

**THE ANTECEDENTS AND CONSEQUENCES OF CONFLICTS IN
INTERNATIONAL DISTRIBUTION NETWORKS: A CASE STUDY OF
SLOVENIAN LARGEST EXPORTERS**

(Competitive paper)

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Abstract

Purpose of the paper and literature addressed: The purpose of this paper is to study and evaluate exporters' task and emotional conflicts with international distribution channels, as well as their antecedents and export performance consequences. We use an interactive approach to explain the role, importance and type of long-term exchange relations between organizations. Channel conflict, dependence, and power were the foci of IMP research in the late 80s and early 90s, with conflicts considered as indicative of "sick" relationships and therefore to be avoided. However, later research views networks without conflict as typical of relationships, where actors do not put much effort into their interaction. Hence, the present research aims to conclude with the explanation of how the interaction dimensions discussed above affect the distribution channel (network) as a whole in a Slovenian export context.

Research method: In-depth interviews with international salespeople and managers of the largest Slovenian exporters and their international reps (e.g. distributors, agents, subsidiaries) were used to study conflicts and answer our fundamental research question as to which relationship factors (e.g. dependence, power, cultural values, international marketing strategy, etc.) lead to conflict and consequently impact company performance.

Research findings: The research identified some unexpected international sources to conflict, like entry mode, knowledge about the foreign market, information flow, profit distribution, type of foreign activities and level of internationalization. The expected conflict sources like cultural values, standardization/adaptation of international marketing strategy and power/dependence channel structure were also confirmed. In addition, the study confirmed that evaluated factors have also an impact on export performance, having conflicts as a mediating factor.

Main contribution: The identified sources of conflict are the main added value of this research, as they were unexpected according to literature review, and expand the scope of conflict understanding also to international distribution channel research. Theoretical contribution represents the evaluation of also external influences on channel conflicts, while most of the studies evaluated internal causes.

Keywords: conflict, cooperation, dependence, power, distribution channel, Slovenian exporters.

INTRODUCTION

Conflict is an inherent feature of business relationships and, as a dynamic force in business relationships, may lead to the development of social interactions and trust, as well as to higher innovation activity and, consequently, to higher performance (Håkansson, Ford, Gadde, Snehota & Waluszewski, 2009). Conflict in the IMP literature has been linked to and studied together with cooperation since buyers and suppliers have both contradictory and shared interests in a business relationship (e.g., Gadde & Håkansson, 2001). Furthermore, since Håkansson's study (1982) the simultaneous occurrence of conflict and cooperation prevailing in firms' interaction' has been viewed as an important aspect of interactions' atmosphere, which affects and is affected by the interaction processes in business relationships by definition (Gadde & Håkansson, 2001).

The purpose of this paper is to study and evaluate exporters' task and emotional conflicts (e.g., Rose & Shoham, 2004) with international distribution channels, as well as their antecedents and export performance consequences based on case studies. In-depth interviews with international salespeople of the largest Slovenian exporters and their international reps (e.g. distributors and agents) will be used to study conflicts and answer our fundamental research question as to which relationship factors (e.g. dependence, power, cultural values, international marketing strategy, etc.) lead to conflict and consequently impact company performance. We expect higher conflict potential in cases of higher involvement between the companies, leading to greater interdependence as a source of conflict (i.e. Gadde & Håkansson, 2001; Zhuang & Zhou, 2004; Laaksonen, Pajunen & Kulmala, 2008, etc.). However, we expect the type of companies (high tech vs. low tech) and the stake of ownership in the partner firm (agent/distributor vs. own subsidiaries) to play a role in determining the level of conflict.

We use an interactive approach to explain the role, importance and type of long-term exchange relations between organizations, which were built over time through social/personal interaction among organizations and people from each side of the dyad (Håkansson, 1982). Channel conflict, dependence, and power (the major constructs in the present research) were the foci of IMP research in the late 80s and early 90s (Johanson & Mattsson, 1987; Morgan & Hunt, 1994; Young & Wilkinson, 1989), with conflicts considered as indicative of "sick" relationships and therefore to be avoided (Wilkinson, 2001). However, later research views networks without conflict as typical of relationships, where actors do not put much effort into their interaction (Ford, Gadde, Håkansson & Snehota, 2006). Up to a decade ago, only few papers analyzed performance impacts (Gemunden, 1997); however, performance has gained prominence as a research issue for IMP Group of scholars (Wilkinson, 2001). The interaction approach has evolved and is recognized as a predecessor of the industrial networks approach, where any dyadic relationship operates in the context of many other relationships (Harrison, 2003). Hence, the present research aims to conclude with the explanation of how the interaction dimensions discussed above affect the distribution channel (network) as a whole in a Slovenian export context, which might be applicable to similar Eastern-European economies.

