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**STRATEGIES FOR MANAGING RUSSIAN INTERNATIONAL JOINT VENTURE  
CONFLICT**

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# **STRATEGIES FOR MANAGING RUSSIAN INTERNATIONAL JOINT VENTURE CONFLICT**

## **ABSTRACT**

Based on an analysis of the experiences of 40 Russian IJVs, this study presents nine strategies for managing intra-IJV conflict such that it will have a minimal negative impact on IJV performance. Following the strategies suggested in this paper presents an opportunity for other Russian IJVs to learn from the experience of the IJVs in this study and thus avoid some of the problems that conflict can produce.

## **KEY WORDS**

conflict  
joint venture  
Russia

## INTRODUCTION

Because international joint ventures (IJVs) consist of three entities (two parents and the newly created entity—the joint venture organization) and these entities often have different goals and organizational climates, inter-partner conflict often exists in IJVs. This appears especially true in contexts where firms from diverse national and organizational cultures meet such as is often the case in Russian IJVs. For an IJV to be successful, it is well established that it is important for parties involved in an IJV to avoid conflicts. 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”. Though most past literature has focused on avoiding conflict, interviews with general managers from the 40 Russian IJVs in this study revealed that finding ways to avoid conflict is only half of the problem. Given that some conflict seems inevitable in all IJVs, the optimal way to manage such IJV conflict appears to be an important but largely neglected topic and thus will be the focus of this study. This study will present nine strategies for managing IJV conflict which were derived from the experiences of 40 Russian IJVs. Following these strategies will help IJVs in Russia—and potentially elsewhere—to learn from the experiences of the IJVs in this study and increase their chances of success.

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. This study will first provide a brief background on Russian IJVs followed by discussion of the theoretical underpinnings of the IJV conflict literature and a review the IJV conflict. Then, the methodology used for this study will

be presented followed by this study's findings. Finally, conclusions obtained from this study will be presented.

## **BACKGROUND ON RUSSIAN INTERNATIONAL JOINT VENTURES**

Russian international joint ventures (RIJVs) are not a new phenomenon in Russia. As part of Lenin's New Economic Politics in the 1920's, foreign firms, including those from Western countries, were allowed to start RIJVs. In the early 1930's Stalin stopped most joint ventures with Western countries; however, from 1930 to 1987 joint ventures between Russia and Eastern European countries continued. In January 1987 a new wave of RIJV activity began when the USSR Council of Ministers passed the decree "The Establishment and Operation, on the Territory of the USSR, of Joint Ventures with Participation of Soviet Organizations and Firms from Capitalist and Developing Countries." This decree opened the door for all foreign firms to start joint ventures with Russia (Dean, 1988).

Foreign investors are now allowed to start wholly foreign-owned firms in Russia, and IJVs no longer receive preferential treatment over other forms of business (such as the two year tax holiday which existed when RIJVs first became legal in 1987). In many cases, however, IJVs still represent the optimal method of foreign direct investment in Russia. Several key reasons make RIJVs desirable from the foreign parents' perspective: Russian parents can provide valuable help in navigating Russian bureaucracy; Russian parents can provide country-specific knowledge; joint ventures often are charged lower prices for services than wholly-owned foreign firms; the risk of doing business in Russia can be shared between two or more firms; and Russian parents can often provide access to prime real estate. IJVs are also desirable

from the Russian parents' perspectives. They facilitate access to needed start-up capital, Western management practices, leading-edge technology, and foreign markets.

Russia, the second largest country in the world by area, possesses a work force which is inexpensive and highly educated: the average Russian having more education than the average American. Russia is also rich in natural resources. For example, Russia is the largest oil producer in the world and the second largest producer of steel. Consequently, Russia is too important a market and has too many attractive resources to be ignored by foreign investors (Kvint, 1994). However, many challenges also exist in operating a business in Russia. When using IJVs, one of the key challenges appears to be how to manage intra-IJV conflict.

### **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 and Simon, 1958; Mayo, 1945). As a result, such models have often downplayed 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. Given that Russia is the setting for this study, it is also interesting to recall that Marxists also consider conflict inevitable (Zeitz, 1980). This study adheres to Aldrich's and Blau's view which holds that inter-organizational relationships like IJVs often 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.

