Performance drivers of International Joint Venture (IJVs) in China : integrating the resource-based view (RBV) with the Dynamic Capability (DC) perspective

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Performance Drivers of International Joint Venture (IJVs) in China: Integrating the Resource-based View (RBV) with the Dynamic Capability (DC) Perspective

WU ZHAN

NANYANG BUSINESS SCHOOL
NANYANG TECHNOLOGICAL UNIVERSITY

2006

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Wu Zhan

Nanyang Business School

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ABSTRACT

The topic which this dissertation explores is the performance drivers of the International Joint Ventures (IJVs) in transition economies, from the perspectives of the traditional Resource-based View (RBV) and the emerging Dynamic Capability (DC) theory. Based on an exhaustive literature review, this dissertation identifies five major gaps in the current literature on the IJV performance from the traditional RBV perspective. Drawing on the traditional RBV perspective, we argue that both the quality dimension and the quantity dimension of IJV resources are crucial in influencing the performance. Furthermore, not only should the resources from foreign partners be explored, but the resources from local partners should be investigated. Aiming to extend the traditional RBV perspective, this dissertation applies the DC perspective, an emerging theoretical perspective in Strategic Management literature. This study conceptualizes the DC as having two dimensions, namely, *Capability Exploitation*, which concerns the extent to which a firm exploits rent-generating resources that are firm-specific, difficult to imitate, and able to generate abnormal returns, and *Capability Exploration*, which involves the extent to which a firm commits to building new capabilities through learning from organizations, creating new skills, or revitalizing existing skills in new situations.

The dissertation argues that the *Resource Compatibility* is an important issue in IJVs since the resources of IJVs are developed in two separate parents. Therefore, the resources may be embedded in their respective parents and may be *firm-specific* and *location-bound* in nature. When the resources are pooled in IJVs, it is neither easy nor automatic to generate competitive advantage from them, due to the resource incompatibility. Hence, whether the resources of IJVs, i.e., the building blocks of superior performance, will be converted into competitive advantage will depend on how the IJVs integrate and transform their current resources. This highlights the moderating role of one DC dimension, namely, *Capability Exploitation*. As to the other DC dimension, *Capability Exploration*, this study emphasizes that the classic MNE theories argue that firms are motivated to

go overseas to exploit their ownership-specific advantage but fail to elaborate on the importance of capability building. The assumption that sustainable competitive advantage can come from an unchanging resource bundle is inherently at odds with operating in a dynamic environment, especially those transition economies and emerging markets like China. Hence, the IJVs in transition economies and emerging markets like China need to constantly build up new resources and capabilities through learning, alliances and other means, thereby continuously renewing their competitive advantage. Last, the roles played by the two dimensions of DC will be contingent on the contextual business environment. When the IJVs operate in more dynamic, competitive, unpredictable and complex industries and locations, the roles played by the two dimensions of DC will become stronger.

The empirical results from a survey of IJVs in China demonstrated an overall positive impact that valuable resources have on IJV performance. In addition, we found that *Capability Exploitation* strengthens the influence of some categories of valuable resources on performance. Moreover, *Capability Exploration* exerts positive and direct impact on performance.

Key Words: IJV, Performance, China, Resource-based View, Dynamic Capability Perspective

CHAPTER 1

INTRODUCTION AND OVERVIEW

1.1 Background and Motivation

Recent years have seen an increased use of international joint venture (IJV) as an entry mode for foreign direct investment (FDI) by multinational corporations (MNCs) pursuing diverse strategic objectives (Blodgett, 1991; Geringer and Herbert, 1991; Hamel, 1991; Kogut, 1988; Parkhe, 1993). In their analysis of Japanese and American MNCs, Beamish et al. (1997) demonstrated that IJVs accounted for 69% and 34% of manufacturing overseas subsidiaries of Japanese and American MNCs, respectively. Japanese MNCs used IJVs twice as frequently as wholly owned subsidiaries for foreign market entry.

An IJV is defined as a jointly-owned legal organization that brings together two or more legally distinct parents through the pooling of a portion of their resources. At least one parent must be headquartered outside the venture's country of operations. An IJV represents a governance mode for international transactions between the polar opposites of arms-length *market contracts* and those conducted within the MNCs, namely, *hierarchies* (Buckly and Casson, 1988). IJVs expand the definition of domestic joint venture by introducing partners from different countries that are cooperating across national and cultural boundaries.

IJV formation had often proved to be the most effective way to meet the challenges of coping with the increasingly competitive environment created by the globalization of the world economy (Luo, 1996). As Harrigan (1987) observed, IJVs cannot simply be viewed as a vehicle for transnational

firms' exploitation of peripheral markets or technologies; they are, indeed, increasingly considered as competitive strategic weapons used within a firm's core markets and technologies and fully integrated in a global, intra-organizational network. Many studies have been conducted to: (a) explain the motives for the formation of IJVs (e.g., Contractor and Lorange, 1988; Kogut and Singh, 1988; Hennart, 1991; Oliver, 1990); (b) investigate the various internal and external factors affecting IJV performance (see review by Matthew et al., 2002); and (c) examine how IJVs perform relative to other foreign entry modes (e.g., Nitsch, Beamish and Makino, 1996; Woodcock, Beamish and Makino, 1994).

In recent years, the incidence of IJV formation has continued to increase steadily, particularly in emerging markets located in Asia, Eastern Europe and Latin America. These emerging markets account for over 70 percent of all IJV entries by MNCs. However, in spite of the popularity of IJV as a foreign market entry mode, IJVs have often been plagued by problems of unsatisfactory performance. For example, from a review of previously published studies, Geringer and Hebert (1991) found that managers frequently expressed dissatisfaction with IJV performance. The studies by Beamish (1985), Blodgett (1991), Gomes-Casseres (1989) and Kogut (1988) all showed that IJVs can be highly unstable. The problem seems to be more serious for IJVs in emerging markets and transition economies, as argued by Luo (1996), perhaps because highly idiosyncratic styles and management philosophies influence greatly IJV performance and contribute to its variability. The nature of the organization form adds to the ambiguity surrounding the IJV operations since an IJV is neither an external, market-based method of organizing economic activity, nor a traditional intra-firm structure (Williamson, 1975). Instead, it is a hybrid that does not comply with the rules of either of business organization forms. IJVs involve at least two partners, whose presence is a potential source of complexity and conflict. Further, differences in national and/or organizational cultures, in strategic objectives, in organizational structures, processes and systems may cause considerable complexity and conflict, in turn resulting in less satisfactory performance.

As Matthew et al.'s review paper (2002) points out, understanding IJV performance dynamism is vitally important for both academic researchers and managers interested in developing and maintaining cross-cultural and cross-national strategic alliances. Prior research explores IJV performance drivers from diverse perspectives, using such theories/approaches as transaction cost (TC) economies, agency theory, Resource-based View (RBV), behavioral perspective, organizational learning/knowledge-based perspective and strategic management perspective. Chapter 2 of this study will review these diverse perspectives used to explain IJV performance in depth. Several internal variables have been examined in current literature, including control and ownership (e.g., Beamish, 1984; Killing, 1983), trust (e.g., Inkpen, 1995; Johnson et al., 1997), commitment (e.g., Inkpen, 1995) and conflict (Habib, 1987) and external variables such as host country government policy (e.g., Gomes- Casseres, 1990). Based on a thorough and critical literature review, Matthew et al. (2002) integrate studies on IJV performance drivers and offer a pluralistic framework, identifying five principal constructs – background, antecedent, core, external, and outcome – which influence IJV performance.

Although it appears desirable to examine all the important IJV performance drivers in the dissertation, it is neither feasible nor necessary to do so due to the following reasons. First, many variables have already been intensively examined in the extant literature and re-examining them would be redundant. Second, to be in line with the requirements of robustness and parsimony, it is advisable to limit the focus and the scope of the dissertation.

The objectives of the study are to fill in the gaps in the RBV perspective of IJV performance drivers, extend the theory by introducing the DC perspective and make contribution to literature and practice. According to the RBV, an IJV could be conceptualized as a bundle of resources which serve as the source of competitive advantage and, in turn, superior performance (e.g., Eisenhardt

and Schoonhoven, 1996; Maoen and Tallman, 1997; Das and Teng, 2000). The focus is on achieving competitive advantage based on inter-firm resource complementarity, the scarcity of valuable firm resources, the coalitional nature of organizations, and the resource interface in IJVs. According to the related Knowledge-based Perspective, an IJV represent a conduit through which firms can obtain organizational knowledge embedded in others (e.g., Inkpen and Crossnan, 1995; Lyles and Salk, 1996; Inkpen and Dinur, 1998). The focus is on organizational knowledge transfer, acquisition and harvesting.

Despite this significant stream of studies, there are five major gaps in the current literature to be addressed by the dissertation. First, the majorities of the studies investigate the antecedents of knowledge/resources acquisition but fail to systematically explore how the acquired resources are exploited in IJVs. Second, the majorities of the studies focus on the knowledge/resources acquired from foreign partners but ignore the location-specific market-based resources contributed by local partner and the host country government (e.g., Lyles and Salk, 1996; Lyles et. al., 1999). Third, most studies explore the quantity or amount of resource/knowledge while failing to tap into the quality or competitiveness of resource/knowledge. This is a critical gap as some empirical studies demonstrate that not all IJVs perform well in transition economies like China and the competition among domestic firms and foreign-invested ventures render some IJVs less successful (Chen, 2004). In other words, the quality dimension as well as the quantity dimension of resources needs to be examined simultaneously. Fourth, the majorities of the studies assume that the resources contributed by the partners could be effectively integrated, transformed and utilized without much difficulty, generating competitive advantage and superior performance. In other words, the issue of *resource compatibility* in IJVs has not received sufficient attention. Last, the majorities of studies focus on the static exploitation of existing resources and capabilities (e.g., Lyles and Salk, 1996, 1997) but explicitly or implicitly ignore the dynamic exploration or building of capabilities critical

to the success of MNCs in transition economies (Luo, 1999, 2002). The following section will elaborate on the five gaps in depth and formulate the research questions accordingly.

1.2 Purpose of Study

Gap 1

Majority of current studies investigate the antecedents of knowledge/resources acquisition but fail to systemically explore how the acquired resources are exploited in IJVs. The basic assumption seems to be that there exist transfer problems associated with the knowledge/resources but there is no problem with respect to the exploitation of resources/knowledge acquired. For example, Lyles and Salk (1996) examine organizational characteristics, structural mechanisms and contextual factors that influence knowledge acquisition from foreign partners. Based on a survey of IJVs in Hungary, adaptation mechanisms, such as capacity to learn and articulated goals, and structural mechanisms, such as the provision of training, technology and managerial assistance by IJVs, were found to be positively associated with the degree to which IJVs reported acquiring knowledge from their foreign partners. However, the study does not explore the consequence of knowledge acquisition in depth and implicitly assumes that knowledge acquired would readily and automatically translate into superior performance. In another study on IJVs in Malaysia, however, Lyles et al. (1999) do not find the positive relationship between knowledge acquisition and performance. Given the inconclusive studies so far, it is not clear whether there should be some conditions or mechanisms required to convert the knowledge/resource acquired into superior performance. Therefore, the current gap (i.e., lack of attention to the consequence of knowledge/resource acquisition) needs to be filled in because the ultimate goal of setting up IJVs is not to acquire resources/knowledge but to turn them into superior performance. Hence,

Q1: How do IJVs effectively convert the resources acquired from the partners involved in IJVs into superior performance?

Gap 2

The majority of studies focus on the knowledge/resources acquired from foreign partners but explicitly or implicitly ignore the location-specific market-based resources contributed by local partners and the host country governments (e.g., Lyles and Salk, 1996), leading to another major gap. Consistent with the OLI paradigm of FDI theory, foreign entrants need to have firm-specific competitive advantages as a pre-requisite for entry into foreign markets. However, as argued by the proponents for market-based resources, foreign entrants are vulnerable to the so-called “liability of foreignness” and have to adapt to local circumstances by leveraging resources embedded within local partners of IJVs. Otherwise, foreign entrants face the erosion of rent-generating potential of their own firm-specific advantages. Hence, local partners’ firm-specific advantages represent another source of competitive advantage that foreign partners can employ to overcome the liability of foreignness and resource constraints in emerging markets, and to complement their own firm-specific advantages. As such, it is necessary to examine the contributions of resources acquired from the both partners to IJV performance in a unified way. Since the essence of IJVs is to pool the resources from foreign partners and local partners and jointly generate superior performance, focusing on foreign partners only will engender an incomplete picture. Lack of attention to the resources acquired from local partners is another major gap to be filled by the study. Hence,

Q2: How do resources acquired from local partners in IJVs contribute to the superior performance of IJVs?

Gap 3

The majority of the current studies explore the quantity or amount of resource/knowledge while failing to tap into the quality or competitiveness of resource/knowledge, although some empirical studies demonstrate that not all IJVs perform well in transition economies like China and the competition render some IJVs less successful (Chen, 2004). The implicit assumption in the extant literature seems to be that the resources brought in by foreign partners are always superior and will

confer competitive advantage and thus superior performance to IJVs in emerging markets. For instance, Lyles and Salk (1996) operationalize the knowledge acquisition by assessing the extent to which the IJVs learned from the foreign parents (where 1 = little; 5 = to a great extent). Hence, this measure only captures the quantity or amount dimension of resource, leaving the quality or competitiveness dimension unexamined. Some studies have pointed out that not all foreign entrants in emerging markets perform well. In the study of 128 FDI entries from Singapore, Pangarkar and Lim (2003) find that Singapore firms' foreign subsidiaries achieve unsatisfactory performance in China. The reason could be that the resources contributed to foreign subsidiaries are not competitive enough relative to those of the well-performing competitors in China. In reality, with the development of China's reform and opening up and the transition from a planned economy to a market economy, the competition in China is becoming increasingly fierce. There is no guarantee that any foreign entrant will create and sustain competitive advantage in China in that the foreign entrants have to compete against the foreign competitors and the domestic Chinese competitors. Even IBM could not beat the local Chinese firm named Legend in the home PC market. Therefore, whether leveraging foreign parent capabilities would lead to superior performance will depend on whether the competition mainly comes from locals or from other foreign companies (Chen, 2004). Lack of attention to the quality of resources from partners of IJVs represents another gap. This is a serious gap considering the above-mentioned inconclusive results. Related to Gap 2 above, it is desirable to examine both the *quantity* and the *quality* of resources from both *foreign* and *local* partners of IJVs. In this study, we define the value of the resources as the combination of the quality and the quantity. The quality of the resources refers to the extent to which the resources would generate sustainable competitive advantage while the quantity of the resources refers to the extent to which IJVs acquire resources in terms of amount, consistent with the extant literature. Hence,

Q3: How do the quantity and the quality of resources from partners of IJVs jointly impact the performance of IJVs?

