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Interpretive schemes in cross-national alliances
Managing conflicts and discrepancies

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Abstract

Purpose – The purpose of this paper is to propose a framework for understanding how alliance partners interpret alliance functioning and how these interpretations shape their subsequent behaviors. Also, to discuss how interpretive schemes in cross-national strategic alliances impact upon the management of the problems arising from the cultural conflicts and discrepancies inherent in such alliances.

Design/methodology/approach – Proceeding from the notion that interpretive schemes have important implications for the evolution of cross-national alliances, the paper describes the two fundamental interpretive schemes that relate to sensemaking – that of sensemaking *of* and *in* chaos, and examines how an appreciation of these interpretive schemes enable us to better manage cultural conflicts and discrepancies that inevitably arise in cross-national alliances.

Findings – The framework makes clear that the two types of interpretive schemes − "sensemaking *of* chaos" and "sensemaking *in* chaos" − need to be appreciated as interpretive frames that are present among the alliance managers to effectively interact and influence partner firms.

Practical implications – Briefly, the two types of the interpretive schemes call for different strategies for developing them. Alliance partners embedded in different national cultures rely on interpretive schemes to make sense of the conflicts and discrepancies that emerge in cross-national alliances.

Originality/value – The paper responds to the need of managers with alliance responsibilities for a framework to help develop the most effective ways of managing interpretive schemes in alliances for productive interactions and performance.

Keywords Conflict management, Strategic alliances, Cross-cultural management

Paper type Conceptual paper

Introduction

In this article we analyze the impact of national culture on the dynamics of cross-national strategic alliances. In recent years alliances have become an important tool in a firm's competitive strategy. A large number of these alliances bring together companies that have been exposed to different institutional environments. These differences are particularly salient in alliances that have been formed between Western and Asian companies. In a landmark study, Hamel (1991) observed that Asian firms out-learned their Western counterparts, and, in the process, strengthened their competitive position. A classic example of this dynamic is represented by the failure of the long-standing alliance between Borden and Meiji Milk (Cauley de la Sierra, 1995). Borden sought an alliance with Meiji Milk to penetrate the Japanese market. The alliance broke up when Meiji Milk sought to introduce products that were in direct competition with Borden. It appears that the alliance was a learning experience for the Japanese company. When they had achieved their objective, they sought to restructure their relationship. The case raises a number of key questions, namely – is this interpretation of alliance failure culturally neutral, i.e. does it provide an explanation

that transcends the cultural boundedness of either party? If it is not culturally neutral, then how is this failure to be interpreted from the Japanese standpoint? Furthermore, even if the Japanese sought to introduce products in the marketplace that were directly competitive with those of Borden, was this intentional or was it unintentional? Did Borden accidentally, or otherwise, act in ways that led the Japanese to lessen their commitment to the venture? In what way, and to what extent, did the actors' coping ability influence their interpretation of the alliance dynamics?

Another well-publicized alliance which experienced difficulty is the alliance between KLM and Northwest Airlines (Tully, 1996). Although the alliance had been making money, the personal chemistry among the top-level Dutch and American executives was less than optimal. As the President of KLM remarked, "The European way of doing business is very different from the American way." It is not surprising alliance managers who have been socialized in different institutional environments interpreted alliance dynamics in radically different ways. There is, after all, no one objective reality; there are multiple realities with each reality being constructed from the standpoint of a particular alliance partner. The idea that reality is socially constructed (Berger and Luckmann, 1966) and that it is subject to multiple interpretations is widely accepted in organizational theory (Morgan, 1979).

In this article, we attempt to analyze the impact of national culture on how alliance partners interpret alliance functioning, and furthermore, how these interpretations shape their subsequent behaviors. In recent years the concept of culture (both national and organizational) has come to acquire an increasing prominence in organizational studies (Hofstede, 1980; Schein, 1996). Debate has also centered on the relative importance of national and organizational culture in explaining organizational behavior. Without entering into the merits of this debate it is important to recognize that conflicts among alliance partners may stem from, or be exacerbated by, differences in both organizational and national cultures. Some scholars stress the importance of corporate and professional cultures whereas others highlight the ever-salient influence of national culture, even as they acknowledge the importance of corporate culture (Sirmon and Lane, 2004; Kumar and Das, 2010; Kumar and Nti, 2004). This article takes as its focus national culture as the dominant unit of analysis. In drawing upon the insights emanating from national cultural differences, we adopt a micro behavioral view for studying alliance evolution, as proposed recently by Kumar and Das (2010). The essence of this view is the recognition that micro behavioral processes critically determine how alliance partners manage the tensions arising from their conflicting expectations. Micro behavioral processes in alliances, as Kumar and Das (2010) note, revolve around "issues of commitment, restructuring the alliance, governance structures, and the decision to continue or exit the alliance."

