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TOWARD UNDERSTANDING JOINT VENTURE PERFORMANCE AND SURVIVAL: A BARGAINING AND INFLUENCE APPROACH TO TRANSACTION COST THEORY

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The author posits that the joint venture (JV) form of governance imposes a greater burden of bargaining and political influence costs than is present in a hierarchy. The JV's incremental costs derive from shared sovereignty and incomplete contracting. The magnitude of those costs is related to parental differences, factionalism, and task interdependence in the top management team (TMT), and dynamism in the task environment. The costs are argued to undermine the quality of TMT decision making, thereby negatively affecting organizational adaptation, performance, and survival.

Organizational performance and survival are closely related issues that have attracted considerable attention from scholars in the fields of institutional economics, strategic management, and organization theory. They are especially salient in joint venture (JV) research because the JV organizational form has been widely described as difficult to manage (Beamish, 1988; Harrigan, 1985; Killing, 1983; Parkhe, 1993a) and prone to high rates (i.e., 30% to 70%) of both management dissatisfaction with performance and early termination (Beamish, 1985; Franko, 1971; Gomes-Casseres, 1987; Kogut, 1988a, 1989). Why do so many JVs fail to yield their prospective value? Why is the JV such a fragile form of governance?

Although early termination of a JV can be a sign of success, and poor performance may attend survival if exit barriers are high (Gomes-Casseres, 1987), there is a strong, positive correlation among JV performance, duration, and survival (Geringer & Hebert, 1991). Moreover, JVs are formed for numerous motives in a variety of circumstances (Beamish, 1985; Harrigan, 1985; Killing, 1983; Oliver, 1990), and failure rates are widely dispersed (Gomes-Casseres, 1987; Kogut, 1988a). Most JV terminations are by acquisition, with the JV reverting to a hierarchy (Berg & Friedman, 1980; Gomes-Casseres, 1987; Kogut, 1988a, 1989). High rates of failure therefore suggest that the problem may be generic to the governance form.

The strategic management literature strongly supports the notion that organizational performance and survival can be understood more fully by examination of the top management decision-making process, which is a firm's primary means for making crucial operating and

strategic choices (Child, 1972; Thompson, 1967). However, researchers have not yet begun to explore systematically the performance implications of management processes *within* the JV firm, an important deficiency in light of the widespread use of JVs (Anderson, 1990; Lyles & Reger, 1993; Parkhe, 1991; Zajac & Olsen, 1993). Consequently, in this article I focus on explaining JV performance and survival in terms of the top management team (TMT) decision-making process within the JV firm. By building on the position of Milgrom and Roberts (1990), in this article I explain the performance and survival of JVs in terms of the incremental bargaining and influence costs that these organizations bear, relative to the more traditional hierarchies. Hence, this paper extends and refines the more standardized transaction cost analyses of the JV form of governance.

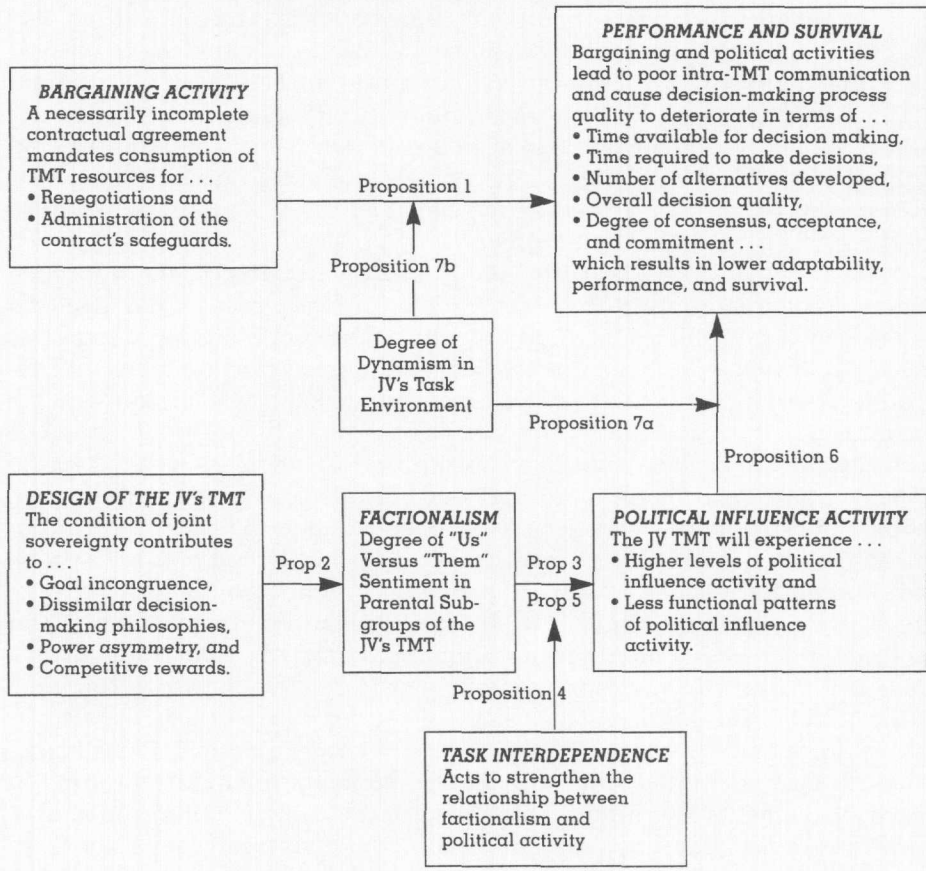
According to the middle-range theory presented here, the JV form of governance is less efficient than the more traditional hierarchy. That is, *ceteris paribus*, governance costs are higher for JVs. In this article, I explain how the essential nature of the JV organizational form makes it relatively more susceptible to both bargaining costs and the onset of extreme forms of political behavior within the TMT. I argue that both political influence and bargaining activity are antagonistic to efficiency in the TMT decision-making process, undermining adaptability, performance, and survival. Figure 1 recaps the theory in a model, which identifies several of the environmental and structural contingencies that determine the levels of bargaining activity and political influence behavior. The model and associated propositions are intended to promote empirical research and aid in the design of more effective JV organizations. The logic behind the model begins with an understanding of the conceptual framework.

