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# How do ownership control position and national culture influence conflict resolution strategies in international joint ventures?

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### ABSTRACT

In this study, we investigate the relationship between ownership control position, national culture, and selection of conflict resolution strategies (CRS) of multinational corporations (MNCs) in their attempts to solve conflicts with local partners in international joint ventures (IJVs). The empirical evidence is based on a survey of 89 Nordic MNCs. The results show that MNCs select their CRS depending on their national culture and their ownership control position in IJVs. In addition, interesting results were found related to the interaction effects on the choice of CRS of national culture and ownership control position as well as of the trust between partners and national culture.

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## 1. Introduction

In the last two decades, strategic alliances including international joint ventures (IJVs) with local firms have become a central part of the internationalization strategies of most multinational corporations (MNCs) (Das & Kumar, 2010; Kale & Singh, 2009). A study by Partner Alliances reported that over 80% of Fortune 1000 CEOs believed that alliances would account for almost 26% of their companies' revenues in 2007–2008 (see Kale, Singh, & Bell, 2009). However, results in several studies show high – 30% to 70% – rates of alliance/IJV failure (Bamford, Ernst, & Gubini, 2004; Hennart, Kim, & Zeng, 1998). One of the key reasons for high failure is that firms often have different goals and ways of communicating, inter-partner conflicts often exist, leading to dissolution of the partnership (Fey & Beamish, 1999; Pajunen & Fang, 2013). Thus, understanding conflict is crucial to organizations (Boonsathorn, 2007; Das & Kumar, 2010; Krone & Steimel, 2013; Yuan, 2010), since the conflict resolution strategy of parent firms affects organization effectiveness (Boros, Meslec, Curseu, & Emons, 2010; Xie, Song, & Stringfellow, 1998) and especially IJV performance (Fey & Beamish, 1999; Lu, 2006; Yavas, Eroglu, & Eroglu, 1994). Firms differ in their choice of conflict resolution strategy (CRS) (Wade-Benzoni et al., 2002) and the current literature does not

provide much explanation on how MNEs select CRS in international business (Fainshmidt, White, & Cangioni, 2014), thus CRS is an under-explored area in international business and management literature (Nguyen & Larimo, 2011; White, Joplin, & Salama, 2007; White, Hadjimarcou, Fainshmidt, & Posthuma, 2013). Although previous research shows that there are some linkages between national culture and strategies that are used in conflict situations (White et al., 2013), researchers (e.g. Boros et al., 2010; Jehn & Weldon, 1997) noticed that there has been a lack of systematic study on the relationship between culture and conflict management. In IJV research, the conflict handling styles of partner firms have become an important topic (Wang, Lin, Chan, & Shi, 2005). Ariño (1997) and Krone and Steimel (2013) suggest that further studies are needed to investigate the effect of national cultures on the cooperative behaviors of partners in IJVs, since cultural values influence people's preferences for different conflict management styles (Komarraju, Dollinger, & Lovell, 2008). Similarly, Ma, Lee and Yu (2008) and Doucet, Jehn, Weldon, Chen, and Wang (2009) maintain that further study is needed especially to investigate the impact of culture on CRS because understanding the way in which people from different cultures resolve conflict is very important (Wang et al., 2005). In addition to the influence of culture on CRS, more than twenty years ago, Yavas et al. (1994) suggested that further study should investigate CRS, taking into account the influence of parent ownership control strategies. In the same vein, more recently, researchers (e.g. Lin & Germain, 1998; Nguyen & Larimo, 2011) maintain that the relative power between partners (e.g. ownership share) in IJVs also seems to be one key influencing

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factor on partners' choice of CRS. Thus these factors need to be further analyzed.

There are also other factors that may influence foreign firms' decisions on their CRS such as the contexts of a dispute (Kozan, Ergin, & Varoglu, 2014; Tjosvold, 2008) including the importance of the issues under dispute, the importance of the relationship between foreign firms and local firms, and the behaviors of local firms and also of the competitors. However, like other researchers (e.g. Lin & Germain, 1998; Nguyen & Larimo, 2011) we argue that two key factors that are the most important for managers and firms and which influence their strategies in conflict situations are (1) their cultural background, which characterizes who they are and how they behave, and (2) their relative power which gives them ability to do what they think is good for them or is the right choice in various situations.

Therefore, to provide further new insights on conflict management in IJVs, the goal of our study is to investigate the influence of these most two important factors on CRS used in IJVs: foreign partners' ownership control position (relative power) and their national culture. More specifically, this study aims to answer the research question: "How do the ownership control position and national cultural background of the foreign parent firm influence their choice of CRS conflict resolution strategy in their international joint ventures?" A key feature of earlier CRS studies has been that each of them has focused on only one factor such as culture or trust (e.g. Boros et al., 2010; Ding, 1996; Doucet et al., 2009; Fainshmidt et al., 2014; Lin & Germain, 1998; White et al., 2013) or control position (White et al., 2007). These earlier studies have concentrated on the general level, as they just show whether there are relationships between the influencing factors, but the interactions between these factors have not been analyzed. Our study aims to contribute to this stream of research both in IJV and in conflict management by specifying how three different control positions (dominant ownership, equal ownership and minority ownership control) and different national cultural backgrounds (based on the five national cultural dimensions of Hofstede, 2001) of foreign parent firms influence their choice of CRS. In addition, our study differs from previous studies because we point out how both control position and cultural background interact in their influence on the selection of CRS. Furthermore, our study differs from previous studies because we are not only analyzing the main effects between our variables but also we study the interaction effects between them (see Section 3.3) to have a deeper understanding of the key influencing factors on the choice of CRS strategy. In the next section, first we present an overview of CRS studies. Then, we discuss how the ownership control position leads to a foreign parent firm's choice of different CRS. After that, we continue with the influence of national cultural background on the selection of CRS. In the fourth section, we discuss the interaction effect of ownership position, cultural background and trust on the selection of the firms' CRS. After that we discuss our methodology and the results of our data analysis. Finally, we conclude the paper by discussing the implications and limitations of our study, and indicating opportunities for further research.