The path-breaking work of Hofstede (1980) has sensitized researchers to the importance of national culture, notwithstanding the complexity that is inherent in conceptualizing and operationalizing this variable. Scholars have studied the impact of national culture on cultural value orientations (Woldu *et al.*, 2006), the dynamics of multicultural teams (Von Glinow *et al.*, 2004), and international negotiations (Lee *et al.*, 2006). This is by no means an exhaustive list; it is only meant to be suggestive of the kind of work that has been done using national culture as a central explanatory variable. The article begins by outlining a model of alliance functioning and then proceeds to discuss how alliance functioning is impacted by national culture.

A model of alliance functioning

The academic and professional literature on strategic alliances is proliferating at an ever-increasing rate. The number of times alliances have emerged as a topic of discussion in the popular literature has also grown tremendously. Numerous examples of successful and unsuccessful alliances are cited in the literature, and yet the explanation for success and failure in terms of an a priori theoretical framework is rare. Culture as an explanatory variable has for the most part been neglected, except in anecdotal accounts which appear in newspapers and trade journals. (Some recent exceptions include Delerue and Simon, 2009; Dong and Glaister, 2009; Kauser and Shaw, 2004; Kumar and Das, 2010; Kumar and Nti, 2004; Meschi and Riccio, 2008; Sirmon and Lane, 2004). This relative neglect is regrettable because culture strongly conditions managerial responses to the ambiguity and uncertainty inherent in alliance functioning (Kumar and Das, 2010).

We adopt a developmental model of alliance functioning that highlights the notion that firms enter into alliances with different aspirations for learning and knowledge acquisition (Das and Kumar, 2007; Das and Teng, 2002; Kumar and Nti, 1998). Alliance functioning is analyzed at two levels, namely, a process and an outcome level. By process we mean the mode of interaction within the alliance, i.e. whether it is facilitative of, or detracts from, building trust and commitment among the alliance partners. Outcome defines the tangible achievements of an alliance, i.e. the development of a new product, market penetration, and alliance profitability. Alliance functioning may exceed, match, or fall below the alliance partners' expectations. Alliances are thus subject to or experience unfavorable discrepancies at process and outcome levels.

In cross-national alliances, culture has an integral role to play (Kumar and Das, 2010; Kumar and Nti, 2004). Culture affects the operational or the day-to-day functioning of an alliance. Most significantly, it also affects the functioning of the alliance at a more strategic level, i.e. the critical choices or decisions made by alliance managers. Culture undoubtedly is not the only element influencing the operational and the strategic functioning of an alliance. The corporate cultures of the partner firms, the context of cooperation, and the prior experience of firms in managing alliances, may also play a role. While perhaps not all powerful, culture is certainly important, and in this article we are primarily concerned with elucidating that importance.

The impact of culture on alliance functioning

Alliances are cooperative endeavors that bring together partner firms for a wide variety of objectives. The goal could be to develop a new product, such as a new generation of memory chips that was involved in the alliance between IBM, Siemens, and Toshiba. Or the partner firms might be interested in producing and marketing a new product, for example a small car, as in the alliance between General Motors and Isuzu. The viability of any cooperative endeavor is dependent on: congruence among the alliance partners concerning the evaluation of process and outcome discrepancies that affect the strategic dimension of an alliance; and the ease with which the partner firms are able to manage the coordination of routine and non-routine activities on an ongoing basis, constituting the operational dimension of an alliance.

Conflicts among alliance partners may arise at both the strategic and operational levels, and may be cognitive or behavioral in character. An example of a strategic level conflict can be found in the alliance between AT&T and Olivetti. This alliance was formed in 1983 with the expectation that each company would market the other's

products in their own respective territories. As it happened, neither company was happy with the other's marketing efforts. It also turned out that Olivetti developed a minicomputer that competed directly with that of AT&T's. The alliance was eventually terminated. An example of an operational level conflict involves an alliance between a USA and a Korean company mentioned in Yoshino and Rangan (1995). The former had entered into a sourcing arrangement with the Koreans. The Korean company was surprised to learn that the American firm changed certain specifications of the product at the last minute. The US firm was willing to supply technical and market information crucial for the Korean company in formulating its strategy, but felt that the Koreans were overly aggressive in seeking such information. They were also not terribly flexible in responding to changing market needs. As the authors report, it was the timely intervention of the US company that led to a speedy resolution of the conflict.