THE CONCEPTUAL FRAMEWORK: TRANSACTION COST THEORY

The task at hand is to develop theory that advances understanding of the performance and survival of JV organizations. Toward that end, a number of conceptual lenses might be applied. The use of a transaction cost (TC) framework raises questions that warrant attention, even if only to provide a background for the following theory development. Why use the TC framework? Why use Milgrom and Roberts' (1990) approach? This section then ends by defining the constructs that are central to Milgrom and Roberts' (1990) approach.

There are three reasons for choosing the transaction cost framework to address the issues of JV performance and survival. First, a full understanding of the JV phenomenon requires a multidisciplinary approach (Kogut, 1988b; Parkhe, 1993b), and TC theory has been suggested to be most useful for integrating the economic implications of organizational behavior into a strategic analysis of the firm (Ouchi, 1980; Robins, 1987). Second, governance costs are central to the TC perspective, and administrative efficiency becomes critical to performance once a firm's basic

FIGURE 1
Effects of Incremental Bargaining and Political Influence Activity on JV Performance and Survival: A Schematic Model of the Proposed Theory



strategy and production technology are selected (Chandler, 1962; Galbraith & Kazanjian, 1986). Third, most JVs are short lived, and most terminations are acquisitions (i.e., reversion to a hierarchy) (Berg & Friedman, 1980; Gomes-Casseres, 1987; Kogut, 1989). The issues of JV survival and performance therefore can be understood to a significant degree as a choice between alternative governance structures, which is the *raison d'être* of TC theory.

TC theorists have been criticized for their emphasis on the description of market transactions rather than the description of governance (or management) costs within organizations. To help overcome that deficiency, Williamson (1991) expanded his focus to include "hybrid" forms of governance. He addressed three sources of governance cost: adapting to disturbances, administrative mechanisms, and differential incentive intensity. However, that approach is at a fairly high level of abstraction.

Williamson did not address any specific type of hybrid structure, and he used a "reduced-form analysis," wherein the features responsible for cost differences remain exogenous. This is clear when he stated, "Developing the deeper structure that supports the reduced forms—by explicating contractual incompleteness and its consequences in a more microanalytic way and by developing the bureaucratic cost consequences of internal organization more explicitly—is an ambitious but important undertaking" (1991: 282). A secondary purpose of this research is to pursue that undertaking and extend TC theory in the domain of hybrid forms. Specifically, this article centers on a comparison between the JV form of governance and the more traditional hierarchy.

However, toward that end, Milgrom and Roberts' (1990) approach seems to be a more fruitful means for integrating important perspectives from research in the fields of organization theory and strategic management. In essence, Milgrom and Roberts suggested that the costs of bargaining activity drive transactions from the market to nonmarket forms of governance, provided there is a net benefit after the costs of influence activity (in hierarchy) have been recognized. In their view, bargaining over short-term arrangements between parties is a more fundamental source of transaction costs than is asset specificity, although they recognized the latter as an important source of uncertainty that acts to increase bargaining/transaction costs. They viewed influence activity as the political behavior that attends a centralized decision-making system. Their political perspective on the firm's top management decision-making process dovetails with the management literature (Eisenhardt & Zbaracki, 1992; March, 1962; Pfeffer, 1981).

Milgrom and Roberts's (1990) concept of bargaining is defined to emphasize those activities that attend both reaching and executing an efficient agreement. My definition of bargaining activity differs in that it excludes those activities that lead to the agreement that forms the organization. Once formed, the performance and survival of a firm are no longer affected by the costs of ex ante bargaining. Although ex ante decisions can affect ex post operations, the costs of ex ante bargaining are sunk. In this article, therefore, I define *bargaining activity* as that set of ex post activities that attend completing and executing the agreement. That definition implicitly assumes that the contractual agreement that forms the firm is incomplete, because some issues are either not addressed or not addressed fully.

Milgrom and Roberts (1990) identified influence activity as the major source of coordination inefficiency within a firm. In particular, they asserted the importance of the costs of organizational politics to explain why hierarchy does not supplant the market in exchange transactions. In their view, organizational politics centers on pursuit of self-interest within the various principal-agent relationships of a firm's centralized decision-making system. In contrast, this article is centered on the JV-hierarchy comparison, and in it I emphasize the TMT decision-making process.

Hence, *political influence activity* is defined as the set of influence tactics that attend shared decision making within the TMT.

Decision making is conceived of as an information processing system, wherein interdependent stages of analysis and action are coordinated and directed toward meeting organizational goals and objectives. Thus, an efficient decision-making process is defined as one that supports goal achievement by reaching and then effectively implementing high-quality decisions in a timely fashion. The acceptance of Child's (1972) view, that organizational performance is crucially determined by the choices of its top managers, then suggests that a firm's performance be defined by the level of organizational goal achievement. Several scholars have advocated that JV performance be defined as organizational goal attainment (e.g., Yan & Gray, 1994). Because decision-making process efficiency and JV performance have a common focus on attaining organizational goals, those constructs are consolidated into a single outcome in Figure 1. A parallel set of propositions could have been formalized to deal directly with JV performance, but such a presentation would be highly redundant.