CONFLICTS IN DISTRIBUTION NETWORKS

International marketing activities take place in a complex environment of variety of interactions between people and goals of at least two organizations and distribution channels (Robicheaux, El-Ansary, 1975), where each interaction represents a potential for the nascent stage of the conflict. The definition of conflict, as it will be used as a basis for understanding and further research, was given by Robicheaux and El-Ansary (1975), who explain that channel conflict is “a state or situation in which one channel member perceives another as an adversary engaged in behavior designed to destroy or thwart him or gain resources at his expense”. The authors also add that channel conflicts can be functional or dysfunctional. According to Stern and El-Ansary (1992) the dysfunctional aspect of conflict explains its definition, as “a situation in which one channel member perceives another channel member to be engaged in behavior that is preventing or impeding it from achieving its goals”. Conflict that is derived from a Latin word “confligere” and means to collide is behavior by a channel member that is in the opposition to its channel counterpart (Coughlan et al., 2006). According to Anderson and Narus (1990) the conflict can be explained as the overall level of disagreement in the relationships, determined by the intensity, frequency and duration of disagreements. Research findings from several authors (Gaski, 1984; Gaski, Ray, 2004) explain the positive relationship between the level of conflict and influence by the channel member, and conversely, the negative relationship between the conflict and influence over other channel member. In sum, the higher the influence of a firm over other channel members, the less conflict encounters, as for such dysfunctional conflict is the best for other channel members, to comply with the dominating firm (Anderson, Narus, 1990). The main research subject of the present paper is conflicts with international distribution channels, where we investigate the sources for the conflict existence, as well as its consequences for the export performance of the Slovenian companies.

The antecedents of conflicts in distribution networks

When looking from sociological point of view, a conflict is a social phenomenon, where neither the occurrence nor the outcome is completely determined by the objective circumstances (Håkansson & Vaaland, 2000). Therefore, the literature on conflict sources is broad and not unified. Conflict is mentioned in the IMP network approach as being part of the atmosphere surrounding a business relationship (Tidström, 2009), while it has been already from the beginning included in the interaction model (Håkansson, 1982), as a predecessor to business network approach. It is not surprising that other elements, included in the network model, like cooperation/closeness and power/dependence are also in other literature (e.g. relationship marketing, distribution channel theory, etc.) closely connected, if not even considered as sources of conflict (Gaski, 1984). The basic explanation of the conflict causes stems from its fairly broad definition, given by Deutsch (1973), who said that a conflict exists whenever incompatible activities occur. Tidström and Hagberg-Andersson (2008), who confirmed the notion of incompatibility as a central to conflict construct, warned about the difference between conflict and competition, the later being integrated in the strategy and of a long-term nature, compared to conflicts, which are more of a short-term nature.

“One could speculate that there are as many sources as there are conflicts” (Laine, 2002: 5), being seldom one-dimensional and hard to track, stemming either from a complex pattern of relationships between individuals, departments and organizations or being rooted in the history of the relationship. One of the most commonly cited conflict antecedents in the distribution channel literature are Etgar’s (1979) attitudinal sources (lack of role clarity,

differing perceptions, expectations and communication) and structural sources (goal divergence, drive for autonomy and competition for scarce resources). Rose and Shoham (2004) added also team spirit and interorganizational connectedness as causes to their division between task and emotional conflicts within distribution channels. In addition, Song, Xie and Dyer (2000) identified five sources to manager's conflicts, including goal incongruity, management support for cross-functional integration, participative management, early involvement and job rotation. Others, like McLeod, Shaw and Grant (2009) focused on specific industry (in their case it was advertising industry) and identified the following sources of conflict: involvement intensity, role ambiguity, cultural stereotyping and finally conflicts of interest. The most in-depth analysis of conflict sources and also its structured representation was done by Laine (2002), who proposed the sources to be found on four different levels: organizational level (power/dependence, organizational culture, role confusion), individual level (incompatible perceptions, attitudes, values, preferences), operational level (actor's perceptions of incompatibility concerning goals, the degree of mutual dependence in activities, to what extent necessary resources are shared) and external level (change in another relationship within the network). However, when looking from the network approach point of view, Tidström (2009) provides us with the most suitable categorization of conflict causes. The author identified three different groups, including the actors (organizations) involved in the relationship (difference in size, differing channels, self preservation), the dyad, understood as the relationship itself (incompatible goals, incompatible systems and routines), and the network as an external dimension (supplier late delivery, uncontrollable and influential salesmen, customer demand, political actors' demand). In sum, there are many different views on conflict antecedents; however none at least to our knowledge has yet examined the antecedents to conflict in international distribution channel or network.

When looking from international perspective alone or together with a distribution channel theory, the conflict antecedents may vary. The research studies reveal several causes for conflict, mainly coming from role deviation in distribution channels (Robicheaux, El-Ansary, 1975). According to Coughlan et al. (2006) most conflicts originate from differences in channel members' goals, their perception of reality and regarding their considered operating area of autonomy (domain conflict). As today ordinary manufacturers go into foreign market by many different routes, where channel members have to compete for the same customers, which will eventually, when a channel member becomes redundant, turn into conflict. As Hunter and Tietven (1997) explain, the conflicts may arise, when producer and retailer do not recognize the lifetime value of a customer in the same manner, as their customer loyalty programs are not congruent with their profit goals. Conflicts within international distribution channels are more often present, when dealing with more fragmented retailing that may require delivery to layers of wholesalers in order to ensure adequate coverage within a given market, as there might be difficulties in ensuring that the distribution channel is not broken through "inadequate inventory management, poor order placement and control or erratic delivery" (Schary, Skjøtt-Larsen, 1998). In sum, conflict behavior in distribution channel is inherent and inevitable, as it arises from the functional (task) interdependency in channel relationships, as well as from the lack of consensus among channel members regarding their specific role in the channel.