Gap 4

The majorities of the studies assume that resources contributed could be effectively integrated, transformed and utilized without much difficulty and generate competitive advantage and superior performance. In other words, the issue of *resource compatibility* in IJVs has not received sufficient attention. Unlike another entry mode, wholly-owned-subsidiary (WOS), the IJV is unique in that it is a hybrid between hierarchy and market, consisting of at least two partners. The unique nature of IJVs implies that the resources from partners might not be compatible to generate superior performance. The resources' embeddedness in their respective parents might result in the erosion of rent-generating potential so the resource compatibility issue in IJVs cannot be ignored. Whether the IJVs are capable of integrating and transforming the resources from partners will have a bearing on the impact of resources on the IJV performance. While there is a stream of studies on alliance capability and on post-strategic alliances and post-M&As resource integration, there are very few studies in IJV literature on how to integrate the resources so as to mitigate the erosion problem. Hence, lack of attention to the capability of IJVs to combine and integrate the resources is another critical gap to be addressed in this study. Hence,

Q4: How do the IJVs effectively exploit the existing resources, via integration and transformation, and generate superior performance?

Gap 5

Last, the majority of studies focus on resource and capability exploitation (static) in transition economies like Hungary (e.g., Lyles and Salk, 1996) but fail to explore the capability building (dynamic) critical to the success of MNCs in transition economies like China (Luo, 1999, 2002). As argued by Chen (2004), continuous reliance on parents of IJVs for resources can disrupt the learning of local subsidiaries or its efforts of developing local suppliers. Competition in Chinese market also forces the subsidiaries to cut costs and prices, which in turn requires the firms to reduce their dependence on parents. The literature also suggests that subsidiaries are not just *conduits* for

the transfer of resources and capabilities from parents. To the contrary, they could be “centers of excellence”, meaning that they could learn and generate new resources and capabilities to continuously renew their competitive advantage. Drawing on the arguments above, we posit that IJVs in general and IJVs in transition economies and emerging markets in particular need to continuously generate new resources and capabilities not available from either partner but needed to compete in emerging markets like China characterized by huge opportunities and threats. Mere (static) dependence on parents for resources and capabilities could not ensure sustained competitive advantage and it is worthwhile to explore the dynamic resource and capability exploration and the implication of such exploration for the IJV performance. Lack of sufficient attention to the dynamic resources and capabilities building in IJVs represents another gap. Hence,

Q5: Is capability exploitation enough for generating superior performance for IJVs? What is the role played by capability exploration in generating superior performance?

This study is aimed at bridging the above-mentioned gaps and applying the perspective of Dynamic Capability, defined as the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment (Teece, et al., 1997), to complement the traditional RBV perspective. The DC perspective enables the study to conceptualize IJVs as bundles of resources contributed by foreign partners and local partners, all representing the *building blocks* of superior performance. However, whether these resources could lead to competitive advantage and superior performance will depend on how IJVs exploit the resources. Moreover, in order to compete with both the foreign competitors and the increasingly competitive domestic competitors, IJVs must not only be able to exploit the current resources and capabilities but be able to generate new ones. *Capability Exploitation* and *Capability Exploration* are two distinct dimensions of Dynamic Capability (Luo, 2002), which serves as one of the theoretical underpinnings of this study.

1.3. Scope of Study

The study focuses on the international equity joint ventures operating in transition economies using China as the research context. Equity IJV is defined as “a separate legal organizational entity representing the partial holdings of two or more firms, in which the headquarters of at least one parent firm is located outside the country of operation of joint venture. This entity is subject to the joint control of its parent firm, each of which is economically and legally independent of each of other (Shenkar and Zeira, 1987)”. Compared with other contractual IJVs such as R&D alliances, technology partnerships and marketing consortia, equity IJVs differ in terms of intention of managing the venture on an on-going basis and stability. Given the differences between these two categories of IJVs and the dominance of the equity IJVs in China, this study is confined to the investigation of the equity IJVs in China.

Further, the study is limited to the market-seeking IJVs in China, which seek market share and growth in China. It excludes resource-seeking IJVs which are established mainly for local production and export. The restriction is in line with many studies on MNCs and IJVs in China (e.g., Luo, 2003) and is set for three major reasons. First, local market expansion is a major goal for most IJVs in China and this goal differs from diverse goals for IJVs in industrialized countries (e.g., learning, knowledge acquisition, and strengthening of corporate image) or in other developing countries (e.g., raw materials and nature resources). Second, we address performance of market-seeking IJVs in China. Performance criteria for those resource-seeking IJVs (e.g., those using China as a low-cost production platform) are different from the criteria for the market-seeking IJVs. Third, this restrictions can help us isolate the specific effect of parent strategies (e.g., global vs. multi-domestic) on IJV performance.

The study is also confined to the manufacturing IJVs in China since majority of IJVs operating in China are manufacturing-oriented firms. IJVs in service sector are relatively rare and the Chinese government has been restricting FDI in service sector, although the restriction has been loosened gradually since China's entry into WTO. Moreover, manufacturing IJVs are different from service IJVs in many ways. Confining the scope of the study to manufacturing IJVs in China will partial out the industry effect if there are significant differences between manufacturing sector and service sector. Whether the findings from the study will be generalizable to IJVs in service sector is a worthy objective for future research investigation.

China, the largest emerging market and transition economy, serves as the context for this study. It offers the following advantages as the research setting. First, China is the second-largest FDI recipient in the world and has been overwhelmingly important for researchers and practitioners. It offers a large population of IJVs for empirical research. Second, in spite of the prevalence of IJVs in China and a variety of studies on MNCs and IJVs in China, majority of them examine such variables as entry mode, entry timing, partner selection, experience, control, networking, etc in influencing the IJV performance (e.g., Luo et al., 1999; Luo et al., 2000; Luo, 2001a, 2001b). To the best of our knowledge, there is no systematic study applying the DC perspective to explore the IJV performance drivers although DC has become increasingly fundamental to international expansion and global operation (Luo, 2000). Third, focusing on China as a single host country will help control for the effect of the unique attributes of diverse host countries on IJV performance. On one hand, the insights gained from the study will shed light on the studies of IJVs in other emerging markets and transition economies, hopefully. On the other hand, whether the findings generated from one particular country will be valid in other countries is a question for future research.

Last, most previous IJV studies have examined the various aspects of IJVs mainly from a foreign MNC perspective. This study is different from previous studies in that it examines IJV performance

from the perspective of the focal IJV. Focusing on IJVs themselves rather than parents is warranted since IJVs and their parents might hold different expectations, goals and evaluations. Since the study is focused on the performance of IJVs, it is better to explore this issue through the lens of IJVs.

1.4 Contributions

This study can be justified as significant because of its contributions to the development of theories. In addition, it also makes contributions to the practice of IJVs in transition economies.

1.4.1 Theoretical Contribution

This dissertation contributes to the academic literature. The core contributions lie in its theoretical extension of the RBV perspective of IJV performance drivers and empirical investigation of the DC perspective. By extending the RBV perspective and applying the DC perspective, this study provides an alternative explanation of IJV performance based on how IJVs effectively exploit the current resources and how they develop new resources and capabilities. To the best of our knowledge, this study is expected to be the first comprehensive one applying the DC perspective to explore IJV performance drivers. It is noted that the inclusion of the DC perspective to study of IJVs will help fill the five gaps identified and unravel the “black box” existing between resources and performance. Also, it is hoped that the *dynamism* brought in by the DC perspective will complement the RBV which is *static* in nature. Furthermore, it shifts the focus of Knowledge-based Perspective from how IJVs acquire knowledge/resource to how the acquired resources will be exploited by IJVs.

1.4.2 Practical Contribution

The practical importance of this study lies in the extent to which the findings could provide empirical evidence on the DC of IJVs. The formation of IJVs is costly and IJVs are unstable, risky and difficult to manage. Therefore, managers of IJVs should be able to determine whether the resources acquired from partners, both foreign and local, are valuable and how the valuable resources will be exploited by removing the “obstacles” to the generation of superior performance from the resources. The proposed model in the dissertation depicts a complete picture of how IJVs exploit *valuable* resources from both partners involved in IJVs, compared with the extant models which focus only on the *quantity* of resources from the foreign partners. In addition, managers of IJVs must be able to develop new resources and capabilities needed to compete successfully in emerging markets like China since mere dependence on the current resources alone cannot ensure the adaptability, innovativeness, and sustainability necessary for expansion (Luo, 2000). As such, both *Capability Exploitation* and *Capability Exploration* have significant managerial implications for practitioners.

1.5 Level of Analysis

One significant departure of the paper from previous studies is that the study examines IJV performance from the perspective of IJVs themselves rather than the perspective of either foreign MNCs or the local Chinese partners. There are several reasons for the choice of unit of analysis. First of all, we conceptualize that the IJVs are the pools of resources from both foreign partners and local partners. The value, defined as the combination of quantity and quality of resources brought into IJVs, will impact on the performance. As a result, examining the value of resources from the perspective of IJVs as the receipts will make the evaluation unbiased. Second, we argue that the resources are just the building blocks of IJV performance and whether and to what extent these resources translate into superior performance will depend on the capabilities of IJVs, namely, the

capabilities of IJVs to exploit the resources. It is one of the major contributions of the study to argue that resources brought by MNCs and local Chinese partners do not necessarily lead to superior performance and the capabilities of IJVs, which could be viewed as a special category of resource, play a significant role in converting the resources into performance. Furthermore, it is generally argued in literature that foreign MNC resources will lead to performance only when they are well matched by complementary resources brought by local partner. How to realize the desirable synergies will depend on IJV's own capability. All these translations and conversions occur at the level of IJVs and are conducted by IJVs themselves. Therefore, it is theoretically imperative to examine the resources possessed by IJVs and the capabilities of IJVs to exploit the resources from the perspective of IJVs.

In addition, the study integrates the RBV with DC perspective by separately exploring the roles of the two dimension of DC, i.e., Capability Exploitation and Capability Exploration. Capability exploration is concerned with the development and generation of new resources and capabilities, which is done by the IJVs themselves. Again, it is theoretically appropriate to explore the extent to which IJVs generate new resources and capabilities, from the perspective of IJVs rather than parents.

Empirically, it is relatively easier to collect data through survey of the senior managers of IJVs responsible for the daily operation and strategic planning. In fact, the senior IJV managers have the most knowledge with regard to the major constructs in the study. As a result, it is appropriate to survey the senior managers of IJVs.

1.6 Organization of Dissertation

Chapter 2 reviews previous studies on IJV performance drivers using diverse theories /perspectives such as transaction cost (TC) economies, agency theory, Resource-based View (RBV), behavioral perspective, organizational learning/knowledge-based perspective and strategic management perspective. Since the focus of the study is on the extension of the RBV perspective, Chapter 2 elaborates on the gaps in the current RBV literature and proposes that the DC perspective, which is new to the literature, will help fill in the gaps and enhance our understanding of the important issue. In addition, it discusses the RBV perspective and compares it with the DC perspective.

Based on the critical literature review in Chapter 2, Chapter 3 discusses the theoretical underpinnings, conceptual framework and hypotheses. Chapter 3 conceptualizes DC as having two dimensions, namely, *Capability Exploitation* and *Capability Exploration*. Several hypotheses are developed to assess the moderating and the direct impacts of the two dimensions of DC on the IJV performance, based on a conceptual framework. Chapter 3 also conceptualizes IJVs as resource pools which serve as the building blocks of superior performance and DC acts as the mechanism to convert the building blocks into superior performance. A contingency approach is also proposed to suggest that the *degree* of the moderating and the direct impacts of the two dimensions of DC on IJV performance will be dependent on the dynamism of the business environments in which IJVs operate.

Chapter 4 outlines the methodology employed in the study. The research setting and target population are set and defined. The sampling technique and the data collection procedures are described. The instrument development of the survey is discussed in detail. The operationalizations of dependent variable and independent variable are elaborated on. The data analysis techniques are also suggested.

Chapter 5 presents the results of the statistics analysis performed on the survey data discussed in Chapter 4. The analysis is carried out in three steps. The first step examines the quality of the data by means of the following tests: test for non-response bias, test for representativeness, and test for common method bias. The underlying dimensions of DC and the underlying dimensions of Resource Acquisition are examined by Explorative Factor Analysis. Building on the preliminary analyses, the hypotheses are refined accordingly. The internal reliabilities of the measures are checked. The set of hypotheses are tested by moderated hierarchical regression.

Chapter 6 summarizes the findings from the study, discusses the theoretical contribution and the managerial implication, suggests the limitations of the study and delineates the directions for future research.

1.7 Summary

This chapter discussed the background of the study and the motivation of undertaking this study. It identified five gaps in the RBV perspective of IJV performance drivers and formulated the corresponding research questions. More importantly, it explained why addressing these five gaps is theoretically important and managerially imperative. In addition, it set the scope of the study and discussed the contributions of the study to both theory and practice. The structure of the study was also outlined.

The chapter laid the foundation for the study and the following chapters will focus on the literature review, the conceptual framework formulation and the hypotheses development.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The section will critically review the literature on IJVs relevant to the study. Specifically, various theoretical perspectives employed to examine the organization, operation, and outcomes of IJVs will be reviewed in detail, with the special focus on Resource-based View (RBV). Based on the critical review, five gaps in the current literature will be discussed, serving as the foundation for the study. The study is aimed to fill these gaps, to extend the RBV perspective of IJV performance drivers and to make a contribution to the IJV literature with respect to the performance drivers.

