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# Contracts and conflict resolution strategies in foreign ventures: a transaction cost perspective

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## Abstract

**Purpose** – The purpose of this paper is to develop a theory based on transaction cost economics to help explain how firms venturing into different foreign markets should properly formulate and implement contractual governance mechanisms to create greater efficiency, lower costs, and minimize conflict with partners.

**Design/methodology/approach** – Defines and discusses a conceptual framework of the determinants regarding contracts and strategies used to manage conflict in foreign ventures through the integration of foreign venture conflict resolution, contract, and transaction cost economics literature.

**Findings** – Suggests that perceived transaction costs will predict which contractual governance mechanism and which conflict resolution strategy a partner firm will choose when resolving conflict in a foreign venture. Postulates that consistency of conflict resolution strategy with contract type will impact the performance of the foreign venture, and that cultural distance, relative power, and interest alignment will all play a moderating role in this process.

**Originality/value** – The model demonstrates the necessity of examining how coupling certain conflict resolution strategies and contract types will impact foreign venture performance.

**Keywords** Corporate ventures, Contracts, Conflict resolution, Transaction costs

**Paper type** Research paper

## Introduction

International business and management scholars have posited that poor performance in foreign ventures can be attributed to conflict between partners and the choice of conflict resolution strategy (CRS) (Fey and Beamish, 2000, 1999; Tjosvold *et al.*, 2001). Contractual governance mechanisms, which can be informal unwritten agreements (Baker *et al.*, 2002) or formal written agreements (e.g. Folsom *et al.*, 2002), are determinants of transaction costs associated with foreign venture conflict (Hoon-Halbauer, 1999; Jeffries and Reed, 2000; Standifird and Marshall, 2000). Transaction cost economics (TCE) is one explanation, based on costs and inefficiencies,

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for choosing particular governance mechanisms in foreign ventures (Hennart, 1989; Williamson, 2002). But, will TCE explain why and how certain contractual governance mechanisms and CRSs are used to resolve disputes in foreign ventures and the consequent performance (and ultimate survival) of the venture?

Foreign ventures generally consist of a complex series of relationships involving several entities (e.g. partners, host government, etc.) (Brouthers and Bamossy, 1997; Fey and Beamish, 1999). Multi-parent origins often give rise to significant differences in culture, power, and interests between partners, increasing the likelihood of conflict in foreign ventures (Fey and Beamish, 2000; Peng and Shenkar, 2002; Shenkar, 2001).

Scholars suggest that foreign venture partners will differ in preferred forms of handling conflict (e.g. Wade-Benzoni *et al.*, 2002; Wang *et al.*, 2005). Although conflict can have constructive benefits between foreign venture partners (Tjosvold *et al.*, 2001), contracts are often created as a mechanism to manage conflict in venture relationships (Jeffries and Reed, 2000; Luo, 2005, 2002). From a transaction cost perspective, firms venturing into different foreign markets should properly develop and implement contractual governance mechanisms to create greater efficiency, lower costs, and minimize conflict with partners (Kogut, 1986; Luo, 2005, 2002; Poppo and Zenger, 2002).

Toward that end, we briefly review the TCE, contractual governance, and CRS literature. We focus on the TCE suggestion that formal and relational contractual governance mechanisms are used to manage conflict in foreign ventures. We propose that, due to bounded rationality and opportunism, partners will prefer coupling certain conflict resolution strategies and contract types and that consistency of CRS with contract type will impact firm performance. Cultural distance, relative power, and interest alignment will all play a moderating role in this relationship.

## Literature review

We draw upon three distinct bodies of research as the foundation of our propositions:

(1) Transaction cost economics.

(2) How contracts are used in international business practices.

(3) Conflict resolution strategies in foreign ventures.

### *Foreign ventures and transaction cost economics*

TCE assesses the costs of operating in a foreign market (Brouthers and Brouthers, 2000; Madhok, 1997). Kogut and Singh (1988, p. 412) proposed that transaction cost explanations for foreign ventures must be "qualified by factors stemming from the institutional and cultural context[s]" of operating in certain environments. These factors may include costs and inefficiencies of running a system, (e.g. costs of drafting and negotiating contracts), and costs related to monitoring and enforcing agreements (e.g. Hennart, 1989). TCE uses differences in transaction costs to explain advantages associated with certain governance structures (Anderson and Gatignon, 1986). Therefore, the firm and the market are recognized as the primary structural avenues for organizing economic activity (Hill, 1990).

