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**JOINT VENTURE CONFLICT: THE CASE OF RUSSIAN INTERNATIONAL  
JOINT VENTURES**

by

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## **Joint Venture Conflict: The Case of Russian International Joint Ventures**

### **ABSTRACT**

This paper investigates the importance of firms forming joint ventures having similar organizational climates such that the chances of inter-party conflict arising will be minimized. The study is based on 40 Russian IJVs and has both qualitative and quantitative elements. Support was provided for inter-party IJV conflict being an important outcome of IJV activity to monitor (and try to minimize) when evaluating IJV success. Further, evidence was presented to show that similar firms forming an IJV are more likely to have less conflict than more dissimilar firms.

### **KEY WORDS**

Conflict

Joint Ventures

Organizational Climate

Russia

## INTRODUCTION

Increasingly firms are finding that it is desirable, and often even necessary, to compete globally in order to be successful. Many firms are choosing international joint ventures (IJVs) as a way to do this. As a result, the incidence of IJVs has increased in recent years (Beamish and Delios, 1997). However, stories of IJVs not performing up to their expectations and even failing are all too common. In fact, in their meta-analysis of 12 past IJV studies, Beamish and Delios (1997) found between 32% and 61% of the IJVs in each study had unsatisfactory performance. As a result of the large proportion of poorly-performing and failed joint ventures, managers and academics are both keenly interested in what firms can do to increase the chances of their IJVs performing well.

One of the most common reasons given in the IJV literature and mentioned by managers for IJVs' poor performance is conflict between parent firms (Hyder 1988). Given that IJVs consist of three entities (two parents and the joint venture organization) and these entities may have different goals and organizational climates, it is not surprising that inter-party conflict often exists in IJVs. In addition, it is well established in the IJV literature that for an IJV to be successful, it is important for parties involved in the IJV to avoid significant conflict. For example, in a review of the IJV literature, Hyder (1988, p. 39) found that more than 50% of the studies reviewed recognized the presence of either explicit or implicit conflict between partners, which in turn impeded the JV activity.

One possible way of preventing much conflict, and the focus of this paper, is to look at the impact of similar parent firms forming a joint venture. One way to measure similarity is to measure a firm's organizational climate. Litwin and Stringer (1968, p. 1) define organizational climate as a set of measurable properties of the work environment, perceived directly or indirectly by people who live and work in this environment and assumed to influence their motivation and behavior. Thus, this paper seeks to investigate whether organizational climate similarity between parties involved in a joint venture is important for minimizing conflict in IJVs.

This study will investigate the above research question using a two-stage approach. In stage one, interviews were conducted with international joint venture general managers (IJVGMs) of 40 Russian IJVs. In the second stage, two senior managers from each of the parent firms and the joint venture organizations (six managers per IJV) completed a questionnaire. (In this study the term *joint venture organization (JVO)* is used to refer to the joint venture excluding its parents. In contrast, the terms *international joint venture* and *joint venture* will be used to represent the JVO and both of its parents.) Following a review of the IJV-specific conflict literature and the general conflict literature, the study's methodology will be described. Then the qualitative and quantitative results of the part of the study investigating the importance of organizational climate similarity for minimizing IJV conflict will be presented. Finally, conclusions from the study are discussed.

### **REVIEW OF KEY IJV CONFLICT LITERATURE**

Beginning with early IJV research (Harrigan, 1985; Killing, 1983; Reynolds, 1984), IJV scholars have suggested that the amount of conflict inversely affects IJV performance. More recently, some IJV scholars have provided empirical support (Hebert, 1994; Tillman, 1990). Based on a study of Japanese-Thai IJVs, Tillman (1990) showed that the amount of conflict significantly inversely affected IJV performance. Similarly, Hebert (1994) found a significant inverse relationship between conflict and performance when studying Canadian IJVs and Canadian domestic JVs. In addition, Habib (1987) developed a measure of conflict in the IJV context. Other IJV scholars have also provided anecdotal evidence relating to IJV conflict as part of larger studies.

### **THEORETICAL UNDERPINNINGS OF CONFLICT**

Some of the best-known models for understanding managers actions have been based on the need for developing stable relations between social units (Barnard, 1948; March & Simon, 1958; Mayo, 1945). As a result, such models have often tried to downplay the importance of conflict. However, other scholars (Aldrich, 1977; Blau, 1964) have recognized that conflict must be dealt with since it is inherent in relationships. The latter conceptualization is the view to which this study adheres. Inter-organizational relationships like IJVs result in conflicting desires of parent firms for cooperation and autonomy. Parent firms form IJVs because they see benefits in cooperating with

their IJV=s other parent. However, at the same time, firms do not want to lose too much autonomy. As a result, in inter-organizational relationships like IJVs, some level of conflict is likely since organizations normally strive to maintain their autonomy even in relationships where they desire cooperation (Van de Ven & Walker, 1984).

The development of conflict as a conceptually discrete organizational dimension can be traced back to Simmel's seminal book *Conflict* (1950) and Coser's (1956) landmark study *The Functions of Social Conflict*. Scholars have always had difficulty reaching a consensus about conflict. Several models of conflict have been developed (Evan & MacDougall, 1967; Pondy, 1967; Walton & Dutton, 1969; Schmidt & Kochan, 1972; Thomas, 1976). In addition, there have been several attempts to experimentally test models of interorganizational conflict (Angelmar & Stern, 1978; Stern, Sterntal, & Craig, 1975; Walker, 1970). Models of interorganizational conflict have also been tested in the field (Brown & Day, 1981; Edgar, 1977; Lusch, 1976; Peterson & Shimada, 1977; Rosenberg & Stern, 1971).

Pondy (1967) provides probably the most widely accepted model of conflict. It tried to integrate scholars= views on the subject and was initially developed for the study of intraorganizational conflict. Others (Whit, 1974; Brown & Day, 1981) have argued that it is applicable to interorganizational conflict as well. Pondy's (1967) model of conflict viewed conflict as consisting of five stages: latent, perceived, affective, manifest, and aftermath.

Latent conflict refers to conditions that are likely to be sources of conflict--such as differing goals in an IJV. Parent firms may have different goals, but the parents may not be aware that their goals actually differ. Unfortunately this is often the case in the early stages of an IJV if insufficient discussion took place between parent firms before the IJV was formed. Once parent firms recognize that their goals differ, perceived conflict exists (Pondy's second type of conflict). Perceived conflict refers to the participants' perception of the extent of conflict which exists. Affective conflict, in addition to the perception of conflict, includes feelings such as hostility, tension, and stress which are necessary, but not sufficient, conditions for conflictual behavior to exist. When one parent begins to feel angry that the other parent has goals that do not coincide with its goals, affective conflict exists. Manifest conflict is the action dimension of conflict characterized by overt conflictual behavior when two or more parties express disagreement. In IJVs, manifest conflict occurs when parent firms argue

about what the IJV should do as a result of their differing goals. Finally, aftermath is the dimension of conflict where conflicts are either resolved or suppressed. In our example, in the aftermath phase parent firms either come to a compromise about their differing goals, terminate the IJV, or suppress the disagreement for the short-term.