## 2. Literature review

Conflict is a common characteristic of every organization (De Dreu & Weingart, 2003). It is often regarded as a negative force, a harmful element (Boonsathorn, 2007) leading to discomfort, misunderstanding and disruption of relationships or even collapse of organizations (Robbins, 2005), or unplanned termination of IJVs (Pajunen & Fang, 2013). Fey and Beamish (1999) note that most researchers focus their research on the avoidance of conflict. However, they argue that conflict must be dealt with because it is

inherent in relationships. Thus, it is important to understand different CRS in a partnership. Next we will explain different CRS.

There are different strategies that firms can apply to handle conflicts, such as confronting, ignoring, avoiding, compromising, accommodating and problem solving or going through a mediator (Putnam & Wilson, 1982; Rahim, 1983; Thomas, 1976). Fundamentally, conflict management style is based on concern for the benefits of oneself and/or concern for the benefits of others. Based on two dimensions which are assertiveness (to satisfy one's own concerns) and cooperativeness (to satisfy the concerns of the other), Thomas (1976) constructs five CRS: competing, collaborating, compromising, accommodating and avoiding. According to Rahim and Bonoma (1979), CRS include dominating, obliging, avoiding, compromising and integrating. Lin and Germain (1998) and Lu (2006) categorize CRS into four main strategies: problem solving, compromising, forcing and legalistic strategy. Our study adopts the CRS typology by Lin and Germain (1998) and Lu (2006). The reason is that in their typology, each strategy is clearly different from all others. In addition, they do not include the avoiding strategy, which other authors include in their classification. The "avoiding strategy" is actually not a strategy because the conflicted problem is still there and never goes away if partners decide not to do anything about it.

Therefore, CRS used in our study include: problem solving, compromising, forcing and legalistic strategy. Regarding the problem solving strategy, partners aim to satisfy the needs of all parties involved. In exercising this strategy, partners attempt to provide new effective solutions that will increase stakes for all parties involved. Regarding the compromising strategy, partners aim to achieve a common solution for both sides by offering some concessions from all involved parties. In exercising forcing strategy, partners aim to dominate the decision making. Legalistic strategy is often exercised to solve conflict through the use of a written contract. This is a formal communication with partners in IJVs in order to reach the desired target (Lin & Germain, 1998; Lu, 2006).

Using key words such as "international joint venture", "conflict management", "ownership", "culture", we identified the earlier relevant studies published in leading international business and management journals – Journal of International Business Studies, Journal of International Management, International Business Review, Management International Review, International Journal of Conflict Management, Journal of International Marketing, Academy of Management Review. After carefully reviewing the articles we found – we have the key features of CRS in the international business context as follows.

Most previous studies focus on analyzing the conflict management style of parties in one country - mainly in China (e.g. Deng & Xu, 2014; Ding, 1996; Nguyen & Yang, 2012; Pajunen & Fang, 2013). A minority of studies focus on countries such as Russia (e.g. Fey & Beamish, 1999), Thailand (e.g. Boonsathorn, 2007), Germany (Kirk, Oettingen, & Gollwitzer, 2013), Turkey (Kozan et al., 2014) and Vietnam (Barden, Steensma, & Lyles, 2005). The results of these studies suggest that managers from different countries have different preferences on CRS used in their IJVs. Other studies have focused on comparing CRS of managers from two countries such as from China and USA (e.g. Doucet et al., 2009; Lin & Germain, 1998; Peng, He, & Zhu, 2000; Yuan, 2010), or from Japan and Taiwan (Lu, 2006) or from a number of countries (e.g. Kim, Wang, Kondo, & Kim, 2007; Morris et al., 1998; Onishi & Bliss, 2006; Xie et al., 1998) or between Western style and Asian style (Peng et al., 2000; Wang et al., 2005). The results of this stream of studies show that Asian managers emphasize harmony, averting, and face saving: thus they rely more on an avoiding style and compromising strategies because of their conformity and tradition. On the other hand, Western managers such as US managers rely more on confrontation and

competing style because of the relatively high value they place on individual achievement. Therefore, they use more forcing and legalistic strategies than their eastern partners.

International business researchers have commonly used only one single construct to analyze CRS in IJVs (Fainshmidt et al., 2014) such as the cultural dimension, mostly assessing individualism versus collectivism (e.g. Boros et al., 2010; Deng & Xu, 2014; Komarraju et al., 2008). Their findings show that individualists prefer forcing styles and collectivists prefer problem solving styles. Besides, previous studies also focus on providing strategies to prevent conflict (e.g. Barden et al., 2005; White et al., 2007). They include ensuring adequate communication, considering gains for all parties, developing high tolerance and understanding of different cultures, discussing ways to avoid future conflicts and ensuring all parties are committed to IJVs. Another stream of CRS in international business research has focused on the influence of cultural difference/similarity between partners on their choice of CRS (e.g. Bisseling & Sobral, 2011; Lin & Germain, 1998). The key finding of these studies is that the more cultural similarity, the more managers use problem solving strategy, and a longer relationship and higher trust between partners mean that they use problem solving compared to legalistic strategy. The relative control power of partners is also another important topic in IJV CRS research (e.g. Kozan et al., 2014; Lin & Germain, 1998; Lin & Wang, 2002; Nguyen & Larimo, 2011; White et al., 2007). The findings of these studies are that the more control the partners have, the more likely that they use forcing and legalistic strategies. Finally, researchers have also been interested in finding out the linkage between different CRS used and performance outcome (e.g. Bisseling & Sobral, 2011; Lu, 2006; Traavik, 2011; Xie et al., 1998). These authors find that compromising and problem solving strategies were significantly related to higher performance.

