

## Cultural or Structural? Two Perspectives on Conflicts in Sino-U.S. Joint Ventures

*Xun (George) Wang and Huajun Li*

**Abstract:** There has been growing academic interests on conflicts in Sino-Foreign joint ventures. Existing literature shows that special attention has been paid to conflicts in Sino-US joint ventures, particularly about the internal conflicts among the Chinese and American partners/management teams. The paper reviews previous research on conflicts in Sino-U.S. joint ventures within two main theoretical perspectives, cultural and structural. It aims to find out are 1) what issues of conflicts these two perspectives tend to address, 2) what is the central issue of their studies, respectively, 3) how they interpret conflicts in joint ventures, and 4) what kind of conflict resolution strategies they tend to propose. By exploring these, the paper seeks to contextualize empirical studies into broader theoretical contexts and develop healthy dialogue between the two dominate approaches, and thus set up a stage for further studies.

**Keywords:** Conflicts, Sino-U.S. joint ventures, cultural comparison

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### 1. Introduction

There has been growing academic interests on conflicts in Sino-Foreign joint ventures. Existing literature shows that special attention has been paid to conflicts in Sino-US joint ventures, particularly about the internal conflicts among the Chinese and American partners/management teams (Hu and Chen, 1996; Hambrick et al., 2001; Doucet and Jehn, 1997; Ding, 1997; Lin and Germain, 1998; Yan and Gary, 2001; Gong et al., 2001; Lee, 2001; Hoon-Halbauer, 1999; Walsh et al., 1999; Johnson et al., 2001; Weldon and Jehn, 1998; Peng et al., 2000; Yang and Lee, 2002; Wang et al., 2002; Chan et al. 2005; Lin and Wang, 2002; Selmer, 2005; Lu, 2006; Lu and Lee, 2007; Lin, 2007; Yau and Powell, 2004; Reus and Rotting, 2009; Fang and Zou, 2010; Buckley, et al., 2004; Nguyen and Larimo, 2011; Chong 2008; Duan & Chuanmin, 2007). These studies all contributed to the literature and helped us gain a deeper understanding of conflict in Sino-U.S. joint ventures. However, there are at least two main limitations with previous studies. First, they lack a comprehensive and critical review of the literature (Wang et al., 2002; Ma et al., 2008; Reus and Rottig, 2009).

Second, no one has identified the main theoretical perspectives guiding these studies, nor has research systematically compared and contrasted the different perspectives. For instance, what are the main theoretical perspectives behind various studies? How those perspectives address conflicts in Sino-US joint ventures? What are the divergences and congruence of those perspectives? Can those perspectives be integrated to provide a new framework for future research on conflicts? What will be practical

implications for managers to understand these two approaches? Thus, this paper is aimed to review previous research on conflicts in Sino-U.S. joint ventures within two main theoretical perspectives (cultural and structural). For analytical purpose, I categorized those studies using concepts and variables of cultural elements including values, beliefs, perceptions, norms, cognition orientations, and traditions as studies following the cultural perspective. On the other hand, I categorized those studies using concepts and variables of structural elements such as business objectives, organizational structure, administrative control, and power as studies following the structural perspective.

Specifically, what I intend to find out are 1) what issues of conflicts these two perspectives tend to address, 2) what is the central issue of their studies, respectively, 3) how they interpret conflicts in joint ventures, and 4) what kind of conflict resolution strategies they tend to propose. By exploring these issues, this paper seeks to contextualize empirical studies into broader theoretical contexts and develop healthy dialogue between the two dominate approaches, and thus set up a stage for further studies. In addition, I will also explore possible practical managerial implications for studying those two perspectives.

It is important to note that there are many different types of Sino-Foreign joint ventures such as Sino-US, Sino-Korea, Sino-Thai joint ventures. Nevertheless, because all Sino-Foreign joint ventures share many characteristics, the study of conflicts in Sino-US joint ventures may shed some lights on conflicts in Sino-Foreign joint ventures in general. The paper will first briefly discuss the development of the Sino-U.S. joint ventures in order to provide background information about conflicts in Sino-US joint ventures. Then, it will review important research on conflicts in Sino-U.S. joint ventures guided by the two main theoretical perspectives. Thirdly, it will compare and contrast these two perspectives followed by discussions for future research. Finally, a new research model integrating both cultural and structural approaches will be proposed.

## **2. Development of Sino-U.S. joint ventures**

Since the establishment of the diplomatic relations between the United States and China in 1979, trade and economic cooperation have become the most important issues that link the two nations. In 1983, Beijing Jeep, the first joint venture in China's automobile industry was established. The growth of US multinationals in China in the 1980s and early 1990s was relatively slow. The statistics shows that US investment in China before 1990 was just few hundred million dollars.

In the mid-1990s, the U.S. investment increased significantly. In 1994, the total investment reached over 2.5 billion dollars. Many world-famous U.S. companies established joint ventures in China, including General Motors, Ford, Chrysler, General Electric, Motorola, United Technology, AT&T, Dupont, Coca Cola, and Pepsi Cola. Compared with other foreign countries and regions, investment by U.S. companies is characterized by larger multinational corporations, the fast development of projects, a wide range of fields, attention to long-term interests, and high technology transfer (Wang and Ralston, 2000).

