International Co-Operations and Entrepreneurship Development:
A Cross-Cultural Perspective

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Abstract

Even if the need to innovate has always existed, it has been accentuated in recent years due to the acceleration of technological change and the growing world competition: entrepreneurship - meant as the individual capacity to take risk, to produce innovation and to predict and act upon change – becomes a crucial factor of firms' competitiveness. At the same time, international alliances have been recognised, above all in emerging countries, as the best way to improve local firms' entrepreneurship and learning capability. However strategic alliances show a high degree of failure, thus posing the need to investigate the factors that can impact on their longevity and success.

According to the above considerations, the aim of our paper is to investigate: a) the linkage between national culture and entrepreneurship, b) how culture affects firms' propensity to international co-operation.

Keywords: *entrepreneurship, knowledge, culture, individualism vs. collectivism*

JEL classification: L26, O47

1. Introduction

Even if the need to innovate has always existed, it has been accentuated in recent years due to the acceleration of technological change and the growing world competition; the capability to individuate new and valuable resources and to understand their potential opportunities has become a key-factor for firms' competitive advantage. According to this perspective, entrepreneurial alertness (Kirzner, 1979) is a source of firms' competitive advantage and the entrepreneur's capacity to obtain entrepreneurial rents from the combination of the specific knowledge existing within the firm can be recognised as firm's most important intangible resource.

The cognitive process has become a determinant factor for firms' strategic capacity, strategic aims depending on firm's knowledge and competencies, which are deeply related to strategies implementation (Peng, 2001; Calvelli, 1998).

Since very few firms are able to develop a wide range of knowledge internally, firm's accessibility to a broader knowledge-base through external learning has attracted the attention of both practionists and scholars.

Over the past decades strategic alliances have become not only one of the most successfully internationalisation modes used by firms (Inkpen, 2003), but also the most used organizational form for absorbing and creating new knowledge (Cohen and Levinthal, 1990).

All strategic alliances may be considered as a cooperative arrangement between two or more firms through which partners seek to acquire from each other products, skills, technologies and knowledge otherwise not available. This situation poses the problem of understanding what features may enhance or avoid knowledge transfer, thus allowing partners' learning process as well as the development of entrepreneurship.

According to Baghat et al. (2002) the effectiveness of cross-border knowledge transfer depends on the capabilities of the donor and of the receiver organization to use institutional mechanism, such as licensing agreements or patent related intellectual property rights, to accomplish such transfer. In addition it is important for the recipient organization to possess an appropriate absorptive capacity in order to assimilate and to use outside knowledge for commercial ends (Cohen, Levinthal, 1990).

Transferring knowledge among organizations is actually a difficult and often misunderstood process. Because of the international dimension of cooperation, the effective knowledge transfer between partners seems to be moderated not only by their relative absorptive capacity, but also by their cultural patterns.

2. National culture and entrepreneurship

Entrepreneurship can be meant as the process by which individuals pursue opportunities without regard to the resources they currently control (Stevenson and Jarillo, 1990) and it mainly consists of two processes: 1) catching environmental opportunities and 2) maximizing value creation by exploiting the existing resources and by developing new ones.

The mentioned characteristics together with risk-taking propensity, self employment and need for achievement – recognised as basic entrepreneurial properties (Shane, 1996) – seem to be strongly influenced by the social environment in which entrepreneurship arises.

Firm's culture is the result of the national culture affecting entrepreneur's identity and of the ideas and behaviours consolidated within the organization: national culture impacts on individuals' propensity to take risks, to share responsibility and to accept others' ideas, thus influencing firm's capacity to recognise and to catch opportunities, to create and to implement innovation, to leverage invisible assets by accepting external inputs and by sharing learning opportunities (Steensma et al., 2000).

Many authors have studied how national culture impacts on the organisation (Fiske, 1992; Hofstede, 1980; Douglas, 1970), trying to synthesise the differences existing among different cultures. According to the main stream of literature, individualism and collectivism are very important in explaining different culture's degrees of entrepreneurship.

Individualism and collectivism refer to the distinction between an emphasis on self-interest - in individualist cultures - and an emphasis on group's interest - in collectivist cultures (Erez and Early, 1993).

For what concerns management and leadership dynamics, individualists are expected to stress individual actions and self-interest, while collectivists act and view themselves more as group members (Singelis et al., 1995). Even if, individualism seems to be more coherent with entrepreneurship, both collectivism and individualism can have positive or negative effects on it.

