



# Interpartner sensemaking in strategic alliances

Sensemaking in strategic alliances

## Managing cultural differences and internal tensions

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### Abstract

**Purpose** – This paper aims to propose a framework for understanding interpartner sensemaking in cross-national strategic alliances, and to discuss how to manage the problems arising from the cultural differences and internal tensions that are inherent in such alliances.

**Design/methodology/approach** – The paper starts from the notion that interpartner sensemaking of the complexities of strategic alliances has important implications for the evolution of cross-national alliances. The two fundamental interpretive frames that relate to sensemaking are described, that of sensemaking *of* chaos and that of sensemaking *in* chaos, and the paper examines how an appreciation of these interpretive frames enables one to better manage cultural differences and internal tensions that inevitably arise in cross-national alliances.

**Findings** – The framework makes clear that the two types of interpartner sensemaking (“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.

**Research limitations/implications** – As interpartner sensemaking occurs at all stages of alliance evolution, future research may seek to assess the impact of conflicting interpretive schemes: in the stages of formation, operation, and outcome; concerning issues of appropriation and coordination; and in learning processes.

**Practical implications** – Briefly, the two types of interpartner sensemaking call for different strategies for managing alliances. Alliance partners embedded in different national cultures rely on interpretive schemes to make sense of the conflicts, contradictions, and internal tensions that emerge in strategic alliances.

**Originality/value** – The paper responds to the need of managers with alliance responsibilities for a framework to help identify and exploit the most effective ways of accounting for the role of interpartner sensemaking in alliances for productive interactions and performance.

**Keywords** Strategic alliances, Culture (sociology), Internal conflict, Cross-cultural management, Organizational performance

**Paper type** Conceptual paper



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## Introduction

Strategic alliances have come to play an increasingly prominent part in the contemporary global economy. Although partner firms are increasingly entering into these alliances due to the intensification of global competition, many of these alliances are failing to meet partners' expectations (Gill and Butler, 2003). Cross-national alliances in particular often experience difficulties stemming from lack of trust (Das and Teng, 1998; Ring and Van de Ven, 1994), deceit and opportunism (Das, 2005; Das and Rahman, in press), strategic incompatibility (Ariño and de la Torre, 1998), poor organizational integration (Gulati and Singh, 1998), ineffective management of internal tensions (Das and Teng, 2000), or cultural distance (Brown *et al.*, 1989; Lane and Beamish, 1990). The central theme in this literature is that divergent expectations among alliance partners stemming from differences in strategic objectives, culture (national and corporate), organizational practices or trust may either lead to opportunistic behavior on the part of alliance partners or make the task of achieving interorganizational coordination difficult.

In this article we explore the role of interpartner sensemaking in understanding the impact of national cultural differences and internal tensions on the dynamics of strategic alliances. We begin with brief observations on the conflicting interpretive reference frames of alliance partners. We then propose two interpretive schemes in alliance functioning, namely, "sensemaking of chaos" and "sensemaking in chaos". Next we outline the importance of national culture in shaping the evolution of cross-national alliances, and discuss the role of national cultural values in the use of interpretive schemes. In the final part, we elaborate upon the linkages between the sensemaking of interpretive contradictions among alliance partners and the internal tensions in alliances.

The starting-point of our analysis is the recognition that alliance managers who have been socialized in different national cultures are likely to interpret and respond to their partners' behavior in conflicting ways. As most researchers agree today, reality is socially constructed and is subject to multiple interpretations (Berger and Luckmann, 1966; Morgan, 1979). We thus need to understand how alliance functioning is interpreted in different ways by alliance partners in different national cultures and the role of these interpretations in shaping their subsequent behaviors.

The recognition that differences in frames of reference among alliance managers socialized in different national cultures may lead to interactional conflict is not a novel one (Brislin and Yoshida, 1996; Hofstede, 1980). But the idea that interactional conflicts have an interpretive significance is an underdeveloped notion and it is this idea that we seek to develop in this article. While conflicts existing at the lower levels in the alliance firm may directly or indirectly influence the interpretive conflicts existing at the upper echelons of management, it is only what transpires at the upper levels that is the most determinative of alliance evolution.

## The dynamics of alliance evolution

It has been argued that an alliance may experience pragmatic, moral, or cognitive conflict stemming from conflicting frames of reference among the alliance partners (Kumar and Andersen, 2000). Pragmatic conflict occurs at the level of the functional specialists, moral conflict falls within the domain of alliance level managers, and cognitive conflict involves the top level managers, i.e. the individuals who are

responsible for initiating and managing the alliance based strategy of the firm. Pragmatic conflict centers on issues of operational coordination among partner firms, moral conflict revolves around the appropriateness of behaviors among the partner firms, while cognitive conflict focuses on issues pertaining to the strategic rationale for continuing with or exiting from the alliance.

An alliance may survive the existence of pragmatic and moral conflicts so long as top-level managers are able to effectively manage the cognitive conflicts. Cognitive conflicts stand at the apex of hierarchy inasmuch as they provide the determinative lens for viewing alliance functioning. Cognitive conflicts among top-level managers are interpretive conflicts for they focus on the critical issue of whether it makes sense for the alliance partners to continue or deepen their cooperation notwithstanding the myriad difficulties that the alliance may be experiencing.