There are several studies in the area of distribution channels, which claim that **cultural differences** have a considerable impact on marketing channels as they exist and operate in various countries (Kale, McIntyre, 1991; Frazier, 1999; Gulbro, Herbig, 1999; Bataglia, Nadin, Gobini, 2004; Ha, Karande, Singhapakdi, 2004). On one hand, culture that was

defined by Hibbert (2003) as “the integrated sum total of learned behavior traits that are manifest and shared by members of a society”, can be according to his study also a barrier to market entry. On the other hand, the study of Mehta et al. (2006) empirically examined whether cultural differences do affect trust, commitment, and cooperation in international marketing channel alliances between U.S. exporters and their foreign distribution partners and found that the greater the cultural differences between channel partners, the lower the levels of trust, commitment, and cooperation. Swierczek and Onishi (2003) confirm previous findings, claiming that conflicts usually arise because of different management styles of the foreign managers, who promote their own corporate culture, which may not be suitable for every national culture values, norms and beliefs. We can conclude that culture affects the beliefs, attitudes, and norms of an exchange relationship; as well it shapes communication within a distribution channel (Kale, McIntyre, 1991); and the difference in cultures therefore may lead to potential conflicts in the relationships. In sum, according to Banner (1995) we are safe to argue that conflicts are expected in relationships when people of different cultures, personalities and expectation sets meet.

In addition to the gap in cultural values as an antecedent of distribution channel conflict, the discrepancy in **marketing mix standardization versus adaptation** as perceived by the buyer versus the seller should be determinant of conflicts as well. The topic of marketing mix standardization/adaptation has been widely covered in the disposable literature (e.g. Samiee & Roth, 1992; O’Donnel & Jeong, 2000; Viswanathan & Dickson, 2007, Shoham et al., 2008, etc.), mostly evaluating its impact on foreign market performance. O’Donnel and Jeong (2000) study showed that subsidiary manager’s marketing experience strengthened the global standardization-performance relationship; while manager’s international experience did not have any effect. Schmidt, Tyler and Brennan (2007) argue that most managers often have a narrow view of adaptation (e.g. tangible factors; product or the production process (Mesdag, 2000)), while fail to include personnel/human resources, behavioral and organizational structure changes, when exploring the adaptation in inter-firm relationships. Furthermore, individual buyer–supplier relationships as a feature of business-to-business markets are of a great importance for both the buying and the selling organization; while both firms will make to a greater or lesser extent some specific adaptations in intra-firm relationship (Brennan, Turnbull, 1999). In sum, standardization (cost savings from economies of scale in research and development, production and marketing; tighter management control over subsidiaries; maximum benefit from know how created within the organization), as well as adaptation (customer orientation is higher, as buyer behavior and market characteristics are evaluated in each foreign country; energizes creative thinking to meet specific customer requirements) strategy bring some positive effects for firms (Leonidou, 1996), while there is no research at least to our knowledge that would investigate the direct relationship between standardization/adaptation and distribution channel conflicts.

The distribution channel itself and its characteristics have according to several studies (Anderson, Narus, 1990; Brown, Lusch, Muehling, 1983; Lucas, Gresham, 1986; Etgar, 1978; Gaski, 1984; Tikoo, 2005) a significant impact on the conflicts between channel members, among which **dependence and power** are most widely researched (Brown, Lusch, Muehling, 1983; Frazier, Gill, Kale, 1989; Zhuang, Zhou, 2004). In respect to this study, we differentiate between dependence and power within distribution channel, although the Emerson’s (1962) dependence theory explains that “the target’s dependence in a relationship with the source can also be interpreted as an indicator of the source’s power” (Frazier, Gill, Kale, 1989). On one hand, Blesa and Bigne (2005) found that dependence on the manufacturer adversely affects conflicts and distributor satisfaction. On the other hand, Barclay (1991) who studied

behavioral relations within the firm found that task interdependence is positively related to collaboration, as well as conflicts. However, Anderson and Narus (1990) failed to find the correlation between relative dependence (firm's perceived difference between its own and its partner firm's dependence on the working partnership) and the functionality of the conflict in distribution channel. A decade later, Tikoo (2005) among the first scholars studied the relationships between franchisor and franchisee, and found that franchisee dependence negatively moderates the relationship between the franchisor's use of recommendations and conflict. Based on those findings and the predisposition that the "dependence structure in a channel relationship is a fairly rigid structural factor representing the present or existing conditions" (Sezen, Yilmaz, 2007), this study extends the research to all contractual entry modes. In addition, the channel power concept was often empirically tested in relation to distribution channel conflicts. First attempt was made by El-Ansary and Stern (1972), who failed to prove the relationship between a channel member's power and previous sources of power. As Frazier and Rody (1991) explain, high level of power will encourage the channel member possessing that power to behave opportunistically and exploit the other party with frequent use of relatively coercive influence strategies in order to reward itself. Gaski (1984) confirms that the tendency for coercive power and use of such strategies is going to provoke and increase the conflict in distribution channel. On the other hand, the promise of reward was found to reduce intra-channel conflict (Gaski, Nevin, 1986), while some authors (Barclay, 1991) found group rewards and coalition formation as an effective method of conflict resolution. Our study builds on findings of Tikoo (2005), who found that "the use of coercive power fosters conflict to a significantly greater degree than the use of noncoercive power".