THE JV'S INCREMENTAL BARGAINING COSTS

JV contracts must specify the nature of the relationship in at least four critical areas: (a) the level and nature of risks accepted or imposed, (b) the determination of outcomes and distribution of rewards, (c) each party's asset/resource commitment, and (d) the procedures and systems for allocating responsibility, authority, and control (Ring & Van de Ven, 1992). The specification of mutually acceptable terms and conditions to address each of those issues will cause the JV parents to confront varying degrees of uncertainty. Such uncertainty may be derived from a lack of trust, goal incongruence, bounded rationality, imperfect communication, private information, anticipated difficulty in observing and verifying postcontractual performance, or the JV task environment. The overall level of uncertainty is a primary determinant of the level of bargaining costs. However, the *ex ante* resolution of all uncertainty is neither possible nor efficient. One can neither foresee all future eventualities nor specify how to resolve issues in all possible contingencies (Williamson, 1975). The more one attempts to make the contract complete, the more completely one must specify the mechanisms that govern decision processes. The negotiation of such contractual completeness adds to *ex ante* costs and postpones the realization of the JV's prospective value. Also, the more fully specified the JV contract, the greater the scope of opportunity for unforeseen developments that necessitate adjustment or refinement (e.g., renegotiation) of the contract. Ultimately, the resolution of *ex ante* uncertainty must await *ex post* reality. A trade-off is necessary if the JV is to proceed. Hence, two

forms of ex post bargaining activity are associated with the JV's contract: renegotiating terms and conditions to accommodate changing or unforeseen circumstances and administering various safeguards.

Safeguards are the variety of means used to ensure that agreements are fulfilled. The scope of mechanisms available to parent firms for establishing a mutually agreed upon set of safeguards is broad. To provide for control, monitoring, and enforcement, the JV contract commonly includes terms and provisions for oversight by means of special audits, committees, a board of directors, highly formalized planning and budgeting systems, staffing and personnel policies, lateral relations strategy, autonomy limits, and other extraordinary reporting or control requirements (Ring & Van de Ven, 1992; Schaan, 1983).

The parents may burden the JV's administration with structurally and procedurally complex safeguards simply because each organization is trying to get its own way, or because a partner's required (or desired) actions are not fully observable, or because of a need to control access to proprietary information or a perceived need to verify original ex ante judgments of values (Harrigan, 1985; Killing, 1983). For example, there may be uncertainty about how to define the value of resource contributions or payout schemes. Perhaps payouts are being derived from an ongoing flow of products and there is no open market reference for valuation of such flows. Perhaps resource flows involve knowledge that is difficult to value. In any event, uncertainty about a partner's contributions or a payout scheme may cause extraordinary complexity and formalization in the design of the administrative systems and procedures to be used in the JV.

The JV's bargaining activity bears on the efficiency of decision making because of the time spent by the TMT on contract renegotiations and ex post safeguards. Time is an important organizational resource, especially that of top managers, which has a higher opportunity cost. Time spent on the JV's bargaining activity (i.e., bargaining costs) reduces the time available for the TMT's primary functions (e.g., adaptation to change in the task environment). Hence, bargaining activity hinders the task of reaching and implementing high quality decisions because it acts to divert valuable resources. In turn, JV performance is affected.

Hierarchies also must implement procedures and systems to institutionalize safeguards and flexibility. However, hierarchy relies on the relatively efficient mechanisms of authority relationships, decision by fiat, implicit contracts, and shared understandings. In contrast, JVs operate under the direction of shared sovereignty, and therefore rely more heavily on a formal contract and the ability to resolve conflicts harmoniously. In essence, the JV is a quasi-hierarchy. Nevertheless, it is distinguished from hierarchy in two essential ways: shared ownership and the contractual agreement that defines the nature of that sharing (Harrigan, 1985; Killing, 1983; Osborn & Baughn, 1990). Hence, this discussion of the JV's bargaining costs maintains the integrity of a JV-to-hierarchy comparative analysis because it develops only bargaining costs that derive from the differential

(i.e., incremental) attributes of the JV form of governance. The following proposition is suggested.

Proposition 1: Because of bargaining costs, decision-making process efficiency will be lower in JV TMTs than in the TMTs of hierarchies.

THE JV'S INCREMENTAL POLITICAL INFLUENCE COSTS

Why should the costs of political influence activity differ systematically between the JV and hierarchy? To help answer that question, the concept of *factionalism* is introduced. Factionalism occurs when a population is divided into subgroups, and members of a subgroup see themselves as quite similar to one another but different from members of other subgroups. The level of factionalism is conceived as the degree of difference between in-group and out-group sentiment. In other words, factionalism is reflected by the subgroup members' sense of "us" versus "them." Therefore, factionalism is akin to ethnocentrism, the proclivity for people to view other social units from the perspective of their own group, and to reject persons or groups who are culturally dissimilar while blindly accepting those like themselves (LeVine & Campbell, 1972). Researchers in the social psychology of group behavior have found strong support for the notion that factionalism is strengthened by the presence of extreme differences on important matters (Tajfel, 1978).

Factionalism will be shown to determine both the functionality (or effectiveness) and level of political influence activity within the TMT. The JV, in comparison with hierarchy, is shown to make less use of the more effective political influence tactics and more use of the less effective tactics. The costs of a less effective (or less functional) mix of political influence tactics within the JV's TMT are related to negative impacts on the decision-making process, which, in turn, is a primary determinant of organizational performance and survival.

Factionalism Within the TMT

The focus here is on the development of conflicting subgroups within the TMT. Subgroups are likely to form because people tend to identify more strongly with others who share common values and objectives (Alderfer & Smith, 1982; Schein, 1980). The members of subgroups may see themselves as separate and distinct, in which case they develop the cohesive "we" feelings that characterize in-groups and induce a sense of superiority (Fiske & Taylor, 1984). Such an in-group/out-group syndrome connotes a degree of factionalism.