After a detailed analysis of previous studies, we have identified the most important factors that influence firms' preference of CRS including control and national culture of firms. We go further than previous studies by analyzing three positions of control power which are dominant, equal and dominated power (Chung & Beamish, 2010; Killing, 1983; Kwon, 2013). Regarding the influence of culture on the preference of CRS, this study provides an analysis of five cultural dimensions of national culture rather than one dimension or one country or several countries as in previous studies. Next, we discuss in detail the influence of three ownership control positions and five cultural dimensional features of firms on the preference of CRS.

### 3. Hypothesis development

#### 3.1. Ownership control position and CRS

The fit between subsidiary strategy and the subsidiary control mechanism is an important issue (O'Donnell, 2000) for performance of the units. Makino and Beamish (1999) and Nguyen and Larimo (2009) find a strong link between foreign control structure for their IJVs and the strategies that they carry out in the IJVs. This is because ownership position in IJVs relates to the key power of the parent to be able to control their IJVs (e.g. Brouthers & Bamossy, 2006; Duan & Chuanmin, 2007; Killing, 1983). This section aims to elaborate how the ownership control position in their IJVs will lead foreign parent firms to have different CRS. IJV ownership position can be divided into three categories: dominant, equal and minority ownership (e.g. Chung & Beamish, 2010; Killing, 1983; Kwon, 2013).

Foreign parent firms, who have majority ownership control in IJVs, often have more negotiating power than the local parent firms. Thus foreign parent firms may have more alternative strategies in the way they deal with conflicts with local firms. Due

to the fact that foreign parent firms are the dominant owners of IJVs, they are able to use all four available strategies. However, partners with dominant ownership positions tend to use forcing strategy to resolve the conflicts so as to avoid the long process of problem solving (Lin & Germain, 1998) or legal procedures. In the same vein, White et al. (2007) found that partners with dominant positions often used their power to obtain their advantage. Similarly, Schaan (1983) found that partners with dominant ownership positions are also likely not to use compromise strategy as they can realize their wishes easily by asserting their power.

In cases where foreign and local firms have equal ownership in IJVs, foreign parent firms may not be able to use forcing strategy in solving conflicts with local firms (Nguyen & Larimo, 2011). In an earlier study, Lin and Wang (2002) found that when partners have equal power they tend to use a more cooperative approach. As the stake is shared equally in IJVs, partners may try to solve problems either by increasing the stake of both parties, or they may try to make a compromise with their local partners so that the resolution of conflicts will lead to smaller stakes for both parties. In cases where partners cannot reach compromise on the disputed issue, and as partners have the same decision power, they may need to solve the conflict with legal support.

In cases of minority ownership, foreign parent firms will have the least amount of power to influence local firms on how to manage IJV activities or to solve problems related to IJV operations. Thus, a strategy which is only available for dominant owners of IJVs, like forcing, is difficult to apply for minority ownership position partners. White et al. (2007) suggest that partners with minority positions in IJVs often prefer harmony strategy to solve conflict in their IJVs. Thus, the only available strategies for minor ownership position firms are to try to reach a compromise with local firms, or to solve problems. In the worst case they may need to take some legal actions to solve problems. In short, foreign firms have various different ownership shares in their IJVs, giving them different powers and different positions to select strategies to solve conflicts with their local firms. As a result, we propose that:

**Hypothesis 1.** Foreign firms will have different strategies to solve conflicts with their local firms depending on their ownership position: (a) foreign firms with dominant ownership positions prefer to select forcing strategy; (b) foreign firms with equal or minor ownership positions prefer to use other strategies (problem solving, compromising, legalistic).

#### 3.2. Hofstede's national cultural dimensions

The national culture of the firm has a strong impact on different aspects of its organizational behavior (Chong, 2008; Sirmon & Lane, 2004), the strategies used in its subsidiaries (Hennart & Larimo, 1998), actions of alliance managers (Das & Kumar, 2010), negotiators' orientation (Ghauri, 2003), and the way in which conflicts are resolved (Saorin-Iborra, Redondo-Cano, & Revuelta-Taboada, 2013). Partners coming from cultures which are very different from each other may have different purposes in entering IJVs as well as different ways of managing conflicts in their IJVs (Ding, 1996; Doucet et al., 2009; Komarraju et al., 2008).

Related to the study of the national cultural background of firms, the five dimensions of national culture by Hofstede (2001) are the most well-known and they have been widely adopted in international business research. Therefore, we adopt these five dimensions which are individualism, masculinity, uncertainty avoidance, power distance, and long term orientation, in order to analyze the influence of the national cultural background of firms on their preferences for CRS. We did not use the total cultural distance between partners to study CRS but preferred to use individual dimensions of culture because results in several studies



have indicated that the single dimensions of culture have different influences on for example, the firm's ownership strategies (see e.g. Drogendijk & Slangen, 2006) and IJV performance (e.g. Barkema & Vermeulen, 1997). In individualistic cultures, people are concerned more about their own benefits rather than those of others (Hofstede, 2001). Barkema and Vermeulen (1997) argue that individualism has a strong influence on an organization's choice of control. According to Boonsathorn (2007) and Onishi and Bliss (2006), managers from individualistic cultures often try to solve the problems when conflicts arise with their partners. As they are results- or performance-oriented, managers from these cultures often want the problem solved rather than compromising or forcing their partners, as later they may have to deal with the problem again. Furthermore managers from individualistic cultures may want to avoid a long process solution as that may have a negative impact on performance; thus they may also avoid legalistic strategies.

Arrindell (1998) maintains that in masculine cultures, organizational values emphasize material success and assertiveness. According to Hofstede (2001), in highly masculine cultures people tend to be tough, assertive and strong. In this type of culture, managers often try to have problems solved properly. Therefore, when there are conflict issues with local partners, they often prefer to use problem solving strategy or force strategy to solve conflicts. As compromising strategy may not solve real problems, or using legalistic strategy may take a long time to solve problems, managers from a masculine culture will not prefer these strategies to solve conflicts with their counterparts.