Collectivists direct their efforts in preparing individuals to accept groups' values and beliefs, while individualists encourage self-interest behaviours (Wagner and Moch, 1986). As Tiessen (1997) notes, individualism seems to facilitate variety generation - variety requiring individual creativity and initiative - while collectivism enables resource leverage deriving from an efficient and spontaneous relationship. The former produces breakthroughs that collectivists implement and improve and it facilitates new venture creation and major innovations. Individualists tend to leverage their resources through contract-based relations.

On the contrary, collectivists generate variety through group-based, incremental improvements and changes; they leverage their own resources through "clanlike" affiliations, and secure the use of resources of other firms by building close relational ties.

According to these considerations and to the first empirical evidences, individualism and collectivism don't seem sufficient to explain different countries degrees of entrepreneurship: both individualist and collectivists can actually be good entrepreneurs and many entrepreneurial features, such as innovativeness, can not be related to one cultural dimension (Thomas, Mueller, 2000).

However, looking at entrepreneurship, as the capability to interpret the external environment and to analyse the events in order to catch the arising opportunities, poses the possibility to relate entrepreneurship with other cultural aspects.

Starting from Cox and Blake's study (1991) and looking at Calvelli's (1998) application of cultural contexts to the external environment, it seems possible to assume that entrepreneurship is more easy to develop in those contexts characterised by a higher acceptation of diversity and by a propensity to compare with different people, like in the so called *multicultural* contexts.

2.1 The different cultural contexts

Within the organisational studies, Cox and Blake (1991) identify three kinds of organisations: *monolithic*, *pluricultural* and *multicultural* contexts.

Each context reflects both the organisation's dominant values that strongly affect the degree of diversity acceptance, and the atmosphere deriving from the interaction itself (Calvelli, 1998).

A *Monolithic* context is characterized by a strong homogeneity within itself and by a low propensity to accept different cultural models. The cognitive process is based on *self-identity* and *self-categorization theories*, according to which people are accepted, or not, more on the basis of physical characteristics, like the race, the skin colour and the spoken language, than on values and believes.

On the contrary, *multicultural* contexts are characterized by an effective dialogue among different cultures and by the absence of any discrimination and prejudices. Within these contexts both pluralism of ideas and different managerial behaviours are fostered; the cognitive process is addressed to the interpretation of cultural diversities to deep understand their characteristics and in order to identify homogeneity among them.

Between the two described typologies there are the *pluricultural* contexts, characterised by the presence of different cultures. The lack of an effective interaction among the cultural minorities can generate cultural conflicts.

Starting from Cox and Blake's study, Calvelli (1998) extended the analyses to the external environment, in order to understand the relations among organizations coming from different national contexts. The typologies of national cultural contexts have been, therefore, identified according to the cognitive process adopted by the dominant culture in a given area, on one hand, and to the level of interaction among different cultural groups within the same area, on the other hand.

Without considering the possibility of cultural changes time by time, some examples of *monolithic* contexts are given by some South-Mediterranean countries: one case is that of the internal areas of Turkey, where the small firms coming from Anatolia have strong traditions and religious beliefs, and are not open to cooperation. In this kind of context, the complete refusal of diversities can be a strong barrier to entrepreneurship development, because of people's reluctance in accepting changes and taking managerial responsibilities.

Examples of *pluricultural* contexts can be found in some Central and Eastern European Countries, in Russia, in the ex-Yugoslavia or in Algeria. These countries are characterised by the presence of different ethnic groups, but a real integration among them is not always possible. The lack of an effective interaction among people some times leads to social conflicts between the cultural minorities and the dominant group and there is a tendency, within the firms, to select workers coming from the same ethnic group.

From an entrepreneurial perspective, problems can derive from a too strong self-confidence feeling. The lack of confrontation with the external environment can actually limit firms' learning process.

Only in *multicultural* contexts cooperation is simpler and more spontaneous and the background for cooperative relationships really exists. Examples of multicultural contexts are given by Scandinavian Countries, USA and Japan, where firms exploit inter-firms co-operations to improve their competitiveness

Many emerging countries try to foster co-operation between local and foreign firms in order to support local entrepreneurship development. However, international strategic alliances are characterised by a high degree of failure and firms' propensity to co-operation can be related to two cultural factors (Calvelli, 1998): the cultural context typology and the group belonging feeling - namely *individualism vs collectivism* – (Hofstede, 1980).

