliance seeks knowledge exchange and technology transfer. A short duration of the alliance limits its learning potential. Therefore, the question should be whether and how cultural diversity influences the duration of the alliance. Since international alliances terminate 90% of the time before their maturity (Makino et al., 2007), it becomes relevant to understand the duration of the alliance. The current study is an attempt in this direction. It examines whether and how cultural diversity influences the duration of the learning alliance in a high technology setting. The purpose of this article is to extend prior literature in some minute ways.

Prior research suggests that cultural distance negatively influences the duration of the international alliance. This study proposes the opposite—cultural distance can positively influence the duration of the alliance. Prior studies focus on the financial and subjective performance of the alliance. This study focuses on the duration of the learning alliance in response to context-dependent knowledge transfer. Assuming that knowledge is context dependent, cultural distance between exchange partners can delay knowledge transfer. Therefore, the alliance intended for knowledge transfer (learning) is likely to have a relatively longer duration. Prior empirical literature uses binary status of the alliance—terminated vs. not terminated. This study uses a gradation in the duration of the alliance (Contractor & Lorange, 2004; Gulati, 1998; Hennart, Kim, & Zeng, 1998; Parkhe, 1991). Prior studies use governance mode as the outcome. This study uses governance mode as an alternative explanation (control variable) in the duration of the alliance. Cultural distance is the context-dependent phenomenon that influences the duration of an international alliance (Contractor, 2007; Mintzberg, 1985; Ring & Van de Ven, 2000). Thus, this empirical study aims to make some incremental contribution to the knowledge on the duration of the alliance by providing empirical evidence.

The empirical analysis seeks support for this proposition. The evidence can reveal some insights for the future research and practice as to why alliances may last longer when cultural diversity is greater. The next section develops the framework and testable propositions. Section 3 discusses research method. Section 4 presents results. Section 5 provides discussion with some implications and limitation of the study.

2. Framework

2.1. Definitions

Strategic alliances are “voluntary agreements between firms involving exchange, sharing, or co-developing of products, technologies, or services” (Gulati, 1998, p. 293). This definition also applies to international business alliances where partners come from different cultures. We define culture as “the collective programming of the mind which distinguishes the members of one group or category of people from another” (Hofstede, 1997, p. 5). Therefore, national culture provides “the common frame of reference or logic by which members of a society view organizations, the environment, and their relations to one another. National culture is likely to yield important effects on the process by which the environment is known and responded to” (Geletkanycz, 1997, p. 617). The underlying assumption in the culture-based framework is that distances in national cultures influence managerial mindset, which reflects on the inter-organizational interaction and duration of the alliance.

Cultural distance influences the duration of an alliance in two alternative ways. One view is that cultural diversity can shorten the duration of the alliance. Most studies assume the impeding role of culture distance in the duration of the alliance. Cultural distance cannot be reduced to zero between the international partners (Darr & Kurtzberg, 2000; Hakanson & Ambos, 2010). The influence of culture factors significantly in the international business research and practice (Chen & Li, 2005). Therefore, the cultural distance explains some variables in the duration of the alliance (Doz, 1996; Kale, Dyer, & Singh, 2002).

The perceived view is that cultural diversity hampers duration of the alliance. On the opposite, the argument in this study suggests that cultural distance can have an enabling role in the duration of a learning alliance. We use culture distance based on Hofstede's five dimensions.

2.2. Alliance-duration value

There is a broader agreement that most alliances create value overtime (Dussauge, Garrette, & Mitchell, 2000; Gulati, 1999; Kale et al., 2002; Kotabe, Martin, & Domoto, 2003). Mutual learning and satisfaction for the performance occurs from a relatively longer alliance (Geringer & Hebert, 1991). Empirical studies support that the duration of the alliance has a positive effect on the value of the alliance (Larsson, Bengtsson, Henriksson, & Sparks, 1999). A stable alliance creates value for the partners (Olk, 2002) by providing strategic positioning to the partner (Harrigan, 1986). Durable alliances are sources of learning capabilities (Kogut, 1988), and they increase partners' legitimacy (Nielson, 2007). Alliance partners expect value from a long-term relationship (Kale et al., 2002). In short, the alliance duration enables reducing opportunity and cost to the partners (Krishnan, Martin, & Noorderhaven, 2007). Therefore, the duration of the alliance and its value are positively correlated through knowledge transfer and technological development.

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