In high uncertainty avoidance cultures, people are intolerant of ambiguity, rigidity and different opinions (Hofstede, 2001). In this culture, people are governed by law and legislation, and business is conducted with lots of rules and policies (Hofstede, 2001). Thus, when conflicts arise managers will use forcing strategy to eliminate different opinions, as they think the differences may create risks and uncertainty for them, or they tend to turn to legal systems to solve the problems. They also try to avoid the long procedure of problem solving because the long process can create unpleasant surprises. In addition, this process may involve the risk of the problem remaining unsolved or new problems arising during the solving of the old problem. In this culture, people can also avoid the long process of problem solving in conflicts by getting a quick solution with partners through compromising strategy.

The power distance dimension refers to the distribution of power among members of organizations and institutions (Hofstede, 2001). According to Hofstede, high power distance indicates that society accepts an unequal distribution of power, and people are aware of their positions in the system. Thus, in conflict situations, managers from a high power distance culture will apply CRS based on the power that they have (e.g. position of ownership and possession of technology), and are willing to implement strategy such as forcing and legality, as they expect other partners to understand their position in the ventures. On the other hand, low power distance means that power is shared and members of organizations view themselves as equals. Therefore, when conflicts arise, managers from a low power distance culture tend to use compromise or problem solving strategy to solve the problem.

In long term oriented culture, partners seek a continuous relationship (Chong, 2008) and avoid doing anything that will lead to a long process, such as a legal procedure which could lead to the "loss of face" in front of others (Lu, 2006) or to a long process of problem solving which could lead to complicating the problem or making both partners really tired of trying to solve the problem. Peng et al. (2000) found that Chinese managers who are from a long term oriented culture very often prefer a compromising strategy to solve conflicts with their Western partners. Lu (2006) maintains that in dealing with their subordinates, Chinese managers often give orders to be followed without question. As a result, in a

conflict situation, managers from a long term oriented culture tend to use forcing or compromising strategy to solve conflicts, as they believe that these strategies help their IJVs to get quickly back to their daily operation. These strategies save them a lot of problems in contrast to the long process of solving conflicts through problem solving and legalistic procedures. Therefore quick strategies such as compromising or forcing can help partners to have better long terms prospect for the IJV.

In short, in the same vein as Hofstede who suggests that cultures are software of the mind, we support the view of Lin and Germain (1998), Nguyen and Larimo (2011), White et al. (2013) and Fainshmidt et al. (2014) that there is linkage between cultures and CRS, and we argue that foreign parent firms will have different conflict resolution strategies in their IJVs depending on their cultural background. In particular, we propose that:

**Hypothesis 2.** Foreign firms will have different strategies to solve conflicts with their local firms depending on their cultural background, such that foreign parent firms from (a) individualistic cultures will use problem solving; (b) masculine cultures will use problem solving or forcing strategy; (c) high power distance cultures will use forcing or legalistic strategy; (d) high uncertainty avoidance cultures will use forcing or legalistic or compromising strategy; (e) long term oriented cultures will use forcing or compromising strategy.

### 3.3. Interaction effects and conflict resolution strategy

The availability of different strategies for resolving conflicts between partners is often subject to their ownership position. The higher ownership share position the firms have in their IJVs, the more options on different strategies the firms can exercise. However, partners making decisions related to CRS will most likely be firstly influenced by their cultural background (e.g. what kinds of strategies they like to use) and then secondly by their ownership position in IJVs (what kind of strategies are available to be used). Hennart and Larimo (1998), Makino and Neupert (2000) and Drogendijk and Slangen (2006) point out that the national cultural background of MNCs has a strong influence on ownership choice in their foreign subsidiaries. Therefore, the ownership control position and cultural background have different implications for strategies used to solve conflicts between partners; cultural background may have a stronger influence on conflict resolution strategy choice than that of ownership control position. This is because according to their national cultures, if MNCs believe in or favor some conflict resolution strategy (which may not be available in their current ownership control), they may change their ownership control in their IJVs to realize their objectives.

Furthermore, previous studies suggest that trust plays a very important role in determining strategies implemented within a partner relationship (Madhok, 2006); it also plays a crucial role in conflict management between team members (Han & Harms, 2010). Pajunen and Fang (2013) emphasized the role of trust in tension and conflicts in IJVs. They specified that insufficient trust can lock in action patterns of confrontation which lead to termination of IJVs. Therefore, in handling conflict with local partners, trust between partners is expected to have stronger influence on strategic choice than the cultural background of foreign partners. As a result, we propose that:

**Hypothesis 3.** (a) Foreign parent firms' cultural background interacts with ownership share so that cultural background overrides ownership share in the choice of conflict resolution strategy. (b) Inter-partner trust interacts with foreign parent firms' cultural background so that trust overrides cultural background in the choice of conflict resolution strategy.

4. Methodology

4.1. Data collection

This study involves Nordic (Denmark, Finland, Norway and Sweden) firms' IJVs operating in Asia, Europe and America. We identified a target population of 464 equity IJVs made between 2000 and 2011 by reviewing the press releases and annual reports of 100 largest firms in each Nordic country as well as the Thompson One data base. The sensitivity of the questions, and the fact that their top executives deal directly with most IJVs, demanded that regional directors, country specific directors, product specific directors, vice presidents and managing directors fill in the questionnaire. These target respondents' names and their emails were identified from company websites, annual reports, press releases and by directly contacting the HRM directors of the Nordic firms.

The questionnaire development and design were conducted in accordance with the suggestions of Collis and Hussey (2009). Silva (2007) notes that compared to mail surveys, web surveys allow the researchers to access large numbers of dispersed respondents easily, faster, cheaply (i.e. reducing costs associated with paper, postage, mail out), and they display the data in numerical form in real time. Therefore, a web-based survey was administered in spring 2012. This was followed by a second email to non-respondents three weeks later. In total, 928 respondents were contacted in those identified 464 IJVs. In total 89 responses related to 89 IJVs were received, thus making a response rate of 19.11% (89 of 464) related to the IJVs of interest in the study. Our final sample size is relatively small; however, it is comparable to that of previous studies on the same topics (e.g. Barden et al., 2005 with 75 respondents; Kern, Lee, Aytug, & Brett, 2012 with 92 respondents; Lin & Germain, 1998 with 94 respondents; Lu, 2006 with 89 respondents from Taiwanese IJVs). Furthermore, when comparing the response rate of our study to those of previous

studies of foreign subsidiaries using survey data, it is also comparable (e.g. 15% in Buck, Liu, & Ott, 2010; 20% in Harzing, 2002; 22% in Kim & Hwang, 1992; 22% in Park & Choi, 2014).