Like most of the past IJV conflict literature (Habib, 1983; Habib, 1987; Hebert, 1994; Tillman, 1990), this study focuses on manifest conflict--that is, the action dimension of conflict. Also, building on Hebert's (1994) definition of conflict, this study defines conflict in an IJV as "the interaction between parties involved in an IJV, where actions of one party prevent or compel some outcome against the resistance of another party."

Conflict among parties involved in an inter-organizational relationship tends to cause frustration and unpleasantness which results in dissatisfaction (Anderson, 1990; Anderson and Narus, 1984; Robicheaux & El-Ansary, 1975). Since managers, like most people, wish their jobs to be enjoyable, this frustration, unpleasantness, and dissatisfaction likely contribute to managers' losing interest in, or in extreme cases even terminating, their IJVs. Also, conflict between parties involved in an IJV requires more parent firm management time. This in turn requires, from the parent firms' point of view, the IJV to make a higher return (or perform better in some way) to justify the continuation of the IJV. Of course, conflict between parties involved in an IJV also limits IJV success by preventing the IJV from being able to accomplish much by blocking decision making (Killing 1983). Such circumstances may also limit an IJV's ability to respond to environmental changes and, thus, to be successful (Hebert, 1994). Conflict may also result in the unwillingness of parent firms to contribute resources that the IJV needs to achieve its goals (Friedman & Beguin, 1971; Friedman & Kalmanoff, 1961; Killing, 1983). Holding back such needed resources would obviously adversely affect IJV performance and survival. In conclusion, the existence of conflict requires managers to spend valuable time and effort in resolving or managing the conflict, preventing this time from being spent in more productive ways.

It is interesting to note, however, that a small amount of conflict may be healthy for the joint venture since it may force management to evaluate their decisions more carefully. Assael is a proponent of the potential benefits of a small amount of conflict as a result of his 1969 study (Assael, 1969) of conflict between General Motors and its dealers. Assael showed that a small amount of

conflict can be constructive. Further, Cosier and Dalton (1990) suggest that a small amount of structured conflict enhances effectiveness of strategic decision making. Thus, a small amount of conflict may be useful for a joint venture. For example, managers may find after some thought that the other party's plan is superior, or they may simply benefit from refining their plan in the process of thinking more carefully through their plan's logic.

The causes of interorganizational conflict have also been investigated in the general conflict literature. The most commonly cited causes of conflict are: (1) competition for scarce resources, (2) desire for autonomy, (3) goal divergence; and (4) perceptual incongruities (Kochan, Hunter, & Cummings, 1975; Perry & Levine, 1976; Pondy, 1967; Rosenberg & Stern, 1971). Many different causes of conflict in IJVs have also been suggested in the IJV-specific literature. Table 1 illustrates some of these causes and their relationship to the general conflict literature. For example, the need for scarce resources possessed by parent A has been shown to make parent B more careful how it acts and thus results in reduced conflict (Hebert, 1994; Hyder, 1988). Further, much IJV literature has discussed the fact that conflict often results from the IJV's desire to be more autonomous from its parents depending on the need parent firms feel to control the IJV (Beamish, 1988; Fey, 1995; Gray and Yan, 1997; Hebert, 1994; Hyder, 1988; Killing, 1983). In addition, problems resulting from differences in parent goals have been frequently discussed in the IJV literature (Beamish, 1988; Geringer, 1988; Simiar, 1983). Finally, the fact that perceptual differences often result in conflict has been much discussed in the IJV literature dealing with cultural differences (Friedman & Beguin, 1971; Geringer, 1988; Hyder, 1988, Lane and Beamish, 1990; Lyles & Salk, 1997). In general, there is a high degree of overlap between the general conflict literature and the IJV-specific conflict literature.

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Insert Table 1 about here  
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Perceptual incongruities are an important cause of conflict (see point 4 above) and often a manifestation of differing organizational climates. Building on this point, when firms have different organizational climates they often have different customs about how communication flows in the organization, the extent to which teams are used, the extent to which formal control is used, the

degree the firm is willing to take risks, the level of formality present in an organization, and so forth. These and other differences stemming from differing organizational climates make conflict more likely to emerge in a joint venture where participating firms have different organizational climates. Further, several authors have suggested that interfirm diversity can significantly impede firms' ability to work together effectively (Adler & Gram, 1989; Harrigan, 1988; Parkhe, 1991; Perlmutter & Heenan, 1986). Evans (1963) goes on to suggest that the more similar parties in a dyad are, the more likely a favorable outcome. Harrigan (1988) argues that it is more important that cooperating firms have similar corporate cultures than similar national origins. Further, Whetten (1981) suggests that the costs of coordination increase as a function of the extent of differences between collaborating firms. One of the reasons that the costs of collaboration increase is because conflict increases. This study asserts that conflict increases when firms taking part in an IJV have diverse organizational climates. However, this assertion has never been systematically tested.

The self-governance feature found in interfirm cooperative agreements like IJVs complicates such relationships since cooperation, while desirable, is not automatic. Each party's self interest (Williamson, 1985) can lead to individually rational actions which produce a sub-optimal outcome (Parkhe, 1993). The drive of self-interest and the resulting sub-optimal outcomes often results in conflict between involved parties. However, parties with similar organizational climates have a greater chance of avoiding such conflict and sub-optimal outcomes since their desires are normally more closely aligned with that of their partners (lower agency costs), they are normally able to better understand the other party, and they are able to communicate more effectively. As a result, we end up with the following hypotheses:

*Hypothesis 1: The greater the organizational climate similarity between the Russian parent and the foreign parent, the less conflict is likely to exist.*

*Hypothesis 2: The greater the organizational climate similarity between the Russian parent and the JVO, the less conflict is likely to exist.*

*Hypothesis 3: The greater the organizational climate similarity between the Foreign parent and the JVO, the less conflict is likely to exist.*

## **METHODOLOGY**

The first part of this study was qualitative and based on interviews with IJVGMs of 40 Russian international joint ventures (RIJVs). The second part of the study was quantitative and questionnaire-based allowing for statistical analysis. A complete set of responses from an IJV consists of two managers at each of the two parent firms and two managers at the joint venture completing the questionnaires (a total of six managers per IJV). The use of multiple respondents, while difficult and time-consuming, substantially increased the study's content validity and ability to better understand the phenomena being investigated.