2.2 The effects of Individualism vs. Collectivism

A general statement would be that the more individualistic a culture is, the less cooperative its behaviour is. As a consequence, individualism would hinder alliances between international partners, while collectivism would relate positively to cooperation propensity.

Some empirical investigations, however, highlight that individualism does not represent a barrier to international cooperation at all, it does not preclude relationships with others; rather it affects how these interactions are conduced. Collectivism motivates people to work for their group's interests, while individualism, by definition, lead people to work together only if they may reach advantages for themselves (Tiessen, 1997). Moreover, collectivism makes much more difficult to establish alliances with partners coming from other cultures: it is not easy to enter into the Japanese Keiretzu or into the Chinese Guanxi because collectivism often lead to the firms' external closing, but ones started the alliance the presence of collectivism favours trust-based long-term relationship (Calvelli, 1998).

As a consequence, the differences between collectivism and individualism concern more the level of stability and the difficulty to manage the alliance than the relationship's start-up.

As figure n.1 shows, in *monolithic context* the presence of individualism lead to forced relationships among partners, while both in *pluricultural* and *multicultural* contexts alliances very often degenerate into opportunistic relationships that end as soon as the strongest partner gains his goals - namely costs and risks reductions, market barriers overcoming, and acquisition of new competences.

Figure 1 shows, however, static situations: in a dynamic perspective changes may arise when different values and beliefs affect those cultural contexts.

Even in *pluricultural* contexts, if foreign investors are open-minded and aware of the social context, their acceptation of diversities may allow local people to feel more trusted and, therefore, more inclined to accept foreign partners' knowledge. If partners avoid opportunism, an effective interaction takes place and new competencies can be created.

Co-operation with foreign firms can actually improve firms' competencies and help entrepreneurs to develop a better understanding of the environment and to reduce the perceived level of uncertainty. Moreover inter-firms relationships may improve firms' capacity to evaluate the dynamic of events and the potential errors, overcoming the period of organizational inertia and enabling firms to modify the rules of knowledge accumulation.

The advantages coming from inter-firm co-operation are confirmed by the success Italian firms have in some Central and Eastern European Countries. In Romania for example, Italian firms' internationalisation is determined by the necessity to overcome the challenges deriving from high production costs and by the lack of row materials, but Italian small firms direct their investment to local inter-firms networks in order to reproduce the relational system they are used in Italy and to pursue the positive effects deriving from outsourcing, both in terms of flexibility and specialisation (Calvelli at al., 2004).