Williamson (1985, 1975), Ghoshal and Moran (1996), and Hill (1990) have suggested that two key assumptions of TCE are bounded rationality and opportunism. Bounded rationality assumes that firms are incapable of perfect contracting (Williamson, 1979);

therefore, environmental and behavioral uncertainties arise (Anderson and Gatignon, 1986; Brouthers *et al.*, 2003; Meyer, 2001) out of an inability to pinpoint the exact conditions of future exchange (Williamson, 1985).

Scholars have suggested that opportunism in TCE is the assumption that, given the occasion, firms will act cunningly in order to serve their own interests (Ghoshal and Moran, 1996; Williamson, 1985, 1979), and it is therefore difficult to know who is trustworthy (Barney, 1990). Opportunism leads to governance problems such as self-interest seeking trickery or deliberate forms of cheating, lying, and stealing (Ghoshal and Moran, 1996; Hill, 1990). Firms are inclined to safeguard investments against opportunism in a foreign venture relationship through the implementation of contractual governance mechanisms (Hennart, 1989) with direct transaction costs of monitoring and enforcing such safeguards (Standifird and Marshall, 2000).

### *Foreign ventures and contracts*

*Formal contracts*. Generally speaking, a formal foreign venture contract is created when there is a written document with an offer identifying the partners involved, describing the subject matter of the contract, detailing the time of performance, and price; consideration (meaning some form of bargained for exchange of legal value); and a clearly expressed acceptance (e.g. Ben-Shahar, 2004). This type of contract is binding and enforceable under law in most countries (Folsom *et al.*, 2002).

A foreign venture contract of high quality will contain substantial built-in governance mechanisms such as term specificity and contingency adaptability. Contracts high in term specificity would include very detailed and specific terms (Luo, 2005, 2002), so that parties understand clearly their obligations and parameters (Macneil, 1978). Contingency adaptability describes how the parties will contractually respond to potential problems and conflicts in a venture (Luo, 2002), and provides guidelines (such as principles, procedures, and solutions) on how to handle certain contingencies, creating a zone of mutual understanding between the partners (Stipanowich, 1998). Both contractual governance mechanisms will control potential opportunism, help avert bounded rationality, and create a stronger framework for the foreign venture.

*Relational contracts*. Relational contracts are informal *quid pro quos* and unwritten understandings (Baker *et al.*, 2002; Brown *et al.*, 2004) embedded in multiple layers of social relationships (Fox, 2003; Poppo and Zenger, 2002). Relational contract enforcement occurs within "social processes that promote norms of flexibility, solidarity, and information exchange" (Poppo and Zenger, 2002, p. 710). Formation and procedure of exchange are primary concepts of relational contracts (Luo, 2002; Williamson, 1985).

Researchers postulate that relational contracting in foreign ventures is a response to inadequacies of formal contracts in relatively unstable environments such as emerging markets (e.g. Baker *et al.*, 2002; Brown *et al.*, 2004; Kali, 2002; Zaheer and Venkatraman, 1995), and are an alternative rational response to bounded rationality and opportunism (Artz and Brush, 2000; Williamson, 1991a). Relational contracts can create greater cooperation, ultimately enhancing the performance of the foreign venture (e.g. Luo, 2002; Scott, 1987). However, trust is essential (Boersma *et al.*, 2003; Gulati, 1995a), because foreign venture partners are given significant leeway to adapt their relational norms to unique situations (Artz and Brush, 2000; Ring and Van De Ven, 1994).

Relational contracts will ultimately constrain transaction costs related to bounded rationality and opportunism, thereby decreasing or averting conflict (Anderson and Gatignon, 1986; Standifird and Marshall, 2000).