The high non-response rate always raises the question of non-response bias. One popular methodology to test the non-response bias is to analyze the difference between the early and late responders (Aulakh, Kotabe, & Sahay, 1996; Krishnan, Martin, & Noorderhaven, 2006; Silva, Bradley, & Sousa, 2012). We utilized this approach to test for non-response bias. Therefore, an independent samples t-test was performed for comparing the early respondents (N = 48) to the late respondents (N = 41) in terms of firm size and industry of the Nordic parents. There were no significant differences between the early and late respondents in terms of firm size (p = 0.708) and industry (p = 0.548). Thus, non-response bias was not an issue.

4.2. The sample characteristics

The sample characteristics indicate that the 89 IJVs of Nordic firms formed from 2000 to 2011 were operating in three regions (49 in Asia, 27 in Europe and 13 in America). In 24 of the firms, Nordic firms held minority ownership, in 19 they had equal ownership and in 46 they had dominant ownership. Of the IJVs, 24 were formed in 2000–2003, 40 in 2004–2007, and 25 in 2008–2011. In 13 cases the Nordic parent firms had fewer than 500 employees, in 23 cases between 500 and 5000, and in 53 cases over 5000 employees.

4.3. Measures

We describe the operationalization of the variables included in the model and provide a summary of the relationships between the independent and dependent variables in Table 1. The four dependent variables of CRS (i.e. problem solving, compromising, forcing and legalistic) were operationalized from the work of

Table 1  
Measurement of variables and expected direction of signs.

Variables	Measurement	Expected sign			
		P1	P2	P3	P4
<i>Dependent variables</i>					
Problem solving (P1)	Set to "1" if the foreign parent of IJV used problem solving strategy, and "0" if it did not use				
Compromising (P2)	Set to "1" if the foreign parent of IJV used compromising strategy, and "0" if it did not use				
Forcing (P3)	Set to "1" if the foreign parent of IJV used forcing strategy, and "0" if it did not use				
Legalistic (P4)	Set to "1" if the foreign parent of IJV used legalistic strategy, and "0" if it did not use				
<i>Independent variables</i>					
Minority ownership	Set to "1" if the foreign parent of IJV had minority ownership (10–49%) in IJV, and "0" otherwise	+	+	–	+
Equal ownership	Set to "1" if the parents of IJV had equal ownership (50%) in IJV, and "0" otherwise	+	+	–	+
Dominant ownership	Set to "1" if the foreign parent of IJV had dominant ownership (51–94%) in IJV, and "0" otherwise	–	–	+	–
Individualism	Set to "1" if foreign parent of IJV has higher score than the average individualism score of Nordic countries based on Hofstede, and "0" if it has lower score	+	–	–	–
Uncertainty avoidance	Set to "1" if foreign parent of IJV has higher score than the average uncertainty avoidance score of Nordic countries based on Hofstede, and "0" if it has lower score	–	+	+	+
Masculinity	Set to "1" if foreign parent of IJV has higher score than the average masculinity score of Nordic countries based on Hofstede, and "0" if it has lower score	+	–	+	–
Power distance	Set to "1" if foreign parent of IJV has higher score than the average power distance score of Nordic countries based on Hofstede, and "0" if it has lower score	–	–	+	+
Long term orientation	Set to "1" if foreign parent of IJV has higher score than the average long term orientation score of Nordic countries based on Hofstede, and "0" if it has lower score	–	+	+	–
<i>Control variables</i>					
IJV age	Coded as "1" = ≤2 years, "2" = 3–4 years, "3" = 5–6 years, "4" = 7–8 years, "5" = ≥9 years				
Trust	Set to "1" if the foreign parent of IJV has high trust of counterpart, and "0" if it has low trust				
Business relatedness	Set to "1" if both IJV partners operate in same business line, and "0" otherwise				

Lin and Germain (1998) and Lu (2006). For each conflict resolution strategy, the respondents were asked whether or not their firm used this strategy when there were disagreements between IJV partners regarding the operations and/or strategic decisions of the IJV. We coded “1” if the foreign parent of the IJV used that strategy and “0” if they did not.

Foreign partner’s ownership share was gauged by a single question adopted from Hsieh, Rodrigues and Child (2010) that asked the respondents to provide the percentage of their firm’s ownership share in the IJV. The score values for the five cultural dimensions of individualism, uncertainty avoidance, masculinity, power distance and long term orientation are taken from Hofstede (2001). For measuring purposes, each dimension of culture was transformed to a dummy variable which took the value “0” if the foreign parent of the IJV has a lower score than the Nordic countries’ average score of that dimension based on the Hofstede cultural scores, and “1” if it has a higher score.

In addition to the independent variables we included the IJV age, trust and business relatedness as control variables. The age of the IJV was measured by using the number of years since the IJV was set up (e.g. Dyer & Chu, 2000; Krishnan et al., 2006; Mohr & Puck, 2005). Consistent with previous studies (e.g. Lane, Salk, & Lyles 2001; Nielsen, 2007), trust was measured by asking the respondent firm’s overall level of trust of the IJV partner firm. The response was coded “0” if the foreign firm has low trust of the counterpart and “1” if it has high trust. Finally, business relatedness was coded as “1” if both IJV partners operate in the same business line and “0” otherwise.

5. Test methodology and results

Correlations were run between all variables in order to test for individual relationships (see Table 2). The correlations show a few problems of multi-collinearity. Notably, dominant ownership was highly correlated with minority ownership ( $r > 0.60$ ) and equal ownership ( $r > 0.50$ ). Further, long term orientation was highly correlated with individualism ( $r > 0.70$ ), masculinity ( $r > .70$ ) and uncertainty avoidance ( $r > 0.70$ ).