With China's entry into the WTO and its improved investment environment, more American companies are likely to or increase their investments in China. For instance, Wayne Booker, vice-president of Ford Motor Co., stated in 2002 that the company is expecting further cooperation with a local Chinese vehicle manufacturer, Jiangling Automobile Group. Ford-Jiangling Automobile Co., Ltd. was established in 1995, and Ford claimed 30 percent of its holdings in 2002 (People's Daily, March 15, 2002). Beijing Jeep, the

first joint venture in China's automobile industry, also announced not long ago that its foreign partner, Daimler Chrysler, would increase its equity share in the joint venture at a proper time.

According to the US State Department, "U.S. companies have entered agreements establishing more than 20,000 joint ventures and wholly-owned enterprises in China." In addition, "more than 100 U.S.-based multinationals have projects in China, some with multiple investments. U.S. foreign direct investment in China was \$60 billion in 2010" (US Department of State, 2011). Overall, both the United States and China are benefiting from the expansion of bilateral economic, trade, and investment cooperation. For example, U.S. joint ventures provided new products, much needed capital, technology, and management expertise for China's economic development. At the same time, American businesses gained access to a huge and highly profitable market and low-cost labor in China. Some researchers concluded that China and multinational corporations could be a winning combination (Wang and Ralston, 2000; Beamish, 1993; Hambrick et al., 2001; Liu and Song, 1997; Wang et al, 2005; Peng et al., 2000).

However, Sino-U.S. joint ventures, in reality, often reported poor performance and low satisfaction due to conflicts with partners (Weldon and Jehn, 1998; Lane and Beamish, 1990; Beamish, 1993; Hambrick et al., 2001; Yang and Lee, 2002; Lin, 2007). Having studied 37 North American and Western European joint ventures, Killing (1982) found a high rate of poor performance as results of conflicts. Based on a survey of executives of international joint ventures from both foreign parent companies and local companies, Lane and Beamish (1990) found that more than 50 percent of them were not happy with their own performance due to various conflicts.

Hyder (1998) found that more than 50 percent of the studies on joint ventures recognized the presence of either explicit or implicit conflict between partners. Clearly, how to handle conflict in joint ventures has become a real and serious challenge to business world because "it results in a division of resources, energy, and attention from the mission and objectives of the international joint ventures" (Johnson et al, 2001:39). Based on a survey of 67 international joint ventures in China, Lin concluded that JV partners perceived heightened conflicts and show lower degree of satisfaction when the general manager is Chinese in those joint ventures (Lin, 2007).

The same conclusion has been drawn about the Sino-U.S. joint ventures in China. For instance, several studies reported that Sino-U.S. joint ventures have not been very successful due to conflicts (Doucet and Jehn, 1997; Strutton and Pelton, 1997; Hoon-Halbauer, 1999). It was reported that several huge multinational corporations such as Otis, Occidental, AT&T, Bethlehem Steel Group, and Caterpillar closed down offices and retreated from China because of problems with their partners (Strutton and Pelton, 1997). In addition to poor performance, it was also reported that foreign expatriates were not happy with their work and had a low satisfaction rate (Doucet and Jehn, 1997; Weldon and Jehn, 1998:98).

Needless to say, like any kind of joint ventures, the success of Sino-US joint ventures depends on many factors, including internal and external, technological and managerial factors. However, researchers agreed that conflicts between Chinese and foreign partners play an important role (Strutton and Pelton, 1997; Hyder, 1988; Johnson et al, 2001; Selmer, 2005; Yang and Lee, 2002; Nguyen and Larimo, 2011; Lu, 2007; Darling and Heller, 2011). Thus, the study of conflicts in Sino-US joint ventures not only has theoretical significances, but also practical implications.

**Two main theoretical perspectives on conflicts in Sino-U.S. joint ventures** Reviewing existing literature on conflicts in Sino-U.S. joint ventures reveals that most of the previous studies basically focused on the same three sets of issues: 1) the various aspects of conflicts, 2) the relationship between conflict and performance, and 3) the causes of conflicts in Sino-U.S. joint ventures. Analytically speaking, most of those studies can be roughly grouped into two categories. They were either guided by the cultural perspective or by the structural perspective, though there were very few exceptions that tried to combine these two perspectives.

The cultural perspective tends to study cultural/behavioral aspects of the conflicts. The studies following cultural perspective often used concepts and variables of cultural elements including values, beliefs, perceptions, norms, cognition orientations, and traditions to study conflicts in joint ventures (Killing, 1982; Pye, 1982; Child et al., 1994; Antonoiu and Whitman, 1998; Worm and Frankenstein, 2000; Doucet and Jehn, 1997; Weldon and Jehn, 1998; Johnson et al., 2001; Lin and Geiman, 1998; Hambrick et al., 2001; Black and Mendenhall, 1990; Selmer, 2005; Chong, 2008; Doucet et al, 2009; Yau and Powell, 2004; Darling and Heller, 2011).