What factors condition the interpretation made by top-level managers among partner firms? According to Daft and Weick (1984, p. 286), "Interpretation processes are not random. Systematic variations occur based on organizational and environmental characteristics". In other words, there are large numbers of variables that may influence the interpretation processes, including those relating to the individual manager's perceptions of the strategy milieu and subjective time perspectives (Das, 1986). For strategic alliances, the interpretation processes may be conditioned by the experience of top managers in managing alliances, degree of consensus within the top management team, the criticality of the alliance to organizational performance, and the capability of the top management team in managing cross-national diversity. We will of course focus on the impact of national cultural differences on the interpretation process. While we do not wish to assert that national culture is the only determinant of these interpretations, culture does provide the institutional context for alliance decision making.

The question confronting top-level managers when the alliance is experiencing difficulties, whether at the pragmatic or moral level, is a sensemaking question focusing on the fundamental issue of whether to continue with or exit from the alliance. It is the essential argument of this article that when the top level managers answer that fundamental question, they may choose among two alternative interpretive schemes which we label as "sensemaking of chaos" and "sensemaking in chaos". The choice of one as opposed to the other interpretive scheme is influenced to a large degree by the top managers' implicit assumptions, shaped primarily by their national cultural backgrounds.

### **Interpretive schemes and alliance functioning**

We will discuss the two interpretive schemes in some detail in this section. An interpretive scheme is a perspective for making sense of interruptions that prevent the alliance partners from achieving their goal. As Bartunek (1984, p. 355) notes:

"Interpretive schemes operate as shared, fundamental (though often implicit) assumptions about why events happen as they do and how people are to act in different situations.

Implicit in this definition is the idea that interpretive schemes are key tools in coping with ambiguity and uncertainty that are ever-present when interruptions occur. Mandler (1975) points out that there are two types of interruption:

- (1) the failure of an expected event to occur; and
- (2) the occurrence of an unexpected event.

It is these interruptions that provide the foundation for the emergence of pragmatic and moral conflicts among the alliance partners. A good example of both kinds of interruption can be seen in the alliance between MCI and Telefonica. The two telecommunication companies (one American, the other Spanish) had entered into an alliance to expand their market coverage. MCI was strong in Western Europe while Telefonica was strong in Latin America. The expectation was that the alliance would help MCI extend its coverage in Latin America while Telefonica would be able to extend its reach in North America, where it was hardly visible. Yet, none of this came to pass. As Rocks (1999, p. 87) notes, "Of the dozen or so initiatives the companies have announced virtually none has come to pass". The negotiated agreement "called for Telefonica to distribute MCI's services in Spain" (Rocks, 1999, p. 88). This has not materialized. By contrast, in Brazil MCI has bought a controlling stake in the long distance carrier Embratel, an action that puts it in direct competition with Telsp, the network operator in Sao Paulo owned by Telefonica. In sum, not only have the expected outcomes not occurred but, perhaps more significantly, unexpected outcomes (in the sense of partners acting in a competitive way) have become salient in this alliance.

How are these interruptions to be interpreted? We argue that the interruptions can be appreciated in terms of an interpretive scheme that can be labeled as "sensemaking of chaos". We will outline the implicit assumptions about alliance functioning that are entailed in these schemes and the dominant national cultural values.

The term chaos is traditionally used in the sense of disorder or unpredictability that characterizes social systems. In recent years, chaos and complexity theories have begun to be applied to the study of organizations (Andersen, 1999; Stacey, 1995; Thietart and Forgues, 1995; Tsoukas, 1998). The central theme in this literature is that organizations are chaotic systems characterized by the existence of forces that are simultaneously sources of order and disorder. It has also been argued that the greater the number of countervailing forces in an organization, the greater the likelihood of the emergence of a chaotic state (Thietart and Forgues, 1995). Chaotic systems are extremely sensitive to initial conditions, generate order out of chaos through the existence of attractors, are time irreversible, evolve from one state to another through a bifurcation process, and possess the property of scale invariance (Thietart and Forgues, 1995). The implications of this form of organization are well spelled out by Stacey (1995), who notes that in such a system there are no clear-cut cause-effect linkages, behavior is subject to both negative and positive feedback, the long-term outcomes are partly intentional and partly emergent, and conflict and ambiguity are ever-present in the organization.

Here we take an interpretive perspective on the issue of chaos and complexity. Whatever be the chaotic or the complex dynamics in a social system, one must recognize that chaos and complexity have to be interpreted as such by the agents who are participants in the social system. In other words, as Chia (1998, pp. 343-344) notes:

[...] complexity is more about experiencing of seemingly complex phenomena and the amount of effort required to articulate this experience into transmissible form rather than about objective complex states of affairs existing independent of the observer system.

The interpretation of chaos by the agents is shaped by their cultural backgrounds, leading to the emergence of the two interpretive schemes:

- (1) "sensemaking of chaos"; and
- (2) "sensemaking in chaos".