Relational contracts are offensive mechanisms used to mitigate conflict and enhance performance of foreign ventures (Luo, 2002), particularly for increased success in markets such as China, Poland, Slovakia, Romania, Russia, and Vietnam where cooperation is essential (Kali, 2002; Yu, 2002). The need for relational contracts may decline as formal institutional forces develop (Guthrie, 1998; Peng and Heath, 1996). However, demand uncertainties and task complexities drive firms operating in foreign ventures towards structurally embedding their business actions and relationships, thereby facilitating relational contracts for the purpose of coordinating and safeguarding exchanges (Gulati, 1995b; Jones *et al.*, 1997). For example, successful ventures operating in China will use *guanxi* (i.e. personal connections) in nurturing relational contracts with their partner(s) to signal their desires and expectations (e.g. Luo, 1997; Yu, 2002), gain flexibility, and control uncertainty and exchange hazards (Poppo and Zenger, 2002). Until uncertainty and exchange hazards are diminished or eliminated, relational contracts will continue to play a vital role in foreign venture governance and conflict resolution attenuation (Jeffries and Reed, 2000; Poppo and Zenger, 2002).

*Foreign venture conflict resolution strategies*

A limited body of literature exists examining conflict resolution in foreign ventures (e.g. De La Torre, 1981; Fey and Beamish, 2000, 1999; Lin and Germain, 1998; Peng and Shenkar, 2002; Sullivan *et al.*, 1981). Lewicki *et al.* (2004, p. 14) define conflict as "the perceived divergence of interest, or a belief that the [partners'] current aspirations cannot be achieved simultaneously." Conflict is a destructive process, creating negative reactions (e.g. heightened competitive processes, misperceptions, and bias) that intensify and distort partner conflict in foreign ventures (Lewicki *et al.*, 2004; Peng and Shenkar, 2002). Consequently, partner communication decreases and central issues of dispute blur, while partner differences intensify (Lewicki *et al.*, 2004; Peng and Shenkar, 2002).

The primary causes of conflict in foreign ventures are usually cultural differences, issues regarding control, partner needs, and goal disparities, suggesting that conflict is often latent and partners might not be aware that their goals are divergent (Fey and Beamish, 2000). However, a small amount of conflict in a foreign venture is often considered healthy and beneficial because partners will thereafter attend to the relationship, carefully scrutinize decisions being made (Fey and Beamish, 2000, 1999; Tjosvold *et al.*, 2001), and will be more aware of potential problems of conflict in the host country environment, strengthening the potential for long term success of the foreign venture (Fey and Beamish, 2000; Tjosvold *et al.*, 2001).

Banks (1987) and De La Torre (1981) explored foreign direct investment (FDI) conflict and its resolution in developing countries, noting the role of trade-offs and bargaining acumen used in negotiation and control of conflict in foreign environments (Banks, 1987; De La Torre, 1981). In their investigation of conflict resolution in Japanese-American international joint ventures (IJVs) in Japan, Sullivan *et al.* (1981) found that, similar to observations in the GM-Toyota venture negotiations (Weiss, 1987), American partners were more direct and used a confrontational approach, while Japanese partners emphasized harmony and compromise to resolve IJV disputes.

Chinese partners operating in foreign ventures value harmony and avoid conflict at all costs because averting conflict is embedded in their Confucian values (Chew and Lim, 1995; Mavondo and Rodrigo, 2001). The inclination to save face, use persuasive influence attempts (through *guanxi*), and communicate interpersonal affection in the Chinese culture help venture partners to assist an accommodating, relatively productive, and unbiased discussion of issues concerning conflict (Hoon-Halbauer, 1999; Luo, 1997; Scarborough, 1998). Thus, cooperation among partners is an effective tool in managing foreign venture conflict in China (Ghauri and Fang, 2001; Tjosvold *et al.*, 2001).

Lin and Germain (1998) linked the context variables of cultural similarity, relative power, and relationship age to CRS type and ultimate IJV performance. Their findings concluded that IJVs have a higher rate of performance as the age of the venture increases and partners perceive themselves as culturally similar (Lin and Germain, 1998). Also, Rao and Schmidt (1998) found that partner behavior in negotiations mediated the effect of relationship duration and cultural similarity in foreign venture performance.

