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Understanding the Impact of Cultural Issues in Global e-Business Alliances

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This paper discusses the influence and impact of socio-cultural issues in business alliances formed in the electronic world. With increasing ability to interact globally through the electronic medium, businesses are able to tap into opportunities as well as capitalize on pools of resources and talents spread across the globe. One of the major hindrances to the utilisation of these opportunities and talents through global alliances is cross-cultural issues. Herein are discussed some of the reasons why global alliances are needed in the electronic world, the issues and challenges faced by them, and suggested antidotes.

Keywords e-Business, e-Commerce, Cultural Issues, Business Alliances in e-World;

INTRODUCTION

Electronic commerce requires sound business alliances. This is because electronic business can reach far and wide, transgressing geo-political boundaries comfortably and instantaneously. In order to succeed in a global electronic business, it is essential to create alliances that are not merely of the electronic world, but also based around the physical world. This is so because however easy it might be to form an electronic link between two businesses, there are numerous non-technical factors such as social, political (very well discussed by Laudon and Laudon, 2002) and legal, that influence the outcome of global e-business alliances. Thus, for an effective globalization process, it is crucial that a fine balance between electronic expansion and creation of physical alliances with global trading partners is achieved. In fact, in the modern business world, forming global alliances further to forming electronic alliances is crucial to gaining the competitive advantage. While globalization continues to put pressures on organizations to ascend their technological capabilities, when it comes to physical (non-technical) alliances, as already mentioned, organizations stumble across relatively unexpected challenges in terms of cultural and sociological issues. While the increasing competitive pressures make it imperative that companies develop new capabilities in providing timely goods and services, improve internal management of their businesses, and decrease costs, these requirements are better served by strategic alliances that bring together disparate skills, capabilities, resources and environments. Interestingly, the electronic world not only creates the needs for this synergy, but also facilitates bringing these skills together which would otherwise not have been possible in mere physical alliances. However, despite their potential benefits, majority of alliances do not survive even in the early periods. According to some statistics 55 percent of alliances fall apart within three years; only 23 percent of them can barely cover the costs of forming those alliances in the first place. One of the major reasons for this failure appears to be the inability of the organizations to accommodate differing cultures (Grambs and Zerbib 2000) These cultural differences are not merely socio-cultural but also related to corporate cultures and political cultures (Laudon and Laudon, 2002).

The fact that the socio-cultural issues are now gaining importance in the e-business world is not surprising. This is because these “soft” issues usually ensue the mastery of technologies and methodologies of a process (Unhelkar, 2003). Therefore, in the context of processes for globalization, and related global information system (GIS) issues, programming (technology) and modelling (methodology) are not as great a challenge as cultural and social issues are. This paper considers the major reasons and major issues in setting up global alliances in the electronic world, and what can be done to ameliorate the cultural problems that hamper growth and prosperity of these alliances.

REASONS FOR GLOBAL E-BUSINESS ALLIANCES

When organizations form e-business alliances, they have to also consider physical alliances. This is especially true when the e-business alliance is across geo-political borders. The underlying principle for such alliances is that they each have something to offer that is complimentary to the other. More often than not, one organization
will be a technically savvy global aspirant that is trying to reach across the borders. However, due to numerous factors discussed later, it is unable to do so. The electronic commerce world facilitates formation of these alliances, as it is easier to communicate electronically across boundaries than it is to do so physically. A global alliance effectively builds on the possibilities offered by two companies that are able to electronically communicate and that have value to offer to each other. As and when such alliances are formed, stakeholders and players in these organizations need to understand and establish relationship with each other that has to transgress the cultural borders. If employees and managers can effectively adopt different cultures, the companies will be benefited a lot by those cultures (Gupta 2000). These benefits include but are not limited to:

- Knowledge capitalization
- Business growth through market expansion
- Enhanced customer service
- Spreading of risk
- Outsourcing
- Legal Tax advantages

**Knowledge Capitalization**

When two organizations from different regions come together, they invariably bring rich knowledge and know-how in terms of products and services offered. Collaborations between people belonging to these organizations, reinforced by information flow, makes it possible for them to share knowledge, thereby enhancing the overall pool of expertise in the organization. This can lead to benefits such as faster innovation of new products, reduced duplication of efforts, savings in research and development costs, and enhanced employee satisfaction. Being able to share and build upon knowledge in order to create a richer set of knowledge is one of the major advantages of global alliances. Electronic technology facilitates these alliances, but the physical interaction between people is what eventually brings the knowledge to fruition.