### **Interviews and Qualitative Analysis**

Interviews with the 40 IJVGMs (or in a few cases deputy IJVGMs) averaged 80 minutes in length and were conducted between December 1, 1995, and February 28, 1996. The interviews were semistructured following the approach described by Merton, Fiske, and Kendall. (1956). Using a semistructured approach with a core set of structured questions in each interview facilitated comparisons across organizations yet still allowed flexibility for specific topics to be explored in greater depth in different interviews, depending on what interesting avenues emerged. The memoing process described by Glaser (1978) was used throughout the research process. The memoing process involved recording patterns that the researcher noticed across IJVs as well as unique observations about a particular site. The final step in the qualitative analysis was a systematic analysis of the qualitative interview data. This part of the analysis was largely pattern matching, in which an empirically-based pattern was compared with a predicted one by the researchers (Yin, 1984, p. 103). For example, we investigated whether the qualitative data supported (resulted in a pattern) the predicted relationship that increased organizational climate similarity results in decreased conflict.

### **Questionnaire Design**

The interviews were complemented by questionnaires which were primarily comprised of previously used five-point Likert-type scales (see section Constructs Affecting IJV Conflict for additional information). Prior to use, the questionnaire was reviewed by several doctoral students and professors to ensure it was measuring the desired constructs. It was then translated into Russian

using a thorough translation-backtranslation procedure followed by an additional final review by an independent Russian translation expert. Finally, the questionnaire was pilot-tested on twenty-five respondents from each of two Russian IJVs.

### **Sample Criteria and Selection**

To be included in the sample, a RIJV had to be based in Moscow, St. Petersburg, or Novosibirsk (Russia's three largest cities where over 70% of Russia's RIJVs are based (Popova, 1993). RIJVs were also required to employ at least 20 people, have one Russian parent, and have one foreign parent in the United States, Canada, England, or Finland (a variety of countries that are actively involved with Russia). The IJVs must also have started by December 31, 1992, to allow time for performance to stabilize.

If a parent firm had less than 20% ownership, it was not counted since in practice such a parent firm would normally have little or no influence on the IJV (Makino, 1995). Following Hebert (1994) and Geringer (1986) the study was also limited to two-parent IJVs. To have a more homogeneous population of IJVs with regard to industry, the study was also limited to IJVs in the service sector. Estimates are that about 80% of active RIJVs are service RIJVs (Popova, 1993).

From four lists produced by foreign governments and commercial organizations, a list of 623 supposedly active Russian-US, Russian-Finnish, Russian-British, and Russian-Canadian IJVs was compiled. Then, 250 RIJVs were randomly selected for this study. Having a list of active, and not just registered, RIJVs was important since experts estimated that only about 20% of registered RIJVs appearing on Russian government lists have ever begun operations (Lawrence & Vlachoutsicos, 1993). Even the list for this study, however, had several shortcomings resulting from the turbulent nature of the Russian commercial environment. Many of the joint ventures listed could not be contacted because they had either moved, changed their telephone numbers, or gone out of business. As a result, of the 250 IJVs with which contact was attempted, only 171 were reached. Attempts were made to contact each RIJV seven times on different days and at different times of day. Of the RIJVs contacted, only 89 met the study's sampling requirements, 40 of which agreed to take part in the study. This represents an adjusted participation rate of 45%. Seven IJVs had British foreign parents, thirteen had US foreign parents, fourteen had Finnish foreign parents,

and six had Canadian foreign parents. Thirty-five of the IJVGMs interviewed were Russians and five were foreigners.

### **Questionnaire Distribution and Collection**

Following the interview, the IJVGMs were asked to complete a questionnaire. In addition, the IJVGMs were asked to identify a second knowledgeable person in the JVO (all of whom turned out to be Russian), two knowledgeable managers in the Russian parent, and two knowledgeable managers in the foreign parent to fill out the questionnaire. Questionnaires were faxed to each of the identified managers. After two weeks, an attempt was made to contact the managers who had not returned their questionnaires by telephone. If a manager was not reached after 10 tries, no further contact was attempted in this round. Managers who had still not returned their questionnaire after three weeks were faxed a second copy of the questionnaire. After four weeks an attempt was made to contact by telephone managers who still had not responded to the questionnaire. If a manager was not reached after 15 tries, no further contact was attempted. Managers who had not responded by week eight were considered to be non-respondents. If only one manager from an organization, instead of two, responded, the RIJV was still maintained in the sample as long as at least one manager from each of the JVO, Russian parent, and foreign parent responded. Responses were obtained from all three parties for 24 of the 40 RIJVs resulting in a 60% participation rate (these are the RIJVs that could be used in the quantitative part of this study). In total, 161 of a possible 240 questionnaires were returned from the 40 RIJVs.

### **Addressing Concerns of Using Only Six Respondents**

Two top-level managers at each of the parent firms and the JVO (six people per IJV) were asked to complete the organizational climate questionnaire. Some researchers might suggest that more people in each organization are needed to complete the organizational climate questionnaire to obtain a realistic view of a firm's organizational climate because they believe that organizational climate varies greatly within an organization depending on the department, organization level, and background of the respondent. This section aims to address these concerns.

An important characteristic of organizational climate is that responses to items making up the

organizational climate sub-indices are homogeneous across an organization. Several authors have shown that organizational membership explains more variance in organizational climate than personal characteristics and department membership (Drexler, 1977; Dunham, 1977; Herman, Dunham, & Hulin, 1975; Newman, 1975). There is also precedence for using only one or two respondents in an organization to assess the firm's organizational climate. For example, Denison and Mishra (1995) surveyed only one top manager to assess a firm's organizational climate and the organizational climate-performance relationship.