Gulati (1995) suggests that separate binomial logistic regression models should be run for variables that demonstrate multicollinearity. Therefore, two distinct binomial logistic regression models were run for each dependent variable of conflict resolution strategy to determine which factors predicted the CRS. Model 1 included (a) constructs of ownership: minority and equal ownerships, (b) cultural dimensions: individualism, masculinity and uncertainty avoidance, and (c) control variables: trust, business relatedness and IJV age. Model 2 included the dominant

ownership, power distance and long term (LT) orientation constructs.

We present the binomial logistic regression estimates in Table 3. Related to Hypothesis 1, the results indicate that dominant ownership is positively related to forcing strategy ( $\beta = 2.62$ ;  $p < 0.01$ ) and inversely related to problem solving ( $\beta = -2.55$ ;  $p < 0.01$ ) and compromising ( $\beta = -1.89$ ;  $p < 0.01$ ) strategies; however it is not significantly related to legalistic strategy. The results support Hypothesis 1b that equal ownership has a strong positive effect on problem solving strategy ( $\beta = 4.49$ ;  $p < 0.01$ ) and a strong negative impact on forcing strategy ( $\beta = -3.38$ ;  $p < 0.01$ ). However, equal ownership is not significantly related to compromising strategy and legalistic strategy. Concerning minority ownership position, the findings also indicate that minority ownership has a positive effect on compromising strategy ( $\beta = 2.91$ ;  $p < 0.01$ ), and problem solving strategy ( $\beta = 1.12$ ;  $p \leq 0.1$ ), and a negative impact on forcing strategy ( $\beta = -1.11$ ;  $p \leq 0.1$ ). However results suggest that minority ownership is not related to legalistic strategy. Thus Hypothesis 1b is partly supported.

Related to Hypothesis 2 which proposes the relationship between culture and CRS, the result showed that foreign parents from individualistic cultures use problem solving ( $\beta = 2.91$ ;  $p < 0.01$ ), and do not use compromising ( $\beta = -1.01$ ;  $p < 0.1$ ), forcing ( $\beta = -1.44$ ;  $p < 0.05$ ) and legalistic strategy ( $\beta = -2.32$ ;  $p < 0.01$ ). Thus, the results support Hypothesis 2a. The results further support the suggestion that foreign parents from masculine cultures do not use legalistic strategy ( $\beta = -1.62$ ;  $p < 0.05$ ). However, this is not significantly related to problem solving, forcing and compromising strategy. Thus, the results partly support Hypothesis 2b. Related to Hypothesis 2c, our results support the suggestion that foreign parents from high power distance cultures use legalistic strategy ( $\beta = 2.55$ ;  $p < 0.01$ ) and do not use problem solving strategy ( $\beta = -1.77$ ;  $p < 0.05$ ). Furthermore, the results support Hypothesis 2d that foreign parents from uncertainty avoidance cultures use forcing ( $\beta = 1.33$ ;  $p < 0.05$ ), legalistic strategy ( $\beta = 2.19$ ;  $p < 0.01$ ), and compromising strategy ( $\beta = 1.12$ ;  $p \leq 0.1$ ), and do not use problem solving strategy ( $\beta = -2.69$ ;  $p < 0.01$ ). With regard to long term oriented culture (Hypothesis 2e), results further support the proposition that foreign parents from long term oriented cultures use forcing strategy ( $\beta = 1.52$ ;  $p < 0.05$ ) and do not use problem solving strategy ( $\beta = -2.30$ ;  $p < 0.01$ ).

Related to Hypothesis 3a, the results partially supported our expectation that cultural backgrounds override the ownership share in the choice of CRS. We found significant results – that in choosing forcing strategy, the cultural dimension of individualism

Table 2  
Means, standard deviations and correlations.

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Minority ownership	0.27	0.45	1														
2. Equal ownership	0.20	0.40	-0.31	1													
3. Dominant ownership	0.52	0.50	-0.63	-0.52	1												
4. Individualism	0.40	0.49	0.12	0.10	-0.17	1											
5. Masculinity	0.64	0.48	-0.07	-0.09	0.12	-0.48	1										
6. Power distance	0.85	0.36	-0.18	-0.03	0.17	-0.50	-0.31	1									
7. Uncertainty avoidance	0.60	0.49	-0.12	-0.10	0.17	-0.47	0.48	0.50	1								
8. LT orientation	0.74	0.44	0.01	-0.09	0.05	-0.72	0.79	-0.24	0.72	1							
9. Trust	0.82	0.39	0.02	-0.06	0.02	-0.03	-0.11	0.06	0.03	-0.01	1						
10. IJV age	2.70	1.41	0.24	-0.01	-0.19	-0.05	0.02	-0.14	0.05	0.17	0.02	1					
11. Business relatedness	0.83	0.38	0.00	-0.07	0.05	0.00	0.04	-0.02	0.00	0.01	-0.05	-0.08	1				
12. CRS-legalism	0.22	0.42	0.02	-0.04	-0.07	-0.32	-0.20	0.28	0.30	0.09	-0.31	0.03	0.04	1			
13. CRS-forcing	0.55	0.50	-0.16	-0.45	0.44	-0.21	-0.05	0.07	0.21	0.24	-0.09	0.01	-0.03	0.22	1		
14. CRS-compromising	0.29	0.46	0.50	0.03	-0.37	-0.13	-0.09	0.10	0.20	0.02	-0.18	-0.02	0.17	0.19	0.03	1	
15. CRS-problem solving	0.36	0.48	0.18	0.56	-0.49	0.43	0.04	-0.22	-0.43	-0.31	0.02	-0.01	-0.23	-0.18	-0.45	-0.12	1