On the contrary, the structural perspective tends to focus on structural issues of conflicts in Sino-U.S. joint ventures. Researchers following this perspective often used concepts and variables of structural elements such as business objectives, organizational structure, administrative control, and power (Ding, 1997; Hu and Chen, 1996; Yan and Gary, 2001; Lee, 2001; Hoon-Halbauer, 1999; Johnson et al., 2001; Gong et al., 2001; Walsh et al., 1999; Lane and Beamish, 1990; Duan and Chaunmin, 2007; Lin and Wang, 2002; Nguyen and Larimo, 2009; Nguyen and Larimo, 2011; White, et al., 2007; Fang and Zou, 2010).

**Table 1. Two main perspectives on conflicts in Sino-US joint ventures**

Themes/ perspectives	Cultural	Structural
Issues of conflicts	Relationship conflict and substantive conflict (Hambrick. Et al., 2001) Intercultural conflicts and intracultural conflicts (Doucet, Jehn, 1997) Conflict management styles (Jehn and Weldon, 1992; Weldon and Jehn 1998) Managerial norms (Tinsley, 2001)	Objectives (Walsh et al, 1999) Setting up Joint Ventures (Lane and Beamish, 1990) Control of operations (Ding, 1997; Hu and Chen, 1996) Conflicts at different levels (Hoon-Halbauer, 1999) Role conflict (Gong et al., 2001)
Relationship between conflicts and performance	Cultural similarity ---less conflict--- performance (Killing, 1983; Pye, 1982) Conflict ---cross-functional integration- performance (Song et al., 2000) Relationship conflict and substantial conflict - --Behavior disintegration ---performance (Hambrick et al., 2001) Cultural similarity---selection of conflict strategy---performance (Lin and Germain, 1998)	Dominance----conflict---performance (Ding, 1997) Power---conflict---satisfaction (Lee, 2001) Bargaining power---control---performance (Yan and Gary, 1994) Contractual relation---role conflict--- performance (Gong et al., 2001) Control---conflict---performance (Beamish 1994; Ding, 1997; Yan and Gary, 1994)

Causes of conflicts	Value difference (Jehn and Weldon, 1992; Tjosvold 2001; Kirkbride 1991) Different norms (Tinsley, 2001) Cultural distance (Gong, 2001)	Partner relationship (Hu and Chen, 1996; Yan et al. 2001, Yan and Gary 1994) Parent control (Johnson et al., 2001; Hu and Chen, 1996) Power relation (Lee, 2001)
Conflict resolutions	Cross-cultural training (Black and Mendenhall 1990; Selmer 2005) Culturally-sensitive people skills (Chong, 2008) Cultural understanding (Duncet et al, 2009)	Formal and hierarchical control (Rues and Rittig, 2009) Harmonious or regulatory strategy (White et al., 2007) Forcing, integrating, compromising, legalistic strategy (Nguyen and Larimo, 2011) Configuration of ownership (Nguyen and Larimo, 2009)

**Note:** Cultural conflicts are those caused by cultural difference such as different managerial values and norms, etc. Structural conflicts are conflicts caused by structural factors such as control of operation and profit distribution, etc.

### 3. The cultural perspective

It seems that the cultural approach is one of the dominating approaches in studying conflicts in Sino-U.S. joint ventures. Quite a few studies followed this approach. The following discussion will address 1) the issues the cultural approach researchers tend to study, 2) how the researchers study the relationship between conflict and performance of the joint ventures, 3) how they interpret conflicts, and 4) how they deal with conflicts.

#### 3.1. Issues of interests

First, the cultural approach tends to study how different cultural traditions lead to various types of conflicts. Previous research has documented that cultural differences are one of the main obstacles to effective cooperation in joint ventures (Hambrick et al., 2001; Hu and Chen, 1996; Child et al., 1994; Hoon-Halbauer, 1999; Weldon and Jehn, 1998). For instance, based on their study of Pharmex-Tianjin, a Sino-U.S. joint venture, Hambrick and his colleagues (2001) identified three types of compositional gaps in the management groups, including observable demography (nationality, age etc.), less apparent demography (education, functional backgrounds, etc.), and psychological characteristics (values, beliefs, etc.). They argued that those gaps could lead to both relationship conflicts and substantive conflict in Sino-U.S. joint ventures. They concluded that “while compositional gaps in IJV [international joint venture] management groups can provide the basis for healthy substantive conflict, such gaps also tend to induce relationship conflict and heighten substantive conflict beyond its beneficial range” (2001:1033).

Some researchers studied both intercultural and intracultural conflicts. For instance, Doucet and Jehn (1997) studied two types of conflicts in Sino-foreign joint ventures: intracultural and intercultural. The former refers to conflict between members of the same culture, such as conflict between two foreign managers or conflict between two Chinese managers. The latter refers to conflict between members of the joint ventures who are from different cultures, such as conflict between a foreign manager and a Chinese manager. Using text analysis and other methods, Doucet and Jehn (1997) examined the interview records of 76 American managers currently or recently working in Sino-American joint ventures. Contrary to common wisdom, they found that “Americans working in Sino-American joint ventures experience more

hostility in their conflicts with other Americans than in their conflicts with Chinese counterparts” (1997:576).