The study of conflict as a discrete organizational dimension began with Simmel's seminal book *Conflict* (Simmel, 1950) and Coser's landmark study *The Functions of Social*

*Conflict* (Coser, 1956). Following these initial studies, several models of conflict have been developed (Evan, 1967; Pondy, 1967; Walton and Dutton, 1969; Schmidt, 1972; Thomas, 1976). However, conflict researchers have generally had difficulty reaching a consensus.

Conflict has also been studied by IJV researchers. Beginning with early IJV research (Harrigan, 1985; Killing, 1983, Reynolds, 1989), 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 showed that the amount of conflict significantly inversely affected IJV performance (Tillman, 1990). Similarly, Hebert found a significant inverse relationship between conflict and performance when studying Canadian IJVs and Canadian domestic JVs (Hebert, 1994). In addition, Habib developed a measure of conflict in the IJV context (Habib, 1987). Other IJV scholars have also provided anecdotal evidence relating to IJV conflict as part of larger studies.

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 and Beguin, 1971; Friedman and Kalmanoff, 1961; Killing, 1983). Holding back such needed resources would obviously adversely affect IJV performance and survival. It should be clear from the above brief review of the IJV conflict literature that the focus of most IJV conflict studies has been on how to prevent conflict from happening or trying to show that conflict negatively affects performance. Thus, attention to the topic of how to manage that conflict which does emerge such that it has minimal negative impact on the IJV's performance is long over due.

Some authors have argued that a small amount of conflict may be healthy for a joint venture since it may force management to evaluate its decisions more carefully. The differentiation between constructive and destructive conflict was facilitated by Assael's 1969

article in a special issue of *Administrative Science Quarterly* which focused entirely on conflict (Assael, 1969). The conceptual foundations for Assael's classification of conflict comes from large-system sociologists who study conflict between organized groups. Conflict is seen as being beneficial by large-system sociologists when it creates a more equitable allocation of political power and economic resources. Conflict is considered destructive when mutual objectives are not adequately recognized. Assael's work was based on a study of conflict between General Motors and its dealers. It generated five conditions for conflict to be managed such that a small amount of conflict might prove constructive:

1. A critical review of past actions.
2. More frequent and effective communications between disputants, and the establishment of outlets to express grievances.
3. A more equitable distribution of system resources.
4. Standardization of modes of conflict resolution.
5. Creation of a balance of power within the system.

Cosier and Dalton also suggest that a small amount of a small amount of structured conflict enhances effectiveness of strategic decision making (Cosier and Dalton, 1990). Though the above studies have not focused on joint ventures, it seems reasonable that the above logic could be transferable to joint ventures and 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. Such conflict can be considered constructive conflict. This is in contrast to the more common form of conflict which is detrimental to IJV performance and therefore referred to as destructive conflict. The line of reasoning presented above is in keeping with the central thrust of this paper which argues that how one manages conflict is critical such that it has a minimal negative, or perhaps even slightly positive, impact on the IJV.

## METHODOLOGY

This study is based on interviews conducted with general managers of 40 Russian international joint ventures (RIJVs) and questionnaires filled out by the general managers and one additional senior manager at the JVO. Interviews with 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). 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.

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. 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 and 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.

### **REASONS FOR RIJV FORMATION**

Before explicitly looking at ways to manage intra-IJV conflict we turn our attention to the reasons that RIJVs are formed to investigate if RIJVs formed for particular reasons are more prone to conflict than other RIJVs. During the interviews, IJVGMs were asked what their parents' three main motives were for forming their IJV. Table 1 summarizes reasons given by Russian and foreign parents for forming a RIJV. As can be seen, Russian parents formed RIJVs primarily to obtain needed capital and acquire new technology. Also, since Russian consumers are becoming very brand-conscious, obtaining access to a well-known Western brand name and the high-quality products that go with that name was often an important motive for Russian parents to form a RIJV. Many Russian parents wanted to develop products for foreign markets, but they were unsure of how to market and distribute their products abroad. Such Russian firms considered the RIJVs as a way to gain easier access to foreign markets. Also, since many

Russian parents viewed Western management methods as superior to traditional Russian managerial techniques, forming a RIJV was seen as a way to learn about these Western management techniques to allow not only the joint venture but also the entire Russian parent organization, to function more effectively. In addition, especially in the past, RIJVs were given preferential treatment by the Russian government and thus considered a desirable organizational form by the Russian parents. Most IJVGMs noted this preferential treatment as rapidly decreasing.