However, it was considered important to determine *a priori* what was an acceptable level of heterogeneity among the two respondents in each firm that filled out the questionnaires in the main study. A Cronbach's Alpha of .70 is considered to be the acceptable level of reliability (Nunnally 1978). As a result, prior to beginning the study our questionnaire was administered to 24 employees from various functional departments and hierarchical levels in two RIJVs (this also served as a pilot-test for the study). Fortunately, the Cronbach's Alpha for influence and control for one of these JVs equalled .70. Thus, the absolute value of the difference between each possible pair of two of the pilot study JVs' employees' assessments of influence and control was calculated. Since  $N=24$  employees from the pilot study IJV filled out the questionnaire, there were  $N \times (N - 1) = 24 \times 23 = 506$  such pairs (differences). The average value for these differences was 1.04 (all items were on a five point scale). Thus, it was determined that an acceptable level of heterogeneity in responses was for any two people to differ in their average assessment of the organizational climate items by 1.04. For example, it was considered acceptable for one manager to rate a particular item of his organization's organizational climate at 4 (on a five point scale) and for another manager in the same organization to answer 5 for the same item. However, an average divergence in assessment of organizational climate of greater than this by managers from the same firm, would not be considered acceptable. Thus, for the main study, if the two managers filling out the questionnaire in a given firm differed in their average assessment of organizational climate items by more than 1.04, the assessment of organizational climate would be considered unreliable and the firm discarded from the sample. Fortunately, all firms fell under the 1.04 limit (most firms fell between 0.80 and 0.95).

## **Testing the Model**

The sample was small and did not meet the normality assumption necessary for parametric statistical techniques. As a result, the relationships in the model were tested using various nonparametric (distribution-free) statistical tests. Nonparametric tests allow conclusions to be drawn from the data regardless of the shape of the population. The assumptions required to use a nonparametric test are that the observations are independent and that the variables being studied have an underlying continuity (i.e., that the scales are ordered, 1>2>3....). The data met these conditions. The nonparametric statistical techniques used were Spearman correlation (Norusis, 1993) which tests for univariate correlation and nonparametric regression (Hettmansperger, 1984). Advances in diagnostic techniques for multiple regression analysis (McKean, Sheather, & Hettmansperger, 1990) have made nonparametric regression easier to use. Nonparametric regression analysis is based on Rank estimates (R-estimates) using Wilcoxon scores. Such estimates are similar to the classical least squares estimates. The difference between the two functions is that with R-estimates the actual residuals are replaced with the ranks of the residuals. As a result, R-estimates are less sensitive to outliers (For a detailed discussion see Hettmansperger, 1984).

## **IJVGMs' COMMENTS ABOUT CONFLICT**

As mentioned in the methodology section, the findings presented here resulted from a systematic analysis of the qualitative interview data including pattern matching. In general, IJVGMs viewed the absence of conflict as a necessary, but not sufficient, condition for good performance. The IJVGM of a high-technology equipment sales RIJV in St. Petersburg gave a typical view:

Lack of conflict will not guarantee good joint venture performance. However, when conflict exists between parent firms in a joint venture, the joint venture has little possibility of reaching its top possible performance. As a result, if I were asked to give advice to a friend starting a joint venture, I would inform him to monitor the amount of conflict carefully that develops between the parent firms and to try to find possibilities to minimize it.

An IJVGM of an IJV in Moscow engaged in consulting was asked if conflict was mostly an issue between parent firms or whether conflict between the JVO and parent firms was equally important and prevalent. He responded:

Of course conflicts between a joint venture and its parent firms are as common and as important as those conflicts occurring between parent firms. The joint venture is not just a puppet. In fact, I have found that conflicts that directly involve the joint venture are the most detrimental.

Many IJVGMs were quick to point out that some joint ventures can sustain good performance in the short-term even in the presence of conflict. However, in order to enjoy good long-term performance, IJVGMs felt it was essential that conflict be minimized. Current conflict was viewed as an excellent predictor of IJV survival and to some degree future IJV success. In keeping with this view, Robicheaux and El-Ansary (1975:24), in a study of marketing channels (an interorganizational relationship like IJVs), state, AWhen conflict is dysfunctional, organizational objectives may be satisfied in the short run, but the channel system will move towards eventual disintegration.≡ An IJVGM of a construction RIJV in St. Petersburg typifies this view:

Conflict is something like a cancer. In the beginning, to an unknowing observer, a joint venture may appear to be doing fine. However, as time goes by if the conflict is not resolved, it will inhibit more and more different aspects of the joint venture to a greater degree until eventually the joint venture will have to be stopped.

In general, similar people tend to get along better than extremely different people because they can understand each other more easily and avoid process losses (Steiner, 1972) .

The same is true for firms. Diversity that occurs in IJVs is one reason that IJVs are more difficult to manage than domestic JVs. Thus, one would expect that the greater the organizational climate similarity is between two organizations, the less likely the two organizations are to experience significant conflicts. The following quotation from the

IJVGM of a joint venture in St. Petersburg involved in distribution of consumer goods, provides clear support for this view:

It seems that organizational climate similarity increases the likelihood that there will be minimal conflict.

IJVGMs' responses provided evidence for a strong relationship between organizational climate similarity and less conflict, providing support for research question 1.

It is also interesting to note that many of the IJVGMs considered conflict an important outcome to monitor in and of itself. In other words they felt conflict was important to monitor

because they viewed it as a performance indicator, not because it was a dependent variable which affected something else. The logic seemed to be that if little conflict existed then good performance was likely to follow. The following comment from an IJVGGM of a joint venture distributing a high-tech product in Moscow provided a typical view:

Some general managers are primarily concerned with monitoring the monthly financial indicators from their joint venture. I am more concerned with monitoring how relations between our IJV's parents are progressing. Thus, I want to monitor things like the extent of conflict that exists between our parents. If I keep relations between our parents good I am confident that sustainable good performance will follow. I have seen too many IJVs run into problems because of conflicts between parents or between one parent and the JV.

### **CONSTRUCTS AFFECTING IJV CONFLICT**

In interviews we conducted with the 40 IJVGGMs, the existence of commitment, need, extent of control, organizational climate similarity, and national culture similarity were those constructs most frequently mentioned as causes of IJV conflict. As a result, these constructs were included in our model as determinants of IJV conflict (see Figure 1). There is much overlap between these constructs and constructs suggested in past literature summarized in Table 1. Of course, there are also other constructs which likely affect IJV conflict to some degree, but the above-mentioned constructs appeared to be most important. In addition, some feedback loops might have existed. However, since causation flows primarily from the independent variables to the dependent variable conflict, it was felt that eliminating the feedback loops was a satisfactory, although not perfect, approximation of the situation. A brief description of each of the variables included in the model follows.

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#### **Dependent Variable--Conflict**

Building on Hebert's (1994) definition, we define IJV conflict as the interaction between parties involved in an IJV, where actions of one party prevent or compel some outcome against the resistance of another party. Conflict was measured using the following five-point items where 1 is Strongly disagree and 5 is Strongly agree:

- There is much conflict between our Russian and foreign parents.
- There is much conflict between the Russian parent and the JV.
- There is much conflict between the foreign parent and the JV.