Factionalism within a TMT may be the consequence of subgroups that form around the distinctive goals, interpersonal orientations, or time horizons that attend the division of labor (Lawrence & Lorsch, 1967), or even subgroups based on age differences (Tajfel, 1978). However, such

factors are not expected to differ systematically with governance structure. Joint sovereignty, in contrast, is a differential feature of the JV organization, and each of the JV parent organizations has a distinctive culture. Hence, a JV's parental differences provide an incremental basis (versus the hierarchy) for group formation when two organizations collaborate. The jointly owned organization is therefore more likely to exhibit the effects of coalitional influence (Pettigrew, 1973). The JV's TMT remains the primary mechanism for adapting to the environment, but the unity of that decision-making body is likely to be undermined by the factionalism due to the presence of subgroups that form around parental differences (i.e., parental subgroups). Four specific differences are highlighted as antecedents of the JV TMT's incremental factionalism.

Goal congruence. A JV's management system is operated by people who are often influenced by parent firms that have different preferences or goals (Killing, 1983). The pursuit of different goals helps establish the observable identity of subgroups, which sows the seeds of political conflict (Alderfer & Smith, 1982; Schein, 1980). Moreover, top management consensus on goals is crucial for high levels of performance (Dess, 1987). Consequently, a lack of goal complementarity is a most important cause of political conflict (Kochan, Huber, & Cummings, 1975). Goal incompatibility need only be anticipated from goal differences in order for conflict to arise (Thomas, 1990). Hence, groups are likely to form around common goals, and the level of difference between parental goals can be expected to contribute to the degree of subgroup factionalism within the JV's TMT.

Decision-making philosophy. Managerial philosophy acts as a perceptual filter (Boyd, Dess, & Rasheed, 1993). It shapes the way people proceed to manage the business (Donaldson & Lorsch, 1983). The decision-making philosophy of a JV manager will be influenced by the culture of her or his parent organization (Schneider & DeMeyer, 1991). Such "logic" implies an understanding of cause-effect relationships, which enables managers to link consequences to categorized events and thus expedites choices and action (Prahalad & Bettis, 1986). The presence of different values and cognitive orientations is a key factor contributing to intergroup politics and conflict (Walton & Dutton, 1969). For example, Japanese managers are more likely than American managers to interpret issues as threats and then restrict information scanning and sharing (Sullivan & Nonaka, 1988). Hence, research suggests that differences in managerial decision-making philosophy can be an important basis of parental subgroups within JV TMTs.

Reward systems. The nature of group interactions can be affected by the group's reward system (Shea & Guzzo, 1987). Although subgroups may form around differences in goals and/or philosophies, the reward system design can elevate (or lessen) the divisive effects of such differences (Walton, Dutton, & Cafferty, 1969). For example, interdepartmental cooperation has been found to be greater when the compensation and reward system emphasizes collective action, because such emphasis induces managers

to be flexible and to seek common ground (Cliff, 1987). In contrast, competitive reward systems cause individuals to have high concern for self and low concern for others, thus enhancing the perception and salience of differences (Tjosvold, 1988). Hence, a cooperative reward system is expected to mitigate the "us" and "them" sentiment within parental subgroups.

However, the reward systems of the top managers in JVs are not often related to the JV's organizational performance (Beamish & Banks, 1987). In many JVs, the managerial compensation system aligns the managers' interests with those of their parent organization, which may not align with those of the other parent (Shenkar & Zeira, 1987). If the reward system emphasizes the results of the parent organization, JV managers are motivated to strengthen their affiliation with their parental subgroup, especially if the parents have different goals for the JV.

Power asymmetry. The exercise of asymmetric power can enhance the more powerful parent's JV goal attainment (Yan & Gray, 1994). However, asymmetric power is also conducive to sustained conflict and political behavior (Cliff, 1987; Pondy, 1967). Temporary or minor power imbalances are normal in organizations, but severe or persistent power asymmetry between JV parent firms forms the basis for political conflict because cooperative, stable interfirm relations require norms of reciprocity, equity, and distributive justice (Kogut, 1988a). Such interparent behavior norms can become important in determining whether the JV TMT divides into political subgroups.

Norms of behavior for a newly formed group will be based on or modified by collectively produced frames of reference (Bettenhausen & Murnighan, 1985). For example, the level of influence activity between two focal units in an organization can be largely explained by the level of influence activity among other units within the wider organizational set (Gresov & Stephens, 1993). For a JV's TMT, the wider organizational set includes parental relations. Members of the JV's TMT are likely to look to interparent behavior norms for guidance in their own (intra-TMT) behavior. If the JV managers perceive the exercise of asymmetric power in interparent relations, they may interpret such behavior as a signal that political activity is legitimate and acceptable, and perhaps even advisable.

In summary, when compared with the traditional hierarchy, the JV form of governance is expected to exhibit higher degrees of factionalism within the TMT. The level of factionalism between the TMT's parental subgroups will be determined generally by differences between the parents. Four important antecedents of subgroup factionalism within the JV's TMT have been identified: goal incongruence, different decision-making philosophies, noncooperative reward system designs, and power asymmetry. The foregoing logic leads to a second proposal.

Proposition 2: JV TMTs will exhibit higher degrees of

factionalism than the TMTs of more traditional hierarchical organizations.