*Sensemaking of chaos*

The interpretive scheme labeled as “sensemaking of chaos” assumes implicitly that predictability is and should be the system’s operating norm. Chaos is an aberration that needs to be eliminated. Applied in the context of alliance functioning, this implies that the interaction among the alliance partners should be predictable. Interruptions should be infrequent, if any at all. Furthermore, even if interruptions occur their causes should be easily definable and the emerging difficulties ought to be managed in a relatively smooth way. It also assumes that the alliance partners are seeking to attain an adaptive equilibrium among themselves. This would be a state, for example, where pragmatic and moral conflicts would be non-existent or exist at a very minimal threshold among the alliance partners. The behavior of the alliance partners is assumed to be driven by negative feedback. Thus, if one’s alliance partner fails to comply with its stated obligations, this would be communicated to it and its future behavior monitored more explicitly. In other words, even if chaos emerges it needs to be controlled or eliminated in a timely fashion through explicit or implicit modes of control. From a normative standpoint the implicit assumption in this interpartner sensemaking exercise is that chaos is disruptive. By fostering unpredictability chaos impedes the effectiveness of the alliance partners in achieving their objectives.

The interpretive scheme “sensemaking of chaos” is grounded in the logic of instrumental rationality (Chaffee, 1985). Firms enter into alliances to achieve certain aims, and to be successful in this regard they must structure their interaction in a way that is effective. Information flows must be timely, the managerial mechanism appropriate to the task at hand, and the external environment monitored to ensure an alignment between the task requirements and the internal structure of the alliance. In sum, this is an interpretive scheme that operates through the principle of complexity reduction (Boisot and Child, 1999), i.e. the agents seek to understand the drivers of complexity and act upon it directly.

*Sensemaking in chaos*

The interpretive scheme “sensemaking in chaos” does not assume that predictability is inevitable or, for that matter, even desirable. Chaos is viewed as normal, and it is within this context that order has got to be discovered and maintained. Applied in the context of alliance functioning, this implies that the alliance partners must seek to thrive in ambiguity. Alliance partners need to enact their own environment. As Daft and Weick (1984, p. 288) note, “they experiment, test, and stimulate, and they ignore precedent, rules, and traditional expectations”. Another critical aspect of this interpretive scheme is that even if some order were to be attained, the underlying order will always have a tentative quality to it, i.e. it will always be boundedly unstable (Stacey, 1995). It is also likely to be the case that the temporal frame for attaining this order, albeit a boundedly unstable one, is equally unpredictable. In an alliance context, this means that an alliance will always have a certain fragility to it, with the added proviso that the path through which the fragility is enhanced or lessened is also variable. An interesting implication of this is that while this interpretive scheme emphasizes experimentalism, it is balanced with the need for incrementalism (Quinn, 1980), i.e. the experimental actions ought not to be too radical as that may destabilize a boundedly unstable system.

“Sensemaking in chaos” emphasizes the importance of symbolism. Although symbolism is a crucial aspect of managerial activity (Pfeffer, 1981), it is particularly

important in circumstances that are inherently novel, ambiguous, and decidedly uncertain. Alliance partners need to demonstrate their commitment to the alliance and to their partners in an environment that is boundedly unstable. It is only then that a relationship begins to be institutionalized (Ritti and Silver, 1986). Finally, this interpretive scheme views chaos more positively than the other one. Chaos is viewed as being fundamentally transformative in character. It is chaos that provides the preconditions for the generation of new insights (Brown and Eisenhardt, 1998).

This interpretive scheme is grounded in the principles of symbolic rationality as opposed to instrumental rationality. Symbolic rationality emphasizes the need for alliance partners to engage in a process of joint identity construction through the process of crafting a shared intent (Hamel and Prahalad, 1989) and also, for partner firms in an alliance, through a process of interactive learning about and from each other (Das and Kumar, 2007). In this interpretive mode the agents or actors are engaged in the process of “complexity absorption” by possessing “multiple and sometimes conflicting representations of environmental variety, retaining in their behavioral repertoire a range of responses, each of which operates at a lower level of specialization” (Boisot and Child, 1999, p. 238).

#### *Comparing the two interpretive schemes*

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 effort to deal with the discrepancies to accomplish and preserve harmony as much as practicable (Das and Kumar, 2009). 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 that happened in the alliance.

The most ambiguous situation occurs when one of the alliance members either is not concerned about discrepancies, or views the discrepancies as an opportunity, while the other alliance partner views the discrepancies as a source of threat. How is the alliance going to develop under these conditions? Our approach suggests that alliance development will resemble a chaotic system. Chaotic systems, as articulated by Stacey (1995), are “nonequilibrium systems with disorderly dynamics” (Stacey, 1995, p. 481). The long-term outcomes of such a system are only partially controllable by the alliance partners. Furthermore, these are systems that are capable of “spontaneous self organization and creative destruction” (Stacey, 1995, p. 481). It is the interpretation of the “disorderly dynamics” and the reaction of the alliance partners to these dynamics that defines the critical threshold for alliance functioning.