## **Independent Variables**

### **Control**

Control refers to the extent to which parents ensure that the JVO performs according to the parents wishes. Just like a child does not always want to follow its parents' wishes, neither does a JVO always want to follow its parents' wishes. Following the work of Tomlinson (1970), Killing (1983), Beamish (1984), and Hebert (1994), control was measured using a three-item five-point Likert-type scale developed by Hebert (1994) where 1 is Atotally decided by JV managers and 5 is Atotally decided by parent firm managers (Cronbach's Alpha=.77).

### **Parent Firm Commitment**

Commitment refers to the degree to which a parent feels bound to the stability and success of the JV (Hebert, 1994). Several studies have discussed the importance of parent firm commitment (Cullen, Johnson, & Sakano, 1995; Lee & Beamish, 1995; Schaan, 1983; Tomlinson & Willie, 1982). Parent firm commitment was measured using a nine-item Likert-type scale developed by Lee and Beamish (1995) based on Beamish (1988) (Cronbach's Alpha = .70).

### **Parent Firm Need**

We define parent firm need as the degree to which the joint venture is dependent on the parent firm in question to be successful. Several studies have suggested the importance of need (e.g., Beamish and Banks, 1987; Lee and Beamish, 1995). Parent firm need will be measured using a ten-item Likert-type scale developed by Beamish (1985) (Cronbach's Alpha=.80). The degree to which each parent firm was needed by the joint venture was individually assessed by the JVO managers completing the questionnaire.

### **National Culture Similarity**

National culture similarity refers to the extent to which parent firms national cultures are

similar. National culture is represented by Hofstede's (1980) widely-used four dimensions-- masculinity, power distance, uncertainty avoidance, and individualism. The difference between the parent firms was calculated for each of the four dimensions and then combined into a similar cultural distance measure using Kogut and Singh's (1988) method<sup>1</sup>.

### **Organizational Climate**

Organizational climate is similar to organizational culture except that it is more concerned with organizational practices than organizational values and focuses on a snapshot in time rather than a historical perspective (Denison, 1996). Organizational climate has its roots in early studies of experimentally-created social climates (Lewin, 1951; Lewin, Lippit, & White, 1939). The two most widely cited early works on organizational climate are Litwin and Stringer (1968) and Tagiuri and Litwin (1968). Litwin and Stringer investigated how organizational climate affects individual motivation. They also suggested that organizational climate was comprised of eight dimensions: structure, responsibility, reward, risk, warmth, support, standards, conflict, and identity. Tagiuri and Litwin's (1968) book was comprised of a series of essays that treated climate in ways ranging from a subjective interpretation of organizational characteristics to an objective set of organizational characteristics. After the 1960s and early 1970s the focus of the organizational climate field became more clearly defined as is documented in several review articles (Hellriegel & Slocum, 1974; Payne & Pough, 1976).

Our study used an instrument that measures organizational climate (not organizational culture) because the study is more concerned with the practice, rather than the value dimensions, of the organization. After reviewing over 50 instruments, the Survey of Organizations (Bowers, 1988) was selected for this study due to its extensive use, minimal length, and relevant questions. The Survey of Organizations (SOO), distributed by Rensis Likert, has 40 years of use, \$25,000,000 of money paid for questionnaire use, and about 850,000 respondents to support the SOO's acceptance. (Rensis Likert and Associates, 1988).

The instrument is based on Likert's (1961) meta-theory of human organization management. The SOO has undergone extensive psychometric analysis for its development and clusters clearly into one domain. Taylor and Bowers (1972) and Denison (1990) describe the development process of the

SOO and provide results from many of the psychometric tests performed on the instrument (factor analysis, smallest space analysis, hierarchical cluster analysis, and multidimensional scaling). The organizational climate domain is made up of the following SOO indices (Bowers 1988; Denison 1990): organization and work, communication flow, emphasis on human resource primacy, decision-making practices, and influence and control. A sample question is, “in this organization, to what extent are decisions made at those levels where the most adequate and accurate information is available?”

Denison (1990) has shown the Cronbach’s alphas for the SOO indices range from .66 to .87 showing acceptable reliability. In addition, results from our study’s pilot study, which was based on 25 respondents in each of two Russian-foreign joint ventures, resulted in Cronbach’s Alphas ranging from .60 to .87. Only the influence and control scale was below Nunnally’s (1978) .70 cutoff, Further, .60 is typically considered to demonstrate acceptable reliability.

### **Organizational Climate Similarity**

The term organizational climate similarity is used to avoid the use of many double negatives despite organizational climate dissimilarity being the construct that was actually measured. Organizational climate similarity was obtained by reversing the sign obtained in regression equations for organizational climate dissimilarity. Organizational climate dissimilarity was calculated by taking the absolute value of the difference between the response of organization A (e.g., the Russian parent) and organization B (e.g., the foreign parent) for each item. These differences were then summed and averaged for each of the five dimensions of organizational climate (decision making practices, communication flow, human resource practices, organization of work, and influence and control). Unit weights were chosen for item and dimension summing since past research (Cohen, 1990) has shown that using unit weights when summing items to form indexes is at least as effective as using factor loadings. A single measure of organizational climate dissimilarity was then calculated by summing the dissimilarities for the Survey of Organization’s five dimensions of organizational climate to save needed degrees of freedom in the regression models. We should note that using difference scales does run the risk of variance restriction. However, we do not think this is a significant problem in this study and feel that the benefits of using a difference scale outweigh the

risks.

## QUANTITATIVE RESULTS AND DISCUSSION

### The Relationship between Conflict and Performance

The IJVGMs' comments presented above provide evidence for the importance of monitoring and trying to minimize inter-party IJV conflict to ensure superior IJV performance (especially long-term success or IJV survival). In addition, Table 2 indicates that conflict and performance are highly correlated (with few outliers) with a correlation of  $\rho = -.90$  which is highly significant at  $p < .001$ . Given this high correlation it is understandable that, as mentioned above, IJVGMs felt that conflict was an important outcome variable of IJV activity to monitor in and of itself. In fact, such a correlation should not be surprising since Beamish (1984) and Schaan (1988) previously observed that lack of conflict was one of the measures of success used by IJVGMs. Further, other IJV scholars (e.g., Hebert, 1994; Hyder, 1988; Lee & Beamish, 1995; Tillman, 1990) have also shown that there is a negative relationship between conflict and IJV performance.

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Insert Table 2 and Figure 2 about here  
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As was discussed previously, it seems reasonable to argue that a small amount of conflict can benefit IJV performance if properly managed. However, the empirical results of this study do not support that view. As can be seen in Figure 2, performance and conflict appear to have a strictly linear (inversely correlated) relationship at all levels of conflict. If a certain amount of conflict were healthy for a RIJV, a parabolic relationship should be observed. However, this is not the case. Perhaps no empirical evidence for the benefits of a small amount of conflict were observed because there were not enough observations with low conflict and the conflict scale is too coarse. It may also be as Pondy (1967, p. 310) writes "In general, however, conflict can be expected to be negatively valued."