The Level of Political Influence Activity

The logic behind Proposition 2 also suggests that the level of political influence activity in the TMT will be associated positively with the level of factionalism. Political influence activity begins with the presence of resistance and conflict, and at least two people or groups are therefore required (Drory & Romm, 1990; Stevenson, Pearce & Porter, 1985). There would be little basis for political behavior if all TMT members were of one mind. Hence, political influence activity and factionalism are expected to covary. Given that factionalism is expected to be higher in a JV's TMT, the following proposal is offered.

Proposition 3: Because of factionalism, JV TMTs will have higher levels of political influence activity than TMTs in hierarchies.

Political behavior tends to focus on important issues of change (Petigrew, 1973; Pfeffer, 1981). Such issues require organizational adaptation and hence activate the TMT decision-making process, thereby giving scope to the opportunity for political behavior. However, not all issues will give rise to political influence activity, even when TMT subgroups have different perspectives on the issues. For example, if the TMT subgroups are able to act independently, and if their payoffs are not linked to a given issue, political influence activity is not likely. The degree of TMT factionalism, therefore, connotes only a propensity for action. The role of task interdependence must be considered in order to explain the actual level of political influence activity brought on by a given set of issues.

Task interdependence is defined as the extent to which two units are linked by resource exchanges and hence mutually dependent for attainment of their individual goals (Tushman, 1979; Van de Ven, Delbecq & Koenig, 1976). Because dependence often implies a relinquishing of some degree of control over resources or outcomes, it is likely to cause conflicts and political behavior (Pfeffer, 1981). The greater the interdependence, the greater the need for coordination, joint problem solving, and mutual adjustment. Hence, high levels of task interdependence help increase the likelihood for political conflict. When task interdependence is high, blocking tactics (or sabotage) are more possible and one person's reward can be enhanced at the expense of another's. However, if interdependence is low, there is little opportunity to block or sabotage. Dissimilar goals can be pursued simultaneously and competitive rewards then act to stimulate maximum effort from each group member, which yields high overall group effectiveness (Tjosvold, 1986, 1988).

The overall level of political influence activity within a TMT is, therefore, correlated positively with the interaction between the levels of factionalism and task interdependence. Even though the level of political

influence activity is correlated positively with the level of factionalism within the TMT, a high level of factionalism may still yield a relatively low level of political influence activity if task interdependence is low, because the groups have little opportunity to affect each other. The highest levels of political influence activity are expected when both factionalism and task interdependence are high. This logic leads to the following proposition.

Proposition 4: The strength of the positive relationship between factionalism and the level of political influence activity will be increased by a higher level of task interdependence in the TMT.

The Functionality of Political Influence Activity

Milgrom and Roberts (1990) view political influence activity as being dysfunctional because of its negative impact on the efficiency of the decision-making process. Their view is supported by findings of other researchers (e.g., Eisenhardt & Bourgeois, 1988; Gandz & Murray, 1980; Pettigrew, 1973). However, such a view is contested.

The literature on organizational politics expresses a consistent theme: political behavior involves the use of resources to resolve conflicts and gain preferred outcomes, especially outcomes that are contrary to espoused organizational goals or the preferences of others (Drory & Romm, 1990; Vredenburg & Maurer, 1984). However, such a broad definition is conducive to competing views on the value of politics. In the political model, for example, organizations are seen as groups or coalitions with different goals, interests, and values (March, 1962; Stevenson, Pearce, & Porter, 1985). In that view, disagreement is normal, and political influence activity is essential for reaching decisions and acting (Pfeffer, 1981). Consequently, political behavior has been portrayed as an important part of leadership (Selznick, 1957) and corporate innovation (Burgelman & Sayles, 1986).

If political behavior can be either "good" or "bad," why should higher levels of political influence activity in the JV TMT bear greater costs for the decision-making process? Insight into that question is developed from an examination of the systematic study of managerial influence processes, which reveals nine basic and distinct influence tactics. Table 1 gives a brief description of each tactic.

Rational persuasion is consistently found to be the most frequently used influence tactic (Falbe & Yukl, 1992; Kipnis & Schmidt, 1985; Yukl & Falbe, 1990; Yukl, Falbe, & Youn, 1993). Moreover, a manager's use of *rational persuasion* is found to result in both a significantly higher level of task commitment (as exhibited by the target of influence) and a significantly higher assessment (by the target) of the manager's overall effectiveness (Falbe & Yukl, 1992; Yukl & Tracey, 1992).

Taking their lead from Kipnis & Schmidt (1985), Falbe & Yukl (1992)

TABLE 1
Definitions of Influence Tactics

Rational Persuasion: The use of logical arguments and factual evidence to persuade others that a proposal or request is viable and likely to result in the attainment of task objectives.

Inspirational Appeals: The stimulation of enthusiasm and commitment by appealing to others' values, ideals and aspiration.

Consultation: Soliciting the participation of others in planning a strategy, activity, or change, and evidencing a willingness to modify a proposal in response to their concerns and suggestions.

Ingratiation: The use of praise, flattery, or friendly behavior to get someone in a good mood or to think favorably of the requester before asking them to do something.

Personal Appeals: Appealing to someone's feelings of friendship and/or loyalty when asking them to do something.

Exchange: Offering an exchange of favors, indicating a willingness to reciprocate at a later time, or promising a share of the benefits.

Coalition Tactics: Seeking the aid of third parties to persuade someone to do something or using the support of others for leverage in getting someone to agree.

Pressure: The use of demands, threats, frequent checking, or persistent reminders to influence someone.

Legitimizing Tactics: Efforts to establish the legitimacy of a request by claiming the authority or right to make it or by verifying that it is consistent with organizational policies, rules, practices, or traditions.

Source: Yukl, Falbe & Youn, 1993.

define the next five tactics in Table 1 as "soft" (i.e., they involve personal appeals and power sharing). The above cited research finds that the soft tactics are nearly as effective as *rational persuasion*, and are used with intermediate levels of frequency. Generally, these results are consistent with findings from research on the use of procedural justice techniques (Korsgard, Schweiger & Sapienza, 1995).