The interpretive question centers on the conception of “disorderly dynamics”. If the disorderly dynamics is viewed as exemplifying chaos the key question confronting alliance managers is: How is sense to be made of chaos? If, on the other hand, the “disorderly dynamics” is viewed as a context within which sensemaking is to occur the

key question is: How is sense to be made within chaos? Sensemaking is essentially a processual activity driven more by plausibility rather than by accuracy (Weick, 1995). As Weick (1995, p. 61) notes, “sensemaking is about plausibility, coherence, and reasonableness. It is about accounts that are socially acceptable and credible”. The two interpretive schemes construe alliance functioning in two radically different ways. They are predicated on different assumptions, they differ in their strategic response to chaotic situations, and they metaphorically interpret chaos in very different terms. The contrasts between the two interpretive schemes are outlined in the Table I.

A major point of departure for the interpretive schemes is the fundamental difference in their core assumptions. The interpretive scheme labeled as “sensemaking of chaos” assumes implicitly that predictability is and should be the system’s operating norm. “Sensemaking in chaos”, by contrast, does not assume that predictability is either inevitable, or for that matter even desirable. The schemes also differ in their strategic response to chaotic situations. The interpretive scheme “sensemaking of chaos” is grounded in the logic of instrumental rationality. Information must be gathered and analyzed to determine the appropriate strategic response. The focus is on cognition and the assumption that cognition precedes behavior. Implicit in this framework is a linear-rational model of strategy (Chaffee, 1985; Das and Teng, 1999). “Sensemaking in chaos” operates in a very different framework. Chaos is viewed as normal, and it is within this milieu that order has to be discovered and maintained. In an environment lacking predictability, and experimental spontaneity is an essential precursor for discovering order. Experimental spontaneity is defined as the tendency to engage in experimentation in a non-programmatic way. Experimental spontaneity promotes flexibility, variety, and responsiveness. It may also provide the foundation for generating insights. The ability to act insightfully in complex and ambiguous situations is a critical skill (Langley *et al.*, 1995). Related to experimentalism is incrementalism. If experimentalism provides the foundation for new behaviors, incrementalism suggests that the new behaviors ought not to be too radical in content. (This is not to say that there is no room for radical experiments. Indeed, in a crisis-like situation, there may very well be no alternative. However, in the early stages of the evolution of a relationship, too radical or dramatic a change may be destabilizing.)

A further difference is that sensemaking of chaos compels managers to reduce ambiguity and uncertainty expeditiously. They may do this by making decisions expeditiously and decisively. Sensemaking in chaos, however, allows managers the

	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: information acquisition; analysis/planning; explicit/implicit modes of control; closure	Managing chaos through: experimentation; incrementalism; symbolism
Interpreting chaos	Chaos is “disruptive”	Chaos is “transformative”

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

luxury to postpone or equivocate in making the necessary decisions, thereby permitting the situation to resolve itself in due course rather than through an intervention that is direct or clear-cut. Finally, sensemaking of chaos may exacerbate the problematic among the partners as a direct consequence of the actions undertaken by the partners to resolve a situation. In contrast, sensemaking in chaos may prevent that eventuality inasmuch as it prevents the kinds of actions that may automatically create an escalatory cycle.

### **National culture and alliance evolution**

There is no one all-encompassing definition of national culture. As Porter and Samovar (1994, p. 11) note, "Culture is ubiquitous, multidimensional, complex, and all pervasive". Culture can be conceptualized as consisting of two dimensions, namely, a cognitive and a behavioral. The cognitive dimension of culture focuses on the meaning that the different situations hold for actors, while the behavioral dimension focuses on interactional patterns extant in a particular culture. Different definitions of culture emphasize different aspects of culture, although each definition contains elements of both the dimensions. For example, Geertz's (1973) notion of culture as a "control mechanism", which defines the rules for behavior, has a strong cognitive content although the behavioral dimension is not altogether absent. The cognitive dimension of culture, besides focusing on meaning, also implies a series of rules by which the meaning is to be ascertained. These rules may be likened to what Abelson (1986) calls a "script", i.e. a set of sequential and interrelated steps that lead to the completion of an activity. These rules provide the basis for making interpretations as well as for outlining the nature of that interpretation. Hofstede's (1980, 1991) work has been increasingly used in the international and comparative management literatures. He classifies cultures in terms of five dimensions:

- (1) individualism-collectivism;
- (2) power distance;
- (3) uncertainty avoidance;
- (4) masculinity-femininity; and
- (5) Confucian dynamism.

The dimensions proposed by Hofstede are more behavioral than cognitive in content. As Redding (1994, p. 336) notes:

Although Hofstede's dimensions provide a useful beginning to an empirical approach to the social construction of reality as classically described by Berger and Luckmann (1966) we are still left with only the broadest hints about the mental frameworks of leaders in different cultures and there is a clear need for much more indigenous specification of meaning structures of the kind offered by Pye on authority in Asia.

Interpretive conflicts arise from conflicting interpretive systems. Interpretive systems, in turn, are rooted in the cognitive component of cultures. To fully understand the origins and the consequences of interpretive conflicts it is, therefore, useful to focus on a definition of national culture that has a strong cognitive slant.

Triandis (1995) suggests that the choice of a definition of culture depends on the goals of the investigator. Our goal, as mentioned earlier, is to assess the impact of



culture on alliance functioning. Culture shapes the behavior of alliance managers as well as the interpretations imposed by alliance managers on alliance functioning. Our discussion will analyze the impact of culture on alliance functioning at both cognitive and behavioral levels. This discussion will be framed within the context of the model of alliance functioning elaborated earlier.