**Business growth through market expansion**

Alliances enable business partners to have access to each other’s markets. Initially, formation of this alliance requires creating local know-how, some of which may be too idiosyncratic to be relevant outside the particular local market. However, eventually businesses find that they are able to sell in a market that they no access to earlier. Furthermore, alliances enable businesses to understand and leverage the cultural nuances of selling in a “foreign” market. Leveraging different cultures is not just a business advantage, it is also a business imperative (Teitler, 1999). Companies that develop best practices for managing culture capital find they are able to expand and supplement their e-business with physical growth.

**Enhanced Customer Service**

While it is possible to sale across borders using electronic commerce, it is not always easy to service the same customer across boundaries. In most cases, even local customer care is often uneven at best; let alone customer care across global markets. Global markets increase the risk of customer dissatisfaction or even customer churn. "Customer service is often seen as a necessary evil," says Raul Katz, a vice president with Booz-Allen & Hamilton. Good managers realize that in their business, customer service would be one vital element in holding onto premium customers in the face of competition.

For example, IBM has set alliances with 61 software companies this year, a sharp increase over the 50 alliances it inked in all of 2000. The company expects the partnerships will add $2 billion in new revenue to the top line this year. Increasing the number of partnerships "allows IBM to solve a wider percentage of their customers' problems," said Mike Gilpin, vice president and research leader of Giga Information Group. "They can grow Global Services, do more outsourcing deals and provide more strategic assistance to clients.” (Bryce 2001). This is because IBM’s alliance partners are available to provide service for products that may have been sold in another country or region.

Thus, while e-business provides a single unified face to the customer, because of global alliances, personalised and even peculiar needs of customers can be satisfied by the local know how, expertise and physical presence of alliance partners.

**Spreading of Political Risks**
The issue of response to different political circumstances in different cultures is of prime importance to those who operate in global markets. Global alliances present a real challenge to the strategic management of business corporations. In order that the management of a company keep track of all the changing technological, economic, political-legal, socio-cultural trends around the world, it is essential that they shift from a vertically organised, top-down type of organization to a more horizontally managed, interactive organization (Nuese, et al., 1998). Horizontal structures are flexible, enable ordinary employees to play crucial role by interacting amongst themselves, and enable spreading of risks due to vacillating external (in this context political) factors. Alliances with local players have a distinct advantage over traditional multinational company structures in this respect. For example, to gain access to China while ensuring a positive relationship with the often-restrictive Chinese government, Maytag Corporation formed a joint venture with the Chinese appliance maker, RSD (Adler 2001).

Outsourcing

Outsourcing facilitates capitalizing on the unevenly distributed pools of skills and resources across the globe. By making it feasible for organizations to outsource certain routine work outside, typically to another country, there is potential for significant saving, as well as ability to provide service round the clock (due to time differences around the world). This is invaluable, for example, in providing 24x7 call centres, which are themselves made possible through the electronic and communication medium. However, outsourcing usually comes with its own limitations in terms of social communication problems, understanding of what is meant within the contractual terms, understanding the requirements and agreement on what constitutes a quality deliverable.

Legal and Tax Advantages

Global alliances facilitate companies to research, produce and sell legally, by taking advantages of the local rules and regulations of the governments of the environments where they operate. For example, stem cell research may be considered unacceptable, unethical or even illegal in some regions, but may well be acceptable in others. Alliances, especially at global level, are able to take advantages of the regulations spread across the globe, in order to achieve their goals. Alliances in educational sector are common and popular examples of legal and tax advantages being used effectively in running a global business.

THE CULTURAL CONTEXT

Defining Culture

The aforementioned global alliances, ensuing from the electronic communication world, are said to have maximum hurdles in terms of socio-cultural disparities. It is thus imperative for us to study culture, understand what the differences are and learn how to overcome these differences in a positive way. Let us first consider the word culture. When we talk about culture, what is implied? At an informal level it appears to be the ethos exuded by a group of people. Practically, it is the way members of an entire society live their lives – the way they eat, dress, live and even die.