### Determinants of Conflict

Similarity was determined by measuring the similarity of each organization's organizational climate. One can envision an IJV as a triangle with the Russian parent, foreign parent, and JVO each

at a point of the triangle. As a result, there are three organizational climate similarities to consider-- JVO-Russian parent, JVO-foreign parent, and Russian parent-foreign parent. A regression model with conflict as the dependent variable and the organizational climate similarities as independent variables is presented below to investigate how organizational climate similarity affects conflict. The other variables identified as important by IJVGMs in our interviews and our literature review (described above) are included in the regression model as control variables (extent of control, Russian parent commitment, foreign parent commitment, JVO organizational climate type, and parent firm national culture similarity). The following is the full regression model's equation:

$$\text{Conflict} = \beta_0 + \beta_1 (\text{extent of control}) + \beta_2 (\text{Russian parent commitment}) + \beta_3 (\text{foreign parent commitment}) + \beta_4 (\text{Russian parent need}) + \beta_5 (\text{foreign parent need}) + \beta_6 (\text{organizational climate type}) + \beta_7 (\text{parent firm national culture similarity}) + \beta_8 (\text{JVO-Russian parent organizational climate similarity}) + \beta_9 (\text{JVO-foreign climate similarity}) + \text{error}$$

The regression models for conflict are presented in Table 3. The partial model, which includes all of the control variables, results in an R<sup>2</sup> of .48. The F statistic for the overall model is significant at p<.05. However, at the individual variable level, using two-tailed t tests, no variables are significant at p<.05. Part of the low significance of independent variables may be a result of potential multicollinearity problems (see Table 2 for a correlation matrix). Because of potential multicollinearity problems, hierarchical regression is used to investigate the effect of adding the organizational climate similarity variables. Adding the three organizational climate similarity variables as a group to the model (resulting in the full model in Table 3) increases the R<sup>2</sup> by .21 to .69. The F for the model is 4.23 which is significant at the p<.01 level. This incremental R<sup>2</sup> of .21 can all be attributed to the organizational climate similarity variables. Of course, due to potential multicollinearity problems, the explanatory power of the organizational climate similarity variables is likely underestimated. It is clear that organizational climate similarity clearly diminishes the chances of conflict developing in an RIJV. In the full conflict model, JVO-foreign parent organizational climate similarity was the only independent variable which was significant at least at the p<.05 level (providing support for hypothesis 2- The greater the organizational climate similarity between the foreign parent and the JVO, the less conflict exists).

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 Insert Table 3 about here  
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The above results indicate that organizational climate similarity between the foreign parent and the JVO does significantly decrease the likelihood of conflict occurring. However, it is important to remember that JVO-FP (FP = foreign parent) organizational climate similarity and RP-FP (RP=Russian parent) organizational climate similarity are each fairly highly correlated with  $\Delta=.56$  at  $p<.01$  (see Table 2). Thus, in reality both likely to affect conflict and the exact division of their effect on conflict is difficult to determine with absolute certainty. RP-FP organizational climate is not significant because of its high correlation with JVO-FP organizational climate similarity, which has a stronger relation (a combination of significance level and correlation) with conflict.

It is also useful to consider the bivariate Spearman correlations shown in Table 2 to have a simpler look at the data. As can be seen, Russian parent commitment, foreign parent commitment, JVO organizational climate type, JVO-FP organizational climate similarity, and RP-FP organizational climate similarity all are significantly correlated with conflict. For example, JVO-FP organizational climate similarity is inversely correlated with conflict at  $\Delta=-.67$  with  $p<.001$ , and RP-FP organizational climate similarity is negatively correlated with conflict at  $\Delta=-.69$  with  $p<.001$ . These results provide support for hypotheses 1 (The greater the organizational climate similarity between the Russian parent and the foreign parent, the less conflict is likely to exist) and 3 (The greater the organizational climate similarity between the foreign parent and the JVO, the less conflict is likely to exist). Thus, individually, both of these organizational climate similarities, as well as some of the other independent variables which are significantly correlated with conflict, likely contribute to the amount of conflict. However, it is especially useful to look at what variables are not correlated with conflict. JVO-RP organizational climate similarity is not significantly correlated with IJV conflict. Thus, hypothesis 2(The greater the organizational climate similarity between the Russian parent and the JVO, the less conflict is likely to exist) is not supported. It is interesting to note that parent firm national culture dissimilarity is not significantly correlated with conflict. Thus, it appears that parent firm organizational climate similarity is more important than parent firm national culture similarity in determining IJV conflict.

## CONCLUSIONS

This paper investigated IJV conflict based on interviews with 40 IJVGMs and questionnaires filled out by two managers in the JVO, Russian parent, and foreign parent (six managers per IJV) in each. Support was provided for inter-party IJV conflict being an important outcome of IJV activity to monitor (and try to minimize) when evaluating IJV success. IJVGMs viewed minimizing conflict as a goal by itself. Many IJVGMs commented that if partner relations worked well (minimal conflict) good performance was very likely to follow. This moves conflict from its traditional role as an independent variable to the role of an intermediate or dependent/outcome variable. This is a rich area for future research.

Evidence was also presented to show that similar firms forming an IJV are more likely to have less conflict than more dissimilar firms. Results also indicate that in order to avoid conflict, it is more important that an organizational climate at the JVO be created which is similar to its foreign parent than its Russian parent. One explanation for the low observed correlation between IJV conflict and JVO-RP organizational climate similarity is that since the Russian parent and the JVO are located geographically close to each other (in our sample they are always located in the same town and often even in the same block), the Russian parent is better able to gain a deeper understanding of the JVO even if it has a different organizational climate. This understanding helps to avoid conflict even when the JVO's and Russian parent's organizational climates are different. However, because the foreign parent is geographically removed from the JVO, dissimilar organizational climates pose a barrier to parent firm managers' obtaining the optimal understanding of the JVO, and thus result in conflict. In addition, there has been so much change in Russia in recent years that Russians have become conditioned to people and firms behaving in different ways. As a result, having a JVO that has a different organizational climate from the Russian parent does not result in conflict the way it would if the JVO had a different organizational climate from the foreign parent. In conclusion, this paper fills an important gap in the literature by empirically showing that the greater the similarity between IJV parent firms' organizational climates, the more likely the IJV is to avoid conflicts. It should also be noted that this study provides support for Harrigan's (1988) assertion that corporate culture

homogeneity among partners is even more important for alliance success than partner national culture homogeneity.