Definition of International Joint Ventures (IJVs)

There are various reasons that motivate firms to form joint ventures. According to transaction cost (TC) theory, the formation of joint venture serves as a way to organize the boundary activities of firms with other firms in such a way as to minimize the sum of production and transaction costs. The joint venture is a *hybrid* form and lies between the two extremes, i.e., *hierarchy* and *market* (Kogut, 1988). The RBV of the firms views joint ventures as form of common legal organization whose resources are combined by two or more firms (e.g., Das and Teng, 2000).

Based on Anderson (1990), joint ventures are defined as legally and economically distinct organizations, created by two or more parent organizations that collectively invest in the JV to pursue predetermined strategic objectives. Hennart (1988) distinguishes two forms of joint venture: equity and non-equity. Equity joint venture is an independent legal entity whose assets are contributed by the partner firm (parents of the joint venture). Non-equity joint ventures are composed of different types of contractual arrangements such as licensing, franchising, distribution, supply agreements, joint R&D and joint exploration. A firm can form a joint venture with one or

more firms from its own country, namely, domestic joint venture, or from overseas, namely, international joint venture. If at least one firm that joins the establishment of a joint venture is located outside the venture's country of operation, the joint venture is then called international joint venture (Geringer and Hebert, 1989). Following Geringer and Hebert's (1989), a joint venture will also be considered as an IJV if it has a significant level of operation in more than one country. An IJV may either locate in the same country with one of its parents or in a different country (Pan and Tse, 1997). According to Shenkar and Zeria (1987), IJV is:

A separate legal organization entity representing the partial holding of two or more parent firms, in which the headquarters of at least one parent firm is located outside the country of operations of the joint venture. This entity is subject to joint control of its parent firms, each of which is economically and legally independent of each other (p.9).

According to Yan and Luo (2001), IJVs expand the definition of joint venture by introducing partner organizations from different countries that are cooperating across *national* and *cultural* boundaries. IJV can also be regarded as a form of strategic alliances (Hara and Kanai, 1994) in the sense that it is a form of inter-organizational relationship, representing a coalition of two or more firms to achieve strategic goals that are mutually beneficial to the coalition firms (Inkpen and Currall, 1997). However, strategic alliances may cover a broader range of business cooperation arrangements that are not necessarily separate entities like international joint venture, including such forms as licensing, cross-licensing, outsourcing, joint R&D, co-production, technology transfer agreement, and sales and distribution (Johnson et al., 1997).

2.2 Critical Review of Theoretical Perspective of IJVs

An examination of the IJV literature identifies several major theoretical perspectives that have been employed to explain the organization, operation, and outcomes of the IJVs. As Matthew et al. (2002) point out, the various theoretical perspectives can be attributed, to some extent, to the developments

in the wider collaborative strategy field that offers valuable input in gaining an understanding of IJVs, together with the fact that IJVs represent a multifaceted organizational phenomenon (Kogut, 1988). In this section, theories of IJV are reviewed as the following figure demonstrates.

Figure 2.1 Perspectives of IJVs

2.2.1 Transaction Cost (TC) Approach

TC approach (e.g., Hennart, 1988) argues that firms act on the criterion of minimizing transaction cost. Proponents of TC approach argue that strategic alliances occur because the sum of production and transaction cost associated with the alliances is lower than that for sole ownership, i.e., hierarchy, or arm's length transaction, i.e., market. Comparing three theories, namely, transaction cost, strategic behavior, and organization theory, Kogut (1988) explains the motives underlying the formation of IJV. According to him, there are three factors that encourage firm to form IJVs: (1) avoidance of small number bargaining (e.g., only few market agents available), (2) enhancement of competitive position, and (3) provision of mechanisms for the transfer of organizational knowledge. Using TC theory, he posits out that firms choose to minimize the sum of production and transaction costs. The dependence of a firm on others requires it to incur certain expenses of writing, executing,

and enforcing contracts. These costs are likely to be high under arms-length transaction, when there are fewer parties involved. Transaction costs incurred to reduce the potential opportunistic behavior in such situations can be so high that the market is not a viable option. Williamson (1975) names this phenomenon as small numbers bargaining.

Kogut (1988) proposes that the IJV could be a solution to overcome such a problem. However, the formation of IJVs can only be appropriate if there are diseconomies associated with acquisition, due to the cost of divesting those unnecessary resources of targets or managing unrelated activities, or with new investment, due to the high costs of internal development. Uncertainty and frequency of transactions are also necessary for the existence of IJVs. He argues that IJVs are viable options, compared with hierarchy and market, when (a) a firm chooses not to enter into contractual relationships with other parties because of high uncertainty over specifying and monitoring performance and high degree of asset specificity, whereas local partner's equity stake could lower opportunism and monitoring costs, and (b) the cost of establishment of wholly own subsidiaries is very high while IJVs could allow the foreign partner to enter the local market relatively readily without huge investment involved.

Although IJVs also incur transaction costs arising from conflict, control, coordination and differences in national and organizational culture, the TC approach is focused on the sum of the production and transaction costs associated with the IJVs. During collaboration, each side assesses constantly the sum of costs accruing from IJVs. If at some point costs are deemed too high, the firm may choose to re-organize the particular organization.

Closely related to the TC approach is the internalization theory. Beamish and Banks (1987) propose that enhancing revenue efficiencies and reducing opportunisms are the two motives encouraging firms into IJVs. When a firm is going to enter the foreign market, it may choose to establish a

wholly owned subsidiary rather than engaging in arms-length transactions since negotiating, writing, executing and enforcing contracts with the intermediaries in distant markets may cost more than conducting business directly through the hierarchy, namely, the internalization mode. The use of IJV could enable the firm to set up its physical presence in the market and avoid arms-length transaction costs and allow the firm to exploit the partner's ownership-specific advantage to enhance the IJV's revenue (Caves, 1982; Harrigan, 1985).

Opportunism and uncertainty are issues associated with internalization of the market. Beamish and Banks (1987) suggest that under certain conditions and structural arrangements, the above issues may not apply to IJVs when (a) IJVs are established in a spirit of mutual trust and commitment to long-term success, and (b) the inter-organization linkages and inter-organization exchange are mechanisms to minimize the opportunistic behavior.

2.2.2 Organizational Learning/Knowledge-based Approach

Under this school of thought, a firm is conceptualized as a knowledge base. However, while some parts of knowledge are codified and transferable through licensing, purchasing or the like, the rest of it is embedded in the organization and/or tacit in nature. As emphasized by Kogut (1988), the latter type of knowledge could not be fully understood unless it is sufficiently replicated. Firms that seek this type of knowledge need to set up a cooperation tie and IJVs are the appropriate vehicles for such a learning purpose. This approach views IJVs as a conduit through which firms can obtain tacit organizational knowledge embedded in others. Firms form partnerships to capitalize on opportunities to acquire particular skills (Kogut, 1988). Under this school of thought, IJVs are a repository of valuable information and provide a platform for acquiring a partner's tacit experiential knowledge or even obtaining new knowledge developed by the IJV itself (Berdrow and Beamish, 1999), enabling partners to enhance their competitive positions through acquiring new skills and

capabilities (Shenkar and Li, 1999). The knowledge can be useful to parent firms in three ways: (1) it can strengthen the strategic, operational, and tactical aspects of their businesses; (2) it can enhance experience in the design, implementation and management of IJV businesses; and (3) it can be embedded in specific processes and output of the IJV itself and benefit the venture itself, but otherwise be of limited value (Inkpen and Dinur, 1998).

The focus of this perspective is how organizational knowledge possessed by the partners and IJV is used and managed and the procedures for information transfer, transformation, and harvesting. Explicitly, however, this approach assumes (1) that one or all partners involved in IJV desire to acquire the others' organizational knowledge and (2) firms wish to maintain organizational capabilities while benefiting from others' current knowledge. But, learning is not the sole objective of many firms engaged in IJVs. And, the current literature based on quantitative and cross-sectional data fails to reveal how the learning processes unfold and evolve over time. Lastly, this perspective centers on the *antecedents* of the knowledge learning and acquisition (e.g., Lyles and Salk, 1996) and identifies various organizational attributes which affect the learning and knowledge acquisition in IJVs. From the knowledge-based perspective, Tsang, Nguyen and Erramilli (2004) develop a model that proposes (1) that certain international joint venture characteristics influence the joint venture's knowledge acquisition from its foreign parent and (2) that the amount of knowledge acquired affects venture performance. Nevertheless, it does not tap into the more important question of how the acquired knowledge is *deployed*. This perspective and the RBV perspective above seem to assume that the resources from all partners involved in IJV could be easily *deployed*.

2.2.3 Agency Theory Approach

In much the same way that transaction cost theory emphasizes the firm-market conflict, agency theory focuses on the principal-agent conflict. Agency theory is a general theory in management

and organization theory, which attributes a divergence of interests between shareholders (principals) and managers (agents) to the separation of ownership and control in modern businesses (e.g., Hoskisson et al., 1999). In the domain of IJVs, the IJV management team may be regarded as the agents of the parent companies which may be regarded as the principals. While principals may want to maximize their performance through the use of agents, agents may be interested in extracting a maximum fee for their services with minimal efforts. In addition, agents may misrepresent their skills and knowledge to principals. These problems arise from the principals' inability to verify the agents' behavior and skills *ex ante*. To combat these problems, principals can either reduce the information asymmetry by investing in monitoring systems (e.g., hierarchy) to constrain agents' opportunism or structure agent incentives in a way that both parties' interests are aligned. Such activities entail what are called agency costs, which are the *ex ante* costs of "monitoring expenditures of the principal, the bonding expenditures by the agent, and the residual loss" (Jensen and Meckling, 1976, p. 308). Principals and agents may differ in terms of interest, leading to self-interest behavior and the resulting conflict exacerbated by culture distance and avoided via parent-initiated control mechanism and cooperation (Luo and Park, 2004; Matthew et al., 2002). As emphasized by Luo and Park (2004), the major players involved in IJVs, namely, the IJV management teams at the local level do not necessarily share the same strategic goals with either foreign parents or local parents. Hence, vertical cooperation between parents and venture management is crucial in avoiding agency problems. Formal control is insufficient to manage the agency relationship unless there is trust-based cooperation, which develops relational capital and trust, making it easy to work together and enhancing goal congruence.

The principals act to control costs they attribute to agency relationships called *agency cost*. The IJV's business structure would reflect the parents' efforts to minimize the risks they associate with the IJV's agenda (Kumar and Seth, 1998). The foreign partner is likely to assess the potential difficulties in evaluating the abilities and actions of the IJV management team due to physical and

cultural distance (Contractor and Kundu, 1998) as any difference in the local partner's goals for the IJV may cause the foreign partner to assume that the IJV management teams will take actions that would neglect or compromise its own interests. Agency problems arise in the IJV context where a parent firm's shareholders become concerned that the IJV and the partner will compete for the attention of the parent's executives (Reuer and Miller, 1997). However, agency hazard is just one of the issues to be addressed by IJV management teams and the assumption that IJV management teams serve their own purposes before those of parent company may not be pragmatic.

2.2.4 Behavioral Approach

Lack of attention to the *social fabric* of IJVs is one of the criticisms of TC approach and agency theory approach. Criticism that past empirical IJV studies do not adequately recognize the inseparability of the outcome (e.g., survival and control) from the process has given rise to the behavior approach. The behavior approach asserts that the development and successful evolution of IJVs depend largely on behavioral interactions and the presence of goodwill among the parties involved (Matthew et al., 2002). *Soft variables* such as relational and interactional variables (e.g., trust, commitment, forbearance, cooperation, and conflict) and processes within the inter-firm relationship are the focus of the behavior approach (e.g., Makhok, 1995; Parkhe, 1993; Inkpen and Birkenshaw, 1994; Inkpen and Currall, 1997; Luo, 2001, 2004). For instance, trust has been shown to increase cooperation, improve flexibility, lower the cost of coordination activities, and increase the level of knowledge transfer and potential learning. The benefits from trust range from lowering agency and transaction costs in uncertain environments and improvements of firms' ability to adapt to environmental complexity and change to facilitation of dispute resolution (e.g., Gulati, 1995 and Ring and Van de Ven, 1994). Arino and de la Torre (1998) concluded that, in the absence of trust, IJVs that experience threats to stability often dissolve. Similarly, partner cooperation, the opposite of opportunism, implies that the partners are willing to pursue mutually compatible interests (Das

and Teng, 1998) and the partners are truthful and committed to the agreements in an IJV (Arino, 1997). Although it is difficult to develop cooperation in the face of self-interest and competitive uncertainty (Park and Ungson, 1997), the IJV governance structure will inevitably have to be adjusted to encourage cooperation, as a result of misunderstanding at the contract stage of IJVs (Arino and de la Torre, 1998; Reuer, 2000; Reuer et al., 2002). Regardless of whether cooperation originates from relation-based trust or calculated trust (Dyer, 1997), cooperation and ongoing interaction among firms develop *knowledge-based trust*, or trust based on norms of equity, which counteracts opportunistic hazards and mitigates transaction costs in exchange (Gulati, 1995). Hence, Luo and Park (2004) argue that multiple-level cooperation, namely, horizontal cooperation between foreign parent and local parent, vertical cooperation between foreign parent and joint venture management, and vertical cooperation between local parent and joint venture management, strongly impact the performances of equity joint ventures in China.

These soft variables should complement the structural variables, such as control, ownership, and other governance mechanisms in examining performance drivers of IJVs. Although it is hard to quantify these soft variables, the social dimension within which these arrangements are embedded can be nurtured to increase the partners' goodwill and flexibility regarding the IJV and generate operational efficiencies based on mutual orientation toward the partnership (Ring and Van de Ven, 1992). In such case, IJV development is likely to be integrative, as each party could be committed to involving the other in areas where it can provide impetus for alliance development and success.