The remaining three tactics are referred to as "hard" (i.e., power is used in an impersonal and manipulative way). Hard tactics are by far the least effective means for influence. They usually result in only compliance and low task commitment from the target of the influence attempt (Yukl & Tracey, 1992; Falbe & Yukl, 1992). Research by Voyer (1994) and by Eisenhardt and Bourgeois (1988) yielded similar findings: the regular use of coercive tactics and coalitions leads to low internal process efficiency, poor performance, and worker dissatisfaction.

In summary, the functionality of political influence activity will depend on the specific mix or pattern of tactics used. In particular, the increased use of hard political influence (e.g., coalitions) tends to decrease the overall effectiveness or functionality of political behavior. The following paragraphs explain why factionalism drives the pattern of influence tactics toward a "harder" mix.

There is a substantial body of research that supports the notion that the level of factionalism bears importantly on both the level and nature of communications between groups. Generally, intraorganizational commu-

nication tends to decrease in the presence of strong subgroups, and when communication does take place it is often characterized by negative statements and attitudes of hostility (Alderfer & Smith, 1982; Schein, 1980; Vredenburgh & Maurer, 1984). For example, Whitney and Smith (1983) found that there is minimal knowledge sharing when a cohesive in-group discusses a particular issue with an out-group that favors a different side of that issue. Instead of open communication and improved understanding, that research found that intergroup attitude polarization actually increased because group members emphasized advancing and then defending the views of their group. The very nature of factionalism seems to elevate both distrust and advocacy.

It has already been argued that a generally higher level of factionalism will be present in JV TMTs, versus the TMTs of hierarchies, partly because the JV's TMT is likely to be more deeply divided by dissimilar goals and decision-making philosophies. Such differences are expected to substantially undermine the effective application of logical arguments and factual evidence as means for influence. When groups differ on means and/or ends, there is little basis for logic. Given deep schisms and little common ground, the tactic of *rational persuasion* is likely to be an ineffective means for building consensus within the JV's TMT.

The soft influence tactics are also expected to prove relatively ineffective within a factionalized TMT. How effective can it be to appeal to feelings of friendship or loyalty (i.e., the tactic of *personal appeals*) when an "us" versus "them" attitude characterizes relations between subgroups? In addition, when intergroup trust is low (as can be expected when factionalism is high), the effectiveness of praise, flattery, and friendly behavior (i.e., *ingratiation*) is likely to be frustrated. In a similar way, lack of trust undermines the tactic of *consultation* because there is less faith placed in another group's expressed willingness to follow through on promises to modify a proposal. Finally, the success of *exchange* tactics is likely to be intimately linked to the degree of belief that the other group will keep promises about future reciprocity. The strength of such promises is undermined by factionalism.

The decreased effectiveness of other influence tactics heightens the prospect for the use of hard tactics, either as a primary means or as a follow-up means of political influence (Falbe & Yukl, 1992; Yukl, Falbe & Youn, 1993). The process that leads to using *coalition tactics*, in particular, is facilitated by the presence of factionalism within the TMT. *Coalition tactics* begins with the formation of a "latent coalition," which is defined to be a "combination of organizational participants with common interests who may interact around work-related issues" (Stevenson, Pearce & Porter, 1985: 264). The JV's parental subgroups provide the basic building blocks for *coalition tactics*. Therefore, the following proposal is offered.

Proposition 5: Because of parental subgroup factionalism, political influence activity in the JV's TMT will be

less functional than that in the TMT of a hierarchy. In the JV, the TMT will (a) less frequently use both rational persuasion and soft influence tactics and (b) more frequently use hard influence tactics, especially coalition tactics.

The Performance Effects of Political Influence Activity

The costs of political influence activity include those incurred in attempts to influence others' decisions, those incurred in attempts to counter self-interested activity, and those resulting from degradation of decision quality because of the influence activity (Milgrom & Roberts, 1990). The impact of those costs is magnified by their bearing on the crucially important TMT decision-making process, which is inextricably intertwined with sequential efforts to adapt the firm to the emerging stream of operating and strategic contingencies. The performance and survival implications of effective adaptation processes are well established in the management literature (Chandler, 1962; Miles & Snow, 1978).

Research on group decision making strongly indicates that open communications and interactions are essential to an efficient process, that is, one that reaches and then implements high quality decisions (Dess, 1987; Schweiger, Sandberg & Rechner, 1989; Wooldridge & Floyd, 1990). Such behavior fosters the development and evaluation of alternatives, a crucial prerequisite for high-quality decisions. It facilitates the consensus-building process and TMT cohesiveness. Openness also aids implementation by its positive effects on understanding, acceptance, and commitment. However, an increased presence of hard influence tactics is antagonistic to an efficient decision-making process because such behavior inhibits the exchange of resources and information (Tjosvold, 1988), restricts the acceptance of decisions (Yukl & Tracey, 1992), creates animosity (Eisenhardt & Bourgeois, 1988), produces closed-mindedness (Alderfer & Smith, 1982), and polarizes attitudes between parties (Voyer, 1994). Given that the mix of political influence activity is driven by the degree of parental subgroup factionalism in the TMT, the following proposal is suggested.

Proposition 6: Because of the costs of political influence activity, decision-making process efficiency will be lower in JV TMTs than in the TMTs of hierarchies.