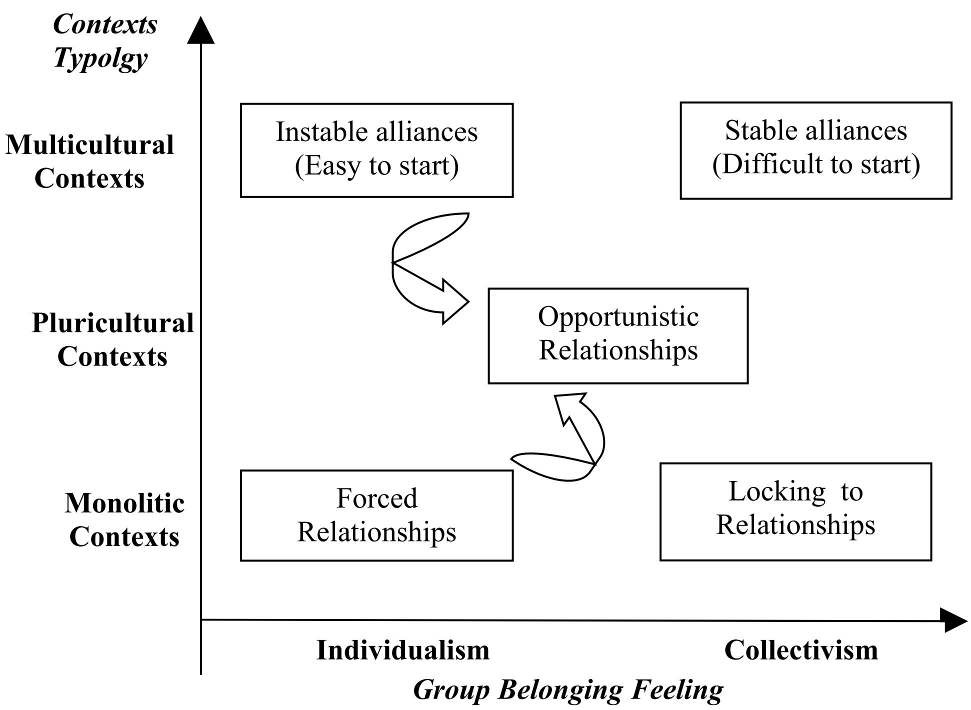

Figure 1 Firms' Openness to International Networking

3. The influence of culture on knowledge transfer

National culture and partners' cultural characteristics have a significant impact on the knowledge transfer process within and among the organizations. According to the research conducted by Baghat et al. (2002), knowledge transfer in international alliances is more effective when partners are located in national contexts that do not significantly differ on cultural dimensions.

Actually when different cultures cross, a cultural shock can occur with negative effects on the international joint venture's work climate (Calvelli, 1998). The larger cultural distance between the partners is, the more evident cultural shock's effects are. An important premise for international joint venture survival is, therefore, partner's capacity to overcome cultural distance in order to create a positive climate for discussion and knowledge sharing (Day et al., 1995).

During the 1980s many U.S. electronic and automotive firms, like General Motors or General Electric, for example, formed a wide range of alliances with the emerging competitors from the Far East, but these relationships revealed incompatible partners' attitudes and difficult of working together.

Referring to the previous observations, cross- border knowledge transfer can be limited or fostered not only by the typology of local culture, but also by partners' attitude to knowledge transfer and sharing.

The effectiveness of international knowledge transfer depends, however, also on the nature of the alliance. According to the Resource-Based View, alliances can be distinguished in *complementary co-operations* - those established between partners with different knowledge assets - and *synergic co-operations* - created with similar knowledge assets and competences, with positive effects on partners' absorptive capacity -.

Both *complementary* and *synergic* co-operations are affected by the degree of their stability. As many empirical evidences show, even if *synergic* international strategic alliances occur in a *multicultural* context, individualism, typical of American firms, may turn into opportunism, thus affecting alliance's knowledge transfer.

The impact of opportunism on knowledge transfer

In the early 30', Kentucky Fried Chicken (KFC) - one of the most known fast food chains in the world- was created by Kernel Sanders in the Southern USA as a small franchise operation.

When KFC first went to Japan in the early 1970's, the company chose to form a joint venture with a local large scale poultry producer, characterised by an excess capacity. The 50/50 joint venture would have favoured both the partners, as KFC would be able to ensure a stable and high quality supplies, and the local corporation would be able to increase efficiencies in production by selling its excess supply.

However, KFC abandoned the joint immediately after having developed a sufficient knowledge of the Japanese market and laws.

Source: *Database "Il sole 24 ore"*

On the contrary, if partners overcome opportunism, a synergic alliance allows an effective knowledge sharing with the creation of new competencies for both parties.

Suzuki-GM alliance: the CAMI Project

CAMI is a manufacturing joint-venture between Suzuki Motors and General Motors, located in Ingersoll, Canada, with two complete production manufacturing lines.

The alliance was created to allow Suzuki to expand into the American and European markets, and to let GM learn Japanese manufacturing methods - typically technological knowledge transfer systems.

In order to grant knowledge transfer, a consulting society became responsible of an intensive 6-month training of selected 200 Suzuki managers and plant supervisors.

Apart from basic language training, main problems came from partners' low attitude to co-operate. There was therefore the necessity to develop confidence among members and to create a positive trust-based climate in order to overcome cultural differences and to favour a mutual knowledge transfer.

Overall, the whole project was highly successful, and it was a major organisational learning experience for all involved. The 200 Suzuki advisors - who had to be replaced temporarily back in their home plant during the project - were originally scheduled to return to Japan after two years, but the transfer and actual production went so smoothly that the most of them were able to return within one year.

Moreover, Suzuki had gained confidence, knowledge and know-how in such technology transfers; indeed many of the supervisors did not return to their previous jobs, but they became part of a new technology transfer team who were subsequently involved in Suzuki's Hungary plant project and in Chinese and North Korean plant projects.