One definition of culture is offered by Kluckhohn and Strodtbeck (1961). These authors develop a value orientation framework that articulates the parameters for decision making. The framework is based on the premise that while all societies are confronted with similar sets of problems, their approach to managing these problems is culturally variable. The different approaches are reflective of different preferences, with the different preferences being described as “variations in value orientations”. Kluckhohn and Strodtbeck (1961) identify five major value orientations:

- (1) *Relationship of humans to nature*: Is the desirable goal to achieve mastery over nature, live in harmony with it, or be subjugated to it?
- (2) *Time orientation*: Is it desirable to have a past, present, or future orientation?
- (3) *Assumption about human nature*: Are individuals primarily evil, good or are they a little bit of both?
- (4) *Activity orientation*: Is it desirable to have a doing as opposed to a being orientation?
- (5) *Relationships among people*: Is it desirable to be responsible for others or should one primarily look after oneself?

An implicit assumption in this framework is that what is variable across cultures is the dominance of different orientations and not the absence of any one particular orientation. The framework assumes that while all of the variations may be present in all cultures the relative salience of such variations differs across cultures.

International alliances necessarily involve crossing national boundaries, so that the differences in the national cultures of alliance partners become a salient factor in alliance management. Various recent studies have examined the impact of national and corporate cultural differences in international strategic alliances, with insightful analyses and findings concerning the differences in the roles of trust, commitment, legalisms, and satisfaction (Das and Teng, 1998; Dong and Glaister, 2007; Gill and Butler, 2003; Kausar and Shaw, 2004; Kwon, 2008; Lin and Wang, 2008; Robson *et al.*, 2008). A number of studies have also concluded that national culture is important (e.g. Barkema and Vermeulen, 1997; Meschi and Riccio, 2008; Steensma *et al.*, 2000), although some others question this importance *vis-à-vis* corporate and professional culture (e.g. Sirmon and Lane, 2004). In this context, Lane and Beamish (1990), p. 368 have observed: “scholars have argued that instead of addressing whether national culture makes a difference it is more useful to address the issue of how and when it makes a difference”. What is relevant for us to note is that, because of the inherent ambiguities of the relationships among the partners, cross-national alliances constitute a potentially fruitful arena to examine the impact of national culture (Kumar and Das, 2009).

Theorists concur on the importance of national culture in shaping managerial behavior (Earley, 1993; Hofstede, 1980). Scholars have explored the interlinkages between national culture and such topics as strategy formulation (Schneider, 1989), alliance evolution (Kumar and Nti, 2004), licensing vs. foreign direct investment

decisions (Shane, 1994), and self-managing work teams (Kirkman and Shapiro, 1997). These illustrative research areas indicate how widely national culture has been studied for its relevance in understanding different managerial issues.

What role does culture play in the evolution of alliances? Alliance scholars point out that every alliance potentially faces problems of appropriation and coordination (Gulati and Singh, 1998). Appropriation problems revolve around the concern that one of the partners may appropriate greater value for itself at the expense of its counterpart whereas coordination problems revolve around the concern that the partner may not be able to effectively coordinate their activities. It has also been argued that when appropriation is the central strategic issue differences in trust and strategic objectives may be the primary drivers of interaction, whereas when coordination is the primary strategic issue differences in national or corporate culture may be the primary drivers of interaction. Differences in culture (national or corporate) are likely to be reflected in differences in organizational routines or standard operating procedures and it is these differences that create problems of coordination. It is possible, and may indeed be likely, that coordinative difficulties, if not appropriately addressed by the alliance partners, may lead to problems of appropriation, whether real or subjectively perceived. The original problems experienced by the partners, as well as other variables, may become salient during the course of the interaction. One would surmise that in any cross-national alliance both sets of problems are likely to be present, although the relative salience of appropriation and coordination concerns may well be variable.

If culture is important, as it is indeed, then the question arises as to why are we privileging national culture over corporate culture? To address this issue it is important to recognize that national cultural differences reflect differences in core assumptions across cultures while corporate cultural differences are indicative of differences in organizational practices across cultures (Hofstede *et al.*, 1990). Differences in core assumptions reflect cultural differences that are relatively enduring whereas differences in organizational practices have a transient character (Laurent, 1986). A major implication of this is that while corporate culture may readily modify the behavior of organizational members, it is unlikely to be able to redefine the basic assumptions of national culture. As Laurent (1986, p. 98) notes: [. . .] it would probably be illusionary to expect that the recent and short history of modern corporations could shape the basic assumption of their members to an extent that would even approximate the age-long shaping of civilizations and nations. The relatively enduring character of national cultural differences has been underscored in a study of international joint ventures in Hungary (Meschi and Roger, 1994). Their study demonstrated that national cultural differences had a greater impact on the evolution of international joint ventures than corporate cultural differences.

Our discussion suggests that while there may be a number of variables that affect the evolution of cross-national alliances, national culture is an important variable whose impact has not been fully analyzed in the context of alliance functioning at the interpretive level.