The second important issue addressed by this perspective is how cultural traditions influence perceptions of and approaches to conflict management (Tinsley and Brett, 2001; Xie et al., 1998; Lin and Germain, 1998; Kirkbride et al., 1991). For instance, Tinsley and Brett (2001) argued that managers’ norms for resolving conflict were culturally based. Focusing on data from a simulation study, they explored the cultural basis of conflict management norms between Chinese and Americans and how such cultural norms might lead to different conflict outcomes. They concluded that “American managers were more likely than Hong Kong Chinese managers to resolve a greater number of issues and reach more integrative outcome, while Hong Kong Chinese managers were more likely to involve higher management in conflict resolution” (2001:361). Kirkbride and his associates (1991) also concluded that these cultural and psychological factors were major determining factors for the Chinese in selecting conflict resolution strategies. They demonstrated that traditional Chinese cultural values and cognitive orientation influenced the Chinese people and led them into adopting a nonassertive approach to conflict resolution (1991:375).

The third important issue is how the cultural conditions affect the effectiveness of conflict management. For example, Xie and his colleagues (1998) pointed out that cultural tradition not only influenced the selections of conflict resolution strategies but also affected the effectiveness of the use of those strategies. Their research reveals that “involving top management in interfunctional conflict is more effective in Japanese and Hong Kong firms than in U.S. and British firms.” They concluded that “given that ‘face saving’ is an important characteristic of cultural norms in both Chinese and Japanese cultures, new product development performance in such cultures could benefit more from using the hierarchical method” (1998:203).

### **3.2. Conflicts and performance**

In the early 1980s, some researchers already suggested that the sociocultural distance between the host and home country and the performance of joint ventures are inversely related (Killing, 1982; Pye, 1982). For instance, Killing (1982) argued that in order to achieve success in joint ventures, it is imperative to have an effective and cohesive management team. Managers who share the same values and beliefs are more likely to form such an effective and cohesive management team. The logic is quite simple and straightforward that cultural similarity will reduce misunderstandings between managers in joint ventures and result in fewer conflicts, which in turn leads to better performance.

Lin and Germain (1998) confirmed that cultural similarity between partners in joint ventures is a critical factor in determining the success of joint ventures. Based on their study of 94 managers (35 American, 59 Chinese) from 100 Sino-U.S. joint ventures, they found that cultural similarity not only has a direct effect on the performance of joint ventures but also an indirect effect on performance through the selection of a particular conflict management strategy, an intermediate variable. They concluded that “the greater the cultural similarity between IJV partners, the better the IJV performance” (1998:189).

Hambrick and his colleagues (2001) noticed that cultural differences as a result of different nationalities, values, and beliefs could lead to both relationship and substantial conflicts among international managers. On the one hand, the relationship conflict will lead to behavior disintegration which in turn affects the

performance of the joint ventures. On the other hand, the cultural differences could also lead to substantive conflicts which could affect behavioral disintegration both positively and negatively. If the substantive conflicts go beyond the beneficial range, performance could be negatively affected.

Based on a sample of 968 companies in four different countries including China, Song and his colleagues (2000) studied antecedents and consequences of marketing managers' conflict handling behavior. They found that different conflict handling strategies (avoiding or collaborating) could affect cross-functional integration, which in turn could affect performance of the joint venture. Some researchers noted the negative views foreign managers and Chinese managers have of each other (Walsh et al., 1999). For instance, American managers tend to think Chinese managers know very little about planning, cannot make decisions, do not want to take risks, and have lower professional standards. On the other hand, Chinese managers tend to think American managers are strict, martial and task-oriented. These strong negative feelings about each other could cause conflict in the day-to-day operations of the joint ventures.

### **3.3. Causes of conflicts**

Prior research seemed to agree that cultural difference is one of the main sources of conflict in most international joint ventures, including Sino-foreign joint ventures (Habib, 1987; Antoniou and Whitman, 1998; Worm and Frankenstein, 2000; Pye, 1982). In fact, one researcher argued that "unquestionably the largest and possibly the most intractable category of problems in Sino-American business relations can be traced to cultural differences between the two countries" (Pye, 1982). Worm and Frankenstein (2000) believed that the main cause of conflicts is the value difference between Chinese and foreign managers. They stated that the origin of conflicts is between Western universalistic values and Chinese particularistic values in running business. In general, "the individualistic Westerners tend to stress impersonal, universalistic obligations while the more collectivistic Chinese tend to stress specific situational obligations based on hierarchical personal relations" (2000:268). Because of such differences, it is difficult to establish trustful and effective interpersonal cooperation between Chinese and Western managers. Doucet and Jehn (1997) agreed that the general cultural differences between Americans and Chinese, such as individualism versus collectivism, can be used to explain conflicts. However, they also argued that the in-group and out-group differences should be added to further explore conflicts in Sino-American joint ventures.

In addition to inherited cultural differences, misunderstanding the values of the Chinese and the foreign partners can also cause conflicts. Based on a study of 574 middle-level Chinese managers, Antoniou and Whitman (1998) found that there are four principles that govern social relationship in China: the credibility of the individual according to his or her reference groups, an emphasis on the group, the pivotal role of the leader, and the indebtedness that arises out of interpersonal interaction. The researchers suggested that Western managers should be cautious when they use purely economic incentives or individual-oriented incentives because these may be against the Chinese tradition which stresses harmony, relationships, group orientation, and consensus.