The study's findings provide some important lessons for managers. First, it is important for managers to monitor the amount of inter-party IJV conflict occurring in their IJV. Managers need to take actions to minimize inter-party IJV conflict which in turn increases IJV performance. In addition, this study indicates that it is important for firms forming an IJV to find a partner firm that has an organizational climate that is similar to theirs in order for their IJV to have a greater chance of minimizing inter-party IJV conflict and thus be successful. In addition, the results indicate that to avoid inter-party IJV conflict, more effort should be placed on designing the JVO's organizational climate to be similar to that of its foreign parents' organizational climate than to its Russian parents' organizational climate.

While this study arrives at some important findings, it is clearly exploratory and only a first step in increasing our understanding of conflict in joint ventures. Future research is urged to expand upon this research by conducting larger sample research in different contexts and at different points in time.

#### NOTES

1. Kogut and Singh's (1988) formula is:  $CD = \frac{1}{4} \sum_i (I_{ij} - I_{iR})^2 V_i$  where:  
CD=national cultural distance  
 $I_{ij}$ =the index value for the  $i^{\text{th}}$  cultural dimension in the  $j^{\text{th}}$  country;  
 $V_i$ =the variance of the index for the  $i^{\text{th}}$  dimension;  
R=Russia

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**Table 1: Causes of Conflict in IJVs**

<b>CAUSES OF CONFLICT IN IJVs</b>	<b>CAUSES OF CONFLICT IN GENERAL LIT.</b>	<b>PREVIOUS IJV RESEARCH</b>
Cultural differences	Perceptual incongruities	Freidman & Beguin, 1971; Geringer, 1988; Hyder, 1988; Lane and Beamish, 1990; Lyles & Salk, 1997
Control	Desire for autonomy	Beamish, 1988; Fey, 1995; Gray & Yan, 1997; Hebert, 1994; Hyder, 1988; Killing, 1983
Parent need	Need for scarce resources possessed by other party	Hebert, 1994; Hyder, 1988; Reynolds, 1984
Goal differences	Goal differences	Beamish, 1988; Geringer, 1988; Simiar, 1983



**Table 2: Means, Standard Deviations, and Spearman Correlations**

	mean	S.D.	perf	con_ext	com_r	com_f	oc_tjv	c_jvrp	c_jvfp	c_rfpf	nat_cul
<b>perf</b>	3.34	1.02									
<b>con_ext</b>	2.66	0.91	-.10								
<b>com_r</b>	3.75	0.78	.53**	.19							
<b>com_f</b>	3.57	0.94	.63***	.06	.45*						
<b>oc_tjv</b>	3.56	0.65	.64***	.02	.55**	.59**					
<b>c_jvrp<sup>1</sup></b>	0.85	0.46	.02	-.23	.05	-.03	-.34				
<b>c_jvfp<sup>1</sup></b>	0.75	0.49	.79***	-.09	.55**	.53**	.71***	.02			
<b>c_rfpf<sup>1</sup></b>	1.18	0.56	.58**	-.11	.38	.43*	.33	.53**	.56**		
<b>nat_cul<sup>1</sup></b>	6.32	0.64	.03	.07	.08	.38	.18	.09	.08	.05	
<b>Need_r</b>	3.01	0.69	-.15	.43*	-.04	-.28	-.28	-.02	-.03	.00	.10
<b>Need_f</b>	3.00	0.87	.47*	.44*	.21	.38	.25	-.07	.30	.36	.12
<b>conflict</b>	2.33	0.99	-.90***	.01	-.56**	-.50**	-.47*	-.18	-.67***	-.69***	-.02

\*p< .05, \*\*p< .01, \*\*\*p< .001

1. The variable was actually measured as organizational climate dissimilarity, but because similarity is simpler than dissimilarity and avoids the use of many double negatives in the writeup, the term organizational climate similarity is used consistently throughout this study and the signs of the regression coefficients are already appropriately reversed to account for this switch.

Notes on variable names:

perf: IJV performance

con-ext: the extent of control the parent firms exert on the JVO

com\_r: the Russian parent=s commitment to the IJV

com\_f: the foreign parent=s commitment to the IJV

oc\_tjv: the JVO=s organizational climate type

c\_jvrp: the organizational climate similarity between the JVO and the Russian parent

c\_jvfp: the organizational climate similarity between the JVO and the Foreign parent

c\_rfpf: the organizational climate similarity between the Russian parent and the foreign parent

nat\_cul: the similarity between the Russian parent=s and the foreign parent=s national cultures

conflict: a composite measure of JVO-Russian parent conflict, JVO-foreign parent conflict, and Russian parent-foreign parent conflict