It is worth bearing in mind that strategic and operational level conflicts are not entirely independent of each other. Unresolved operational level conflicts may evolve into strategic level conflicts and vice versa. An illustration of the former type is provided by Doz (1996). The case involved an alliance between Ciba Geigy (CG), a major pharmaceutical firm, and Alza, a smaller entrepreneurial company that had developed an advanced drug delivery system. Alza was to undertake basic research and development while CG was responsible for drug development and marketing. The expectations of both the partners were very high when the alliance was initiated. As the case study reveals, one of the projects that the alliance partners were working on did not proceed smoothly due to operational difficulties. As Doz (1996, p. 67) observes, "while the 'top' and the 'bottom' of the CG research organization were actively working with AZ, middle management ranks were not involved." The net result was that product introductions were delayed. This led managers at Alza to question the commitment of CG to the venture. Likewise, Alza's desire to obtain third party research contracts was perceived by CG as an attempt to break loose from the relationship. Unresolved operational level conflicts created more consequential strategic level conflicts.

The impact of culture on operational level conflicts

Operational conflicts stem from the failure of alliance partners to coordinate their routine activities on a day-to-day basis. Implicated in this conflict are middle level managers in charge of the operational activities of the alliance. Routine coordination is dependent on information exchange and joint decision making. Insofar as alliance partners differ in their mode of information exchange and in their decision making styles, coordination will be impeded. These information flows among alliance partners are shaped by culture in a number of different ways.

Culture and information flows

Culture affects the pattern, the timeliness, and the evaluation of information. Whether information is communicated in an "explicit" or in an "implicit" form is influenced by culture (Hall, 1976). Hall (1976) makes a distinction between "high context" and "low context" cultures. In a "high context" culture information is communicated in a codified form. The burden of interpretation is placed upon the receiver. In a "low context" culture information is not codified. Most Asian cultures fall on the "high context" end of the continuum while the North American culture falls on the "low context" end.

The timeliness with which information is communicated is also culturally variable. In the North American culture, where the motto is "time is money," information is likely

to be communicated in a timely way. Many developing societies, by contrast, do not subscribe to that motto (Triandis, 1995), as information transmission does not attract the same sense of urgency. The evaluation of information is also culturally variable. For example, Schneider and De Meyer (1991) demonstrated that Latin and European managers relative to managers from other countries were more likely to perceive strategic issues as a form of threat.

What are the implications of differences in information flows for alliance functioning? When alliance partners differ in the pattern, the timeliness, and the evaluation of information, their ability to manage uncertainty and equivocality will be compromised. Uncertainty means that sufficient information is not available for achieving effective control. Equivocality implies the existence of multiple and conflicting interpretations. Thomas and Trevino (1993) suggest that the management of uncertainty and equivocality is crucial in explaining alliance success. When alliance partners differ in their interpretation concerning any aspect of alliance functioning, their ability to act effectively will be compromised. Likewise, in the absence of sufficient information, the ability of the alliance to make the best possible decisions will be brought into question.

Culture and decision making
The decision making process may be looked at from two perspectives, namely, the style of decision making and the locus of decision making (i.e. where in the organization the decisions are made). Casse (1995) distinguishes between factual, intuitive, analytical, and normative styles of decision making. Managers having a factual style make the assumption that the facts have an objective reality. Empiricism is the dominant mode of analysis. In making decisions, managers ought to gather data, and let the data speak for itself. Intuitive decision making relies on creativity. Managers do not act in a programmed way. Every situation is unique and needs to be analyzed on its own terms. Normative decision making implies that managers use their own personal conceptions of what is appropriate in making a decision. Affective rationality supersedes instrumental rationality. An analytical mode of decision making relies on logic and on logic alone in arriving at decisions. A derivative implication is that there is one best decision.