Sullivan *et al.* (1981) and Wang *et al.* (2005) discussed three CRSs that are used in different country contexts. These strategies include the harmony strategy (stressing cooperative behavior – normally used in many Asian cultures), the confrontation strategy (stressing collaborative behavior – universal), and the regulatory strategy (stressing rule based behavior – normally used in many western cultures), noting that these three strategies are the predominant modes for resolving conflict in a large number of countries today (Sullivan *et al.*, 1981; Wang *et al.*, 2005). However, if conflict cannot be resolved, tensions within the partnership will escalate and dissolution of the foreign venture will inevitably take place (e.g. Lin and Germain, 1998; Peng and Shenkar, 2002).

## Theory and propositions

When forming contracts, we suggest that foreign venture partners will also choose between one of two primary CRSs: the harmony strategy or the regulatory strategy (e.g. Lin and Germain, 1998; Wang *et al.*, 2005). Relational contracts will be most effective when coupled with the harmony strategy because of the interaction between cooperation and implied understandings embedded in partners' social relationships (Baker *et al.*, 2002). Formal contracts will be most effective when coupled with the regulatory strategy because both stress formal rule based behavior created to minimize uncertainty (Luo, 2002; Peng and Heath, 1996; Williamson, 1999, 1979).

These optimal couplings may change based on dominant/subservient partner factors and relations (Pearce, 1997; Roxenhall and Ghauri, 2004). Nevertheless, TCE will predict which CRS and contract type (i.e. contractual governance mechanism) a partner will choose to manage conflict in a foreign venture relationship (Anderson and Gatignon, 1986; Artz and Brush, 2000). Firms may choose to couple a formal contract with a harmony strategy or a relational contract with a regulatory strategy if they perceive TCE to be more favorable when the choices are made. However, we contend that coupling contract types that are inconsistent with CRSs, regardless of perceived transaction costs, will reduce performance and the likelihood of foreign venture survival. We propose that cultural distance, relative power, and interest alignment will moderate the relationship between these strategic choices and firm performance (Figure 1).

*Cultural distance*
Cultural distance, the difference between country cultures (Barkema *et al.*, 1997), will have a primary effect on the choice and governance of a foreign venture (Kogut and Singh, 1988). For foreign countries, high cultural distance has a profound influence in foreign venture choice, adaptation, governance, and success (e.g. Barkema *et al.*, 1996; Morosini *et al.*, 1998; Shenkar, 2001). Weiss (1990, 1987) found in the General Motors-Toyota and IBM-Mexico foreign venture formations that cultural distance created mistaken assumptions, translation problems, and numerous misunderstandings and disparities. Ghauri and Fang (2001) found that significant cultural distance between Swedish and Chinese partners proved troublesome, especially regarding details and final approval of a foreign venture.

Accordingly, as partner cultural distance decreases, TCE suggests a greater use of formal contracts and a regulatory strategy to manage conflict due to greater cultural understanding between partners (Lin and Germain, 1998; Pearce, 1997). Low cultural distance between partners leads to willingness and ability to agree to specific terms, with greater protective mechanisms in a formal contract in case a problem and/or conflict arises. As cultural distance between partners increases, TCE suggests there will be greater emphasis placed on relational contracts and the use of a harmony strategy to manage conflict in the foreign venture because the partner's cultural attitudes, concerns, needs, institutional environments, and business practices will be significantly divergent (e.g. Ghauri and Fang, 2001; Sullivan *et al.*, 1981; Tjosvold *et al.*, 2001), causing greater disagreement on a wide array of issues. Thus:

*P1.* As cultural distance between foreign venture partners increases, greater emphasis will be placed on relational contracts and use of a harmony strategy to manage conflict. As cultural distance decreases, greater emphasis will be placed on formal contracts and use of a regulatory strategy.