Other than general cultural differences, some researchers maintained that cultural distance can affect conflict in general and role conflict in particular (Gong et al., 2001). Following transaction cost theory and agency theory, Gong and his colleagues argued that when the cultural distance between partners of the joint venture is high, both parties tend to be more opportunistic and less committed. Moreover, cultural

distance also makes it difficult for the principal to control the agent. They therefore hypothesized that cultural distance is positively associated with the CEO's role conflict and sense of ambiguity (2001:766). Nevertheless, their data only partially supported the hypothesis that there is a relationship between these two variables, though the direction of the relationship was not the same as predicted.

Some researchers found that cultural distance sometimes may not cause conflicts. On the contrary, cultural similarity may. By studying 76 American managers in Sino-American joint ventures, Doucet and Jehn (1997), for example, found that Americans working in Sino-American joint ventures actually experienced more hostility in their conflict with other Americans than in their conflict with Chinese counterparts. Doucet and Jehn offered three possible reasons to explain this irony. First, American expatriates tend to follow American cultural norms when they interact with Americans so they tended to be more aggressive and hostile against each other. Second, Americans tend to follow the Chinese cultural tradition in maintaining social harmony and saving face when they interact with the Chinese. Third, Americans may treat the Chinese as out-group members and try to avoid overt conflict with them.

### **3.4. Conflict resolutions**

Since cultural differences are the sources of conflict, many researchers advocated using cross-cultural training to avoid and handle potential conflicts (Black and Mendenhall, 1990; Selmer, 2005; Chong, 2008; Duncet et al., 2009). Black and Mendenhall (1990) argue that cross-cultural training seem to have a positive impact on managers working in international joint ventures. Specially, the training will help managers to develop self-maintaining skills, relationship building and fostering skills with host national's cultural cognitive skills that promote a correct perception of the host environment and its social systems. Selmer (2005) reports that cross-cultural training may facilitate work adjustment for expatriate international joint ventures managers but not for the expatriate managers in other organizations. He points out the discrepancy exist because managers may experience different levels of stress in different kind of organization environments. He argues cross-training is beneficial even though statistical analysis of his survey data show weak relationship between training and work adjustment for extricates in joint ventures.

Based on the managerial competency assessment of 1436 managers from four East Asian countries and 3193 managers from the US, Chong (2008) suggests organizations should help managers from different nationalities and cultures to develop both stable technical skills and culturally-sensitive people skills. By comparing and contrasting conflict management behaviors, Doucet et al (2009) found that Chinese managers are more likely to embarrass their colleagues and give moral lessons while hostility and vengefulness are important elements of American managers in dealing with conflict. They suggest that managers should consider cultural differences in conflict management when diagnosing and intervening in conflict situations in different cultures.

To sum up, those studies tend to study cultural or culturally related conflicts and they tend to use cultural factors to explain conflicts in Sino-US joint ventures. Nevertheless, some of them may not fully aware of their theoretical orientations.

## **4. The structural perspective**

Contrary to the cultural perspective, some researchers looked at issues of conflicts from the structural perspective (Lane and Beamish, 1990; Walsh et al., 1999; Ding, 1997; Lee, 2001; Yan and Gary, 2001;



Hu and Chen, 1996; Lane and Beamish, 1990; Hoon-Halbauer, 1999; Johnson et al., 2001; Duan and Chumanmin, 2007; Reus and Rottig, 2009; White et al., 2007; Nguyen and Larimo, 2009; Nguyen and Larimo, 2011). Apparently, they tended to study different issues of conflicts, proposed different models of the antecedents and consequences of conflicts, and offered different interpretation and explanation of conflicts that differ from those of the cultural perspective. They also offer different conflict resolution strategies.

#### **4.1. Issues of interests**

Walsh and his colleagues (1999) argued that the most important conflict is the objectives conflict between partners. Typically, the Chinese are interested in attracting foreign capital and transfer of both technological and managerial expertise from foreign partners. In contrast, foreigners are attracted to the enormous emerging Chinese market and the availability of cheap labor in China. It is these different objectives that have resulted in conflict between partners. Conflicts occur at different stages of joint-venture setup. For instance, Lane and Beamish (1990) identified four potential structural conflicts in establishing joint ventures. First, there may be conflict about whether it is necessary or imperative to set up joint ventures. Second, there will be conflict about how to select partners for the joint venture. Third, partners may have conflict in deciding how to select an organizational structure. Finally, conflicts may occur as to how to manage relationships.

Instead of studying conflict that occurs at the initial stages, some studies focused on the operational conflicts in Sino-U.S. joint ventures. Based on interviews with 261 U.S. general managers and Chinese managers, Ding (1997) found that the most typical and severe conflicts often occurred between partners on control over several functional areas, such as quality control, export and import, wages and labor policy, and administration and supervision. Comparing a Sino-U.S. (Beijing Jeep) and a Sino-German (Shanghai Volkswagen), Hoon-Halbauer (1999) pointed out that at different levels, major issues that can lead to tremendous conflicts. At the highest level, the main issue that could cause conflicts is different and conflicting objectives of the partners. At the middle level, the key issue is who and how to control the venture. At the lowest level, the key issue is mistrust. Thus, conflicts vary depending on structural factors of the joint ventures.