Cultures differ in terms of the emphasis that they give to each of these decision making modes. The French, for example, are viewed as being very analytical (see, e.g., Barsoux and Lawrence, 1990). The Anglo Saxon cultures tend to be factual. It is hoped and expected that empirical data will resolve any decision dilemmas confronting the managers. An intuitive mode of decision making is likely to be prevalent in cultures where predictability in transactions among entities is lacking, or is present to a far lesser degree. Consistent with this conceptualization, Abramson *et al.* (1996) demonstrated the differences in the decision making styles of Canadians, Americans, and the Japanese. The Canadians were much more analytically oriented compared to their American counterparts. However, when compared with the Japanese the Canadians and the Americans were both much more analytical. The Japanese tended to conceptualize problems in human terms and were more sensitive to the need for maintaining group harmony. What implications do differences in decision making styles have on the functioning of an alliance? Consider for example, an alliance between a French and an American company. In joint decision making, the French manager and the American manager will be using different approaches. The former will emphasize logic, the latter facts. These differences may lead to a suboptimal decision, no decision,

or a delayed decision. Furthermore, neither manager will be aware of the degree to which their decision making styles are affecting the outcomes. Thus, alliance functioning is likely to be impaired with managers developing negative impressions about their counterparts.

Cultures also have an impact in terms of the locus of decision making, i.e. the organizational level at which decisions are made. In Japan the system of decision making is a bottom-up affair, as is well exemplified in the "ringi" system. The French, on the other hand, could not be more different. Decision making emanates from the top. It is highly centralized (Barsoux and Lawrence, 1990). Clearly, differences in the locus of decision making are also likely to complicate efforts in joint problem solving.

Furthermore, the emergence of operational level conflicts will lead to delays in dealing with specific problems confronting an alliance, inevitably slowing down value creation. It will also give rise to concerns as to whether the partner is acting in a "fair manner." The issue of procedural justice has become increasingly important both for organizational researchers and practitioners (Brockner and Wiesenfield, 1996; Luo, 2008). Procedural justice has a structural as well as an interpersonal dimension. The former refers to the degree to which individuals have control over the decision processes while the latter refers to the extent to which individuals are treated with dignity. As Kim and Mauborgne (1996) have pointed out, procedural justice issues are critical in shaping managers' commitment in implementing strategies. Moreover, when procedural justice is perceived as satisfactory, individuals are more disposed to accepting less favorable outcomes. Alliances are likely to function more smoothly when the alliance partners demonstrate a high level of commitment and are willing to tolerate any unexpected deviation from desired outcomes. In sum, when alliance partners come from different national backgrounds operational conflicts are inevitable, unless of course the partners are cognizant of such conflicts and have taken steps to minimize their occurrence. Some of the operational conflicts are likely to be no more than minor irritants; others if unchecked may create major problems among the partners.

The impact of culture on strategic level conflicts
Strategic level conflicts are not unidimensional in character. They call for:

- an evaluation of the importance of discrepancy, be it process or outcome;

- ascertaining the reasons for its emergence, i.e. internal or external; and

- determining whether these discrepancies are controllable (Kumar and Nti, 2004).

The integrated evaluation of these elements leads the alliance managers to characterize the discrepancies as either representing a "threatening" situation or a situation that may be a source of "opportunity." Dutton and Jackson (1987) argue that strategic issues can be characterized as being either a "threat" or an "opportunity." A threatening issue, for example, is a negative situation characterized by loss and low level of controllability. By contrast, a strategic issue may be labeled as representing an opportunity when it is positive in character, there is potential for gain, and the issue is essentially controllable. The classification of strategic issues as either a "threat" or an "opportunity" is important as this categorization determines the subsequent behavioral responses. Thus, as Dutton and Jackson (1987, p. 84) argue, "When an organization's decision makers label a strategic issue as a threat they are likely to construct an organizational response that includes taking actions of large magnitude. In contrast, when an organization's decision makers label a strategic issue an opportunity, they are

more likely to construct an organizational response that includes actions of smaller magnitude."

Consider, for example, an alliance that is experiencing a process but not an outcome discrepancy. Let us further assume that the alliance partners come from "individualistic" and "collectivistic" cultures, respectively. Kumar and Nti (2004) have argued that alliance partners are going to differ in the importance that they attach to this discrepancy, with the "individualistically" oriented managers being less concerned about process discrepancies vis-à-vis "collectivistically" oriented counterparts. If, to the individualists, the discrepancy is not important, the causes for its emergence need not be ascertained. The corresponding need for controllability is also low. Thus, for the individualists the discrepancy is a non-issue, i.e. it is neither a threat and nor is it an opportunity. Their "collectivistically" inclined counterparts will view the situation in radically different terms. The discrepancy is important, may be attributed to external forces, and most fundamentally needs to be controlled. Thus, for these sets of alliance managers the discrepancy portends a threat that needs to be dealt with in a satisfactory way. The developmental path of the alliance is going to be determined by how the collectivists try to manage the process discrepancy, and the resulting response of the individualists to the collectivists' intervention. In principle, the interaction could either lead to the resolution of the crisis or it may intensify it further.