#### **National cultural values and the use of interpretive schemes**

Kluckhohn and Strodtbeck's (1961) conception of culture as reflecting differences in value orientation provides a useful framework for assessing how national culture shapes the interpretive scheme used by a particular cultural group. As outlined earlier,

there are five major value orientations that the authors propose. We consider that of the five value orientations proposed by these authors, three have a direct bearing on the use of a particular interpretive scheme. Those three are:

- (1) relationship of humans to nature;
- (2) activity orientation; and
- (3) relational orientation.

The other two dimensions (time orientation and assumption about human nature) do not directly impact on the choice of the interpretive scheme, although they may relate to the timing of the use of a particular interpretive strategy or influence the specific behaviors adopted by the participants as they act on the basis of their interpretive schemes. The temporal orientation, i.e. the attitude towards past, present, or future, is more likely to have influence when a particular interpretive scheme is used to make sense of interruptions rather than directly affect the choice of the interpretive scheme per se. Cultures characterized by a present or future orientation will make use of a particular interpretive scheme sooner *vis-à-vis* cultures characterized by a past orientation. Whether the dominant value orientation views human nature as good or evil is more likely to influence the strategies adopted by managers in dealing with other individuals rather than directly affect the choice of the interpretive scheme.

#### *Relationship of humans to nature*

Cultures where the dominant value orientation is one of attaining mastery over nature will subscribe to the “sensemaking of chaos” interpretive scheme. Chaos, in this conceptualization, prevents the actors from attaining consistent and continuous control over the environment, and surely this is not the preferred state of affairs. Where chaos prevails, the desired goals are either not attained or are attained and sustained only irregularly. For managers socialized into this value orientation maintaining predictability and control is crucial. Alliance managers subscribing to this interpretive scheme will do what it takes to minimize the occurrence of any interruptions and, even when these are unavoidable, have back-up strategies to lessen their disruptive impact.

Cultures where the dominant value orientation is one of being in harmony with nature will subscribe to the interpretive scheme “sensemaking in chaos”. Since humans cannot exert control over the environment they must learn to cope with its quiriness. They must be prepared to cope with any threats posed by the environment and to exploit any opportunities that nature presents. The threats and opportunities may appear and disappear in an unpredictable manner and the linkages between actions and outcomes may be far from readily apparent. For managers socialized in this interpretive scheme adaptability is the *sine qua non* for successful strategic behavior.

#### *Activity orientation*

Cultures where the dominant value orientation is one of doing will follow the interpretive scheme of “sensemaking of chaos”. In a doing culture there is “a demand for the kind of activity which results in accomplishments that are measurable by standards conceived to be external to the acting individual” (Kluckhohn and Strodtbeck, 1961, p. 17). A chaotic situation for this reason invites a natural intervention by managers who have been socialized within this value system. These

managers will want to make sense of chaos by controlling it through managerial intervention. If the chaotic situation proves intractable to managerial intervention they may even consider exiting from the alliance but even that is not an attempt to bring order to a problematical situation.

Cultures where the dominant value orientation is one of being will follow a different logic. They may choose either of the two interpretive schemes depending on what they spontaneously feel at that point in time. There is a certain volatility or unpredictability in the logic utilized by managers socialized within this being frame of reference, a volatility that may aggravate the problems with their alliance partner.

#### *Relational orientation*

The relational orientation draws attention to the importance of the goals of the individual *vis-à-vis* the goals of the larger group. Cultures that give preeminence to individual goals over collective goals will rely on “sensemaking of chaos” as the interpretive scheme. Alliance managers socialized in cultures where individual goals are accorded prominence will be discomfited by interruptions that threaten their goal attainment. For them the failure to attain the desired goals is tantamount to a chaotic situation that needs to be corrected expeditiously.

By contrast, cultures that give preeminence to collective goals over individual goals will rely on “sensemaking in chaos” as the dominant interpretive scheme. Alliance managers socialized in such cultures will tend to view situations in more nuanced terms. The critical question for them is one of attaining and maintaining alignment between their individual and group goals. It is the need to balance the two in a harmonious manner that invites viewing the situation through the lens of “sensemaking in chaos”.

#### **Interpretive contradictions and internal tensions in alliance evolution**

Alliances contain within themselves the seeds of behavioral contradictions (cooperation vs. competition), structural contradictions (rigidity vs. flexibility), and temporal contradictions (short-term vs. long-term) (Das and Teng, 2000). In the event the alliance partners are unable to effectively manage the interpretive contradictions, the alliance is likely to enter an unstable phase. While the non-resolution of interpretive contradictions may not lead to an instant demise of the alliance, it may set in motion a chain of events that may exacerbate the already existing interpretive contradictions. In particular, non-resolution of interpretive contradictions may make salient contradictions that may have been only latent till that point in time. Consider, for example, the inherent tension between cooperative and competitive behavior, a tension that lies at the heart of behavioral contradiction. If partner firms are unable to manage this contradiction effectively, they will become wary and, in so doing, may modify their behavior and reevaluate their partner’s behavior. A behavior that was viewed as exemplifying cooperation may now be viewed in a neutral or a self-serving manner. When both the partners begin to act in this way, they make explicit the behavioral contradiction and create the preconditions for the emergence of a vicious circle. Vicious circles arise in interorganizational dynamics because the actors are biased against perceiving vicious circles (Masuch, 1985). The consequence of this is that ever so small a change in behavior may lead to potentially large consequences as one or both of the partner firms decides to exit from the alliance.