#### **4.2. Conflicts and performance**

Those researchers who follow the structural perspective tend to study how structural factors affect conflicts, which in turn influence performance of Sino-U.S. joint ventures in China (Ding, 1997; Lee, 2001; Yan and Gary, 2001; Hoon-Halbauer, 1999; Frankenstein, 1997; Hu and Chen, 1996). For instance, Ding (1997) studied the relationship between managerial control exercised by the foreign partners, conflict, and perceived performance based on survey and interview data from 261 U.S.-Chinese equity joint ventures. His study revealed two interesting findings. First, he found that there is a significant positive relationship between management control exercised by foreign partners and performance of the joint venture. The more control by foreign partners, the better the performance. Second, he confirmed that there is a significant negative relationship between conflict between partners and the performance of the joint ventures. His implication is quite clear that the more control exercised by foreign partners, the less conflict between partners and the better the performance of the joint ventures.

Hu and Chen (1996) studied the relationship between the characteristics of partnership in and performance of joint ventures. They identified four characteristics of partnership: 1) level of partner commitment, 2) partner control in joint ventures, 3) number of partners in joint ventures, and 4) sociocultural distance among partners. All four characteristics were found to have influenced the performance of joint ventures. Although their study did not specifically study the relationship between partner relationship and conflict, it implied that all these factors would affect conflict in joint ventures, which in turn would affect the performance of joint ventures.

Structural factors not only affect performance indicators such as profitability and productivity but also the satisfaction of the partners in Sino-U.S. joint ventures. Surveying 120 Chinese beer distributors, Lee (2001) studied the relationship between the use of different types of power, conflict, and satisfaction of the Chinese distributors. He reported that, first, when the foreign suppliers use aggressive (coercive) power, the Chinese distributors tend to perceive a higher level of conflicts. However, when foreign suppliers use nonaggressive (non-coercive) power, the Chinese distributors tend to perceive a lower level of conflicts. Second, the satisfaction level of the Chinese distributors is negatively related to the conflict level perceived by the distributors. The more conflict with their international suppliers they perceived, the less satisfied they felt. Third, the use of different types of power by international suppliers not only has a direct effect on distributors' satisfaction directly but also an indirect effect through conflict as the intermediate variable.

Yan and Gary (2001) tested a comprehensive model of the antecedents and the effects of partners' control using data from 90 Sino-U.S. joint ventures. Their primary argument is that the relative bargaining power between partners will determine the relative level of management control in the joint ventures, and the level of management control then will determine the performance of the joint ventures. Specifically, they argue that the relative bargaining power of a partner depends on two structural factors, namely 1) whether the partner has other strategic alternatives and 2) how much capital and noncapital resources it has. Second, this relative bargaining power is associated with the level of management control the partner has over the joint venture. The more bargaining power a partner has, the more control (strategic, operational, and structural) it has over the joint venture. Finally, the more control a partner has, the more likely it could achieve the strategic objectives of the joint venture. Meanwhile, the researchers hypothesize that inter-partner working relationship variables (inter-partner consensus and perceived conflict) have direct effects on performance. In general, the data seem to support their model; however, it is unusual for Yan and Gary to treat perceived level of conflict as an independent, exogenous variable that affects the performance of joint ventures rather than an intermediate variable as others proposed.

Hoon-Halbauer (1999) analyzed how conflicts at different levels can affect performance differently. For instance, on the one hand, conflict between parents exerted negative impact and constraint on managers in their decisions and actions, which in turn could affect the overall performance of the joint ventures. On the other hand, conflict between two groups of staff in terms of their allegiance played an important role in determining the performance of the venture (1999:358). Examining performance implications of general manager appointment in Sino-US joint ventures, Lin (2007) reports that there is heightened conflict on daily personnel management issues when the general managers is Chinese which in turn resulted in lower satisfaction of both American and Chinese parties. Consequently, it negatively affects the performance of the joint venture.

### 4.3. Causes of conflicts

Unlike those researchers who paid attention to value differences, some researchers explored how partner relationships and power actually affect conflicts (Hoon-Halbauer, 1999; Yan and Gary, 2001; Walsh et al., 1999; Lee, 2001; Hu and Chen, 1996; Ding 1997, Gong et al., 2001; Johnson et al., 2001). In other words, they wanted to determine how structural factors, rather than cultural factors, affect conflict. By interviewing sixteen managers representing American firms' interests and seventeen managers representing the Chinese interests in ten joint ventures, Walsh and his associates (1999) concluded that "their different goals (or dreams) might contribute to problems between the two management groups" (1999:85). The implication is clear: because the partners have different objectives, conflict between them is inevitable.

Johnson and her associates (2000) argued that conflict can be seen as an outcome of parent control in joint ventures. Both parent companies' direct and indirect control of the joint ventures is associated with two types of conflict: first, conflict between parent companies; second, conflict between parent and local management. The researchers speculated that the greater the parent company's direct and indirect control, the more partner-partner conflict. However, the data suggested that "direct parent control significantly increased local management conflict while indirect control reduced parent-local management conflict" (2000:46).

Hoon-Halbauer's study (1999) presented three major findings regarding the various relationships in joint ventures and potential conflict with those relationships. First, different and conflicting objectives were the main cause of conflicts between two parent companies. Second, fighting for overall control and operating autonomy was the main cause of conflict between parents and the newly created venture. Third, shared management caused problems of mistrust and issues of allegiance. Further, lack of both formal and informal communication worsened the situation. All these findings suggest that partner relationships contribute to conflict.