*Interest alignment*
Interest alignment between foreign venture partners, according to TCE, will lead to the crafting of better relational contracts to avoid future conflict and cost adverse

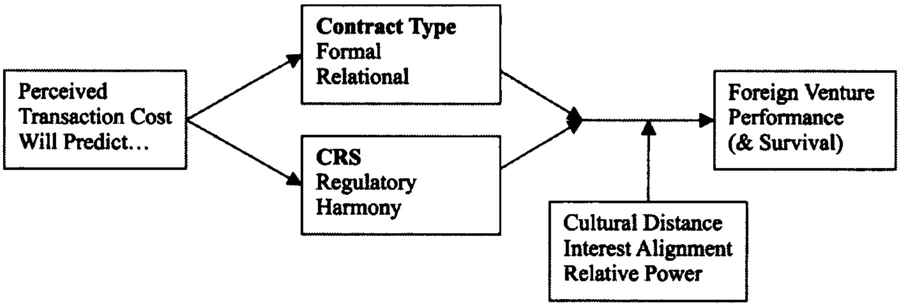


**Figure 1.**
Foreign venture contract and CRS model

situations (Fey and Beamish, 2000; Fortgang *et al.*, 2003; Scott, 1987). Steensma *et al.* (2000) found that partner interest alignment created a commonality alleviating relational risk involved with cooperative strategies. High interest alignment facilitated "cooperation by creating a shared confidence between partners that they will not take advantage of each other's weaknesses", and created capacity for forming contractual safeguards to reduce risk, suggesting that partners with divergent interests view contractual safeguards as a necessary evil to protect against potential opportunistic behavior (Steensma *et al.*, 2000, p. 593).

While costly on the front end, relational contracts minimize future transaction costs associated with risks, environmental hazards, and opportunism (Madhok, 1997; Poppo and Zenger, 2002; Scott, 1987; Standifird and Marshall, 2000; Yu, 2002). With a relational contract, high interest alignment partners have a greater understanding, appreciation of the venture, are more cooperative, and find consensus on fundamental issues, thereby maximizing efficiencies and performance outcomes (e.g. Peng, 2000; Poppo and Zenger, 2002). Partners with dissimilar interests will find it more difficult to understand their responsibilities in the relationship, resulting in a continuous negative effect (Fortgang *et al.*, 2003), conflict, poor performance (e.g. Madhok, 1997; Poppo and Zenger, 2002), and potential abandonment of the venture (Peng and Shenkar, 2002).

TCE proposes that partners will employ a formal contract to help govern transaction costs related to divergent partner interests (e.g. opportunism) (Madhok, 1997; Poppo and Zenger, 2002; Williamson, 2002, 1991b). However, when partners are not aligned, they will have more difficulty developing a formal contract for greater efficiency in the relationship and effectiveness in handling potential problems or conflicts (Anderson and Gatignon, 1986; Scott, 1987). We suggest:

> *P2.* As interest alignment between foreign venture partners increases, greater emphasis will be placed on relational contracts and use of a harmony strategy to manage conflict. As interest alignment decreases, greater emphasis will be placed on formal contracts and use of a regulatory strategy.

*Relative power*

Relative power refers to one partner's capabilities in influencing the other partner's choices, decisions, and actions in a foreign venture (Lin and Germain, 1998; Ury *et al.*, 1993). The contribution of resources, such as capital and labor, are commonly used to assess the relative power of a firm in a foreign venture (Beamish, 1998; Fagre and Wells, 1982; Peng, 2000). Partners use their relative power as an instrument to organize activities; for example, in an unbalanced relationship (where relative power is uneven) the dominant partner(s) will use their power as leverage to carry-out preferential policies at the behest of the other partners (subservient partners) (Lin and Germain, 1998; Ury *et al.*, 1993; Yan and Gray, 1994). These unequal power equilibriums often lead to a relationship where the dominant partner becomes increasingly forceful, demanding, and uncommunicative (e.g. Lin and Germain, 1998; Schelling, 1980). Because of this, the subservient partner(s) increasingly feel uncomfortable due to their diminishing authority in the foreign venture (Peng and Shenkar, 2002). Conflict can be deemed inevitable in these types of relationships (Fey and Beamish, 1999; Peng and Shenkar, 2002). Hence:

*P3.* When conflict based on relative power arises, dominant partners will refer to formal contracts and use a regulatory strategy to resolve foreign venture conflict. However, subservient partners will refer to relational contracts and use a harmony strategy to resolve conflict.