The consequences of conflicts in distribution networks

We study the conflicts as a deviation in role behavior of distribution channel members on the individual basis. Each channel member has a set of role prescriptions, determined by norms and standards of their suppliers and buyers, its values and commonly shared ideals. Role prescriptions enable channel members to predict each other's behavior to certain limited degree, and thereby avoid potential conflicts (Robicheaux, El-Ansary, 1975). Rosenberg (1974) identifies several drawbacks and also benefits of conflicts in international distribution channels. It is understandable that conflicts lead to a decrease in efficiency in distribution and consequently to increased costs. Negative aspect of conflicts is also the resistance to resolve future conflicts and emotional disruption and the damage created through subjectivity and distorted judgments. However, the positive aspect of conflict is definitely the motivation for managers to actively review the activities, as well as it could be used as an indication of the need for change and management performance evaluation. Therefore, the conflict resolution approaches should be studied. Robicheaux and El-Ansary, (1975) explain that dysfunctional conflicts can be eliminated without decreasing or eliminating stress, as it usually arises in the situation, when "other alternatives cannot provide as much goal satisfaction as that experienced in their present alignment". In general, conflicts may be resolved by developing superordinate goals for the channel (e.g. organizational objectives of all channel members must be compatible with explicit channel objectives), domain consensus and an uncertainty absorption point in the channel system (Anderson, Narus, 1990). Moore, Birtwistle and Burt (2004) explain that the use of sanctions as a method to resolve conflicts is regarded as an extreme often ineffective mean of resolving conflicts; however represent the first step of the shift towards more collaborative methods of decision making.

Neves, Zuurbier and Campomar (2001) proposed a model for distribution channel planning process, where they explain that channel members may avoid potential conflicts by precise

planning the channel selection (e.g. evaluating and understanding the business environment, including the available chains; gap analysis of company's objectives and buyers' needs with adjustment strategy; building contracts) and channel management during the channel interaction. Also Rosenberg (1974) claims that because conflicts occur in patterns within the distribution channel, they can be identified soon enough, anticipated and also controlled. The authors also report local management involvement, behavior modification, achieved via the processes of management socialization, as well as relaxation of centralized control to be effective methods of conflicts resolution within international distribution channels (Moore, Birtwistle, Burt, 2004).

As Lusch (1976) pointed out, one of the most frequent encountered assumptions in the marketing literature is that there is an impact of a conflict in a channel of distribution on firm's operating performance; however there was none empirical evidence, whether the relationship is positive, negative or neutral. The study only showed that the best strategy for a distributor (dealer) is to minimize conflict with a manufacturer, as their "punishment" (e.g. slow payment, red tape, etc.) may lead to reduced distributor's operating performance. Later studies (Rose & Shoham, 2004) confirmed that assumption within organizations, claiming that both task and emotional conflict (see the explanation in the previous chapter) reduce the quality of strategy and thereby also operating performance. Webb and Hogan (2002) explain that channel conflict can serve also as "a mechanism forcing internal channel coalitions to work harder and smarter to serve their markets", while the relationship between channel conflict and channel performance is moderated by the lifecycle stage. The study also showed that the frequency of the conflict, however not the intensity, has a negative effect on channel performance. Jehn and Mannix (2001) investigated the performance of working teams and discovered that all types of conflict are lower in high-performing groups than in low-performing groups. In addition, well performing teams were marked by low but increasing levels of process conflict, as well as low levels of relationship conflict with a rise near project deadlines, while task conflict was at a moderate level at the midpoint of group interaction (Jehn, Chatman, 2000). In sum, the most recent study of Rose et al. (2007) found that task and emotional conflict with domestic channels of distribution depend on three antecedents (centralization, esprit de corps and communication barriers) and affect performance directly and indirectly through strategy quality. Their major finding was that emotional conflict negatively impact satisfaction and performance with channels of distribution. As the present study broadens the scope of the previous research to international channels of distribution, it is reasonable to question, whether conflicts within distribution channels have a negative impact on firm's performance or not.

RESEARCH FRAMEWORK AND RESULTS

The purpose of this research is to study conflicts (e.g., task and emotional; Rose, Shoham, 2004) within international distribution channels, giving a special importance to their antecedents and performance consequences. The primary objective is to understand how the conflicts in international distribution channels arise, how are they perceived either by managers at headquarters or managers in the subsidiary, as well as to identify those factors that might cause the conflict and have an impact on export performance. The fundamental research question presumes that international distribution channel conflicts come from:

- differences in cultural values of salespeople and their buyers (increasing conflicts),
- levels of standardization versus adaptation of marketing mix strategies (the former increasing conflicts perceived by buyers; the latter, perceived by salespeople),

- the amount of power that is exercised upon certain distribution channel member, inversely the dependence on one or more distribution channel members, and
- the gaps between these strategies and the levels mandated by the market in question (increasing conflicts).

In sum, our goal is to contribute to the understanding of the distribution channel conflicts stemming from different conflict sources at the level of salespeople and buyers, while accounting for approaches to conflict resolution, providing new insights into future conflict research.