After two years, the core Canadian managers were sent Eastern European operations plants in order to transfer the Japanese manufacturing approach. After having applied Japanese manufacturing techniques successfully to GM's peripheral plants, the team was recalled home and became instrumental in implementing the learned approach to GM's core plants. Indeed it formed one of the bases of the overall change that has cascaded throughout GM in the last ten years.

Source: *Database GM-Suzuki CAMI project*

When co-operation starts in a *pluricultural* context, partners' propensity to share their knowledge becomes even more important.

If individualism prevails, both in *complementary* and *synergic* co-operations, the instability of the relationship may lead to a unilateral knowledge transfer in favour of the strongest partner, who often turns the co-operation into a foreign direct investment.

Whirpool's entrance in Slovak Republic

In 1992, Whirlpool tried to enter Slovakia through a joint venture with Tatramat, Czechoslovakia's first producer of home appliances. At the time, Tratamat had a monopoly in the domestic market of washing machines and Whirlpool wanted to acquire its market share. The main aim of the cross-border alliance was, therefore, to obtain market knowledge in order to achieve a competitive advantage in all Central and Eastern Europe. On the other hand Tratramat needed capital because of the falling production and the market loss in the water boilers sector.

The joint obtained very good results, but after a few years Whirlpool decided to increase its share and to acquire the total control of the joint.

Slovakian avoidance in accepting cultural diversities caused a dramatic employment decline. Local employees and managers didn't want to accept Whirlpool management style, culture and work conditions, thus leaving the organisation.

OMV-Benzinol Joint Venture

The Austrian refinery OMV decided to enter Slovakia in 1991 by establishing a joint venture with the local fuel distributor Benzinol.

An equity joint venture was created and it opened 6 gasoline stations. Other 19 stations were run by the Austrian parent and 201 by the Slovak partner.

In spite of the high revenues, the joint was broken.

The real aim of OMV was actually the privatisation of the Slovak refinery Slovnaft, but it was not able to take part to this process. After the end of the privatisation, OMV decided consequently to abandon the investment.

Source: *Ferencikova, 1997*

On the contrary, the absence of opportunism can allow more stable relationship, as in the case of Solint.

The importance of good inter-personal relationships

In 2000, two Italian and one Polish entrepreneur founded in Poland the Solint, a producer and seller of informatics products for management support.

Today Solint works also as a consultant society, always in the management field.

The firm is giving very good results and both the Italian and the Polish partners are very happy of working together.

According to them, the main reasons of Solint's success can be found in partners' previous knowledge of local market. The Italian partners have been working in Poland since 1993 both with Italian firms and joint venture between Italian and local investors.

Inter-personal relationships are very good, they have been facilitated by the reciprocal understanding of partners' needs and expectations: not only Italian partners had a deep knowledge of local customs, but also the Polish partner was confident with Italian behaviours. Relationships have always been based on fairness and reciprocal trust and the pre-existing friendship among partners has avoided the organisational problems that, at the beginning, could be caused by partners' different entrepreneurial cultures. The good climate has allowed building a very integrated organisational culture, thus improving workers' feeling of belonging and satisfaction.

All the parties have always been aware of training importance and learning has improved workers' motivation and goals orientation.

Today, a rigid control of the activities is unnecessary and this is mostly due to the deep respect local workers have for local and Italian entrepreneurs.

Source: *Cannavale, 2002.*

4. Conclusion

Empirical evidences confirm that entrepreneurship can be improved through inter-firm co-operations and that it depend on the culture of the local context, on partner's values and on their capacity to overcome diversities.

National culture impacts on individuals' propensity to take risks, to share responsibility and to accept others' ideas, thus influencing firm's capacity to recognise and to catch opportunities. The necessity to improve entrepreneurship leads emerging countries to foster co-operation with foreign firms, but, as empirical evidences show, international strategic alliances success relies on two important cultural factors: the cultural context typology and the group belonging feeling - namely *individualism vs collectivism*.

In *monolithic context* the presence of individualism lead to forced relationships among partners, while both in *pluricultural* and *multicultural* contexts alliances very often degenerate into opportunistic relationships that end as soon as the strongest partner gains his goals - namely costs and risks reductions, market barriers overcoming, and acquisition of new competences.

However, in a dynamic perspective, if partners are open-minded and aware of the social context an effective interaction takes place and new competencies can be created with positive effects on firms' learning capabilities and entrepreneurial behaviour.

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