2.2.5 Resource-based View (RBV) Approach

As an influential and popular theoretical paradigm, resource-based view (RBV) looks inwards and views the resources available to the firm as the sources of the sustainable competitive advantage and superior performance of firms. According to Wernerfelt (1984), a firm's resources are those

tangible and intangible assets tied semipermanently to the firm. These include all firm-specific assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., that allow the firm to develop strategies benefiting its efficiency and effectiveness. The Resource-based View (RBV) of the firm notes that a firm can be considered as a bundle of resources that enable it to conceive and implement strategies efficiently and effectively (Penrose, 1959; Wernerfelt, 1984; Dierickx and Cool, 1989; Barney, 1991; Amit and Schoemaker, 1993). It argues that organizational capabilities are the principal source of competitive advantage for the firm. It is the deployment of these resources through an effective strategy that creates superior value for customers and a competitive advantage for the firm (Collis and Montgomery, 1995). A *sustainable* competitive advantage arises when the firm's resources are valuable (i.e., they help create valuable products and services), rare (i.e., competitors do not have access to them), inimitable (i.e., competitors cannot easily replicate them), and appropriable (i.e., the firm owns them and can exploit them at will) (Barney, 1991). Several studies have established the relationship between resource deployment and superior long-term performance (e.g., Miller and Shamsie, 1996; Prahalad & Hamel, 1990; Wernerfelt & Karnani, 1987).

Scholars have classified resources in many ways. For instance, Barney (1991) categorized them as human capital resources, physical capital resources, and organizational resources; and Grant (1998) identified tangible resources, intangible resources and human resources. These descriptive typologies, however, lack adequate theoretical underpinnings (Das and Teng, 2000). Miller and Shamsie (1996) suggest that, based on the notion of barriers to imitation, all resources may be classified into two broad categories: property-based resources and knowledge-based resources. *Property-based* (PB) resources are defined as physical properties owned by firms, primarily including resources like machinery, buildings, plants, land and similar resources that are needed to produce and market products and services. *Knowledge-based* (KB) resources, on the other hand, are

defined as the intangible know-how and skills that span technological, managerial and marketing capabilities.

From the perspective of RBV, IJVs are formed to create bundles of strategic and social resources not otherwise available to either partner, which in turn can generate competitive advantage and improve performance (Mjoen and Tallman, 1997). It is about producing the most value from one's existing capabilities and resources by *combining* these with others' sources of advantage. The process is most successful when there exists the *complementarity* (Matthew, et al., 2002). IJVs achieve competitive advantages when they pursue a value creating strategy not followed by competing organizations, because competitors find it difficult to implement a similar strategy. They may not possess all the necessary resources themselves or be able to locate a partner willing and able to contribute the complementary resources required (Das and Teng, 2002).

Since RBV is one of the main theoretical perspectives in IJV literature and one of the main focuses and contributions of this study is the re-examination and extension of the RBV, it is imperative to discuss the following issues in detail.

Resources vs. Capabilities

The link between resources and competitive advantage of firms raises a need to differentiate two distinct aspects of resources: the resource *stock* per se and the ability to *transform* the resource stock into outputs that create sustainable competitive advantage. The resource stock can be considered as comprising inputs or ingredients of the operation process. It is the basic source and *building block* that potentially generates rents for the firm (Williamson, 1975). Resources are generated when the resource stock is configured in unique ways to produce superior value for customers. The ability of the firm to convert the resources into sustainable competitive advantage and the eventual superior performance is called "capabilities" (Amit and Schoemaker, 1993). In a

way, capabilities could be regarded as *higher order* resources and the resource stock as the *lower order* resources.

Resource stock and capabilities are two distinctive aspects of resources. According to Fahy (1996), resource stock can be tangible and intangible. Capabilities, however, refer to a firm's ability to effectively deploy and utilize the resource stock. They are firm-specific in nature and developed over time through complex *social interactions* among the firm's resource stock. Capabilities are *routines* embedded in firms that enable the resource stock to be deployed advantageously (Day and Nedungadi, 1994). Capabilities are the firm's competences that harmonize the resource stock to nourish the firm's organization (Prahalad and Hamel, 1990).

However, resources and capabilities are mutually related, although they are two distinct aspects. Capabilities are means that deploy resources as the building blocks of competitive advantage. The resources, when deployed and integrated, help create new capabilities (Grant, 1991). From the perspective of practical measurement, it is very difficult to separate capabilities from resources and it is hard to capture the capabilities which are complex and embedded in nature.

Attributes of resources

A firm possesses various resources with various characteristics. Not all resources are strategically relevant to the firm (Barney, 1991). Only those resources that enable a firm to conceive of and implement strategies that improve its efficiency and effectiveness are strategic resources. Resources are only meaningful in the context of performing certain activities and creating certain competitive advantages (Wernerfelt, 1984; Porter, 1991). Firms must continually evolve and develop their resources. Sustainable competitive advantage and the resulting superior performance will only arise from developing a competitively distinct set of resources and deploying them in a well-conceived strategy.

To be the sources of sustainable competitive advantage, the resources must be valuable, i.e., they enable the firm to provide customers with a bundle of values. In addition, they must be rare, meaning that it is not easy to acquire them internally and externally. Resources that are tacit or implicit, organizationally embedded, not easily tradable are the sources of sustainable competitive advantages (Williamson, 1975; Teece, 1977, Markides and Williamson, 1994). Furthermore, they must be difficult to imitate and substitute for, meaning that the resources are not easily developed by another firm and replaced by other resources which would be superior to the current resources and render the latter less competitive. As Collis and Montgomery (1995) point out, resources must be difficult to copy, long-lasting, able to generate appropriate value, difficult to be trumped by a different resource, and associated with distinctive competence of the firm. Barney (1991) asserts that resources are to confer sustainable competitive advantage to the extent that they are rare or hard to imitate, have no direct substitutes, and enable the firm to pursue opportunities or mitigate threats. They must not be available to every firm because the general availability will neutralize any special advantage, and readily available substitute for a resource will also reduce its value (Miller & Shamsie, 1996).

Recent empirical work on the RBV highlights the attributes of resources that are likely to be rare, imperfectly imitable and imperfectly substitutable. While it is certainly possible that physical assets can be the source of above-normal returns, it is intangible organizational resources, developed typically through unique historical path and with causal ambiguity and social complexity, which are frequently found to create sustainable competitive advantage. These resources are commonly embodied in the form of tacit knowledge and embedded within the firm. Researchers have also emphasized particular resources that rise in importance in rapidly changing industry environments. Henderson and Cockburn (1994) suggest that ‘competence’ in research is the enduring resources in the dynamic environment of the pharmaceutical industry. Collis (1991) highlights the importance of resources associated with core competence, organizational capability, and administrative heritage,

as the bearings industry undergoes global transformations. Finally, in a longitudinal study encompassing three periods of transformation in the typesetter industry, Tripsas (1997) show how investment in technological and complementary resources enhances the ability of incumbent firms to survive. In a recent study (Makhija, 2003), RBV is supported to better explain the performance of Czech firms undergoing privatization than the traditional market-based view (MBV).

Market-based Resources

In addition to the tangible property-based and the intangible knowledge-based resources internally acquired from foreign partners, IJVs have to depend upon external *market-based resources* to generate competitive advantage. Market-based resources can be defined as resources that arise from the interaction of the firm with external entities, including relationships with customers, channel members, partners, government agencies etc. (Srivastava, Shervani and Fahey, 1998; Griffith and Harvey, 2001). As Griffith and Harvey (2001) emphasize, the market-based view (MBV) is complementary to the RBV in that it provides firms with external assets that are valuable, rare, imperfectly imitable, and strategically difficult to duplicate by competitors. The resource-dependence theory posits that, when foreign parents establish IJVs in foreign market, they could not depend for everything on their parent firms because not all resources needed by IJVs can be substituted with resources from the parents (Luo, 2003). Hence, tapping country-specific and local market-based resources embedded within a local partner will complement their own firm-specific advantages. Therefore, IJVs have to depend on local markets to seek the needed country-specific and non-substitutable resources for competitive advantage building. This resource dependence problem is more serious in emerging markets characterized by institutional stringency, regulatory ambiguity, structural uncertainty and weak legal system (Meyer, 1998; Peng, 2000).

However, foreign parents have difficulties in getting those imperative market-based resources in local markets, due to liability of foreignness, resulting in resources shortage so they are unable to establish a sustained competitive foothold (Luo, 2003). In this respect, government policies in

emerging markets play a significant role in creating more favorable environment to reduce the costs of access to local market-based resources. Peng and Luo (2000) demonstrate a link between the strength of personal relations with officials and improved firm performance because such personal ties shape the regulatory environment and local resource allocation from which MNCs benefit. Consistent with institution theory, the influence of government, namely, the policy of government, might affect the competitive advantage of IJVs because government controls the strategic resources, market access and location-specific advantage (Luo, 2001) and sets the priorities regarding access to natural resources, scarce materials, existing distribution channels, promotion arrangements, and infrastructure (Luo, 1995). Peng and Health (1996) argue that institutional environments in transition economies profoundly affect strategic choices and firm performance.

RBV of Strategic Alliance

IJV is one particular form of strategic alliance. Hence, before we discuss the RBV of IJVs, we briefly discuss the RBV of strategic alliance. Lambe, Spekman and Hunt (2001) define strategic alliances as “collaborative efforts between two or more firms in which the firms pool their *resources* in an effort to achieve mutually compatible goals that they could not achieve easily alone.” Varadarajan and Cunningham (1995) discuss a number of motives for entering alliances including market entry, skills enhancement, and lowering costs. However, the underlying reason that firms are willing to invest resources and take the risk of forming alliances is to enhance their competitive advantage by pooling their respective resources and ensure the complementarity. Whether the resources of alliances will result in competitive advantage will be dependent upon the attributes of the resources pooled, consistent with the RBV of firms’ competitive advantage. Hence, alliance competitive advantage stems from partner firms combining complementary resources to create idiosyncratic resources that lead to competitive advantage and superior performance (Jap, 1999; Lambe, Spekman and Hunt, 2001). The RBV of strategic alliance is also congruent with the network perspective which suggests that economic action and outcome is embedded in social

networks defined as “a set of nodes (e.g., persons, organizations) linked by a set of social relationship (e.g., friendship, transfer of funds, overlapping membership, and alliances) of a specified type.” The embeddedness refers to the fact that economic actions and outcomes are affected by actors’ dyadic (pairwise) relations and by the structure of the overall network of relationship (Granovetter, 1985). In the view of network perspective, strategic alliance could be regarded as one form of dyadic relation in which alliances partners build up long-term relationship linking the partners involved. According to the network perspective, competitive advantage of an individual firm are often linked to the competitive advantages of the networks to which the firm belongs (Dyer and Singh, 1998; Gulati, 1999). By networking with other firms, one firm in the network can gain access to resources, information and knowledge of other firms with the potential to facilitate and expedite the learning and capability development process. As argued by Zahra et al. (1999), a social network provides its member with access to a wide scope of knowledge residing in heterogeneous information resources without incurring the costs stemming from either market or hierarchies. Network development, therefore, can be important to learning and capability development when entering international markets and, with the accrual of these benefits, it has the potential to have an impact on firm performance. Researchers have illustrated various competitive advantages arising from the inter-firm networks (e.g., Dyer, 1996) and demonstrated the increasing importance of competing on *network competitive advantage* rather than the *firm-specific competitive advantage* (Dyer and Singh, 1998).

In sum, RBV of alliance asserts that the reason why firms form strategic alliance is that the benefits arising from combining resources from alliance partners generate competitive advantage which partners alone cannot enjoy. The network perspective complements RBV in that it argues that firms now more often compete on competitive advantage stemming from the network (the alliance like joint venture is one special form of network of dyadic nature) rather than depending on the firm-specific competitive advantage. Furthermore, in order to ensure the competitive advantage

generation, alliance partners have to ensure the complementarity which means that the alliance partners respectively contribute diverse resources and capabilities which are not overlapping and which meet the criteria of RBV (see Barney, 1991).

RBV of IJVs

According to RBV, firms facing resource limitations are motivated to engage in IJVs by their perceived resource complementarity (Geringer, 1991; Parkhe, 1991; Chi, 1994; Inkpen and Beamish, 1997; Combs and Ketchen, 1999). IJVs are thus seen as a way to overcome the resources constraints and gain access to resources complementary to the parent's own. The propensity of firms to enter into an IJV is expected to grow with the perceived complementarity of their own resources. Parkhe (1991) further argued that a minimum level of resources complementarity between partners is essential to the maintenance, as well as the formation, of JVs.

As pointed out by Prahalad and Doz (1981), Doz and Prahalad (1991), and Bartlett and Ghoshal (1997), MNCs are facing increasing demand for local responsiveness as well as for global integration. The local responsiveness demand refers to the pressures under which MNCs must respond actively to local competitive and customer demands if they are to survive or be competitive in the local market. Unlike the pressures from global integration, these pressures require that MNCs further adapt their firm-specific advantages to local circumstances by leveraging local resources embedded within the host country via partnering with the local firms (Choi, 2001). Otherwise, it is argued, MNCs face the erosion of the rent-generating potential of their firm-specific advantages,

To incorporate these findings into the FDI theory, Rugman and Verbeke (1992, 1995) distinguish between location and non-location bound firm-specific advantages. The distinction is a reaction to the assumption in the existing FDI theory that firm-specific advantages are in principle non-location bound. By location bound firm-specific advantages, Rugman and Verbeke mean the ones

that cannot be easily transferred overseas and thus require significant adaptation in order to be used in other locations. MNCs possessing location bound firm-specific advantages are thus likely to face resources constraints unless they possess the ability to adapt such firm-specific advantages to a local market context.