**Table 3: Nonparametric Regression on Conflict<sup>1</sup>**

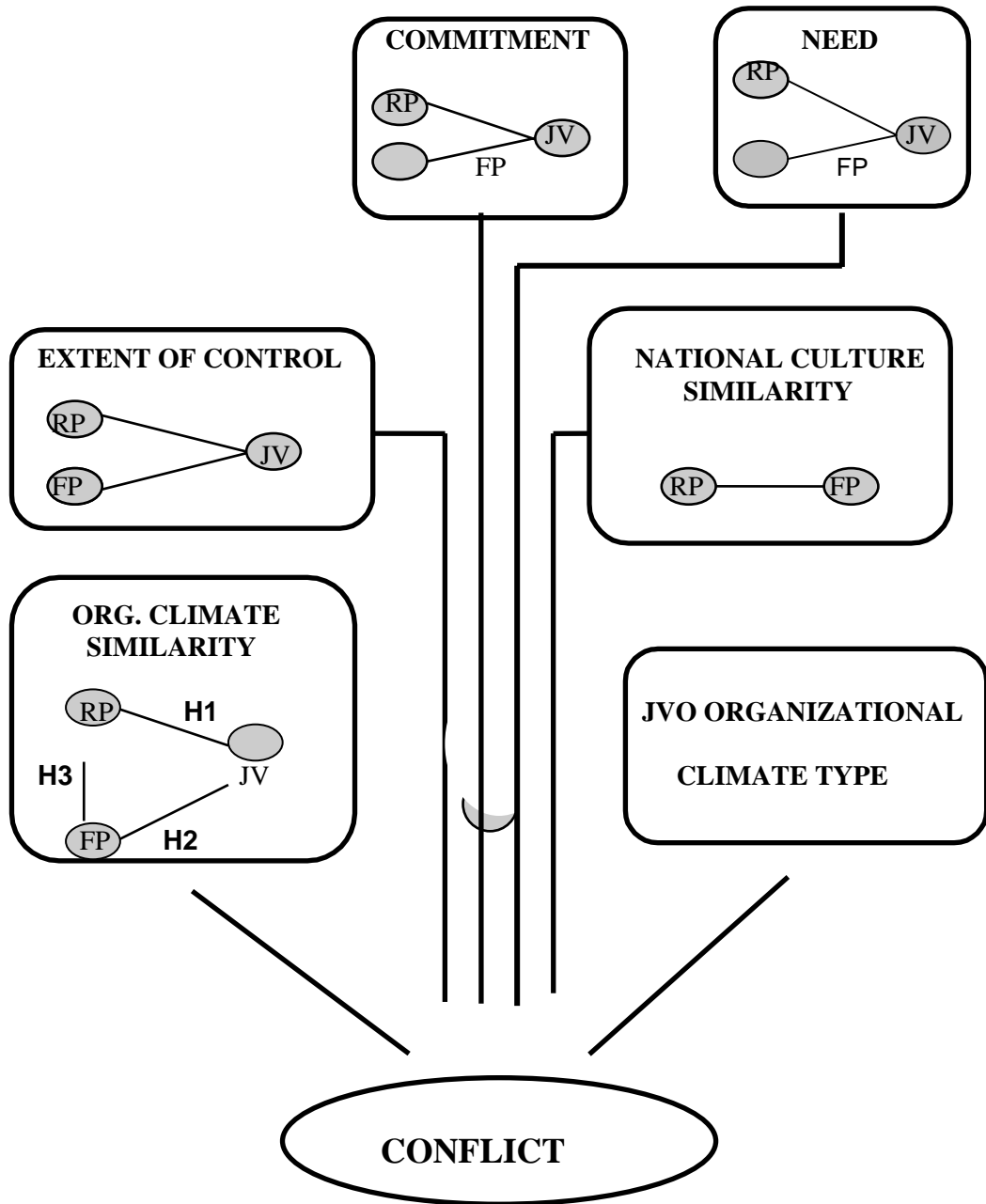
<b>Independent variables</b>	<b>Partial Model b</b>	<b>Full Model b</b>
<b>Constant</b>	8.79 (2.24)	6.742 (2.99)
<b>Extent of control</b>	0.01 (0.21)	0.13 (0.18)
<b>Russian parent commitment</b>	-0.49	-0.42
<b>Foreign parent commitment</b>	-0.33 (.031)	-0.44 (0.27)
<b>Russian parent need</b>	-0.21 (0.31)	-0.24 (0.26)
<b>Foreign parent need</b>	-0.22 (0.29)	-0.20 (0.26)
<b>National culture similarity<sup>2</sup></b>	0.39	-0.41
<b>JVO organizational climate type</b>	-0.33 (0.31)	0.32 (0.49)
<b>JVO-RP organizational climate similarity<sup>2</sup></b>		0.42
<b>JVO-FP organizational climate similarity<sup>2</sup></b>		-0.51 (0.79)
<b>RP-FP organizational climate similarity<sup>2</sup></b>		-0.64* (0.52)
<b>R<sup>2</sup></b>	0.48	0.69
<b>F</b>	3.33*	4.23**
<b>Degrees of freedom</b>	16	13
<b>Change in R<sup>2</sup></b>		0.21
<b>F for change in R<sup>2</sup></b>		3.61*

\*p < .05, \*\*p < .01, \*\*\*p < .001

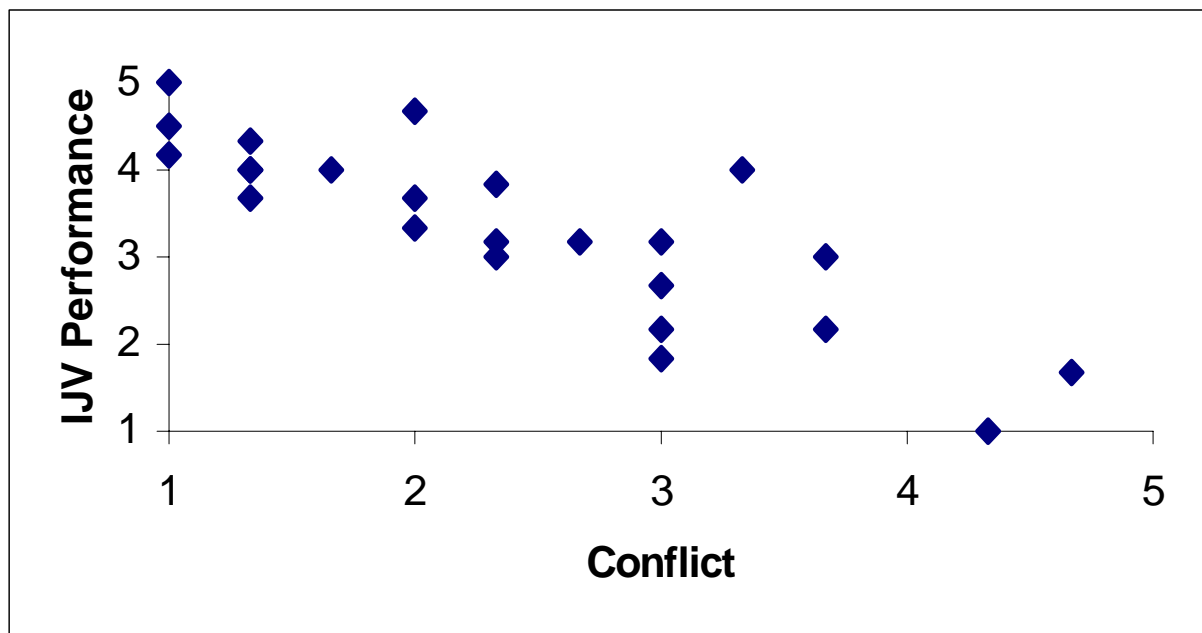
1. Standard errors in parentheses

2. The variable was measured as organizational/national climate dissimilarity, but for simplicity and to avoid the use of many double negatives in the writeup, the term organizational/national climate similarity is used in this study. The signs of the regression coefficients are already reversed to account for this switch.

**Figure 1: Model of IJV Conflict**



**Figure 2: Conflict Versus IJV Performance<sup>1</sup>**



1. JV Performance is a measure of general IJV performance which uses a five-point Likert-type scale where 1 is Apoor performance≅ and 5 is Aoutstanding performance≅. Conflict is a three-item measure of the extent of conflict between parties involved in an IJV measured using a five-point Likert-type scale where 1 is Astrongly agree≅ and 5 is Astrongly disagree≅ that there is much conflict.