The Moderating Role of Dynamism in the Task Environment

Environmental dynamism is defined as the degree to which the factors of a decision unit's task environment remain the same over time or are in a state of continuous change (Duncan, 1972). Because a TMT's primary function is to manage crucial operating and strategic issues, the firm's task environment is the principal source of issues for consideration by the TMT (Andrews, 1971; Child, 1972; Thompson, 1967). Higher levels of

dynamism therefore impose greater information processing burdens on a TMT's decision-making process (Tushman, 1979). For example, dynamism is a primary factor in the level of perceived uncertainty, and greater levels of uncertainty will generally require the consideration of more alternatives. Dynamism will also act to reduce the time available for making decisions. Moreover, if the dynamism is caused by high rates of change in technology, consumer preferences and demand, or heightened competition, then the performance effects of delays and/or poor quality decisions can be magnified by further negative competitive consequences (Eisenhardt & Bourgeois, 1988).

In essence, dynamism in the task environment sensitizes the decision-making process to the costs of both bargaining and political influence. That suggests an interaction effect, wherein the impact of the JV's incremental costs of political influence and bargaining will grow with higher levels of environmental dynamism. A final proposal is hence suggested.

Proposition 7: Dynamism in the task environment acts to moderate the negative relationships between JV performance and (a) political influence and (b) bargaining activity. For any level of those activities, JV performance will be lowered by an increase in dynamism in the task environment.

JV performance and survival are positively associated (Geringer & Hebert, 1991). The association between performance and survival will be particularly strong when a JV's poor performance is primarily the result of the costs of bargaining and political influence. In such cases, the JV's poor performance can be "repaired" by reversion to a hierarchy. The reversion to hierarchy (i.e., JV termination) promises full recovery of the JV's incremental costs of bargaining and political influence. Figure 1 illustrates this argument.

The foregoing propositions parallel Milgrom and Roberts' (1990) main thesis. As the costs of bargaining and influence activities increase, so too does pressure for a more efficient alternative governance structure, and the degree of that pressure escalates with dynamism in the task environment. In such cases, both the JV's performance and probability of survival deteriorate.

IMPLICATIONS FOR RESEARCH

The central theme of this article is that the JV form of governance imposes a greater burden of bargaining costs and political influence costs on the TMT's decision-making process than would be present in a hierarchy. The driving forces behind the JV's incremental governance costs are joint sovereignty and the incomplete nature of the JV's contractual agreement. The magnitude of those forces has been related to

parental differences, attributes of the JV's TMT design, and the JV's task environment. It has also been suggested that higher bargaining and political influence costs negatively affect the quality of the TMT's decision-making process, and hence the JV's performance and probability of survival. Seven propositions have been offered to guide future research. The following discussion provides further guidance by outlining (a) some of the important boundary conditions imposed by the implicit assumptions that underpin the proposed theory, (b) some of the methodological issues associated with empirical testing of the proposed theory, and (c) some possible avenues for further research.

Boundary Conditions

At a macro level, the relative efficiency arguments that underpin the proposed theory assume that the JV-to-hierarchy comparative analysis is embedded within a well-developed market economy. That is, the economy provides an institutional framework to support free enterprise with a well-developed system of individual ownership and property rights. As Nee (1992) points out in his study of hybrid organizations in China, parameter changes in the institutional environment can significantly affect the comparative costs of governance.

At the organizational level, the logic that underpins the proposed theory implicitly assumes that the JV is a separate legal entity. That is, the JV is freely formed by two (or more) distinct parent organizations, each of which has long-term goals for the JV, provides resources, and participates actively in the management of the enterprise through the assignment of key management personnel. The propositions are, therefore, not intended to explain directly the performance or survival characteristics of a wide range of non-equity strategic alliances such as technical or service agreements, codevelopment contracts, supply or buyback agreements, licensing agreements, or research partnerships.

At the TMT level, the social psychology research that underpins the notion of factionalism clearly distinguishes between interpersonal behavior and intergroup behavior (Tajfel, 1978). The proposed theory implicitly assumes that a TMT is of a size sufficient for the formation of subgroups, wherein group behavior takes precedence. A parental subgroup can be formed by as few as two people, and only one of them need be in the JV's TMT (the other may be in the parent organization). Group behavior is likely to be increasingly confounded by interpersonal behavior as the size of the TMT decreases.

The proposed theory does not explicitly address the time dimension of interorganizational relationships. However, interorganizational dynamics can be affected by forces that vary over the JV's life cycle. For example, Fichman and Levinthal (1991) found that cooperative relationships tend to be buffered from negative forces during their "honeymoon" and are more prone to failure during their "adolescence." Kogut's (1988a, 1989) study of JV survival rates also indicates a significantly greater haz-

ard of failure after the first year. Moreover, when an interorganizational relationship survives adolescence, informal mechanisms are increasingly likely to emerge as the primary means for facilitating cooperation (Ring & Van de Ven, 1994). In such a case, the role of formal safeguards will decline with time, along with the level of the JV's incremental bargaining activity. The informal mechanisms will be built around personal attachments, which implies that time also moderates the force of the antecedents of subgroup factionalism. Hence, the JV's incremental costs of political influence activity can also be expected to decline as the JV matures. The arguments proposed in this article therefore may be most relevant to the intermediate period in a JV's planned duration.

Methodological Issues

The comparative nature of the proposed theory poses perhaps the greatest methodological challenge for empirical researchers. A rigorous comparison of two forms of governance will require that other things be equal, but *ceteris paribus* is a difficult objective, especially in field research when the object of analysis is human behavior. Although the required level of control may be approached in a field survey (e.g., by the use of stringent sampling rules), a naturally occurring field experiment would be an interesting alternative research design. The quasi-experimental method would call for longitudinal research, wherein the evolution of a population of firms is monitored. This article posits that poorer performing firms will be associated with higher levels of both political influence and bargaining costs. However, the relative advantage, and ultimately the choice, of a particular governance form is also likely to be impacted by the idiosyncratic conditions that may exist at a point in time for a firm or industry. Longitudinal research provides a means for considering those complicating factors. Such an approach also affords the opportunity to consider other, supplementary, areas of analysis. As the dynamics of selection forces drive out those firms that do not adapt well, there is then the opportunity to focus on a subset of JVs that terminated by acquisition. Those cases might be further examined for changes across the governance structure transition to see if the sources of the JV's incremental costs are "repaired" in the hierarchy, while other contingencies are naturally controlled.