As pointed out by Choi (2001), Rugman and Verbeke's extension of FDI theory is consistent with the argument of RBV theorists who also emphasize the context-specific nature of rent-earning resources (e.g., Kogut and Zander, 1993; Madhok, 1997). They argue that firm-specific advantages are not created in a vacuum but in a specific market context, and that certain attributes of the local market create for its member firms a unique context that encourages the development of certain kinds of firm-specific advantages. With respect to the attributes characterizing the local market context, Porter (1990) identified four dimensions: factor conditions; demand conditions; related and supporting industries; and firm strategy, structure and rivalry. Therefore, the home market is often the context within which parent firms' firm-specific advantages are embedded. In the case of location-bound and context-dependent firm-specific advantage, internalization via a wholly owned subsidiary (WOS) can involve significant amount of unexpected costs, and thus poor performance of the FDI. Therefore, the establishment of IJVs in transition economies in particular is a viable option for MNCs entering transition economies to overcome resources constraints and gain access to location-embedded resources via the local partners.

Using network perspective of MNCs, Lu (2001) highlights the importance of network competitive advantage to MNCs entering international markets. She argues that firms may realize quasi-rents through investment in network development. The type of quasi-rent is called a relational rent which may come from (1) the sharing of knowledge, including the exchange of knowledge that results in learning; (2) the combining of the complementary, but scarce, resources and capabilities, which results in the joint creation of value; and (3) more effective governance which lowers transaction cost. Without the social capital embedded in the network of social relationship where the exchange

with other actors occur, the value of physical capital and human capital may not be realized or maximized. The social capital brings network resources to the members of the network and helps them overcome the information hurdle in terms of knowledge when expanding into international markets.

In the study of IJVs in Vietnam, Wu et al. (2004) emphasize the importance of market-based resources for IJVs in Vietnam. They argue that in addition to the tangible property-based and intangible knowledge-based resources acquired from foreign partners, IJVs have to rely upon market-based resources to generate competitive advantages.

In sum, RBV of IJVs emphasizes the resources constraints and information hurdle for MNCs when expanding into international markets in general and emerging markets in particular. Therefore, by partnering with local partners which will bring the location-specific and non-substitutable resources and knowledge to the foreign entrants, MNCs entering international markets gain access to resources, capabilities and knowledge which will lead to competitive advantage and superior performance.

Gaps in current literature

As is evident from the literature reviewed so far, there is a variety of theories/perspectives used to explain the IJV performance drivers. Theoretically speaking, it is desirable to incorporate all the relevant variables identified in the study. However, as argued in Chapter 1, it is neither feasible nor necessary to do so. This study focuses on the five gaps in the current literature on the RBV perspective of IJV performance drivers. It will apply the DC perspective to fill the gaps, extend the RBV perspective and enhance the understanding of IJV performance drivers. In Chapter 1, these gaps have been identified and investigated in depth. The following figure summarizes the gaps identified and the corresponding research questions. The next section will explore the DC perspective in detail.

Figure 2.2 Gaps in Literature and Research Questions

2.3 Dynamic Capability (DC) Perspective

Although RBV is an influential theoretical perspective employed extensively and intensively in the past decade in strategy management, international management and international business research, it is not perfect and has been critiqued and debated. As Teece et al. (1997) argue, resource-based strategy is often not enough to support a significant competitive advantage. According to Teece et al. (1997), winners in the global market place have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the *management capability* to effectively coordinate and redeploy internal and external competences.

This ability is Dynamic Capability with two key aspects: dynamic and capability. The term “dynamic” refers to the capability to renew competences so as to achieve congruence with the changing business environment and the term “capability” emphasizes the key role of strategic

management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirement of a changing environment. We argue that the DC perspective, which is the other theoretical underpinning for this study, complements the RBV as one theoretical underpinning. The section will elaborate on the DC perspective by defining the concept, discussing its dimensions, comparing DC with RBV and exploring the complementarity of the two theoretical perspectives. The next section will apply the DC perspective to the context of IJVs and investigate the contribution of DC to the understanding of IJV performance drivers.

Definition

The notion that competitive advantage requires both the exploitation of existing internal and external firm-specific capabilities and developing new ones is partially developed in Penrose (1959), and Wernerfelt (1984). The DC perspective, which is first comprehensively discussed by Teece et al, (1997), seeks to provide a coherent framework which can both integrate existing conceptual and empirical knowledge, and facilitate prescription. According to Teece et al. (1997), DC is defined as:

The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment.

Based on the DC perspective, the competitive advantage of firms is seen as resting on distinctive processes (ways of coordinating and combining), shaped by the firm's (specific) asset positions (such as the firm's portfolio of difficult-to-trade knowledge assets and complementary assets), and the evolution path(s) it has adopted or inherited (Teece et al., 1997). Hence, DC is different from RBV in that it emphasizes the capability to coordinate, combine, and reconfigure the resources/assets as well as developing new resources/assets to generate competitive advantage, given the firm's path dependences and market positions. Furthermore, the *managerial process* defined as the way things done in the firms, or *routines*, or *patterns* of current practice and learning,

are highlighted in DV while neglected in RBV, consistent with more general organizational capability (OC) perspective.

Other researchers define DC in similar ways. For instance, Grant (1996) and Pisano (1994) view DC as the antecedent organizational and strategic routines by which managers alter their resources base – acquire and shed resources, integrate them together, and recombine them – to generate new value-creating strategies. As such, they are drivers behind the creation, evolution, and recombination of other resources into new sources of competitive advantage (Henderson and Cockburn, 1994). Eisenhardt and Martin (2000) define DC as:

The firm's processes that use resources – specially the processes to integrate, reconfigure, gain and release resources – to match and even create market changes. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configuration as markets emerge, collide, split, evolve, and die.

Dimensions

In Teece et al.'s (1997) theoretical paper, DC consists of organizational and managerial processes with three roles: coordination/integration (a static concept); learning (a dynamic concept); and reconfiguration (a transformational concept). Coordination/integration refers to the process by which firms efficiently and effectively integrate internal and external resources and competences. Transformation refers to the ability to sense the need to reconfigure the firm's asset structure, and accomplish the necessary internal and external transformation. Learning refers to the process by which repetition and experimentation enable tasks to be performed better and better.

Similarly, Eisenhardt and Martin (2000) assert that DC actually consist of identifiable and specific routines that often have been the subject of extensive empirical research on their own right outside RBV. In a similar way, DC is conceptualized as some dynamic capabilities which integrate resources, some dynamic capabilities which focus on reconfiguration of resources within firms and

some dynamic capabilities which include knowledge creation routines whereby managers and others build up new resources and knowledge.

In another paper by Luo (2002), he conceptualizes DC as consisting of two dimensions, *capability exploitation* and *capability building*, as Tallman (1991) argues. Capability exploitation concerns the extent to which a firm exploits rent-generating resources that are firm-specific, difficult to imitate, and able to generate abnormal returns while capability building involves the extent to which a firm commits to building new capabilities through learning from organizations, creating new skills, or revitalizing existing skills in new situations. According to Luo (2002), capability exploitation is critical for gaining competitive advantages and determining strategies for exploiting such advantages while capability building ensures the growth of sustainable competitive advantage and generates new bundles of resources. Collectively, DC determines a firm's ability to create and use organizational resources in pursuit of a sustained competitive advantage in a global marketplace.

We argue that these conceptualizations are consistent. The three dimensions proposed by Teece et al. (1997) and Eisenhardt and Martin (2000) could further be integrated into two dimensions. The coordination/integration dimension and transformation/reconfiguration dimension could be merged as capability exploitation in that the two dimensions are both concerned with the exploitation of existing resources and capabilities in an effective way. The learning dimension is equivalent to the capability building in that it is primarily concerned with the generation of new resources and capabilities. Although the newly generated resources and capabilities need to be integrated with the existing resources and capabilities and be jointly exploited to confer competitive advantage, it is conceptually necessary to make a distinction between the two dimensions. In this study, we conceptualize the firm's DC as consisting of two dimensions, namely, *Capability Exploitation* and *Capability Exploration*, for the sake of theoretical and conceptual rigor and parsimony.

DC vs. RBV: Comparison and Complementarity

As discussed in the preceding sections, RBV and DC are two theoretical perspectives emerging as explanations of the competitive advantage and the superior performance of firms. Basically, RBV focuses on the resources in the firms which include physical, human and organizational assets that can be used to implement value-creating strategies. As such, resources form the basis of unique value-creating strategies and their related activity systems that address specific markets and customers in distinctive way, and so lead to competitive advantage. DC are the organizational processes or routines by which firms alter their resource base – acquire, coordinate, integrate, recombine, reconfigure and generate resources – to generate new value-creating strategies.

As Teece et al. (1997) point out, both RBV and DC explore the internal explanations of firms' competitive advantage and superior performance. They see competitive advantage stemming from high-performance routines operating 'inside the firm', shaped by processes and positions. However, these two perspectives are different in many ways, including the nature of rents, unit of analysis, focal concern and orientation nature. Based on the paper by Teece et al. (1997), we adapt the original comparison, as the following table demonstrates.

Table 3.1
Comparison of RBV with DC

	RBV	DC
Intellectual Roots	Penrose Selznick Christensen Andrews	Schumpeter Nelson Winter Teece
Representative authors Addressing strategies management questions	(1984) Wernerfelt (1984) Barney (1991) Mahoney (2001)	Dosi, Teece, and Winter (1989) Prahalad and Hamel (1990) Hayes and Wheelwright (1984) Dierickx and Cool (1989) Portt (1990)
Nature of rent	Ricardian	Schumpeterian
Rationality assumption of managers	Rational	Rational
Foundamental units of analysis	Resources	Processes Positions Path
Dimensions	Physical, Human, Organizational Tangible, Intangible Property-based, Knowledge-based	Coordination/Integration Transformation/Reconfiguration Learning Capability Exploitation/Capability building
Short-run capacity for strategic reorientation	Low	Low
Role of industrial structure	Endogenous	Endogenous
Focal concern	Resource Value Rareness Inimitability Insusubstitutability	Asset Accumulation, Replicability, Inimitability
Orientation nature	Static	Dynamic

In this study, we argue that DC complements RBV. They jointly contribute to the understanding of competitive advantage and superior performance of firms. RBV rests on *what firms have*, i.e., the resources and capabilities owned by the firms. In particular, RBV emphasizes the attributes of the resource, i.e., value, rareness, inimitability, and insusubstitutability. On the other hand, DC centers on *how firms deal with what firms have*, i.e., the processes or routines to deploy the existing assets in the firm and develop new assets as well, given the condition of path dependence. DC underscores

the resource exploitation and resource exploration. RBV complements DC in that (1) the functionality of DC can be duplicated across firms, but their value for competitive advantage lies in the resource configuration that they create, not in the capabilities themselves and (2) DC are necessary, but not sufficient, conditions for competitive advantage (Elsenhardt and Martin, 2000). DC complements RBV in that (1) DC can be used to enhance the existing resource configuration in the pursuit of long-term competitive advantage (RBV's logic of leverage) and (2) DC can also be used to build up new resources configurations in the pursuit of temporary advantages (logic of opportunity), thereby adding *dynamism* to the RBV of static nature. Therefore, it is theoretically important to integrate these two perspectives and gain a better understanding of the sources of competitive advantage and superior performance of firms.

Dynamic Capability (DC) Perspective of IJVs

Drawing on the DC perspective, we emphasize the contributions of the two dimensions of DC to the understanding of IJV performance drivers. The *Capability Exploitation* dimension is concerned with the issue of generating rents from the resources by integrating and transforming the resources. The *Capability Exploration* dimension is concerned with the question of developing new resources and capabilities to renew the competitive advantage. The two dimensions both have implications for the study of IJV performance drivers in that IJVs, unlike Wholly-Owned-Subsidiaries (WOS), are formed by local partners and foreign partners through pooling their respective resources. In the context of IJVs, it is crucial to not only effectively exploit the resources and capabilities from both partners but also develop new sources of competitive advantage. The following sections will highlight the contributions of the two dimensions of DC to the understanding of IJV performance.

Contribution of Capability Exploitation

Knowledge-based perspective of MNCs (e.g., Kogut and Zander, 1992, 1993, 1995) discusses the attributes of the knowledge and the optimal mechanisms of knowledge transfer for MNCs. The basic arguments are that when transferring knowledge with certain attributes such as complexity, tacitness and embeddedness, it is advisable for MNCs to adopt internal mode like WOS rather than JV. By focusing on the attributes of resources transferred internally within MNCs, Szulanski (1996) investigates the stickiness of resources while Madhok (1997) and Hu (1995) explore the embeddedness of resources. On one hand, the question of knowledge/resource transfer within MNCs is important. On the other hand, the question of how to ensure the complementarity and compatibility of resources transferred is equally important. The former question is on the *internal* mechanism for knowledge transfer whereas the latter question is on the *external* mechanism for the integration of transferred knowledge.

In alliances literature, the issue of resource complementarity and resource compatibility has been discussed (e.g., Sarkar et al., 2001). Alliance competence has also been highlighted, which is defined as an organizational capability for securing, developing and managing alliances (Lambe, Sberman and Hunt, 2001) in order to generate complementary and compatible idiosyncratic resources which are based on the resources contributed by alliance partners but are not the simple sum of each individual resource. In Day's (1994) words, competences are the "glue" that bring resources together and allow them to be deployed advantageously. The alliance competence is one particular competence which is vital to the deployment of resources of alliances because IJVs, unlike WOS, are the joint establishments of partners. The resources from partners are developed within their respective parents through a unique path and embedded within their respective parents. To some extent, the resources are both location-bound as argued by Rugman and Verbeke (1992) and firm-specific. In the context of IJVs, when resources from foreign partners and local partners

are pooled together, it is not *easy* or *automatic* for the resources to be integrated with each other. It is critical to minimize the rent-generation potential erosion and ensure the *compatibility* because the resources are developed through unique paths and embedded in respective parents. The stickiness and embeddedness problems as examined in knowledge/resource transfer within and cross MNCs are also relevant to IJVs in terms of resource integration. Hence, it is necessary and important for IJVs to develop the capability to integrate, recombine and transform the resources, namely, the *Capability Exploitation*. The *Capability Exploitation* is consistent with the *alliance competence* as discussed by Jay et al., (2002) and Lambe et al., (2001) as well as the *alliance ability* to combine complementary resources in a manner (e.g., creating idiosyncratic resources) that contribute to alliance success (Dyer and Singh, 1998).