In sum, the evolution of a cross-national alliance is determined by the congruency of interpretations as well as the content of interpretation among alliance partners. The degree of congruence may be low, moderate, or high. Likewise, interpretations may focus on threat, an opportunity, or some combination thereof. If both the partners come to interpret the alliance as a source of threat, the level of commitment to the alliance will diminish. On the other hand, if the discrepancies are viewed by both the partners as a source of opportunity the alliance will function smoothly. The alliance partners will put in their best efforts to deal with the discrepancies. Furthermore, the process of rectifying discrepancies will draw the partners even closer as they exchange more information among themselves. The interaction will come to resemble what Browning *et al.* (1995) describe as a "self-amplifying reciprocity." In retrospect, the crisis in the nature of discrepancies may prove to be the best thing for the alliance.

The impact of culture on discrepancies
At the strategic level, two types of discrepancies may occur, namely, a process and an outcome discrepancy (Kumar and Nti, 1998). The evaluations of, and the reaction to, the discrepancies are top management activities. It is also the most critical of the activities, for it is the evaluation of these discrepancies that holds the key to the developmental path of the alliance. Conceptually, an alliance could experience favorable process and outcome discrepancies. Such an alliance would meet or exceed managerial expectations and would therefore be stable. Alternatively, the alliance could experience unfavorable process and outcome discrepancies, in which case the alliance would be inherently unstable. It could also be that an alliance experiences a favorable process discrepancy and an unfavorable outcome discrepancy and vice versa.

Central to alliance functioning is the mediating role of interpretations that alliance managers impose on these kinds of discrepancies. These interpretations are dependent on managers' schemata (see, e.g., Bartunek, 1993; Weick, 1995). A schema is a knowledge structure that is used by an individual to make sense of a situation. These schemata do not change easily, and are capable of eliciting strong affect among individuals. In a cross-national alliance, managers' schemata are likely to be different

and constituted on the basis for conflicting interpretations. The existence of
discrepancies raises a number of intriguing issues for alliance managers:

- Why has a discrepancy or a set of discrepancies emerged?
- Are process discrepancies more important than outcome discrepancies or vice
  versa?
- Are these discrepancies controllable, and would it be worthwhile to control them?

Evaluating the emergence of discrepancies
A discrepancy is by definition an unexpected event and reflects a disruption in the
orderly progression of activities. To managers reared in a culture that values control over
the environment (Kluckhohn and Strodtbeck, 1961) the emergence of a discrepancy, be it
process or outcome, is itself of some concern (Kumar and Nti, 2004). From the perspective
of these managers each discrepancy needs an explanation. Indeed, as attributional
theorists are quick to note, unexpected events stimulate attributional reasoning (Weiner,
1986), i.e. discerning the causes for the occurrence of a given event. An attribution has
three essential elements: causality, controllability, and stability. Causality refers to the
origins of the unexpected occurrence, i.e. was this event caused by our own actions or
was it the result of our partners' actions, or did it result from some other external stimuli?
Controllability refers to the degree to which the occurrence could have been controlled.
Stability means that the same action could occur again.

When confronted with a discrepancy that is treated negatively, alliance managers
make a series of judgments. Are we responsible for the discrepancy, is our partner
responsible for it, or is it due to circumstances beyond our control? Attribution theory
suggests that individuals are prone to make the "fundamental attribution error" (Ross,
1977). Actors explain negative outcomes by attributing their cause to other agents or to
other external environmental forces. Positive outcomes evoke an "internal attribution."
Managers socialized in cultures that stress the importance of harmony vis-à-vis the
external environment will either feel less of a need to account for discrepancies or to
respond to discrepancies instantaneously. Furthermore, even when they need to
explain these discrepancies, they will not automatically attribute the existence of these
discrepancies to the internal characteristics of their alliance partners, thereby
facilitating interpartner harmony (Das and Kumar, 2009). However, over a period of
time the alliance dynamic may change as partners respond to each other's behavior.
Thus, even managers socialized within a culture that values a harmonious relationship
with the environment may be drawn into making "internal attributions" as the
interaction begins to demonstrate all the characteristics of a conflict spiral or an
aggressor-defender mode of interaction (Rubin *et al.*, 1986).