**Table 3**  
Results of binomial logistic regression analysis.

Variables	Problem solving strategy		Compromising strategy		Forcing strategy		Legalistic strategy	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Minority ownership	1.12* (0.143)		2.91*** (0.000)		-1.11* (0.085)		0.072 (0.922)	
Equal ownership	4.49*** (0.000)		0.076 (0.926)		-3.38*** (0.000)		-0.115 (0.885)	
Dominant ownership		-2.55*** (0.000)		-1.89*** (0.001)		2.62*** (0.000)		-0.642 (0.230)
Individualism	2.91*** (0.001)		-1.01* (0.144)		-1.44** (0.020)		-2.32*** (0.005)	
Masculinity	0.53 (0.491)		-0.93 (0.183)		-0.132 (0.830)		-1.62** (0.029)	
Power distance		-1.77** (0.023)		0.92 (0.234)		0.64 (0.524)		2.55*** (0.004)
Uncertainty avoidance	-2.69*** (0.003)		1.12* (0.134)		1.33** (0.030)		2.19*** (0.006)	
LT orientation		-2.30*** (0.001)		0.207 (0.727)		1.52** (0.013)		0.802 (0.207)
Individualism × dominant ownership						-2.78** (0.024)		
Uncertainty avoidance × minority ownership						1.39* (0.137)		
Uncertainty avoidance × trust							-2.67* (0.092)	
<i>Control variables</i>								
Trust	0.15 (0.855)		-1.29* (0.075)		-0.89 (0.234)		-2.23*** (0.001)	
Business relatedness	-1.73** (0.046)		1.42* (0.117)		-0.34 (0.643)		0.36 (0.665)	
IJV age	-0.03 (0.900)		-0.10 (0.640)		0.08 (0.673)		0.17 (0.459)	
<i>Model quality</i>								
N	89 (32)	89 (32)	89 (26)	89 (26)	89 (49)	89 (49)	89 (20)	89 (20)
Model $\chi^2$	54.60*** (0.000)	38.02*** (0.000)	29.97*** (0.000)	14.02*** (0.003)	31.87*** (0.000)	30.43*** (0.000)	22.94*** (0.003)	22.12*** (0.018)
-2log likelihood	61.66	78.243	77.55	93.49	90.59	92.03	71.90	84.72
Nagelkerke R <sup>2</sup>	62.9%	47.7%	40.8%	20.8%	40.3%	38.7%	34.7%	16.4%
Correctly classified (%)	83.1%	78.7%	82%	75.3%	73.0%	73.0%	84.3%	77.5%

\*\*\*  $p \leq 0.01$ .  
\*\*  $p \leq 0.05$ .  
\*  $p \leq 0.1$ .

overrides dominant ownership share ( $\beta = -2.78$ ;  $p < 0.05$ ), and uncertainty avoidance overrides minority ownership ( $\beta = 1.39$ ;  $p \leq 0.1$ ). The results further partly support H3b that inter-partner trust overrides the cultural background in the choice of CRS. The significant finding is that inter-partner trust overrides the cultural dimension of uncertainty avoidance in the choice of legalistic strategy ( $\beta = -2.67$ ;  $p \leq 0.1$ ). Finally, with regards to control variables, the results show the negative impact of trust on compromising strategy ( $\beta = -1.29$ ;  $p \leq 0.1$ ) and legalistic strategy ( $\beta = -2.23$ ;  $p < 0.01$ ); there is a negative impact of business relatedness on problem solving strategy ( $\beta = -1.73$ ;  $p < 0.05$ ), and no significant impact of IJV age on the choice of CRS.

In summary, our key results indicated that the use of the problem solving and forcing strategies were both significantly influenced by the ownership control position of the Nordic partner, whereas only dominant and minority positions influenced the use of compromising strategy, and a non-significant relationship was found between ownership control position and use of legalistic strategy. Of the national cultural dimensions by Hofstede (2001), the most influential were individualism and uncertainty avoidance dimensions which had statistically significant influence on the use of all four conflict resolution strategies, whereas power distance and long term orientation had significant influence on the use of two, and the masculinity dimension on the use of only one CRS alternative. In addition, when the national culture and ownership control position of the foreign partner had conflicting impacts on the selection of CRS, there were no clear influences, except in the case of the forcing strategy where the individualism dimension had

more significant influence than the ownership position. Furthermore, the level of trust between partners had stronger influence than the national culture, when related to the uncertainty avoidance dimension on the choice of legalistic CRS, but not in the other cases.

## 6. Contributions and implications

### 6.1. Contributions

Regarding conflicts in IJVs, most previous studies focus on answering the question of why conflicts occur in IJVs and what are the relationships between partners' conflicts and IJV performance. There have been just a few studies that have tried to find out what strategies firms use to solve conflicts with their partners in one country or one group of countries, or under the influence of one constructional dimension (e.g. one cultural dimension as in Boros et al., 2010). This study extends previous studies in five different ways. First, previous studies analyzed the influence of control power in the selection of CRS as a whole (e.g. White et al., 2007); in our study we divided control power into three positions which are dominant, equal, and dominated control power. Second, most previous studies in the field analyze CRS choices using only one constructional dimension, for example one cultural dimension (Boros et al., 2010; Lin & Germain, 1998; Lu, 2006), while our study analyzes multiple constructional dimensions including five cultural dimensions and three control power positions. Third, our study is one of the first to analyze the interaction effect among



different constructional dimensions (e.g. control power position  $\times$  cultural dimension; trust  $\times$  cultural dimension). Fourth, in our study we confirm some of the influencing factors on CRS from previous studies such as the role of trust, age of IJV relationship, and business relatedness between foreign parent firms and IJVs. Finally, our data set is unique because it was made of management information from Nordic MNCs and it differs from all previous studies, where most data were collected from American, Japanese, German, and Chinese MNCs (e.g. [Deng & Xu, 2014](#); [Ding, 1996](#); [Kim et al., 2007](#); [Kirk et al., 2013](#); [Lin & Germain, 1998](#); [Lin & Wang, 2002](#); [Lu, 2006](#); [Wang et al., 2005](#); [Xie et al., 1998](#)).