Data collection and sample

Conflicts with distribution channels were researched by using as much as qualitative methods (this case is evident lately, while also most of the IMP research on conflicts is based on case studies e.g. Laine, 2002; Tidström, 2009; Håkansson & Vaaland, 2000), as also quantitative methods. As Albaum et al. (1989) explains, in international research qualitative variables are primarily used to assess internal factors of the firms that drive their behavior on the foreign markets. Webb and Lambe add (2007) that in case, when the objective of the study is basic understanding of a new phenomenon and the development of a new theory, in general qualitative methods are preferred and methodological diversity required. Furthermore, not only qualitative research provides rich descriptions and explanations about studied phenomenon, but also is suitable when the topic studied can be regarded as sensitive (Tidström, Hagberg-Andersson, 2008). As conflicts and relationships as such can be considered as a sensitive area, we will use qualitative methods for their evaluation that might provide us with even more interesting previously unexpected findings, compared to the structured quantitative research. Among qualitative methods, we have chosen semi-structured in-depth interviews, which give us an opportunity to assess the research question at hand, as well as allow us enough space to broaden the understanding of the research subject.

Table 1: Sample characteristics

<i>Sample indicator</i>	<i>Sample description</i>
Industry type	4 low-tech, 8 high-tech
Side of the dyad	8 sellers, 4 buyers
Geographic location	8 Slovenia, 4 foreign country (German, Russian, Serbian and Bosnian)
The job position	6 sales managers, 2 export managers, 4 managers of the subsidiary abroad

The data collection was done in February and March 2010 and a non-random of 12 Slovenian international companies with developed distribution channels on foreign markets was managed. Firms were selected in the sample frame according the export performance criteria and the number of firms in the distribution channel. The sampling frame used for this study was the list of largest Slovenian exporters, while the observed unit was the company and its whole international network of connected business entities (agents, distributors), representing them on the foreign market. The sample characteristics are displayed in Table 1. The average interview lasted 45 minutes and was done in the environment, where the non-desired environmental impacts were minimized and the interviewee was able to express also his/her emotions regarding the topic. All the respondents claim that they face conflicts on the daily basis, and have also a large impact on conflict resolution within the company.

Research results and discussion

First, the research respondents were asked how they **understand conflicts** in general. Most of the respondents were trying to explain the conflict by explaining the causes of conflict, either different goals, disharmonious communication or different value system. Most of the high tech companies got the association to negotiations, explaining different points of view and different interests, where conflict is constructive, when both sides are striving for better business solution. On the other hand, most of the low-tech companies offered more narrow view on conflicts, describing them as a fight, crash or a large difference in business comprehension or just lack of understanding the counterpart (viewpoints). In sum, one of the respondents summarized those findings in a definition: *“Conflict is usually a misunderstanding of two persons, where in respect of their viewpoint on one project, wish or goal they do not agree about the way how to get there or the final solution”*. Following two different perspectives on the value of conflict, the research respondents were asked, whether they understand conflict as a “disease in business exchange having primarily disruptive, dissociating and dysfunctional consequences” (Håkansson & Vaaland, 2000: 8), or they perceive conflict in a more functional way, leading to higher collaboration and consequently better performance on the long run. Most of the respondents agree that conflict in Slovenia is explicitly marked with negative connotation, although according to their believe managers of successful companies recognize conflict also as a sign of progress. Especially respondents from manufacturing companies explain that certain extent of conflict is necessary, if we want research and development to take place. Furthermore, *“by solving the conflict you take care that it does not appear anymore and thereby you primarily make an improvement in communication, processes or anything else”*. Some of the respondents were made it clear that conflict can be both, either positive either negative, it depends on the viewpoint. They were explaining that in the private personal context conflict is always negative, while in business context more positive. There is a difference also, whether we look on the short-run, when conflicts are usually perceived negatively, or on the long run, where conflicts might turn out to be positive not only in terms of improving business processes and new to that day unknown solutions, but also getting rid of “troublemakers”, which put too much negative energy in the relationship and even negatively impact the financial performance of the company.

THE ANTECEDENTS OF CONFLICTS

Rosenberg and Stern (1971) were among the first, who suggested the **nature of channel system** to have an impact on conflict occurrence and its intensity. When asking research respondents which **factors impact the conflict between headquarters and subsidiary, agent or distributor to arise**, one of the most common answers was **company organization on the foreign market**. The respondents explained that in case of using different distribution channels to reach the same market or in case of more firms owned by the same multinational company, communication between the two are highly connected with conflict, especially if/as employees involved in the relationship do not belong to the same management level. Håkansson and Vaaland (2000) explain that “adding third party contribution to dyadic conflict is rare among the empirical studies of conflict in marketing channels”, but crucial, as identified by our study. Very common conflict arising between headquarters and its subsidiaries concerns the **knowledge about the foreign market**, which is moreover related to the question of centralized or decentralized decision making. One of the subsidiary managers said, that *“ex-Yugoslavian markets are completely different in terms of consumer preferences, expectations, values and buying behavior, although once we were living in the same country”*. Nevertheless, as respondents from subsidiaries claim, it is very important for their headquarters to listen to their feedback from the market, what is there selling and what should

be developed specifically for that market, as this information may have a large impact on the performance of the company as a whole, as well as on innovations within the company. Our findings confirm that not only the static knowledge about the foreign market impacts the conflicts, but also **the flow of information between markets** itself.