Although a different topic, the M&A literature offers implications for the importance of *Capability Exploitation*. In M&A literature, a critical question is how the post-merger and post-acquisition entities integrate the resources and capabilities of pre-merger and pre-acquisition entities. In a same vein, the same question is relevant to the resources integration and transformation of IJVs in that IJVs are similar to M&A along some dimensions. Merger is the creation of new entity while acquisition is the absorption of another entity by a focal entity. IJV is the establishment of an independent entity by independent parents. Hence, all three organization forms involve multiple entities and are *inter-organizational* in nature. Although it has been explored in the M&A literature, the resource integration issue has not been adequately investigated in the IJV literature, a gap which has been filled by the study.

In sum, the contribution of *Capability Exploitation* is the emphasis on the ability of IJVs to exploit the existing resources pooled by partners by integrating, recombining and transforming the resources in an effective manner, thereby resulting in *idiosyncratic resources* based on the component resources but different from the component resources. *Capability Exploitation*

complements the traditional RBV because it addresses the question of how to exploit the resources effectively.

Contribution of Capability Exploration

As pointed out by Luo (2002), the classic MNE theories argue that firms are motivated to go overseas to exploit their ownership-specific advantage but fail to elaborate on the importance of capability building. *Capability Exploration* is a key building block and a major source of sustained competitive advantage. These advantages are only possible when firms continuously reinvest in building new resources (Teece et al., 1997). Levitt and March (1988) define organizational learning as the processes by which organizations encode experiential inferences into behavior routines. The assumption that sustainable competitive advantage can come from an unchanging resource bundle is inherently at odds with operating in a dynamic environment, especially those transition economies and emerging markets like China. Cantwell (1995) has confirmed that MNCs are active in developing new capabilities abroad so as to better exploit the locationally differentiated potentials of foreign resources and opportunities. The enhanced capability building that results from organizational learning and combinative innovations ensures on-going growth of the firm, while the firm's initial stock of knowledge may well be the strengthen that allows it to be present in a target in the first place (Chang, 1995).

Extending the same logic, IJVs in transition economies and emerging markets like China need to constantly build up new resources and capabilities through learning, alliances and other means. This is crucial because (1) the increasingly competitive environment in China renders sustaining competitive advantage more and more difficult. The competitions are from not only those foreign competitors like other IJVs and WOSs in China but also the increasingly competitive local competitors. (2) the changing business environment, the dynamic competitive forces and the

institutions, and the unique and changing customer needs all imply that the ownership-advantage of IJVs may erode over time. Hence, Madhok (1997) hypothesizes that MNCs experiencing rapid changes in local environments would reduce dependence on parent capabilities and focus more on developing local capabilities. Also, in his case studies of MNCs in China, Chen (2004) argues that continuous reliance on HQs may disrupt the learning of local subsidiaries.

In sum, the contribution of *Capability Exploration* is the emphasis on the ability of IJVs to build up new resources and capabilities to continuously renew the competitive advantage. *Capability Exploration* is different from *Capability Exploitation* in that *Capability Exploitation* deals with the existing resources while *Capability Exploration* deals with new resources. However, they are related in that the new resources generated need to be integrated with the existing resources and the existing resources are the basis for generating new resources. In reality, these two dimensions are intertwined. *Capability Exploration* complements and extends the traditional RBV because it addresses the question of why it is important to continuously renew competitive advantage by developing new resources, thereby adding *dynamism* to the traditional RBV of static nature.

2.4 Summary

This chapter reviewed the various theories/perspectives used to explore the IJV performance drivers. In particular, it examined the RBV perspective and its application to the IJV literature. Based on the exhaustive literature review, five gaps in the literature on the RBV perspective of IJVs were identified and the corresponding research questions were highlighted. Furthermore, it introduced the DC perspective and discussed how the perspective can shed light on the identified gaps and extend the RBV perspective.

The arguments developed from the two perspectives center on the implication of the valuable resources both the foreign partners and local partners for the IJV performance, consistent with the RBV perspective. They also center on how the resources are effectively exploited through integration, combination and reconfiguration, consistent with the *Capability Exploitation* dimension. In addition, they center on how IJVs constantly develop new resources and capabilities to renew their sustainable competitive advantage on an enduring basis, consistent with the *Capability Exploration* dimension.

Building on the literature review, the next chapter will formulate the conceptual framework and develop the hypotheses in detail.

CHAPTER 3

THEORY, FRAMEWORK AND HYPOTHESIS

3.1 Introduction

Based on the literature review on IJV performance drivers with a particular focus on RBV, five gaps in extant literature have been identified which serve as the basis for this study. In order to fill these gaps, extend the RBV perspective of IJV performance drivers, and enhance the understanding of the antecedents of the superior IJV performance, we apply the DC perspective to complement the RBV perspective. As stated in Chapter 1, the question of IJV performance drivers is a very broad topic which has been investigated through diverse theoretical perspectives and paradigms. In this study, due to the consideration of rigor and parsimony, the focus will be on the integration of the RBV with the DC perspectives. Grounded on the discussions and comparisons of the theoretical underpinnings, a conceptual framework extending those extant models is proposed. Building on the framework, hypotheses are proposed to (1) examine the *quality* and *quantity* of the resources acquired from both *foreign partner* and *local partner* of IJVs, (2) investigate the moderating effect of *Capability Exploitation* on the resource acquisition – IJV performance relationship, (3) explore the direct impact of the *Capability Exploration* on IJV performance, and (4) take a contingency perspective as to the roles played by the two dimensions.

3.2 Conceptual Framework

Based on the preceding sections on the literature review and the theoretical underpinnings, we propose the following conceptual framework for this study. In order to highlight the contributions of the study, we compare the proposed model with those extant models. The extant models (e.g., Lyles and Salk, 1996; Tsang, Nguyen and Erramilli, 2004), shown by Figure 3.1 and Figure 3.2,

focus on the *antecedents* of resource acquisition in IJVs. In addition, they center on resource from *foreign partners* only and examine the *quantity* dimension only. Moreover, they seem to assume that the resources from foreign partners and local partners could be *integrated and exploited without difficulties and without value erosion arising from resource incompatibility*. Last, they all focus on the static exploitation of the current resource and capabilities rather than on the dynamic resources and capabilities development. By comparing these extant models with the proposed model, we demonstrate that the current model extends the extant models and addresses the five gaps identified: (1) We focus on the *consequence* of resource acquisition for the IJV performance rather than the *antecedents* of resource acquisition. (2) We explore both quality dimension and quantity dimension of the resources from foreign partners and local partners of IJVs, offering a more comprehensive framework. (3) We emphasize the important roles of DC in both exploiting the current resources (i.e., integration, recombination and transformation) and building new resources. In this way, we achieve the goal of integrating the traditional RBV with the emerging DC perspective. (4) We discuss the contingent perspective as for the roles of DC by exploring the implications of the dynamism of the business environment. The next section will develop the hypotheses for this study.

Figure 3.1
Extant Model
(e.g., Lyles and Salk, 1996)

Figure 3.2
Extant Model
(e.g., Tsang, Nguyen and Erramilli, 2004)

Figure 3.3

3.3 Hypotheses

The previous sections critically review the two theoretical underpinnings, the traditional RBV perspective and the emerging DC perspective. A conceptual framework is proposed which is more comprehensive compared with the extant ones. The five gaps have been addressed by the framework and the two perspectives have been integrated. The following sections will propose the hypotheses for the study by examining the impact of quality and quantity dimensions of resources from foreign partners and local partners on the IJV performance, by exploring the moderating role played by DC, by investigating the direct impact of DC and by discussing the implications of the environment characteristics for the roles played by DC.

3.3.1 Resource Acquisition and IJV Performance

The Resource-based View (RBV) notes that a firm can be considered as a bundle of resources that enable it to conceive and implement strategies efficiently and effectively (Penrose, 1959; Wernerfelt, 1984; Dierickx and Cool, 1989; Barney, 1991; Amit and Schoemaker, 1993). It argues that resources are the principal source of competitive advantage. It is the deployment of these resources through an effective strategy that creates superior value for customers and a competitive advantage for the firm (Collis and Montgomery, 1995). *Sustainable* competitive advantage arises when the firm's resources are valuable (i.e., they help create valuable products and services), rare (i.e., competitors do not have access to them), inimitable (i.e., competitors cannot easily replicate them), and appropriable (i.e., the firm owns them and can exploit them at will) (Barney, 1991).

In the context of IJVs, the resources pooled by local partner and foreign partner serve as the basis of competitive advantage. As Lyles and Salk (1996) argue, knowledge transferred from the parent firms can be utilized to create and augment the competitive advantage of IJVs. Although researchers have often discussed the importance of knowledge acquisition between the parent firms (e.g., Kogut and Zander, 1992; Szulanski, 1993), such transfer would be done through the conduit of IJVs. They posit that leveraging the knowledge, capabilities and skills of foreign parent, especially when the foreign parent comes from a sophisticated and competitive country, can enhance the competitive advantage and performance of an IJV. However, Lyles and Salk (1996) emphasize the resource acquisition from foreign partner while neglect the resource acquisition from local partner. When operationalizing the resource acquisition, they use a perceptual rating of the *amount* learned by IJV to capture the resource acquisition from foreign parent.

We argue that the acquisition of the foreign partners' resources enables IJVs in transition economies to offer complete and better lines of products and services so that they will become

more competitive in an increasingly market-based economy (Peng and Health, 1996). Beamish (1985) argues that with the acquisition from the foreign partner of new technological know-how and management skills, not easily available in the domestic market, IJVs in transition economies increase their ability to build their competitive advantage. MNCs are using IJV as an entry mode to penetrate the emerging markets like China and exploit their firm-specific ownership advantage. Technology and management expertise are the two important resource acquired from foreign partner and the source of competitive advantage (Wu et al., 2004). However, two issues as follow need to be discussed.

The first issue is concerned with the attributes of resources acquired form foreign partners. As discussed, RBV highlights the attributes of resources that are likely to be rare, imperfectly imitable and imperfectly substitutable. In the context of emerging markets like China, increasing competition, dynamic competitive forces and diversity of foreign entrants cast doubt on the appropriateness of operationalization of resources acquisition from foreign partners by the *amount* of resources while ignoring the question of whether the resources acquired from foreign partners will lead to competitive advantage in China. Empirical evidence abounds, showing that even those foreign entrants from developed countries do not perform satisfactorily in China (e.g., Chen, 2004). One of the possible reasons is that the resources and capabilities brought in by those foreign entrants do not confer the competitive advantage, given the fierce competition from foreign competitors and Chinese domestic competitors. Hence, we need to address the quality of the resource as well.

The second issue is concerned with the resource acquisition from local partners. As argued by Rugman and Verbeke (1992, 1995), when entering foreign markets, MNCs possessing location-bound firm-specific advantage often face resource constraints, resulting in the erosion of rent-generation potential, unless they possess the ability to adapt such firm-specific advantages to the

local market. Empirical evidence shows that such MNCs are driven to enter into joint venture with local firms that have the firm-specific advantages complementary to their own. The complementary firm-specific advantage of a local partner derives mostly from the local partner's knowledge of the local culture, customers, and market characteristics; or from simply being indigenous firms that enjoy preferential treatment by the local government; or from its position in the local network of organizational relationships important to the successful operation of a business (Choi, 2001; Shan and Hamilton, 1991; Yan and Gray, 1994; Inkpen and Beamish, 1997). From social network perspective, Lu (2001) emphasizes the social capital stemming from social networks to which firms belong. The social capital is as crucial as the physical capital and human capital that organizations bring to the competitive arena (Burt, 1997). Arguing from network perspective, we suggest that alliance network of internationalizing firms provides social capital advantages to the extent that firms in the network have access to network resources (Gulati, 1999). These network resources are distinct from firm-specific resources that reside within a firm in that they are network and intangible in nature, primarily in the form of valuable information, knowledge and relationships. These information advantages are necessary for MNCs entering emerging markets like China. Hence, it is important to highlight the contribution of local partners to MNCs entering China via the IJV mode.

To sum up, we emphasize the contribution of foreign partners and local partners of IJVs in generating and sustaining competitive advantage. In congruent with the tenets of RBV, we also highlight the quantity and quality dimensions of the resources acquired from foreign partners and local partners, respectively. We regard the *value* of resources as consisting of the quality dimension and the quantity dimension. Hence:

H1a: There is a positive relationship between superior IJV performance and the *value* of resources acquired from *foreign partners* of IJVs in transition economies.

H1b: There is a positive relationship between superior IJV performance and the *value* of resources acquired from *local partners* of IJVs in transition economies.

3.3.2 Moderating Role of Capability Exploitation

Capability Exploitation, defined as the extent to which a firm exploits the rent-generating resources that are firm-specific, difficult to imitate, and able to generate abnormal returns, plays an important role. We assert that the resources are the *building blocks* while *Capability Exploitation* is a kind of architectural ability used to deploy these building blocks to build up competitive advantage. Using similar terms, Henderson and Cockburn (1994) distinguish between ‘component’ and ‘architectural’ competence and show that together the two forms of competence appear to explain a significant fraction of the variance of research productivity across firms. In the context of IJVs, we argue that the resources from partners are the ‘component’ competence while the *Capability Exploitation* is the ‘architectural’ competence. Whether and to what extent the same resources will confer competitive advantage will depend on whether and to what extent the IJVs possess such ‘architectural’ competence. As the forerunner of RBV, Penrose (1959) argues that the same resources employed for different purposes, in different ways and/or in combination with different types or amount of other resources provide different sets of services. Firms can generate advantage by better use of existing resources. Consequently, firms need to realize the full potential of resources. In the context of IJVs, we argue that a firm with strong *Capability Exploitation* would be able to better make use of the current resources through integration, reconfiguration and transformation, thereby realizing the full potential of resources.