Power relations between partners also have some impact on conflict. Based on a study of 120 beer distributors in the Hainan province of China, Lee (2001) found that whether international suppliers used aggressive power or nonaggressive power could affect the satisfaction of the Chinese distributors. The former refers to coercive, economic, and mediated power while the latter refers to rewards. The data supported Lee's hypothesis that "IJV supplier's use of aggressive power is positively related to the conflict level perceived by Chinese distributors while IJV supplier's use of nonaggressive power is negatively related to the conflict level perceived by Chinese distributors" (2001:152).

Based on their study of 265 CEOs in Chinese-based international joint ventures, Gong and his associates (2001) found that the role conflict of the CEOs was associated with three factors. First, the role conflict of CEOs was associated with who dominated the company. Second, role conflict was related to the completeness of the contract between partners, which reflects the nature of relationship between them. Third, role conflict was related to the objective gap between partners. All three of these factors were structural factors rather than cultural factors. Duan and Chaunmin (2007) note that structural factors such as ownership, control often created conflicts in Sino-US joint ventures. Their longitudinal study of three US-China manufacturing joint ventures show that partners may perceive and interpret success and failure of those ventures differently depends on their expectations which in turn cause conflicts.

#### **4.4. Conflict resolutions**

Based on meta-analyses of a total of 26,927 IJVs, Reus and Rottig (2009) report a very unique finding—that conflict will decrease in Chinese IJVs when foreign parent firms adopted more formal and hierarchical control over the partnership. They interpret that “Chinese values of social hierarchy may explain this result. Social relationships tend to be formal and hierarchical in China, and Chinese employees tend to be most comfortable when a hierarchy is in place with clear positions and rules.” “Consequently, rather than causing conflict, hierarchical control may provide a sense of security to employees of Chinese local partners that may prevent partner conflict” (2009, 633)

White et al. (2007) propose to develop a theory based on transaction cost economics to help explain how IJVs should formulate and implement contractual governance mechanisms to create greater efficiency, lower costs, and minimize conflict with partners. They postulate that when interest alignment increases, partners tend to adopt relational contract and use harmonious conflict resolution strategy. On the other hand, when the interests alignment decreases, partners tend to adopt formal contract and regulatory strategy. In addition, they hypothesize that when relative power arises, dominant partners will adopt formal contracts and use regulatory conflict resolution while the subservient partners will refer to relational contracts and use harmonious strategy to resolve conflict (383)

In their 2009 study, Nguyen and Larimo show “a strong link between the control structural foreign companies impose on their IJVs and the strategies that parent companies employ in the IJVs.” Consequently, based on extensive literature review, they (2011) proposed that under different ownership structure, IJVs may choose four different conflict handling strategies including forcing strategy, integrating strategy, compromising strategy and legalistic strategy. Foreign parent firms who have majority ownership in IJVs could use all four options while those who have minority ownership can only choose two options. Those who have equal ownership are in between.

### **5. Conclusion and discussion**

#### **a) Comparison and contrast**

Reviewing the existing literature reveals that there have been some very interesting and inspiring studies on conflicts in Sino-U.S. joint ventures. It seems that cultural and structural perspectives are two main theoretical perspectives that guided previous research, although some researchers tried to combine both perspectives.

Comparing the two perspectives, I found that the approaches shared some similarities. First, both approaches realized the importance of conflict in Sino-U.S. joint ventures. They agreed that conflicts could have some impact on the survival and performance of the joint ventures. Both also studied conflicts, although they focused on different types of conflicts and different aspects of conflicts. Second, both approaches examined the relationship between conflicts and performance of the Sino-U.S. joint ventures. It seems this was one of the major focuses of the studies, regardless the theoretical background of the researchers. Third, both the cultural and structural approaches tried to explore the causes of conflicts. They provided possible explanations as to why conflicts exist in Sino-U.S. joint ventures. Fourth, both approaches explored various conflict management behaviors and styles. They also offered most efficient conflict resolutions strategies from their own point of views.

However, these two approaches have quite different orientations. First, they have different interests and studied different aspects of conflicts. For instance, the cultural approach tends to study relationship conflicts, such as conflicts between Chinese and U.S. managers, conflicts in management groups, and so forth. The structural approach, however, tends to study substantive conflicts, such as objective conflicts and conflicts resulting from control, and power.

Methodologically speaking, most of the previous studies were self-restrained to either the cultural or the structural perspective. They studied different issues and different aspects of conflicts. They used different units of analysis and they also used different types of variables. For instance, on the one hand, the cultural approach tends to study relationship conflicts; therefore, it tends to use indicators at individual levels, such as the values of managers and characteristics of managers. On the other hand, the structural approach tends to study substantive conflicts; therefore, it tends to use indicators at organizational level, such as number of partners, parental control of joint ventures, and power relationship between partners. Consequently, their findings can only be used to test its guiding perspective.

Theoretically, both approaches provided different interpretations about the causes of conflicts. One used cultural factors, such as value differences, different norms, different management styles, and different conflict resolution strategies to explain conflicts. The other used structural factors, such as the partners' relationship, parental control of joint ventures, power relationships, and so on to explain conflicts.