Probably one of the most important decisions, when preparing international business strategy is deciding about the **entry mode**, which according to the survey respondents plays an important role in conflict creation. One of the subsidiary managers explained that the Slovenian company is present on their market with two subsidiaries, where only one is completely owned by the headquarters, while the second one is a joint venture with one of the local firms. Although, the headquarters own more than half of the company, do not allow the production of the most innovative products to take place in joint venture company, as they do not want to distribute knowledge freely, as well as share profit with somebody else. From the viewpoint of the headquarters this is a normal way of business, while for joint venture subsidiary it is already considered as a conflict. Also the entry mode as a source of conflict confirms that we should not look at dyadic relationship alone, as in the potential sources of conflict might be hidden in headquarters' network of relationships. Furthermore, the company needs to decide about **the activity on the foreign market**, whether they will only sell the products or also produce them there. From this point of view according to the belief of subsidiary managers role of subsidiary can be misunderstood, confirming the lack of role clarity to be one of the attitudinal sources of conflict, as identified by Etgar (1979). In sum, the **level of internationalization** influences the level of adaptation to certain market, as well as conflict that may arise, if the company pursues the same strategy on all markets. When home market is the most important market for a multinational company in terms of revenues, the company will produce and sell products for that market also internationally, neglecting the needs of specific markets. We may conclude that the level of firm's internationalization is important factor, determining the degree of **standardization/adaptation of international marketing strategy**. As all respondents are working in firms, where high degree of adaptation is necessary in foreign markets, they explain that more conflicts arise at headquarters, which follow the subsidiaries than in subsidiaries alone, which know the market and just implement the right strategy.

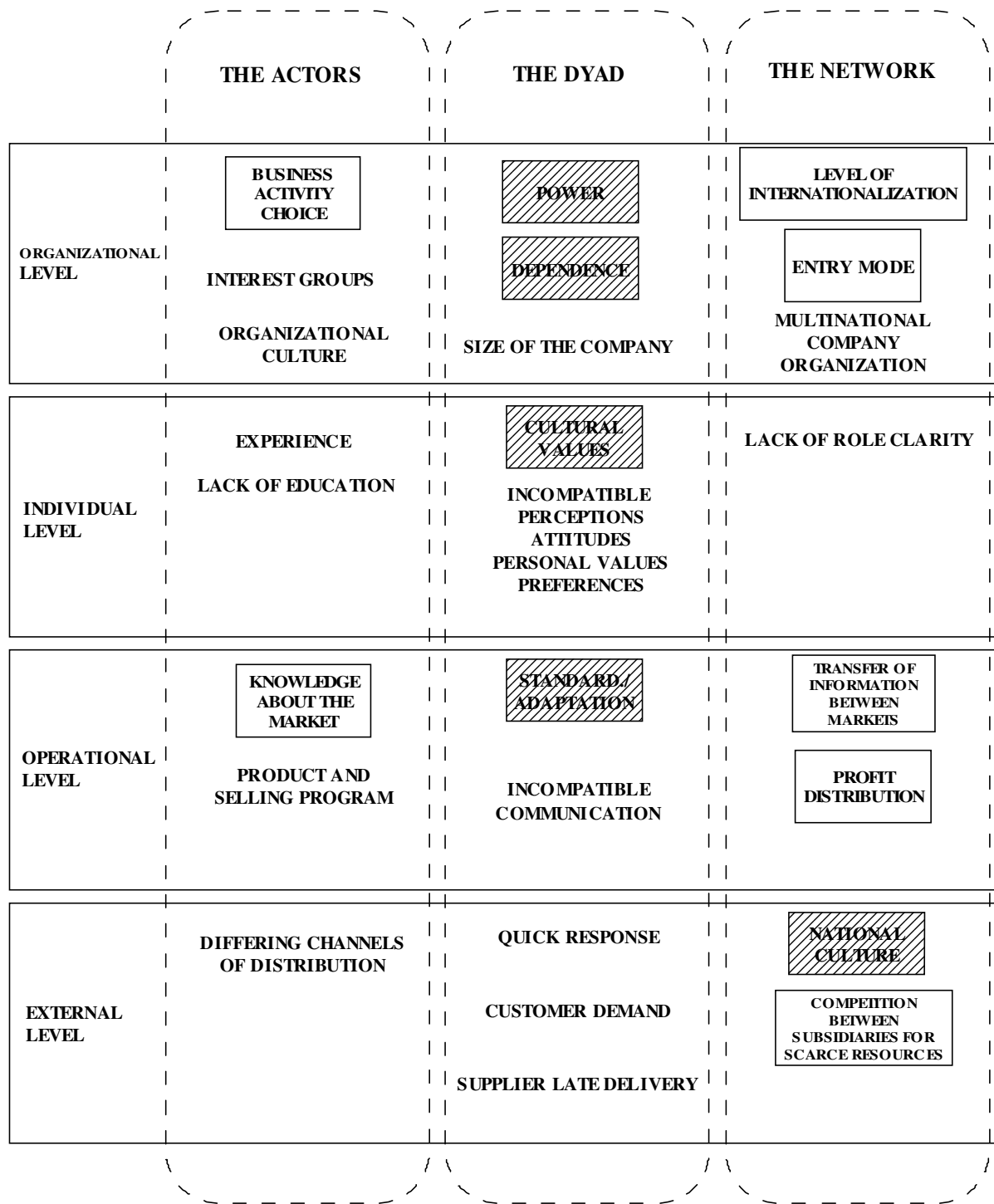
The research among Slovenian retailers identified **the competition between subsidiaries for scarce resources**, provided by headquarters to be one of the more common sources for conflict in current time of financial and economic crisis. As Håkansson and Vaaland (2000) explain, this factor may lead to latent conflict, when viewing a conflict escalation through five stages (latent-, perceived-, felt-, manifest conflict, and conflict aftermath), proposed by Pondy (1967). The competition for scarce resources has been identified as a structural cause of conflict already by Etgar (1979); however in his terms this was a conflict and competition between distribution channel members regarding exclusive rights to special markets. Furthermore, the respondents identified **profit distribution** between subsidiary and headquarters as one of the most common conflict sources. One of the sales managers explains: *“while subsidiary managers argue that profit should stay where it is generated, the management board argue that profit should belong to the brand developer... the subsidiaries claim that such profit distribution hinders their development, however the management board wants to have a control over the foreign investments and approves resources to the subsidiary manager, after he/she presents the project to the management board”*. In sum, the identified sources of conflict are the added value of this research, as they were unexpected according to literature review, and expand the scope of conflict understanding also to international business research.