Bartlett (1986) suggests that general management expertise and technical know-how are more difficult to exploit when differences in cultural contexts make synergies among business units more difficult to achieve. In the book entitled “From Global to Metanational”, Doz et al. (2003) argue that in new metanational firms, knowledge *melting* is not simply juxtaposing pieces of knowledge

but a process of transformation in which new knowledge is created by the interaction and integration of knowledge that was previously dispersed and diverse. One way to do this is to establish a *knowledge architecture* that defines what pieces of knowledge need to be used where and how they interrelate with one another. Drawing on the same logic, the ability to *melt* the resources from foreign partners and local partners will determine the optimal integration and reconfiguration. The resources will be put on the optimal points along the value chain of IJVs, generating maximum rent. However, inability to integrate and reconfigure resources from foreign partners and partners would lead to value erosion and might not derive maximum rent from the resources put in by both partners of IJVs.

Although integration ability is critical for all firms, we argue that it is especially crucial for IJVs due to the alliance nature of IJVs. In alliances literature, the issue of resource complementarity (e.g., Hageboorn, 1993) and resource compatibility has been discussed (e.g., Sarkar et al., 2001). Based on the RBV regarding the formation and evolution of firms' resources, problems such as *stickiness* arising from tacitness, causal ambiguity and social interaction and *embeddedness* stemming from path dependency and social interface will render the resource transfer across MNCs difficult, a topic receiving a lot of attention in current literature (e.g., Kogut and Zander, 1992, 1993, 1995). Extending the same logic, these same problems will also render the resources from respective parents of IJVs difficult to be integrated, recombined and transformed to unleash the competitive advantage. Figure 3.4 shows the logic of this extension. Under this condition, alliance competence has important implications, which is defined as an organizational capability for securing, developing and managing alliances (Lambe, Sperman and Hunt, 2001) in order to generate complementary and compatible idiosyncratic resources which are based on the resources contributed by alliance partners but are not the simple sum of each individual resource. In Day's (1994) words, competences are the "glue" that bring resources together and allow them to be deployed advantageously. The alliance competence is one particular competence which is vital to

the deployment of alliance resources. *Capability Exploitation* referred to here in this study can be considered as one form of such alliance competence. Firms require distinctive capabilities or core competence (Prahalad and Hamel, 1990) that *weave* their business into a coherent whole and span across business activities to make possible a stream of individual products (Rumelt, 1984) and sustain competitive advantage (Teece et al., 1997). In particular, the ability to coordinate diverse production skills and integrate multiple streams of technologies is critical (Prahalad and Hamel, 1990). In the context of IJVs, *Capability Exploitation* plays such a role.

Figure 3.4
The Importance of Capability Exploitation

The merge and acquisition (M&A) literature offers implications as well. In M&A literature, a critical question is how the post-merger and post-acquisition entities integrate the resources and capabilities of pre-merger and pre-acquisition entities. In a same vein, the same question is relevant to the resources integration and transformation of IJVs in that IJVs are similar to M&A along some dimensions. Merger is the creation of new entity while acquisition is the absorption of another

entity by a focal entity. IJV is the establishment of an independent entity by independent parents. Hence, all three organization forms involve multiple entities and are *inter-organizational* in nature. Although it has been explored in the M&A literature, the resource integration issue has not been adequately investigated in IJV literature. Further, most studies discuss such topics as *strategy compatibility*, *organizational culture compatibility* and *organizational climate compatibility*. But, we assert that compatibility is also an important issue at the basic level of resources, i.e., *resource compatibility*. To some extent, whether the inter-organizational entities including IJVs could realize the desired *synergy* will depend on the ability to ensure the *resource compatibility*.

In sum, *Capability Exploitation* is vital to the deployment of resources because IJVs are the joint establishments of partners. The resources are not from the same parent but are developed within the respective parents, through unique paths and embedded within the respective parents. When IJVs have strong *Capability Exploitation*, they would generate more rent from the same resources pooled by the respective partners of IJVs, confer greater competitive advantage and thus enjoy superior performances. The ‘architectural’ role played by *Capability Exploitation* is particularly important for IJVs in transition economies and emerging markets. This is because in a context characterized by uniqueness, dynamism, uncertainty and competition, it is extremely crucial for IJVs to integrate, recombine and transform the resources from foreign partners and local partners. Thus:

H2a: *Capability Exploitation* will positively moderate the relationship between resource acquisition from foreign partners and IJV performance.

H2b: *Capability Exploitation* will positively moderate the relationship between resource acquisition from local partners and IJV performance.

3.3.3 Direct Impact of Capability Exploration

Note that the previous hypotheses deal with the *existing* resources and capabilities of IJVs. However, mere transfer and exploitation of resources and capabilities will not be sufficient for creating and sustaining competitive advantage. In strategic management literature, the exploration or building of competitive advantage has been extensively discussed (see Helfat, 1997). The ability to continuously ‘morphing’ is a vivid expression, showing the importance of continuous innovation, renewal and constructive destruction. In international business literature, as Lu (2001) points out, the need to develop new capabilities for different markets has been ignored. Internalization theorists conceptualize MNCs’ competitive advantage as the exploitation of firm-specific advantages residing in MNCs. They argue that such firm-specific advantages could compensate for the ‘liability of foreignness’ when entering international markets (e.g., Hymer, 1976). While it might be true that MNCs have some firm-specific assets to compensate for the ‘foreignness’ in certain international markets, when it enters markets more and more dissimilar from ones in which the firm previously participated, the difference will increasingly stretch the capabilities of MNCs. Eventually it becomes essential for the MNCs to develop knowledge and capabilities suited to the increasingly disparate markets (Lu, 2001).

There are two basic perspectives for the internationalization of MNCs. The *exploitation* perspective emphasizes achieving abnormal returns from firm-specific advantages in international markets through internalizing the market for these assets. In the exploitation – oriented internationalization, firm-specific advantages are transferred in a unidirectional flow from parent to overseas subsidiaries. In contrast, the *exploration* perspective emphasizes developing new knowledge and capabilities through having access to the location-specific advantages in the host countries (Shan and Song, 1997). As Lu (2001) asserts, these two perspectives are complementary rather than contradictory (March, 1991) because a subsidiary may rely on parent firm’s advantages and

contribute exploitation benefits but over time, the subsidiary may develop its own knowledge and capabilities through local operation and contribute exploration benefits as well. These arguments are consistent with the strategic choice theory (e.g., Child, 1997; Child, et. al., 2003) which focuses on the role by managers in shaping conditions and processes both outside and within the firm. Developing new resources and capabilities by IJVs is one of the strategic managerial actions which result in superior performance.

Although the above arguments apply for MNCs entering international markets, in the form of either WOS or IJV, we could borrow the same logic and reasoning to argue for the direct impact of *Capability Exploration* on the IJV performances. First of all, IJV is still the dominant entry mode for MNCs entering China. Although some scholars discuss the evolution of IJVs and argue that IJVs are just temporary and transitory organizations, many IJVs set up in the 1980s are still operating now. Second, although foreign partners of IJVs transfer their own firm-specific advantages complemented by the firm-specific advantages of local partners, the existing resource pool might not be sufficient for creating and sustaining competitive advantages over time. These goals cannot be achieved unless the firm is committed to building new capabilities or creating new bundles of distinct resources (Luo, 2000). For example, the automotive industry in China is full of competitions. Many global giants could not win in the market mainly because (1) they introduced the obsolete models into the Chinese market and (2) they could not build new capabilities to design and manufacture the model suited to the Chinese market. The Korean car-maker HYUNDAI is one exception. Its IJVs in China not only depend on the exploitation of the existing models by introducing the advanced models to China but also build new models to specifically meet the requirements of the Chinese customers, building on its learning and knowledge of the unique Chinese market.

New inputs to the resource base of a firm are imperative for permitting flexible responses in a changing environment. Thus, a dynamic resource mix and organizational learning are both crucial for the growth of firms in a complex foreign market like China. Whereas existing distinct resources are indispensable for MNCs exploiting market opportunities, learning capabilities is imperative for firms trying to reduce their vulnerability to contextual variability (Luo, 2000). As argued by Hamel and Prahalad (1989), the only real distinctive competence is in the ability to mobilize an organization to form new combinations of capabilities continually and to renew them. Therefore, the assumption that sustainable competitive advantage can come from an unchanging resource bundle is inherently at odds with operating in a dynamic environment, especially, those transition economies and emerging markets like China (Luo, 2002).

There are several mechanisms through which new resources and capabilities could be built. Organizational learning is a key building block for capability building. Learning capability is the capacity to generate and generalize ideas and to acquire new knowledge. MNCs need to continuously build and upgrade their capabilities and institutionalize innovation, learning and information transfer to support continuous improvement in the value-added chain as well as fundamentally renewing and revitalizing themselves over time. Firms with high levels of motivation and capacity to learn should be more likely to gain experiences from different situations; this makes them more likely to do business abroad than more defensive firms using a static resources exploitation strategy (Luo, 2000). To respond to the complexity, diversity, and dynamism of the external environment, MNCs must build a multifaceted organization able to develop new capabilities whereas protecting existing strengths. External knowledge acquisition through alliances has also become pervasive and is an important vehicle for upgrading capabilities. Of course, the new resources and capabilities should be integrated with those that are already exploited. The following figure shows the importance of *Capability Exploration*.

Figure 3.5

The Importance of Capability Exploration

To sum up, IJVs in transition economies and emerging markets like China ought to constantly build up new resources and capabilities through learning, alliances and other means. This is imperative because (1) the increasingly competitive environment in China render sustaining competitive advantage more and more difficult. The competitions are from not only those foreign competitors in China but also from those local competitors. (2) the changing business environment, the dynamic competitive forces and the institutions, and the unique and changing customer needs all imply that the ownership-advantage of IJVs may erode over time. Thus:

H3: There is a positive and direct relationship between the *Capability Exploration* and IJV performances.

3.3.4 Contingency Perspective of DC

The above hypotheses on the moderating role of *Capability Exploitation* and the direct impact of *Capability Exploration* do not recognize the inter-firm environment variations. We argue that the roles played by the two dimensions of DC will be contingent on the environment characteristics faced by each IJV. In other words, the moderating effect of *Capability Exploitation* and the direct impact of *Capability Exploration* will depend on the organizational environment of a host country. MNCs entering emerging markets often face diverse business environment due to different industry, location, product line, institution and rivalry. Hence, not all IJVs face the same environment. As pointed out by Luo and Peng (1999), organizational environment is a multidimensional construct. Three key dimensions have been identified including (1) hostility (i.e., importance and deterrence of environmental factors); (2) dynamism (i.e., predictability and variability of environmental factors); and (3) complexity (i.e., diversity and heterogeneity of environmental factors). In transition economies and emerging markets like China, these factors not only involve economic players, such as competitors, customers, and suppliers, but also institutional and social – cultural segments (Peng, 1997; Luo and Peng, 1999).

In the study, we emphasize that the roles played by *Capability Exploitation* and *Capability Exploration* will be contingent on the dynamism of the business environment in which the IJVs operate. In addition to the dimensions of predictability and variability, we add another dimension to the dynamism, which is the competitive intensity defined as the degree of competition among the IJVs and their competitors. We argue that when operating in a dynamic environment, IJVs with strong *Capability Exploitation* in integrating, recombining and transforming resources will lead to stronger competitive advantage, compared with those IJVs with weak *Capability Exploitation*. In such an environment, *Capability Exploitation* will enable the IJVs to better combine the resources from partners and transform the resources to meet the requirements of a dynamic environment.

However, in a less dynamic environment, whether the IJVs have strong *Capability Exploitation* does not make big differences in that the need for integrating and transforming the resources is not so urgent.

Similarly, in a highly dynamic environment, IJVs with strong *Capability Exploration* will enjoy the competitive advantage stemming from continuously renewing competitive advantage by building new resources and capabilities, over those IJVs with weak *Capability Exploration*. Under this condition, the *Capability Exploration* will enable the IJVs to constantly build and sustain new competitive advantage through learning, alliances and other means. In contrast, in a less dynamic environment, whether IJVs possess strong *Capability Exploration* does not matter too much because the pressures for building new resources and capabilities are not great. Thus:

H4a: The moderating effect of *Capability Exploitation* on the relationship between resource acquisition from foreign partners and IJV performance will be stronger in a *dynamic environment*.

H4b: The moderating effect of *Capability Exploitation* on the relationship between resource acquisition from local partners and IJV performance will be stronger in a *dynamic environment*.

H4c: The direct impact of *Capability Exploration* on IJV performance will be stronger in a *dynamic environment*.

3.4 Summary

This chapter formulated the proposed research model which differs from those extant models in literature. By integrating RBV and DC perspectives of IJV performance drivers, this chapter developed several hypotheses. First, valuable resources from both foreign partners and local partners of IJVs will lead to superior performance. Second, IJVs with strong *Capability Exploitation* will be able to more effectively exploit the existing resources by means of integration,

recombination and reconfiguration. Hence, *Capability Exploitation* will strengthen the resource acquisition-performance relationship. Third, *Capability Exploration* will directly and positively impact the performance of IJVs through constantly building new resources and capabilities, thereby renewing the sustainable competitive advantages. Last, the roles played by the two dimensions will be contingent upon the dynamism of the business environment in which IJVs operate. The moderating role of *Capability Exploitation* and the direct impact of *Capability Exploration* will be stronger for IJVs operating in dynamic business environment.