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Insert Table 1 about here

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Foreign parents formed RIJVs primarily to obtain help in dealing with Russian bureaucracy, to access knowledge about the Russian market, and to be able to enter Russia more quickly. Russian bureaucracy was seen as a major obstacle for many foreign firms. Russian partners, with their years invested in building relationships (and sometimes being government-owned), were thought to be of considerable help in navigating through Russian bureaucracy.

Obtaining knowledge of the Russian market was also extremely important to many foreign parents. They expressed that such knowledge could be acquired more easily through having a joint venture than by hiring local employees to work at a wholly-owned foreign firm. Russian firms had often been operating for years in Russia in the industry the foreign parent wanted to enter.

For some of the foreign parents in the sample, forming a joint venture was the only option available for entering Russia at the time they wished to. While wholly foreign-owned firms are now allowed in Russia, prior to 1991, IJVs were the only mode option for foreign firms to operate in Russia. Some of these “forced” joint ventures (those that started prior to

1991) are now changing to wholly-owned subsidiaries. Others continue to operate as IJVs because now that they are formed and operating, a change in organizational form is not deemed desirable, feasible, or possible. Finally, some foreign parents formed RIJVs due to the preferential treatment that RIJVs received over other organizational forms available to the foreign firms to operate within Russia.

The rationales of parent firms for forming RIJVs were tested to determine whether choices of specific rationales were related to the amount of intra-IJV conflict which later emerged. The relationships were tested using Spearman correlation, a non-parametric technique. However, none of the rationales for forming RIJVs were significantly correlated with conflict.

## **MANAGING CONFLICT**

This study follows Assael's view that the existence of a small amount of conflict can have desirable effects if it is properly managed (Assael, 1969). When asked if a small amount of conflict was likely to have a positive effect on IJV performance since it would increase the care with which decisions were made, 30 of the 40 general managers in this study indicated that a small amount of conflict could have a beneficial effect. However, 25 of the 30 general managers who responded positively also indicated that while it is extremely difficult to eliminate all conflict, no conflict was enjoyable for a general manager even if it was beneficial for the IJV.

As stated above, following Aldrich (1977) and Blau (1964) and the views of Russian IJV general managers from this study, we believe that some conflict is inevitable in inter-firm relationships such as IJVs. Given that some conflict is likely to exist between parties involved

in an IJV, an important question then becomes how is it best to manage this conflict to minimize its detrimental effects on the IJV. In the interviews, IJVGMs indicated that while preventing conflict was important, how conflict that did develop was managed was equally important. Nine successful strategies for minimizing conflict's negative impact, or perhaps even channeling a small amount of conflict into a positive result, which repeatedly emerged from the interviews with the IJVGMs in this study are presented below.

### **Align Parents' Objectives**

Parents involved in a joint venture often have different goals. This is quite natural. However, if possible, parents' objectives should be aligned so that achieving one parent's objective will be beneficial for the other parent as well. For example, one foreign firm which owned a restaurant joint venture in St. Petersburg wanted to expand its operations to different cities in Russia. However, the foreign firm felt that it was optimal to have different partners in different cities. Obviously, the partner in St. Petersburg believed that there were expansion possibilities remaining in St. Petersburg (and there were) which should be taken advantage of first. The foreign parent resolved this problem by offering the Russian parent in St. Petersburg a share of the profits (not ownership) generated by the business that would be started in different cities in Russia. The foreign parent showed the St. Petersburg parent that it would receive more profits by expanding to other Russian cities compared to concentrating on expanding only in St. Petersburg. Thus, the St. Petersburg parent decided that expansion to other Russian cities was desirable.

### **Ensure Adequate Communication Between Involved Parties**

It is important that parties involved in a conflict communicate with one another. This communication can help each party understand the other party's view. This understanding can be achieved only through communication. After talking, Party A in the conflict may not agree with party B's view. However, understanding each other's thinking is the first important step in resolving the conflict. Once this understanding is achieved, communication then serves a second function. At this point communication helps the two parties work out a compromise about their differences. Communication can also help prevent a similar conflict in the future. Parties will generally feel better about the current conflict if they feel assured that the same type of conflict will not happen again in the future. For example, the general director of a financial services firm in St. Petersburg explained:

Conflicts between parents are common in IJVs. However while it is important to work to try to minimize the number of conflicts that occur, it is even more important to deal with conflicts that develop in the best manner possible. Our experience has shown that much communication is the key to managing conflict. Communication helps everyone to understand each other's views even if they don't totally agree with them.