When looking at expected conflict antecedents, **different culture** (either organizational, either national) prevailed in all cases as a highly influential factor. Some of the respondents shared their research results, which showed that culture was not so different on the national level or in terms of geography where they are present, but more different based on diverse company history and different organizational cultures that were created through company history. Our findings only confirm Rosenberg and Stern (1971) study, who in different setting proved the connection between interaction history and conflict, claiming that knowing the history of your partner and mutual experience reduce the risk for sanctions from the conflict. Furthermore, one of the subsidiary managers explained that business culture across Europe is becoming more and more unified, as managers got the education in the developed European countries, however on the personal level belongingness to different culture, values and tradition may differ even from one worker to another within one firm.



However, when evaluating the impact of **dependence/power** on conflict, most of the respondents claim that it is minimal, if not even negligible. The subsidiary managers' claim that their relationship toward headquarters should be the same as it is the relationship of headquarters to their owners, while the level of conflict particularly depends on the amount of information that is given to headquarters from the subsidiary. On the other hand, export managers at headquarters claim that sometimes it is wise to guide the subsidiary managers in order not to become "a local sheriff", while when limiting subsidiary manager too much, the frequency of conflicts is higher, as they limited by their flexibility and creativity soon hit the boundaries. Furthermore, there are some differences identified by research respondents, whether company is competing on **business to customer (B2C) or business to business (B2B) market**. On B2C market the conflict is more connected with personality of the customers as to his power, as even the smallest customers may be in constant conflict with the company. On the other hand, also B2B market does not offer a rule that the largest buyer is also having most conflict because of the power, as usually even when the sales volume splits in half, the extent of conflicts stays the same. However, respondents recognize that on B2B market conflicts are more task-related than on B2C market.

Research respondents identified also other sources of conflict that are not necessary connected only to international firms or distribution channels itself. Goal incompatibility, commitment, involvement, different perceptions regarding decision making and task and responsibilities division were confirmed to be conflict sources as already by the study of Rosenberg and Stern (1971). One quite interesting source to conflict that might be also culturally specific is **interest groups**, which were according to the respondents formed in headquarters in order to sustain the job position. In this respect we may conclude, when threat for a job position is high, interest groups will be built in order to sustain status quo. Interest groups are usually possessing high legitimate power and do not allow any progress, which leads to conflict between interest groups or between new and old employees. ***Other listed sources of conflicts*** were different value systems, size of the companies, lack of education, personality, experience, product and selling program and quick response to the needs of both companies, involved in the relationship (see Figure 1).

Figure 1: Sources of conflicts in international distribution channels



LEGEND:

-  expected sources of conflict
-  non-expected sources of conflict

Sources: adapted from Laine, 2002; Tidström, 2009 and own primary research.

The sources of conflicts were put in the matrix, adapted from Laine (2002) and Tidström (2009), based on two criteria: first, at which level (organizational, operational, individual, external) do they take place, and second, whom do they affect (the actor alone, the dyadic relationship between buyer and seller, or the network as a whole). Most of sources of conflict unexpected in domestic channels (but expected in international channels) were identified at the organizational level (e.g. level of internationalization, entry mode, etc.) and operational level (e.g. transfer of information between markets), while in general most conflict sources pertain to dyadic relationship, which is logical, as the dyad was the main evaluation unit.

THE CONSEQUENCES OF CONFLICTS

The respondents were asked also, **how do they resolve the conflicts**, and the most common answer was depending on the (friction) event, market and personality of the persons involved. Already Vaaland (2001) talked about governance of friction events, which are influencing the extent of collaboration and conflict in business relationships. Our study confirms the situation factors and level of governance having an influence on conflict occurrence. In addition, the research revealed not only the importance of governance mechanisms like incentives, authority and trust, as discussed by Håkansson and Vaaland (2000) and Vaaland (2001), but also their role as conflict resolution strategies. All respondents have stressed the importance of conversation between people, who are in conflict, especially if the conflict has evolved to that level, where people started to avoid each other. Most of the respondents agree that the conflict resolution strategies depend on the source of the conflict. One of the respondents explained that *“in case when new employee fails to subject to goals and values of the company, the solution is really simple: either in or out”*. Furthermore, the research identified type of organizational structure to have an impact on conflict resolution, as well as conflicts itself. When having a matrix organizational structure, where product managers are responsible for developing a program and subsidiary managers, who are responsible for production, trade or sales on specific market, already the structure itself presents a potential for conflict and consensus between both sides is a daily routine how to manage foreign operations. At the end, the interviewees were asked whether **conflicts impact the export performance** of the company, where we are facing very interesting result, as all subsidiary managers claim that they do not see any connection between conflicts with headquarters and their performance on the market, while all sales or export managers at headquarters of Slovenian companies confirmed this link. We will conclude the research results presentation by one of the quotes of one of the research respondents, who provide a summary of some findings, explained above:

“Where we talk the most, there are also the most of conflicts and the best results. Through conflicts, discussion, different points of view we come to understanding, what headquarters want and what subsidiary understands the market wants. We arrive to higher understanding, as the headquarters get better view on the market and arguments of subsidiary, where people employed are usually local and are not involved in daily activities at headquarters, but now better understand what headquarters want by certain activities. Without conversation and without those activities there are no conflicts, it does not come to situation solving and business results are worse”.

MANAGERIAL IMPLICATIONS AND FURTHER RESEARCH

Distribution channels are the bridge between the company and the market (Coughlan et al., 2006), or between the salespeople and the buyers (Jain, 2001; Keegan, Schlegelmilch, 2001). According to Robicheaux and El-Ansary (1975), the distribution channels are vertical marketing systems of interdependent institutions, where each channel member occupies a desired channel position, depending on its goals, values, expectations and frame of reference. When a desired channel position cannot be maintained because of interaction with other channel members, there is a possibility for channel conflicts. Although one of the basic principles in the business network approach is that every relationship affects and is affected by other relationships within the network (Håkansson et al., 2009; Tidström, 2009), adding a third party contribution to dyadic conflict is very rare among the empirical studies of conflict in distribution channels (Håkansson & Vaaland, 2000). Our study confirms the results of Vaaland (2001) also in international setting, that nearly half of the conflicts are related to the parties outside the dyadic relationship. Therefore, we also suggest to further researchers to expand the research scope from pure dyadic relationship in the distribution channel to distribution networks.

On one hand we have a lack of research on cultural values in the distribution channels, while on the other hand there is a bit more research studies on distribution channel conflicts in general, as well as export performance and mediatory effects on its relationship. Thus, Amason (1996) studies the effects of functional and dysfunctional conflict on decision making process, Vinhas and Anderson (2005) explore how conflict impacts channel structure, Menon, Bharadwaj and Howell (1996) study the effects of conflicts on the quality and effectiveness of the marketing strategy; while some authors (Lusch, 1976; Jehn, Mannix, 2001; Rose, Shoham, 2004; Rose et al., 2007; Webb, Hogan, 2002) explain also direct influence of conflicts on channel performance. On the other hand, the previous research explored several antecedents for conflicts, from goal incongruity (Song, Xile, Dyer, 2000), intensity in relations (Brown, Day, 1981), centralization, formalization and specialization (Barclay, 1991), to communication barriers (Jaworski, Kohli, 1993) and standardization versus adaptation of management processes (Shoham et al., 2008), to name just a few most common ones. However, there was no research that would unite those concepts into one empirical research, which we might consider as an important added value of the present study.

As already Tidström and Hagberg-Andersson (2008) found, the research field of conflicts in business networks, and more particularly in international distribution setting, is only just emerging. It is recommended that more research be devoted to exposed international distribution conflict sources, with particular emphasis on types of conflict and conflict resolution strategies in different cultures. Furthermore, focus of future research on external (international network) sources of conflict would highlight the importance of networks that exist among different subsidiaries of large multinational companies. The findings in this study are limited by the limited empirical evidence. Conflicts as a sensitive topic require a need to develop an appropriate research technique for approaching the phenomenon, as sensitive topics usually involve “some kind of negative feelings, behavior or attitude, which in a research situation may cause anxiety, resistance and unwillingness to share information” (Tidström & Hagberg-Andersson, 2008). We might look at the usage of only qualitative methods in our study as a research limitation, or an opportunity to further extend it with the usage of quantitative methods, where the problem of topic sensitivity is being minimized. Other limitations concern the sampling, sample size and focus on companies, having its headquarters in only one country, which might be overcome by future research.

The contribution of the paper can be evaluated at three different levels; theoretical, methodological and practical level. Firstly, the theoretical contribution of the paper can be seen in the representation of external (international) influences on channel conflicts, whether the previous research studies evaluate mostly internal causes for distribution channel conflicts. The methodological contribution is primarily represented in the complexity of the antecedents-consequences model, stemming from cultural values of an individual firm on one hand and to export performance on the other hand. Furthermore, the study unites economical and behavioral approach of the channel members' evaluation, which were in the channel theory examined separately (Stern, Reve, 1980). In sum, the comprehensive study of all the causes and consequences of conflicts on international business-to-business markets can be seen as the major methodological contribution of the paper, while the influence of all the researched factors on conflict and consequently export performance of Slovenian firms may represent an important contribution to Slovenian business sector, and the research findings to more efficient and effective performance of Slovenian firms on international markets. The identification of unexpected international sources to conflict, like entry mode, knowledge about the foreign market, information flow, profit distribution, type of foreign activities and level of internationalization besides expected conflict sources like cultural values, standardization/adaptation of international marketing strategy and power/dependence channel structure is not only important theoretical contribution, but also a warning to Slovenian managers, which factors they need to consider when forming their internationalization strategy.

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