On a more formal level, according to an anthropological definition (Devereaus, M., and Johansen, R., 1994), culture is an integrated system of learned behavior patterns that is characteristic of the members of a society. Culture refers to the total way of life – the underlying patterns of thinking, feeling and acting – of particular groups of people. It is learned, not inherited, and transmitted from generation to generation primarily through conditioned learning. Another definition, by Hall and Hall (1989, p179) is: “Culture is ‘a system for creating, sending, storing and processing information.” These definitions themselves seem to indicate that whenever different cultures try and intersect, there are bound to be differences. Therefore, it does not come as a surprise, that global alliances face cultural disparities as one of their major challenges.

High-context versus Low-context cultures

Devereaus, M., and Johansen, R. (1994) further provide an excellent analysis of the chasms that exist between different types of cultures. According to them, in general, cultures can be classified as “High Context” v/s “Low Context” cultures. These may also be considered as “Eastern” v/s “Western” cultures respectively, although Eastern-most countries like Australia or New Zealand may be considered “Western” with respect to this discussion. The High context Eastern or oriental cultures are based on the value system of “who you are” rather
than the Low context cultural values of “what you do”. This fundamental difference in the value systems tends to drive these cultures. For example, over centuries, the western educational institutions are focused on an individual, whereas eastern institutions (including Nalanda and Takshahila of the yore, India) gave certain credence to the lineage of the candidate, his or her social ‘context’. These major differences between the western and the oriental value systems still persist and provide the basis of most cultural differences between organizations forming alliances. And when global alliances are formed between these culturally different organization in a hurry, they invariably tend to drift apart with time based on these fundamental differences. This is not to say that there aren’t other differences such as religious, wealth, political and related allegiances. However, the “context-based” differentiation has been most prominent when global alliances are formed.

CULTURAL ISSUES IN ELECTRONIC ALLIANCES

A successful alliance should not imply an imposition of one organizational culture over another. Rather, it should create a new culture that brings together the best elements of each one (Brooks 1998). This is what is known as "synergy" and is something we sorely need in order to successfully handle the cultural differences in global alliances. However, synergy is usually lacking in global alliances because these alliances are often viewed solely from a financial perspective, leaving the human resource issue as something to be dealt with later and hopefully without a great deal of effort. And whenever change is imminent as a result of alliances, it is usually assumed that the smaller, weaker company is the one that has the obligation to change. Errors like these are commonplace resulting in failure to achieve even the basic aim of financial success. While creation of synergy between global partners with different contextual background is expensive and time consuming, still it is vital that this issue is addressed right from the beginning of an alliance. The end result is far more valuable in terms of not only financial rewards but also employee satisfaction, broadening of cultural viewpoints, and a deeper and perhaps longer time sustainable alliance. To achieve this aim, let us consider some of the major reasons for cultural disparities in global alliances, and what can be done to ameliorate them.

Communications Gap

While the electronic communication has never been easier, a very basic cultural hurdle can occur in social communication. Communication between a parent company and its foreign subsidiaries can be hampered by diverse language, culture heritage and physical distance (Segil 1999). A growing and popular example is that of a service alliance being setup between an Australian company and Chinese company. Although few Australian would be able to converse in a Chinese language, there are increasing number of Chinese who have taken a course in English in their high school classes. Moreover, many Chinese with advanced technical degrees have attended graduate school in Australia. So the default language between Chinese and Australian business professionals is English. While this situation is certainly fortunate for alliance communications for those that speak and write English; however, the “western” partners of this alliance should be extremely sensitive and understanding as their counterparts attempt conversation in a “foreign” language. There are some obvious major differences in the nuances of expressions from these two different cultures. The Australian culture is predominantly “low context”, wherein what “you do” is important. This requires people from these cultures to express themselves as well, and occasionally as hard, as they can. The Chinese culture is context-based, and depends on the pedigree of the person, to a certain extent. Therefore, a person with Chinese cultural background, despite conversing in English, is bound to show the restraint expected of him or her in similar conversations within the Chinese context. It is recommended that special efforts be made before and after formal meetings to search for thoughts that might otherwise not have been expressed and meanings should be clarified by spelling them out rather than taking them for granted. As this paper gets written, this author is personally experiencing the situation described here as he delivers a course in object-oriented software engineering to a group of students belonging to Nanjing University of TCM, in Nanjing China. Despite the ease of electronic alliance and communication, ensuring that a “quality service” is delivered to the “clients” numerous perceptions and adjustments are required. Furthermore, written communications between alliance partners must receive special attention; it is easy to unintentionally offend by virtue of subtle language inflections that are misunderstood. Emails are most notorious in this regards, and more so when they come from a different cultural background.