Evaluation of process vs outcome discrepancies
Alliance managers may differ in the relative importance they accord to process and
outcome discrepancies. Managers belonging to individualistically oriented societies are
strongly goal oriented, and the specific means by which these goals are attained are only
of secondary concern. This dynamic is very different from what is commonly prevalent
in more collectivistically oriented societies. As Triandis (1995, p. 190) notes, "Collectivists
emphasize process (what is said, done, displayed) while individualists emphasize goals
(what we are supposed to get done)." This difference has several major implications. It
suggests, first of all, that "individualistic" managers will be more concerned about
outcome discrepancies while "collectivistic" managers will be more concerned about

process discrepancies. Furthermore, an alliance between firms rooted in different socio-institutional environments (individualistic vs collectivistic) will generate conflicting interpretations about the meaning of the discrepancies. Interpretational conflicts lay the foundation for accentuating the discrepancies that had been generated originally. In other words, an attempt to solve the conflict may well accentuate the conflict.

Evaluating the controllability of discrepancies
How controllable are alliance discrepancies? This is an important issue, because it is only when alliance partners make the determination that discrepancies are controllable that they will be motivated to control them. The controllability of a discrepancy depends on the strategic fit between the nature of the discrepancy (i.e. whether it is a process, outcome, or both) and the competitive advantage of a firm in managing that discrepancy. In general, one would surmise that managers socialized in "individualistic" environments would be more adept in managing outcome discrepancies whereas managers socialized in "collectivistic" environments would be more skilled in managing process discrepancies. For example, if an alliance encounters a process related discrepancy, the firm rooted in an "individualistic" socio-institutional environment will either ignore that discrepancy as long as it can or will attempt to cope with it ineffectually. Conversely, the firm embedded in a "collectivistic" socio-institutional environment will be all too ready to deal with process discrepancies, even prematurely so. Conflicting perceptions of controllability, and divergent behavioral patterns, will accentuate the problems of the alliance.

The impact of culture on symbolic level conflicts
Symbolism is yet another crucial ingredient for understanding out interpretive framework. Implicit in the importance of symbolism is the recognition that alliance partners need to be committed, and must demonstrate their commitment to their counterparts. It is only when this commitment is demonstrated that a relationship begins to be institutionalized. In this the cultural values of the alliance partners play a significant role.

Kluckhohn and Strodtbeck (1961) conception of culture as reflecting "differences in value orientation" provides a useful framework for assessing the impact of culture on the perspectives of alliance managers. There are six dominant value orientations along which cultures can be compared. These are: relationship of humans to nature, time orientation, belief about basic human nature, activity orientation, relationships among people, and orientation to space. The relationship to nature reflects the desire to either control nature, to live in harmony with it, or to be controlled by it. The time orientation refers to the nature of the orientation toward the particular time segment, be it past, present, or future. Beliefs about human nature represent the dominant assumptions concerning the intrinsic goodness or evilness of men. The activity orientation defines the desirability of a particular mode of activity, be it work or pleasure. Relationship orientation defines the degree to which one has responsibility for the welfare of others. Spatial orientation delineates the attitude toward space, i.e. is it to be viewed as private or public.

It seems reasonable to suppose that cultures that value control over the external environment, that are present or future oriented, that assume that people are evil or are a mixture of good and evil, and that value task goals over relationship goals, will need to make sense of the "disorderly dynamics" or chaos that is a characteristic of the environment. Chaos is not treated as desirable and it therefore needs to be controlled. Cultures that stress harmony in relationships as well as in relation to the external

environment, which assume that people are basically good and who value relationships, will be engaged in sensemaking *in* and not *of* chaos (Das and Kumar, 2010). Managers socialized in these cultures will be more tolerant of disruptions and the instinctive reaction will not be to try to control the disruption. They will go with the flow, seeking to adapt to the ongoing environment. The adaptive process will be characterized by experimental spontaneity, incrementalism, and symbolism. When alliance managers find themselves in a situation where their meta-level interpretative schemes are in conflict, the alliance is in serious jeopardy. This is the most problematical of all conflicts, for it is rooted in a clash of core assumptions that are unconsciously held by managers. At first the alliance managers may not even recognize that their interpretive schemes are in conflict. It is only when difficulties persist and repeated attempts to correct them prove unsuccessful that managers will begin asking themselves a question that they may not have asked themselves earlier: "Are our goals and means of attaining these goals congruent with each other?" If not, then why the alliance? The options open to alliance managers and the choices that they confront tend to progressively diminish once the realization sets in that the interpretative schemes do not match to the degree that is necessary to make the alliance work.