Practically speaking, both approaches helped us fully understand various aspects of conflict and both cultural and structural causes of conflicts. However, they tend to propose different strategies to deal with conflicts. For example, researchers who follow the cultural perspective often propose that U.S. managers should understand cultural differences and should use Chinese strategies in dealing with conflict (Strutton and Pelton, 1997; Worm and Frankenstein, 2000). On the contrary, researchers who follow the structural perspective often propose that we should develop a structural device in dealing with conflicts.

Nevertheless, there are some limitations with the existing research. First, there does not seem to be a dialog and debate between these two approaches. It appears that the proponents of each went their own way in conducting research and were not bothered by a fundamental question about the ultimate cause of conflicts, whether the conflict is cultural or structural. Second, related to the first problem, there has been no empirical study that could test both theoretical approaches. It is reasonable to conclude that there is a hole to be filled. Third, there are a quite few unanswered questions. For instance, which approach is more powerful in explaining conflicts in Sino-U.S. joint ventures? Can we just use one approach to study the issue? Can we combine these two approaches? How could we combine these two approaches? Should we combine these two approaches? Can we empirically test both perspectives in one study? These are important issues need to be addressed in future studies.

### **b) Managerial implications**

Although the main purpose of this paper is to critically review previous studies of conflicts in Sino-US joint ventures using a new analytical framework in order to identify the two main theoretical perspectives, it has several important implications for managers. Obviously, handling and resolving conflicts is one of major tasks of IJVs managers. However, it is important for managers, first, to identify the nature and type of conflicts in IJVs. Some of the conflicts can be caused by cultural differences while others can be caused

by structural factors. Often time, cultural and structural conflicts are intertwined. Consequently, it is important for managers to realize there are different conflict resolution strategies depend on the nature of the conflicts. Cross-cultural training and developing culturally-sensitive people skills will help prevent and handle conflicts caused by cultural differences. Structural arrangement such as ownership control, contractual regulation etc. definitely will help deal with conflicts caused by structural factors.

### **c) Directions for future studies**

In order to overcome those limitations, I would like to propose a tentative conceptual model for future studies. First, we should realize that both cultural and structural factors could influence different aspects of conflicts such as antecedents, types, consequences, and management of conflicts in Sino-US joint ventures, alone or jointly. Theoretically speaking, we can analyze cultural and structural factors separately. However, they often intertwined together in reality. For instance, American managers, following individualistic ideology, tend to specify impersonal, universalistic obligations when setting up organizational structures. On the other hand, Chinese managers, following collectivistic ideology tend to stress specific situational obligations based on hierarchical personal relations.

Therefore, we should examine both cultural and structural factors in examining conflicts in Sino-US joint ventures. Second, we need to realize that cultural and structural factors tend to be interdependent with each other. On the one hand, cultural traditions may affect organizational structures of Sino-US joint ventures which in turn cause conflicts. On the other hand, organizational structures of Sino-US joint ventures may either reinforce or in conflict with the cultural traditions of the partners. Consequently, both can influence conflicts in joint ventures interactively. For instance, Reus and Rottig (2009) report that rather than causing conflict, hierarchical control may prevent partner conflict in China because it provides a sense of security to Chinese employees based on Chinese tradition. Therefore, we not only need to study how cultural and structural factors influence different aspects of conflicts alone, but also study how they interact with each other in influencing different aspects of conflicts interactively.

Third, it is not only important, but also possible to use both cultural and structural indicators in conducting empirical studies of conflicts in Sino-US joint ventures. In fact, two previous studies (Gong, et. al., 2001; Lin and Germain, 1998) are tired to include both, although limited, variables in their studies. It is important for us to explore under what conditions it would be most salient for cultural or structural factors, or both to influence different aspects of conflicts. Needless to say that conflict in joint ventures is very complicated and has many different aspects. It is a challenging job to reconcile cultural and structural perspectives. Nevertheless, a collective endeavor on this will provide us better understanding about conflicts in joint ventures in particular and conflicts in general.

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### **About the Authors**

Xun (George) Wang is a full professor of Sociology at University of Wisconsin-Parkside. His research focuses on global social change, organizational studies and China studies. He has published four books including *Global Sociology*, *Human Resource Management* and more than sixty articles in *Journal of International Management*, *Thunderbird International Business Review*, *Asian Pacific Business Review*, *Journal of Third World Studies* and *Journal of Asian and Africa Studies*, etc. He is the recipient of 2012 Research and Creative Activity Award at the University of Wisconsin-Parkside.

He directed international exchange programs with the funding from the US Department of States, the US Department of Education and the Furbright Foundation (funding exceeding \$600,000). He has taught at Tsinghua University, People's University of China, and Nankai University as visiting professors. He was invited to give talks at the other prestigious Chinese universities such as Wuhan University and Zhongshan (Sun Yat-sen) University, etc.

### **Contact Information**

Xun (George) Wang, Ph.D. Professor of Sociology, Department of Sociology/Anthropology University of Wisconsin-Parkside, 900 Wood Road, Kenosha, WI 53141, USA. Email: wang@uwp.edu; Huajun Li, Ph.D. Lecturer of Sociology, Department of Sociology/Social Work, Jiangnan University, 8 Xuefu Road, Wuhan, Hubei 430056, P.R. China. Email: 259097220@qq.com.