### **Develop Standard Procedures for Resolving Conflict**

When conflict exists between two parties, it is much more difficult to negotiate its resolution than when discussing a hypothetical conflict. Thus, before a conflict develops, it is desirable for two parties that will be working together to develop a standard procedure for resolving conflict. For example, one possible conflict resolution procedure would be to agree that when a conflict exists, both parties will talk several times to each other. In such cases each party will write a short document explaining why its view seems optimal. If after the parents read and talk about these document if no resolution is reached, then the conflict will be sent to arbitration. Having such a standard conflict resolution procedure in place can ease the problem.

The general manager of a joint venture in Moscow distributing high technology products supported this view by saying:

As in all joint ventures our parents have had their share of conflicts. However, we are lucky to have a standard agreed-upon mechanism in place for dealing with conflict to help minimize the impact of a conflict on the joint venture. Conflicts that develop and can't be resolved are turned over to an arbitrator.

### **Don't Only Try to Maximize Your Gain, but Consider the Gain of all Involved Parties**

Perhaps a foreign firm might be able to negotiate a joint venture contract with a Russian firm that badly wants to work with this firm such that the foreign partner makes substantial profits and the Russian parent profits only a little bit. For example, perhaps the joint venture will largely function as a sales agent for the foreign parent. In such a situation all invoicing--and thus most profit--might be done in the foreign parent's home country (e.g., England). This solution has the benefit of avoiding Russia's complicated and unpredictable tax system. However, it is important that the joint venture is designed such that the JVO and Russian parent benefit adequately as well. This could be done by paying top managers in Russia high salaries, letting the JVO provide substantial fringe benefits, or giving the Russian workers a substantial sales commission. If all parties involved in a joint venture are not satisfied, the joint venture is doomed to fail. As the general manager of a joint venture in Moscow involved in consulting said:

In the beginning our parents seemed to try to see how much they could get out of the joint venture without any consideration of the other parent. However, over time our parents have come to understand that the joint venture will only be successful if all parties benefit. Thus, the goal is not for one parent to maximize its gain, but for everyone involved in the joint venture to jointly maximize their gains.

### **Express Understanding of the Other Party's View**

Inevitably parents will have differing views on a topic. And, while it is unnecessary for Russian parents to agree with all views of the foreign parents, it is helpful if a parent can express understanding of the other parent's view and explain the reasoning for their different views. Though this may not alter the fact that a conflict exists, it is helpful to understand why different views exist and to feel as though the other party appreciates one's view. The general manager of a financial service joint venture in Moscow highlights the importance of this point:

This is the second Russian joint venture I have been the general manager of. I think there are actually more conflicts between the parents in this joint venture than in the first one. However, the conflicts seem to get resolved faster with fewer adverse long-run effects because the parents in this joint venture seem good in expressing understanding of the other parent's views when they disagree with them rather than implying that these differing views are crazy as was the case in the first joint venture I worked in.

### **Empower Locally-Based Foreign Managers to Make Most Decisions**

It can be very frustrating for a Russian parent to negotiate with a locally-based manager from the parent firm if the foreign parent manager does not have enough authority to make decisions. When a locally-derived tentative agreement is deemed unacceptable to management at headquarters, negotiations must start over again. In the second round of negotiations, the Russian parent normally has far less patience--understandably annoyed that the first agreement did not work out--and thus conflict is more likely to develop. The general manager of a high-tech product sales and service joint venture in Moscow provided the following support for the above view:

When I first started working at this joint venture, our U.S. parent would send managers here to discuss issues with our Russian parent who did not really have the authority to make decisions. This caused problems when headquarters did not want to go along with the deals the managers had been working hard to negotiate.