How will the conflicting interpretive schemes of "sensemaking *of* chaos" and "sensemaking *in* chaos" shape alliance evolution? While "sensemaking *of* chaos" seeks to reduce complexity, "sensemaking *in* chaos" seeks to absorb complexity. (The contrasts between the two interpretive schemes are outlined in Table I.) The top managers from partner firms who will be following these interpretive schemes will not necessarily be conscious of the implicit assumptions shaping their strategic behavior; indeed, for managers from either culture their strategic behavior will seem to be the only natural thing to do. It is widely acknowledged that cultural assumptions are deeply embedded in the individual's unconscious, and for that reason people are often unaware that culture maybe driving their behavior (Adler, 1986). The use of conflicting interpretive schemes by top-level managers will lead to the emergence, in the first instance, of an interpretational contradiction among the partner firms. The interpretational contradiction will revolve around three major themes:

(1) Is the alliance progressing in the right direction?

(2) Is the level of effort required to manage the alliance adequate or is it excessive?

	Sensemaking *of* chaos	Sensemaking *in* chaos
Key assumption 1	Predictability is the system's operating norm	Although predictability may be desirable, it is not inevitable
Key assumption 2	Fluidity and ambiguity are the hallmarks of the operating system	Lack of predictability is the operating norm
Strategic response to chaos	Controlling or eliminating chaos through: (a) information acquisition (b) analysis/planning (c) explicit/implicit modes of control (d) closure	Managing chaos through: (a) experimentation (b) incrementalism (c) symbolism
Interpreting chaos	Chaos is "disruptive"	Chaos is "transformative"

Source: Das and Kumar (2010)

Table I.
Interpartner sensemaking of and in chaos in cross-national alliances

(3) Are the potential synergies that have led to this cooperation being adequately exploited by us and is there the possibility of emergence of new synergies that may make it worthwhile for us to deepen our cooperation with our partner?

Alliance partners who follow the interpretive scheme "sensemaking *of* chaos" will make a negative judgment about the progression of the alliance for interruptions that exceed a critical threshold will invite an unfavorable judgment. The fact that interruptions have not been adequately dealt with by functional or alliance managers will lead the top-level managers to make the not-unreasonable judgment that the level of effort required to manage the alliance is somewhat excessive. Finally, the judgment as to the exploitation of potential synergies may also be negative in view of the interruptions that the alliance has experienced and the inability of functional or alliance managers to effectively manage the cooperative process.

Alliance partners that follow the interpretive scheme "sensemaking *in* chaos" are likely to make dramatically different judgments. From their perspective, interruptions are in and of themselves no indicator as to the progression of the alliance. Interruptions are an inevitable byproduct of this form of cooperation and the significance of the interruption can only be gauged when the environmental context (internal as will as external) has become clearer, although it will never become as clear as their alliance partner would like it to be. The answer to the question pertaining to the level of effort will also follow a similar trajectory, i.e. whether the effort level is adequate or excessive is a judgment that cannot be definitely made given the chaotic environment (internal and external) in which the alliance is operating. The exploitation of potential synergies by the alliance partners and whether the alliance holds the potential for deepening the level of cooperation among them is perhaps likely to be tested by how their partner responds to and manages these interruptions. The last issue is a relational one and it is critically dependent on how their partner responds to the emerging challenges.

Contradictions are an inevitable feature of organizational life (Benson, 1977) and also of interorganizational relations (Zeitz, 1980). While contradictions are a source of conflict and tension among organizational actors, they may also provide the opportunity for the emergence of a new order (Benson, 1977). Contradictions also vary in their centrality, with some contradictions influencing the evolution of interorganizational relations in more substantive ways than others. Interorganizational contradictions among alliance partners may stem from conflicting cultures, imbalanced patterns of exchange, hidden agendas, or conflicting strategic objectives (Das and Teng, 2000; Doz, 1996; Gill and Butler, 2003).

Interpretive contradictions are at the very center of what makes an alliance prosper and also what makes it fail. Their successful resolution, tentative and ongoing, is an essential ingredient in alliance evolution. In the event that these contradictions are managed effectively, the alliance may survive and prosper. The effective management of interpretive contradictions is dependent on the cultural distance among partner firms, their prior experience in managing alliances (in particular, cross-national alliances), cultural sensitivity among alliance managers in the respective partner firms, and top management commitment to the use of an alliance-based strategy (Yoshino and Rangan, 1995).