*Choice of inconsistent contract type and CRS*

Foreign venture partners may choose a CRS that is inconsistent, or conceptually at odds, with the type of contract used in the foreign venture based on valid concerns. For example, when relational contracts are used in conjunction with a harmony CRS, and cultural distance and interest alignment are high, it may be in the interest of the subservient partners to pursue consistency between contract type and CRS (harmony with relational). However, as cultural distance decreases (and interest alignment remains high) the dominant partners may prefer a regulatory CRS when conflict occurs; this is predicated on the presumption that cultural differences are negligible, thereby negating the need for a harmony strategy. Dominant partners may prefer relational contracts as an informal governance mechanism but when conflict occurs decide to impose a regulatory CRS as a "safety feature" that clarifies the subservience of the other partner (Lin and Germain, 1998; Sullivan *et al.*, 1981; Wang *et al.*, 2005). The dominant partner deems that this governance mechanism will reduce opportunism by keeping the subservient partner "in line" with the goals and objectives of the foreign venture (Brown *et al.*, 2004; Lin and Germain, 1998). The Dutch firm Schweizerischer Hangegleiter Verband (SHV) used this strategy when developing a joint venture with the Hungarian state-run gas distribution company OKGP; both partners had aligned interests and SHV initially used relational contracts as a tool to govern their relationship with OKGP (Brouthers and Bamossy, 1997). However, when subsequent conflict occurred, SHV (the dominant partner) reverted to a regulatory CRS and bargained with the government (a key stakeholder in the relationship). This tactic kept OKPG "in-line" and strengthened their position in the foreign venture.

When cultural distance and interest alignment are both low, the dominant partner often executes a formal contract and uses a regulatory CRS when conflict occurs; the formal contract serves as a uniting document and guide to the components of the venture (Azoulay and Shane, 2001; Macneil, 1978; Williamson, 1999, 1985). However, as cultural distance increases between the venture partners (interest alignment remains low), the subservient partner may prefer a formal contract and the use of a harmony CRS to gain a self-protection mechanism given the dissimilarities between cultures and lack of familiarity with the culture of the dominant partners (Weiss, 1987; Yu, 2002). Because they have less power in the partnership, subservient partners will pursue this strategy to enhance the odds of foreign venture survival and stem the loss of valuable resources or capabilities that are necessary for long term viability (e.g. Hill, 1990). Toyota used this tactic by invoking a formal written contract and using a harmony strategy to resolve conflict in their foreign venture with General Motors (Weiss, 1987). Thus, we propose:

*P4a.* When conflict based on relative power arises and there is low cultural distance and high interest alignment between partner firms, dominant partners will refer to relational contracts and use a regulatory strategy to resolve foreign venture conflict.

*P4b.* When conflict based on relative power arises and there is high cultural distance and low interest alignment between partner firms, subservient partners will refer to formal contracts and use a harmony strategy to resolve foreign venture conflict.

*Foreign venture performance*

Whether the type of contract used is formal or relational, we argue that consistency between type of contract and strategy used to resolve conflict in a foreign venture is critical. When the CRS is consistent with the type of contract (harmony with relational; regulatory with formal), we argue that the performance of the foreign venture will increase (Figure 2). This is because when there is consistency, or the mirroring of contract and CRS, optimal governance mechanisms will be created to handle conflict in unanticipated or exceptional situations (e.g. Yu, 2002).

However, the relative power of partner firms is usually not equal. Thus, partners may pursue strategies to resolve conflict that are laden with self-interest and designed to enhance their own relative position in a foreign venture (e.g. Weiss, 1990, 1987). Because of these self-enhancing motives, a partner may prefer to pursue a CRS that is inconsistent with the type of contract governing the venture, considering the chosen governance mechanism as capable of delivering a result that will enhance their position in the foreign venture (Williamson, 1999, 1985). It is our contention that when this combination is pursued (inconsistent type of contract and CRS) low venture performance will occur. Therefore:

*P5.* Consistency between contract type and CRS will result in increased foreign venture performance. Inconsistency between contract type and CRS will result in decreased performance.