In the previous studies by [Boros et al. \(2010\)](#) and [Wang et al. \(2005\)](#) the authors focus on the influence of only one dimension of culture: individualism vs. collectivism. In our study, five dimensions of culture were discussed. In addition, previous studies on partners' choice of CRS in IJVs (e.g. [Ding, 1996](#); [Doucet et al., 2009](#); [Lin & Germain, 1998](#); [Wang et al., 2005](#)) have ignored the influence of either different cultural dimensions or ownership position of partners. As [Lin and Germain \(1998\)](#), [Lin and Wang \(2002\)](#) and [White et al. \(2007\)](#) suggest, the relative power of firms in IJVs influences their choice of strategy to solve conflict. This study extends these studies by discussing further one of the most important elements of relative power between partners: ownership control position. Our results are in line with [Lin and Germain's \(1998\)](#) view that relative power (dominant ownership position) is inversely related to problem solving and compromising strategy but positively related to forcing strategy. In the case of age of IJVs, opposite to [Lin and Germain \(1998\)](#), we did not find any impact of it on the selection of CRS by foreign parent firms. Furthermore, in the study by [White et al. \(2007\)](#), relative power of partners in IJVs is classified into only two types: dominant and subservient. In our study we have enhanced the classification as we have three types: minority, equal and dominant position.

Related to [Hypothesis 2](#), our result contradict the finding by [Komarraju et al. \(2008\)](#) who found that firms from individual cultures tend to use more forcing and not problem solving strategies. Our result, however, is in line with the studies by [Boros et al. \(2010\)](#) and [Gire and Carment \(1993\)](#) that managers from individual cultures preferred more cooperative strategy (problem solving rather than forcing, or legalistic strategy) in dealing with conflict resolution. Furthermore, our study is one of the few studies that also test interaction effects between relative power and national cultural background of foreign parent firms and trust between partners in relation to the choice of CRS. The result of the testing implies that national culture seems to override ownership control position in the selection of CRS, especially in the case of individual and uncertainty avoidance cultures. The result of testing the role of trust on the selection of CRS and also the interactive effect of trust and culture in relation to the selection of CRS is partly supported by previous studies (e.g. [Madhok, 2006](#); [Han & Harms, 2010](#)). Both [Madhok \(2006\)](#) and [Han and Harms \(2010\)](#) found that trust plays an important role in the IJV relationship. [Han and Harms \(2010\)](#) maintain that trust plays a mediating role in conflict management. In our study, we found that when there is high trust between partners, they will avoid using legalistic strategies. Furthermore, our results are in line with previous results by [Kozan et al. \(2014\)](#) who found where there is high trust between parties or parties behave cooperatively, forceful strategy (such as legalistic strategy) should not be exercised.

As the majority of IJV cases in the study are located in Asia, our findings can be applied especially to other Nordic firms which have IJVs located in that region. Our frameworks provide guidance for relationships between three ownership control positions (dominant, equal and minority position) and strategic choice. Furthermore our framework, which specified five different national cultural dimensions and the linkages to different methods of CRS,

can help to predict a partner's strategic choice in an IJV relationship if conflicts arise. This study therefore helps managers to understand different alternatives of CRS that are likely to be selected by their counter-parts in an IJV relationship. This is important as it enables managers to be more cognizant of partners' behaviors and their moves in case of conflicts, and thus help them to be more effective in managing their IJVs.

The results of our study related to the influence of cultural dimensions on the selections of CRS of foreign parent firms ([Table 3](#)) show that partners coming from countries having different cultural dimensional values prefer different CRS in solving conflict with their partners. For example, partners coming from highly individualistic cultures will prefer problem solving strategy, while partners coming from high uncertainty avoidance cultures do not prefer this strategy. The results confirm that the use of individual cultural dimensions to study CRS of partners is more appropriate than using the total cultural distance. This is one of our key contributions to the field as we are one of the firsts to analyze the role of single cultural dimensions on behavior of firms in their partnerships.

## 6.2. Limitations and implications for future research

In the analysis of the national cultural background of firms, we focus on the most popular cultural dimensions by [Hofstede \(2001\)](#) that have earlier been applied in IJV research (e.g. [Lin & Germain, 1998](#)). We did not include the recently added sixth dimension – indulgence versus restraint – by [Hofstede, Hofstede, and Minkov \(2010\)](#). Thus one avenue for future research is to add the sixth dimension to the analysis. Furthermore, there are other frameworks related to national cultures which should also be considered, such as the national cultural dimensions of the GLOBE study ([House, Hanges, Javidan, Dorfman, & Gupta, 2004](#)). In addition, in a discussion of conflict resolution, types of conflicts (e.g. task conflict and relational conflict) and the role of local partners are excluded in this paper. Future research could use a case study method to investigate how different types of conflicts and local partners' roles as well as their reactions can affect foreign firms' choice of conflict resolution strategy. Furthermore, in the paper, we used data from Nordic MNCs, thus the results may not be applicable to MNCs from other regions of the world such as from Latin America, Asia or even from Central or Eastern Europe. Therefore, future studies employing GLOBE framework and using data from other regions than in this study would be of great interest. In addition, as performance is important for any organization, it would be of interest to analyze how the selection of CRS by foreign parent firms influences the performance of IJVs. Besides, although we did not find any statistically significant influence of age of IJVs on the CRS, we believe that organizations evolve over time. Therefore, future studies may apply a longitudinal approach to investigate changes of partner behavior before and after CRS have been exercised. Or if one CRS strategy alternative has been exercised but has failed to solve the conflicts, then the question of how foreign parent firms will select a follow-up strategy is also worthy of investigation. Besides, in our study, we did not specify types of conflicts (e.g. constructive conflicts and destructive conflicts). Thus future study can also study is the CRS of foreign partners depending on conflict types. Finally, in our study we did not analyze the link between CRS and performance. Thus, it would also be interesting to see how the outcome of CRS used by foreign parent firms link to performance of IJVs.

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