Corporate Mistrust

Since the primary purpose of alliances is to make money, it does not come as a surprise that alliance partners tend to eye each other sceptically in the beginning. Given the communication gaps that exist between people in similar cultures, let along varied ones, this scepticism can quickly build up to paranoid proportions, resulting in
a break of alliance. Thus, corporate mistrust is a serious problem that, unfortunately, is further exacerbated by managers from both countries who have achieved their success by nurturing a tough, critical business image. Of course, it is important that each party to an alliance protect its own assets, intellectual property, reputation, customer base, etc. But it is equally important to appreciate that only a mutual win-win relationship can succeed and endure. Hence, each party should enter a relationship with a certain amount of trust in its partner, and with an attitude that the partner's success is just as important as its own (Brooks 1998). Cross checking of references, and getting third-party commend on business alliances, as well as checking each others corporate history, is one good way of trying to reduce corporate mistrust.

**Social Incompatibility**

Socio-cultural incompatibility results when two companies with different social environment, as well as disparate financial backing, try to get together into cross-border alliances as a means of expanding and competing overseas. While "going global" seems to be a strategic move, these incompatible alliances fail because partnering companies fail to give culture the credence it deserves. For example, the American socio-cultural context can be quite different to the German work culture and ethos. An alliance casually put together to capitalize on the German engineering skills and American markets can degenerate into an ugly fracas if the differences in social and cultural contexts are not spelled out and studied prior to the alliance formation. While the American focus may be on the financial aspect of the alliance, it is possible that the German focus is on building a strong foundation for the alliance or perhaps creating a knowledge base.

In yet another not an uncommon example, an alliance almost collapsed because the two organizations had disparate staff policies. One organization gave half-day Fridays in the summer; the other didn't. One gave staff a day off on Election Day; the other didn't. At first, there was grumbling, but both organizations came together frequently, giving everyone a chance to air their feelings. These meetings let people come to terms with their differences and remain productive.

Failure to address differences and disparate values or operations can quickly lead to the demise of an otherwise strong strategic alliance. The key to beating the odds is to assess and monitor partner compatibility up front and at every step of the way-constantly highlighting differences and creating solutions (Gupta 2000).

**Dissimilar Management**

Dissimilar management styles can cause culture conflict too. One leader may be forward thinking, while the other is of the old school of management thinking, relying on hierarchical management style. A common result of these management styles is often seen in Scott Adam’s cartoon character Dilbert: For example, Dilbert is often shown as a staff member who is left with no private space at all, in the form of a cubicle. However, if one organization has a flattened hierarchy and an open seating plan, and another one doesn’t, and if people and managers from these organizations have to work together, they are bound to have different perception of the entire alliance exercise. If handles properly, exposure to different approaches can be liberating and enlightening. The important thing is to be sure staff members have a chance to discuss their feelings and work through solutions together.

**CONCLUSIONS**

Modern electronic business world is highly competitive and fast. To be able to survive and prosper in such a business world, there is need for organizations to expand their vision and their reach way beyond their traditional or home turf. While forming electronic alliances between organizations is not difficult at all, forming corresponding physical strategic alliances is equally important, if not more, to service the electronic alliance. However, each physical alliance especially across geo-political boundaries, is fraught with socio-cultural issues that influence such alliance. This paper highlighted and discussed the need for such physical alliances, the cross-cultural issues that arise in such alliances, and what can be done to understand and improve the socio-cultural chasms that exist between disparate cultures. Transcending cultural boundaries requires not only awareness and understanding but also the ability to adapt to, and leverage of, the different cultures. The end result is an e-business alliance that is well supported in its endeavour to globalize an organization through corresponding physical alliances between two or many organizations.
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