## Research agenda

We recommend that scholars explore the boundaries and theoretical implications of entering into a particular type of contractual arrangement and/or using a particular form of conflict resolution strategy. We have proposed that perceived transaction costs

| CRS Type | Contract Type: Relational | Contract Type: Formal |
|---|---|---|
| Harmony | High Cultural Distance<br>High Interest Alignment<br>Subservient Partner | High Cultural Distance<br>Low Interest Alignment<br>Subservient Partner |
| Regulatory | Low Cultural Distance<br>High Interest Alignment<br>Dominant Partner | Low Cultural Distance<br>Low Interest Alignment<br>Dominant Partner |

**Note:** Shaded areas represent high performance scenarios

**Figure 2.**
Scenarios regarding the impact of cultural distance, interest alignment, and relative power on foreign venture contract and CRS type

will predict which form of contractual governance mechanism and/or conflict resolution strategy a firm will use to manage foreign venture conflict. Using TCE can lead a firm to implement inconsistent strategies to govern a foreign venture and to resolve conflict, resulting in ineffective governance. Several studies have discussed the potential for these types of strategies to have long-term negative consequences on foreign venture performance, survival, and partner behavior due to their asymmetrical characteristics (e.g. Brouthers and Bamossy, 2006; Inkpen and Beamish, 1997; Reuer *et al.*, 2002). We have also suggested that cultural distance, relative power, and interest alignment will moderate contract type and conflict resolution strategy choice – impacting performance and ultimately leading to the success or failure of a foreign venture. Yet, there is a tremendous dearth of research regarding these processes, even though it is fundamental to foreign ventures operating throughout the world.

As an under-explored area in international business and management literatures, there are numerous research issues that have yet to be fully considered. While this paper is conceptual and exploratory in nature, it would be beneficial to test these propositions with empirical data. Measuring different forms of transaction costs associated with the implementation of contractual governance mechanisms and formulation of CRSs would be a significant contribution to international business and management research.

Varying combinations of CRS and contract type potentially have significantly different consequences for foreign ventures. We suggest that chosen combinations are not static and are perhaps quite fluid in nature; thus, temporal factors should be accounted for with longitudinal research designs (Weiss, 1990, 1987). Dominant/subservient partner factors and relations can change quite abruptly such that foreign venture relationship governance mechanisms can be directly impacted by external environmental shocks such as political regime instability (Henisz, 2004) or regulatory restructuring (Luo, 2007), especially in emerging markets. Venkatraman and Prescott (1990) have suggested that environment-strategy co-alignment will enhance firm performance. We suggest this notion also holds true for foreign ventures involving multiple partners. Including variables such as political risk, rule of law, and corruption would not only help to better assess how certain environmental characteristics help shape a firm's choice of CRS and contract type, but also its ultimate performance and survival. Another factor to include in research studies is whether key stakeholders (e.g. government entities) play a role in the contract/CRS choice process?

Also, future research could examine how specific cultural dimensions such as uncertainty avoidance (Hofstede, 2001) can be applied to the model presented in this paper. Trust (Boersma *et al.*, 2003) and control structure (Barden *et al.*, 2005) play a fundamental role in foreign venture conflict and performance. Research questions regarding trust and/or control structure (e.g. management dominance and financial authority) impact on interest alignment between partner firms, as well as their CRS and contract choice should be examined in future studies.

Contract specific factors, such as how relational contracts affect the outcome of foreign venture formal contract negotiations can be further researched. Do psychological contracts and the legal construct "meeting of the minds" inter-relate in foreign venture relationships? And what specific clauses are inherent in contracts to control for conflict and to govern these foreign venture relationships? These issues should be studied from multiple perspectives, such as the point of view of firms from emerging market economies venturing into developed countries, or more interestingly, emerging market firms venturing into other emerging market economies. In sum, further inquiry into this stream of research might help us better understand how TCE can predict contracts and conflict resolution strategies that can best be used in certain markets, and how these choices will affect foreign venture conflict resolution outcomes.

## Conclusion

Foreign ventures are important vehicles for firm growth in today's globalizing world. However, asymmetries between partner firms will increase the probability of opportunistic behavior and create complications in the business relationship. We have suggested that perceived transaction costs will likely predict which contractual governance mechanism and CRS a partner will choose when trying to resolve conflict in a foreign venture. We also proposed that cultural distance, relative power, and interest alignment will moderate the relationship between the choice of these firm strategic decisions and venture performance. This is an area that should be further investigated and better understood within the framework of international business and management research.

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