Given the critical role of factionalism in the proposed theory, multiple methods of measurement should be used to strengthen the validity of empirical findings. Two possible measures of factionalism are discussed briefly here. One approach involves completion of a monetary distribution task, wherein respondents are asked to choose from a matrix of various payoff strategies that divide different levels of rewards between the two groups. Such matrices are designed to reveal the degree of the respondent's tendencies for in-group favoritism and out-group discrimination. That technique has been widely used by social psychologists in their study of in-group/out-group phenomena (e.g., Tajfel, 1978). The second

approach draws on the study of group cohesiveness (see Mudrack, 1989, for a review). Typically, the measures of group cohesiveness address a person's willingness to help and/or defend others, how well members get along and/or stick together, and the degree of trust in others.

Despite the rich tradition of conceptual research in organizational politics, little empirical research has actually measured political behavior. One noteworthy exception is the recent body of work by Yukl (and associates) that has led to the development of the *Influence Behavior Questionnaire*, a 50-item survey instrument that makes possible the reliable and valid measurement of each of the nine previously discussed influence tactics.

Future Research Directions

At a general level, this article suggests that our understanding of JV performance and survival is incomplete because too little research attention has been given to the JV entity. Research on JVs has been dominated by studies directed toward understanding how and why firms choose the JV form of governance (Lyles & Reger, 1993). The implicit premise of this article is that the potential for realizing prospective gains from an intended strategy is always constrained by the quality of implementation. A full understanding of the JV phenomenon, therefore, requires greater research attention on issues relating to the JV's organizational design, which is the principal means for implementing strategy and achieving goals. In that vein, efforts to integrate the proposed model conceptually with received TC theory could contribute to a broader, more general understanding of JVs.

In particular, this article highlights the need for research to explore the performance implications of features that most distinguish the JV from the hierarchy. If the uniqueness of the JV form of governance derives primarily from its use of a contractual agreement to frame the administration of joint sovereignty, then assuming the valid transference of research findings grounded in the context of hierarchy is inappropriate. Further research is necessary to understand the relative cost effectiveness of alternative process designs of management systems within a JV governance structure. For instance, research is needed to develop the management system implications of the various contractual monitoring or control mechanisms that might be used to cope with the parent's ex ante uncertainty. The insights from such research might lead to efficient JV designs despite the need for complex tradeoffs between, for example, the conflicting needs for idiosyncratic parental controls and the desire to maximize the JV's value.

More specifically, this article proposes that the costs of political influence and bargaining activities within the JV's TMT significantly deter-

mine the degree of realization of the parents' *ex ante* goals for the JV. The model suggests that the levels of bargaining and political influence activities are affected by a parsimonious set of factors derived from the conditions of joint sovereignty and incomplete contracting. Several areas for further research are suggested by this theoretical perspective, a few of which are outlined next.

Does the proposed theory help explain performance differences across types of JVs? For example, international joint ventures (IJVs) generally have higher termination rates than domestic JVs (Kogut, 1988a). Is that finding a reflection of higher factionalism in IJVs? Or do global strategies, which require high levels of interdependence, strengthen the negative effects of factionalism in IJVs? Similarly, Hennart (1988) argues that "link" JVs are more difficult to manage than "scale" JVs because they face both greater transfer-pricing uncertainty and asymmetrical partner positions (i.e., different strategies). That argument, in the light of the theory proposed here, suggests that link JVs are likely to incur higher levels of both bargaining and political influence costs. Does empirical evidence support such a view?

The preceding examples also suggest the need for additional research to explore the idea that the functional scope of a JV may be an important variable. For instance, a JV that is narrowly focused (e.g., on a specific technology or manufacturing process development) may allow strong, shared professional norms to overcome the divisiveness of otherwise important interparent differences. In the same vein, further research is needed to explore other contingencies (beyond environmental dynamism and task interdependence) that could act to either minimize factionalism or moderate its effects on political influence activity. For example, what forms of training are most effective in mitigating the effects of factionalism? How is factionalism affected by the presence of a JV general manager hired from outside the parent firms? How does the JV's ownership structure bear on factionalism, bargaining activity, and political influence activity?

Competitive rivalry between the parents is an important cause of performance problems in the JV (Harrigan, 1985). The theory proposed here recognizes that such rivalry can foster parental subgroup factionalism. However, additional research is necessary to understand more fully the interplay between the parents' competitive rivalry and factionalism within the JV's TMT. For example, is the intensity of the parents' competitive rivalry magnified by the costs of bargaining and influence activity within the JV? Indeed, is parental rivalry caused by the nature of the relations within the JV's TMT? If parents do not have similar perceptions of the costs of bargaining and political influence activity within the JV, the differences may be disruptive to interparent relations. The parent that sees much greater costs in bargaining and political influence activity may also see greater opportunity to recover those costs via termination and internalization of the venture.

Concluding Note

By integrating aspects of research from the fields of strategic management, organization theory, and social psychology this research exemplifies the potential for enrichment of transaction cost economics. The proposed middle-range theory offers a new and unexplored perspective on the important JV phenomenon, and avenues of future research have been suggested. That research promises important benefits for practitioners, who will be well served by deeper insights into the ex post performance implications of ex ante decisions.

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