A similar dynamic may be operative in the context of structural contradictions, i.e. a tension between rigidity and flexibility (Das and Teng, 2000). The failure to effectively manage interpretive contradictions means that alliance partners may hold conflicting views concerning the appropriate balance between the two structural attributes. Thus, while one of the alliance partners may be concerned about “insufficient details on how to collaborate, little irreversible commitment, unclear property rights, and weak authority structure” (Das and Teng, 2000, p. 87), the other partner may be more concerned about modifying the structural arrangements so as to more effectively function in changing environments. Structural contradictions may become highly salient under these conditions, with an alliance firm beginning to question the motives and the underlying intentions of its partners. There is the danger here of a self-fulfilling prophecy, with the emergence of a vicious circle a strong possibility.

The temporal contradiction, i.e. the conflict between the short-term and the long-term is a very critical contradiction in alliances (Das, 2006; Das and Teng, 2000). Interpretive contradictions, if not managed effectively, may sensitize the alliance partners to this otherwise latent contradiction. Where one of the partners focuses on the short-term while the other partner focuses on the long-term appropriation concerns may intensify, leading the partner with a longer term strategic focus to sharply limit or curtail the pattern of interaction with its partner. This will affect the ability of the alliance to realize its strategic goals, further calling into question the meaningfulness of the alliance for either partner.

In sum, the framework posits that an ineffective management of interpretive contradictions may give rise to behavioral, structural, and temporal contradictions. The emergence of these contradictions is likely to further intensify the nature of the interpretive contradiction among the alliance partners. Vicious circles once again are likely to be very prevalent under these circumstances.

An example of a cross-national alliance where the interpretive contradiction was not effectively managed is provided by Ariño and de la Torre (1998). This was an alliance between NAMCO, a US-based company, which was active in the household products industry and Hexagon, a French company, whose primary interests were in chemicals, cosmetics, and pharmaceuticals. These firms had developed a joint venture to exploit the market for ecological cleaners. The two firms had complementary strengths – Hexagon was strong technologically but did not possess a worldwide distribution network; NAMCO had a good distribution network but did not possess the requisite technical capabilities to develop their products globally.

When the alliance experienced an interruption, i.e. the expected outcome did not occur (the market for ecological cleaners turning out to be much less promising than what was thought originally), the alliance partners were confronted with the necessity of making sense of this interruption. This was a task in which they were not particularly successful.

As outlined in the development of this article, the partners needed to be clear about whether the alliance is functioning well, demanding reasonable efforts, and has prospects of further cooperation. Although at first the alliance partners were in agreement about the changed strategy following the less than promising results in the market for ecological cleaners, this agreement did not endure for very long. (The new agreement had called for the alliance to try to market hypoallergenic soaps and skin care products.) NAMCO became particularly concerned about the impact that the new

strategy was having on the “cannibalization of NAMCO products” by the joint venture. Although an agreement was reached among the alliance partners, the implementation of the agreement was marked by continuous tension among the partners. As Ariño and de la Torre (1998, p. 321) note, the partners’ “inability to reach consensus about the interpretation of their respective obligations, and modify them if necessary in the face of significant external change, is allowed to fester and make their positions diverge”. This conflict reached a climax when NAMCO was perceived to have allowed one of Hexagon’s competitors to reestablish a position in the hypoallergenic market and not lose competitive position to Hexa-Care, the product being promoted by the joint venture.

It also became increasingly apparent that the partners were finding it hard to restore the alliance to a state of equilibrium. Whatever one partner desired, the other partner had objections. This obviously made the task of managing the alliance a costly process leading both the partners to lessen their commitment to the venture. In due course the partners made a negative assessment on the possibility of maintaining or deepening the cooperation among themselves. A negative assessment on this score led to the dissolution of the joint venture in December 1993.

The case highlights the consequences of the failure of the partner firms to effectively manage interpretive contradictions. At a behavioral level, both partners did not consistently maintain a cooperative mode of behavior. As an example, while NAMCO may have allowed one of Hexagon’s competitors to enter the market, Hexagon on its part did not transfer the rights to a specific diet product to the venture as had been agreed upon. On the structural level, both partners were not sufficiently flexible in coping with the contingencies posed by the failure of the market for ecological products to develop. While the partners agreed on the choice of a new product for the joint venture, they were unable to satisfactorily resolve the operational challenges that this posed. Adjustments needed to be made but the partners were either unwilling or unable to make the requisite changes.

### Conclusions

The article has explored the implications of conflicting interpretive schemes on the evolution of cross-national alliances. It had been argued that there are two alternative interpretive schemes through which the alliance partners may seek to make sense of the interruptions that they may encounter in alliance functioning. The first scheme, “sensemaking of chaos”, copes with interruptions through a process of complexity reduction, whereas the second interpretive scheme, “sensemaking in chaos”, copes with interruptions through the process of complexity absorption. Conflicting interpretive schemes generate an interpretive contradiction that, if not appropriately managed, may lead to the emergence of behavioral and structural contradictions that make it difficult for an alliance to yield the desired outcomes.