### **Develop High Tolerance and Understanding for Different National Cultures**

Parties must understand that though national cultures and organizational climates are different, none are “the best.” They are just different. It is common for each partner to possess a somewhat ethnocentric attitude. However, it is also important to remember that traditions normally were developed for a reason. As the general manager of an advertising joint venture in Moscow said, “It is important to stress to all employees that people accustomed to different organizational climates have different expectations. Developing a tolerance for different cultures is a key to the successful resolution of many conflicts.”

### **Ensure all Parties are Committed to the IJV**

All parties need to be committed to a joint venture for the long term. Joint ventures can yield good results, but they are challenging to make work. It is very difficult to get around the risk/reward tradeoff--that potential for high return leads to high risk. If a parent firm has an attitude of “this would be nice if it works out, but if it does not it is not that important for us,” then a conflict can easily derail a joint venture. Parents that are strongly committed to a joint venture for the long term are more likely to work hard to resolve conflicts that emerge and to exercise forbearance which can help prevent and solve conflicts. As the general manager of an advertising agency joint venture in Moscow said, “Yes, we regularly get into conflicts with both of our parents. However, both of our parents are very committed to the joint venture. Thus, they work hard to resolve all conflicts that emerge. And, they know they will.....because they have to so that the joint venture can survive. Commitment makes all the difference.”

### **Discuss Ways to Avoid Future Conflict**



Though conflicts are unfortunate, some conflicts are inevitable in inter-firm relations like IJVs. However, if parties involved in a conflict can feel that a similar conflict is unlikely to result in the future as a result of what has been learned, the parties are likely to feel better about the discomfort. In addition, the IJV will benefit from avoiding some future conflicts. As a result, once a conflict is resolved, it is important to discuss why a conflict developed and how similar conflicts can be avoided in the future. The general manager of a high-tech equipment sales/service joint venture in Moscow explained:

Over the years we have developed a good system for learning from past conflicts. After a conflict is resolved, we have a standard procedure that must be followed. A memo should be written describing why the conflict occurred, what the conflict was, and how the conflict was solved. We feel that having a file of such memos to refer to helps us avoid some conflicts and know how to solve conflicts that emerge more effectively. I have personally used the file several times and found it very helpful. There is no reason to make the same mistake twice.

## CONCLUSION

Most of the IJV conflict literature has focused on proving that conflict is detrimental to IJV performance and on investigating how to avoid conflict. This work has provided some important lessons for IJV managers and academics alike. However, while we agree that it is important to try to minimize conflict in IJVs, we also agree with Aldrich (1977) and Blau (1964) who suggest that some conflict is likely to emerge in most relationships. As a result, an important question—and the focus of this paper—is how the conflict that emerges can best be managed such that it has minimal negative impact on the IJV. Further, this study provides support for Assael's 1969 study (Assael, 1969) which asserts that a small amount of conflict in relationships can be beneficial by showing that a small amount of conflict, if properly managed, can be beneficial for an IJV as it increases the care with which decisions are made. Further, the likelihood of conflict emerging seems to be especially great in the case of IJVs where parents

firms from vastly different cultures must work together. This is certainly the case of the Russian IJVs.

This study presents nine strategies for managing conflict which repeatedly emerged as being successful in the interviews with IJVGMs in this study. This paper represents an opportunity for Russian IJVs—and potentially IJVs elsewhere—to learn from the experience of the IJVs in this study. Russian IJVs can avoid some of the negative aspects that conflict can produce by implementing the nine strategies for managing conflict which this paper suggests.

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**Table 1: Reasons for RIJV Formation<sup>1,2</sup>**

<b>RIJV Creation Rationale</b>	<b>Russian Parent</b>	<b>Foreign Parent</b>
Obtain help dealing with Russian bureaucracy	0	27
Obtain capital	26	0
Access knowledge about the Russian market	0	25
Enter Russia quickly	0	17
Obtain a brand name	15	0
Obtain technology	14	3
access foreign markets	14	0
receive preferential treatment given to RIJVs	13	13
only option to enter Russia when RIJV formed	0	12
learn managerial skills	12	0
obtain foreign products cheaply	9	0
share risk	7	6
Access to customer base	0	7
Access to highly-educated inexpensive labor	0	5
Other	10	5

1. The above are the IJVGMs' perceptions of their parent firms' three main reasons for forming an IJV.

2. Items receiving fewer than 4 votes are captured in "other."