Conclusions

This article has presented a theoretical framework for better understanding the special dynamics of cross-national alliances. Even as alliances are proliferating, theoretical

frameworks for understanding the implications of cross-cultural differences in alliance functioning have been lacking. Our attempt here has been to partially bridge that gap. Cultural differences affect alliance functioning at three different levels. First and foremost, cultural differences generate operational level conflicts among alliance partners. Operational level conflicts create the need for *interactional interpretation*, i.e. a need to explain why routine operational activities have gone awry. Interactional interpretation falls within the domain of lower level managers who are most closely working with their counterparts.

At another level cultural differences affect the evaluation of, and responses to, strategic level conflicts (the emergence of process and outcome discrepancies). Strategic level conflicts create the need for *issue interpretation*, i.e. a need to explain whether the issues confronting an alliance represent a threat or an opportunity. This evaluation falls within the province of alliance managers. When one of the alliance partners views strategic level conflicts as representing a potential threat while the other alliance partner views it as representing a potential opportunity the alliance dynamic takes on another dimension, namely, the symbolic dimension. Top-level managers are now confronted with the need to engage in *symbolic interpretation*, i.e. a need to ascertain whether alliance functioning represents "sensemaking *in* or *of* chaos"? This is the most determinative of all interpretations in that such an assessment determines whether an alliance will eventually succeed or fail. Culture shapes all three interpretations. The three levels of interpretation form a graded or nested hierarchy with a lower level interpretation being subsumed under one of a higher level. Of course, the interpretations made by alliance managers at different levels may not necessarily be consistent.

The three interpretations cannot be too far apart, for pressures will emerge directly or indirectly for a certain degree of consistency. The three levels of interpretation are also mutually inter-penetrating, i.e. each is to a degree interlinked with the others. The three levels of interpretation may either mutually reinforce each other or may serve to counteract the others' impact. A major theme of this article is that culture affects alliance functioning not simply at a behavioral or at a cognitive level but at both of these levels, including a meta-level. Furthermore, different sets of managers are involved in making behavioral, cognitive, and meta-level interpretations. The impact of culture is multifaceted, complex, and ambiguous. Cultural differences can undoubtedly lead to a breakdown in alliance functioning, but at the same time may provide opportunities for maximizing the benefits of diversity. Which of the two outcomes occur in a particular situation is an empirical issue.

The framework we have developed in this article has significant theoretical as well as practical implications. From a theoretical perspective, the article offers the idea that the concept of conflict that has been widely discussed in the alliance literature is a very broad concept that subsumes within it different types of conflict, be it the operational, the strategic, or the symbolic. Each of these conflicts has its own set of dynamics that may uniquely shape alliance evolution. In other words, studying conflict in alliances does not suffice; on the contrary, what is critical is the need to systematically study the impact of each of these types of conflict both individually as well as collectively. This has not been attempted coherently in the literature so far.

It also remains the case that symbolic level conflicts are the most powerful determinant of alliance success or failure and this insight has not received adequate recognition in the literature to date. This is a curious omission and one that needs both further theoretical as well as empirical exploration. Qualitatively driven case studies

remain the most useful tool in studying symbolic conflicts that manifest themselves as interpretive contradictions, and we recommend further research along these lines.

It would also be worth exploring if the different types of conflicts identified in the article map onto the alliance developmental stages and alliance horizons (Das, 2004, 2006; Das and Teng, 2002). One may surmise, for example, that operational and strategic level conflicts may be dominant at the operation stage of the alliance, while symbolic level conflicts become salient at the evaluative stage of the alliance. These issues invite further exploration.

The framework presented in this article has a number of important managerial implications. First, it makes the argument that the impact of culture is multifaceted, in that culture affects both lower level operating decisions as well as top level strategic thinking in a cross-national alliance. An important corollary of this is that employees at all levels of the organization need to be oriented to the potential impact of cultural differences on alliance functioning if an alliance is to survive and prosper. Second, we would also suggest that in a cross-national alliance symbolic level, conflicts are most crucial in determining the success of an alliance and for that reason need to be dealt with both carefully as well as expeditiously. A heightened degree of cultural awareness is essential in preventing misunderstandings and mutual recriminations. Third, the escalatory potential in cross-national alliances is likely to be high as conflict often enough feeds on itself with recriminations by one party inviting similar recriminations from the other. This has the implication that conflicts should not be allowed to escalate to a point of irreversibility.

The framework outlined in this article would hopefully be helpful in analyzing and understanding the dynamics of cross-national alliances in terms of interpartner conflicts, contradictions, and discrepancies.

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