The interpartner sensemaking framework developed in the article makes several contributions. Although there have been a number of different theoretical perspectives that have been put forward to explain the problem of alliance instability, Das and Teng (2000, p. 84) observe that “there is as yet no general framework that explains why strategic alliances are inordinately unstable”. These authors do attempt to explain the instability of alliances in terms of what they describe as an “internal tensions perspective”, and while this certainly extends the literature, the perspective they offer

is not an interpretive one. The framework proposed here attempts to do just that. It is not the mere existence of internal tensions (important as they are) that is crucial to understanding alliance instability; it is also how these tensions are interpreted and acted upon by the alliance partners that help shape the dynamics of alliance evolution.

Second, the article articulates the challenges faced by managers in cross-national alliances. Although there are many who now argue about the importance of cultural differences in shaping alliance dynamics (Child and Faulkner, 1998; Johnson *et al.*, 1996), the management of the interpretive aspects of these alliances has not been stressed by these and other writers to any degree. This article thus provides a complementary perspective to the existing literature on alliance functioning.

Interpartner sensemaking occurs at all stages of alliance evolution. Future research may therefore seek to assess the impact of conflicting interpretive schemes in a number of ways. First, we know that alliances proceed through the stages of formation, operation, and outcome (Das and Teng, 2002). It might be helpful therefore to explore how these interpretive contradictions unfold at these different stages. Second, alliances may be prone to conflicts centering on issues both of appropriation and coordination (Gulati and Singh, 1998). Appropriation concerns revolve around the ability of the partner firms to extract value from the venture while coordination cost concerns center on the ability of the alliancing firms to engage in effective coordination. How do the different interpretive schemes condition the evolution of these conflicts? The interpretive schemes may also be particularly relevant in learning-related alliances where there is ambiguity both about the learning intent of one's partner (Das and Kumar, 2007; Hamel, 1991) and one's own ability to absorb learning (Cohen and Levinthal, 1990). Conflicting motivations and ambiguity regarding learning processes and outcomes no doubt have the potential of accentuating conflict, in which case these interpretive schemes become especially relevant.

A further aspect of the framework highlights the importance of conducting longitudinal studies for studying alliance evolution. If the evolution of a cross-national alliance is dependent on the interpretive schemes used by alliance managers as well as on how congruently the interpretive schemes mesh with each other, then longitudinal studies would enable one to capture the dynamics of the interpretive process. Although studying an alliance as it unfolds may be difficult, it will surely be insightful; in any event, it is our belief that in conceptual endeavors such as in this article the more significant goal is to discover potentially fruitful concepts and insights rather than be overly concerned about the practicalities of immediate empirical investigations (Das, 1984, 2003). One could also, of course, study the evolution of alliances retrospectively in a manner attempted by Ariño and de la Torre (1998) or Doz (1986). In both of these studies the authors conducted in-depth interviews as a prelude to conducting an inductive analysis of alliance evolution.

The interpartner sensemaking framework also has significant managerial implications. In particular, the framework emphasizes the importance of the implicit assumptions that guide each partner's behavior. Managers are often unaware of their own assumptions, much less the assumptions of their counterpart. Divergent interpretations over which the partners are unable to negotiate a consensus are for that reason often attributed to the presence of hidden agendas than due to conflicting assumptions. This may lead one or both of the partners to pursue actions that are more likely to aggravate rather than lessen conflicts. An awareness of the implicit

assumptions shaping one's own behavior and that of one's partner is for that reason crucial in alliance management.

This awareness can be heightened through cross-cultural training. A key component of many cross-cultural training programs is to help the managers get a better appreciation and awareness of their own assumptions and that of their partner. Heightened awareness may override the managers' natural tendency to process information in an automatic fashion, preventing these managers from making instantaneous judgments about their partner's intentions. Better awareness will also sensitize managers to their own interpretive schemes as well as that of their partners'. Cross-cultural workshops that bring together participants from both of the alliance firms prior to the commencement of the alliance should be immensely useful. This should be supplemented by ongoing cross-cultural workshops once the alliance has commenced operation. This will solidify managerial understanding in both partner firms and will allow them to resolve conflicts constructively. Role-plays, simulations, case studies, and small group discussions are often key components of these workshops, and these can go some distance in sensitizing alliance firms to the interpretations of their opposite numbers. A related implication is that partners must become skillful in the management of conflicts as and when they occur. Conflicts are bound to arise many a time in alliances, given the conflicting interpretive schemes, but effective management of conflict implies that conflicts are prevented from escalating needlessly.

In sum, this article has attempted to highlight the contradictions inherent in strategic alliances and the factors that give rise to the emergence of these contradictions. Interpartner sensemaking ( "sensemaking of chaos" and "sensemaking in chaos" ) ( need to be appreciated as interpretive frames of alliance partners in an arena intrinsically fraught with contradictions. Studying alliances from an interpretive perspective seems to have rarely been attempted. An initial attempt has been made here to highlight the benefits of such a perspective, and especially so in the context of cross-national alliances, where the divergence of meaning may be particularly acute. It is our hope that researchers will pay greater attention to this perspective in the future in studying strategic alliances.

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#### **Further reading**

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