The hypotheses presented in this chapter complete the proposed research model. Chapter 4 details how the hypotheses in this chapter will be empirically tested.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 Research Setting

China is chosen as our research analytical setting. China is an appropriate context for this research as it is the second largest host for foreign direct investment (FDI). In addition, China today is the largest emerging market and transition economy and remains the fastest growing economy in the world (Luo, 2004). Economic reforms have enabled China to advance its integration with the world economy, maintain a strong external payment position, privatize farming, liberalize markets for many goods and services, intensify industrial competition and introduce modern macroeconomic management. As the major destination for FDI, China is recognized as a rich and relevant context in which to probe the performance drivers of IJV, which is considered to be the most popular entry mode of foreign entrants, despite the increasing popularity of wholly-owned subsidiary as an entry mode. As Luo (2003) emphasizes, the setting can create high payoffs when the strategies and policies of foreign entrants configure properly with environmental conditions and strategic capabilities. There are also greater risks and uncertainties, however, if such policies and strategies do not fit with internal and external dynamics in that increasing competition from not only foreign entrants but also local firms, high levels of governmental interference and frequent regulation change cause many subsidiaries to rely more on resources, commitment and support from their parental firms. At the same time, however, foreign entrants depend on the local partners for location-specific and country-specific resources to complement their own. Since IJV is a kind of strategic alliance, where foreign partners and local partners pool their resources, the question of resource integration, combination and reconfiguration becomes critical. As argued in the previous chapter, whether IJVs could generate more competitive advantage from the resource pool will rest on the ability of resource integration, combination and reconfiguration. Furthermore, IJVs in China cannot only depend on the current resources and static resources exploitation. They have to

dynamically develop and build new resources and capabilities, thereby renewing their competitive advantage. Hence, it is imperative to link the RBV with the DC perspective. To the best of our knowledge, there is no comprehensive study to link these two theoretical perspectives in examining the performance drivers of IJVs. DC has been conceptually and theoretically discussed in extant literature. However, there are very few empirical studies to validate this construct and explore the importance of this construct to the performance of IJVs. We choose IJVs in China to empirically explore the importance of the construct.

4.2 The Definition of Population

In this section, the population this study was targeting is further specified. The target population is defined in the following ways.

1. *Equity IJVs formed between local Chinese firms and foreign firms.* The study focuses on the international equity joint ventures operating in transition economies using China as the research context. Equity IJV is defined as “a separate legal organizational entity representing the partial holdings of two or more firms, in which the headquarters of at least one parent firm is located outside the country of operation of joint venture. This entity is subject to the joint control of its parent firm, each of which is economically and legally independent of each of other (Shenkar and Zeira, 1987)”. Compared with other contractual IJVs such as R&D alliances, technology partnerships and marketing consortia, equity IJVs differ in terms of intention of managing the venture on an on-going basis and stability. Given the differences between these two categories of IJVs and the dominance of the equity IJVs in China, this study is confined to the investigation of the equity IJVs in China.

2. *Marketing-seeking IJVs in China.* This study is limited to the market-seeking IJVs in China, which seek market share and growth in China. It excludes resource-seeking IJVs which are established mainly for local production and export. The restriction is in line with many studies on MNCs and IJVs in China (e.g., Luo, 2003) and is set for three major reasons. First, local market expansion is a major goal for most IJVs in China and this goal differs from diverse goals for IJVs in industrialized countries (e.g., learning, knowledge acquisition, and strengthening of corporate image) or in other developing countries (e.g., raw materials and nature resources). Second, we address the performance of market-seeking IJVs in China. Performance criteria for those resource-seeking IJVs (e.g., those using China as a low-cost production platform) are different from those for the market-seeking IJVs. Third, this restriction can help us isolate the specific effect of parent strategies on IJV performance.

3. *Manufacturing IJVs in China.* The study is also confined to the manufacturing IJVs in China since majority of IJVs operating in China are manufacturing-oriented firms. IJVs in service sector are relatively rare and the Chinese government has been restricting FDI in service sector, although the restriction has been loosened gradually since China's entry into WTO. Moreover, manufacturing IJVs are different from service IJVs in many ways. Confining the scope of the study to manufacturing IJVs in China will partial out the effect of industry on IJV performance. However, whether the findings from the study will be generalizable to IJVs in service sector are worth future research investigation.

4. *IJVs involving only two partners.* One is a local Chinese partner and the other a foreign partner. The definition aimed to control for the potential influence of multiple partners on IJV performance. Besides, two-partner IJV is the most common structure in IJVs.

4.3 Data Collection

In 2004, we conducted a field study in Chengdu, Chongqin and Xi'an, investigating new problems or challenges faces by IJVs. To our surprise, these IJVs reported that they encountered more and more challenges arising from China's dynamism such as more competition from both foreign competitors and local competitors and less privileges granted by the governments at various levels. Many IJV top managers we interviewed expressed the view that in order to succeed in China, IJVs need strong support in the form of resources contributions from their foreign partners. In the meanwhile, they also pointed out that the resources from foreign partners cannot completely substitute the resource contribution from local partners. Also, they emphasized that the resources from two partners might not be complementary and compatible without the effort of IJVs. Some IJVs are able to effectively integrate and reconfigure the resources from the two partners, generating competitive advantage whereas other IJVs are unable to maximize the potential of the resources due to the inability to effectively exploit them. In addition, they also pointed to the importance of generating new competitive advantage in order to review their competitive advantage. Such findings spurred us to examine the issues more systematically. As detailed below, a questionnaire survey was conducted during 2004-2005 to provide the data for the study.

4.3.1 Scale development for questionnaire

This study utilizes a data set from a survey conducted in the three major FDI regions in China, namely, East Coast, South China and the inland areas such as Xi'an from 2004 to 2005. Development of the survey questionnaire was guided by theoretical consideration, previous literature, field interviews, and consultation with experts. It was subject to a back-translation procedure to ensure validity in the cross-cultural setting and then pre-tested for instrument validity with some IJV managers from 8 IJVs located in Xi'an.

To ensure reliability and validity of measures, the scale development process recommended by Churchill (1979) was followed. The first step of the process was to generate sets of items measuring the study's key constructs. The identification of the potential sets of items was based on a thorough review of the IJV literature. Most items were derived or adapted from prior studies. The criterion for generating questionnaire items was that the items capturing key constructs of the study appeared at least twice in previous research. In the item generation process, there was some summation and reduction in the items from past research. One key construct, Dynamic Capability, has been discussed theoretically or conceptually. However, there is no extant measurement available for this construct. Although extant literature (e.g., Luo, 2002) suggests that there are two dimensions, namely, Capability Exploitation and Capability Building, for the construct, the dimensions have not been empirically validated in the literature. As such, one objective of the study is to generate the measure for the construct and empirically validate the construct by means of a rigorous process, which will be elaborated in detail in the next section.

The second step was to evaluate the face validity of the items generated. Two Nanyang Business School faculty members participated in assessing the content validity of the questionnaire items. Two doctoral students at Nanyang Business School also joined the process. They were asked to evaluate whether the items generated in the previous step captured the intended constructs. The items that were assessed properly more than 80 percent of the time were retained. The judges were then asked to check the wordings in the questionnaire to determine whether there are any misunderstandings, ambiguities or wordiness. The two faculty members who participated in this pre-test had earned their Ph.D from top business schools in US and one of them is a well-published expert in IB research. At this step, the questionnaire was developed in English. After the English version is finalized, I as a bi-linguist translated the English version into Chinese version. One Chinese professor proficient in both English and Chinese independently back-translated the Chinese version into English. Several rounds of back-translation were carried out to eliminate

problem to ensure that the Chinese version is equivalent to the English version in terms of validity and reliability. In the end, another doctoral student who is also proficient in both English and Chinese checked the finalized English and Chinese versions to ensure the validity and reliability of the questionnaire.

The third step was to discuss the questionnaire items with IJV managers to confirm their validity to the IJVs. A pilot study was conducted using a convenience sample of eight IJVs. The survey questionnaire was delivered to the pre-identified informants. In general, the questionnaire worked well although there were some minor changes associated with the terminology used in the questionnaire. For example, it was somehow difficult for some of them to understand some of the terms used to capture the Dynamic Capability. Hence, examples were provided for each item to facilitate their understanding. Some items have been revised, added or deleted. Figure 4.1 gives a summary of key constructs used in this study. A copy of the questionnaire in English and a copy in Chinese are in the Appendix.

Figure 4.1

Key Constructs

4.3.2 Scale development process: Dynamic Capability

As mentioned above, there is no well-accepted measurement for Dynamic Capability in current literature. Therefore, one objective of this study is to develop an instrument to measure the

Dynamic Capability in general and validate the two dimensions in particular. This section discusses the process of developing such instrument.

For new measures and for those that required significant adaptation, standard scale development procedures were followed. The survey involved a two-stage procedure (Figure 6-1). At the first stage, we developed the instrument for each construct. And at the second stage, we administered the final questionnaire.

Figure 4.2

Two Stages of the Survey

Instrument development included three phases, i.e., item creation, scale development, and instrument testing. The first phase was item creation, the purpose of which was to create item pools for each construct by identifying items from existing and similar scales and by creating additional items that seemed to fit the construct definitions. The next phase in the process was scale development. The basic procedure was to have panels of judges sort the items from the first step into separate categories, based on the similarities and differences among these items. Based on the judges' placement, we then examined the items one by one. Any inappropriately worded item, ambiguous item, and indeterminate item could be eliminated or revised. The various scales were

then combined into an overall instrument for the instrument testing phase. In the instrument testing phase, the draft instrument was subjected to a qualitative testing of relevant validities. This phase was designed to facilitate revision, leading to instruments that were formally validated.

Most studies in the current literature on Dynamic Capability are theoretical or conceptual in nature, despite very few exceptions (e.g., Luo, 2002). We generate relevant items mainly from those studies. The notion that competitive advantage requires both the exploitation of existing internal and external firm-specific capabilities and developing new ones is partially developed in Penrose (1959), and Wernerfelt (1984). The DC perspective is first comprehensively discussed by Teece et al. (1997). The paper seeks to provide a coherent framework which can both integrate existing conceptual and empirical knowledge, and facilitate prescription.

According to Teece et al. (1997), DC is defined as:

The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment.

Based on the DC perspective, the competitive advantages of firms is seen as resting on distinctive processes (ways of coordinating and combining), shaped by the firm's (specific) asset positions (such as the firm's portfolio of difficult-to-trade knowledge assets and complementary assets), and the evolution path(s) it has adopted or inherited (Teece et al., 1997). Other researchers define DC in similar ways. For instance, Grant (1996) and Pisano (1994) view DC as the antecedent of organizational and strategic routines by which managers alter their resources base – acquire and shed resources, integrate them together, and recombine them – to generate new value-creating strategies. As such, they are drivers behind the creation, evolution, and recombination of other resources into new sources of competitive advantage (Henderson and Cockburn, 1994). Eisenhardt and Martin (2000) define DC as:

The firm's processes that use resources – specially the processes to integrate, reconfigure, gain and release resources – to match and even create market changes. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configuration as markets emerge, collide, split, evolve, and die.

In Teece et al.'s (1997) theoretical paper, DC is thought to comprise organizational and managerial processes with three roles: coordination/integration (a static concept); learning (a dynamic concept); and reconfiguration (a transformational concept). Coordination/integration refers to the process by which firms efficiently and effectively integrate internal and external resources and competences. Transformation refers to the ability to sense the need to reconfigure the firm's asset structure, and accomplish the necessary internal and external transformation. Learning refers to the process by which repetition and experimentation enable tasks to be performed better and better.

Similarly, Eisenhardt and Martin (2000) assert that DC actually consists of identifiable and specific routines. In a similar way, DC is conceptualized as some dynamic capabilities which integrate resources, some dynamic capabilities which focus on reconfiguration of resources within firms and some dynamic capabilities which include knowledge creation routines whereby managers and others build up new resources and knowledge.

In another paper by Luo (2002), he conceptualizes DC as consisting of two dimensions, *capability exploitation* and *capability building*. Capability exploitation concerns the extent to which a firm exploits rent-generating resources while capability building involves the extent to which a firm commits to building new capabilities. According to Luo (2002), capability exploitation is critical for gaining competitive advantages while capability building ensures the growth of sustainable competitive advantage and generates new bundles of resources. Collectively, DC determines a firm's ability to create and use organizationally embedded resources in the pursuit of a sustained competitive advantage in a global marketplace.

Based on the above literature, I conceptualize the Dynamic Capability as a construct consisting of two dimensions, which are *Capability Exploitation* and *Capability Exploration*, respectively. Building on the current literature and discussions with academic scholars and practitioners, I generate a set of items to capture the construct. The items in Section 6 of the questionnaire are those items after several rounds of discussion, revision, refinement and deletions. The process of item creation was carried out as follows. First, all items identified in the existing instruments were categorized into the various constructs which they were originally intended to address. This generated an initial item pool for each construct. Then, items considered too narrow in focus and applicable only in particular situations were eliminated. Next, new items were created for those constructs where we felt that all dimensions of the construct had not been covered. Once the item pools were created, items were then re-examined to eliminate those that appeared redundant.

After the initial items have been generated, I carried out several rounds of sorting to make sure that the items are relevant, unambiguous and collectively comprehensive. In other words, the items should be mutually exclusive and collectively comprehensive. Two professors and two doctoral students participated in the sorting. Based on their suggestions, some items were revised, some deleted and some added. After that, the items used to measure Dynamic Capability were sent to top managers of eight IJVs during a pilot study. And then the draft was subjected to a qualitative testing of all relevant validities such as face validity, construct validity and so on. The in-depth interviews with the IJV managers offered insight into this construct and the measurement for this construct was continuously revised based on the suggestion from managers. For instance, in consistent with their suggestion, I listed an example for each item of the measurement to help them better understand the item. In the end, the finalized measurement was re-sent to the two professors for final review and some minor revision was made accordingly.

In order to rigorously test the two dimensions of the construct, an Exploratory Factor Analysis (EFA) was conducted with varimax rotation. As can be seen in Table 4.1, we identified two factors whose eigenvalues were greater than 1.0. Factor 1 consists of five items measuring capability exploitation and Factor 2 consists of three items measuring capability exploration.

Table 4.1
Results for Exploratory Factor Analysis for Dynamic Capability

Items	Factor 1 Capability Exploitation	Factor 2 Capability Exploration
DC-1 Our IJV has the ability to integrate and the resources contributed by foreign partner and local Chinese partner to create value-adding products and services	0.806	0.217
DC-2 Our IJV is capable of making sure that resources from partners are compatible	0.835	0.156
DC-3 Our IJV is able to determine the optimal resource allocation along the value chain of IJV.	0.867	0.273
DC-4 Our IJV is able to re-configure the current resources from partners to meet the specific needs of the Chinese market.	0.850	0.179
DC-5 Our IJV is capable of constantly surveilling the environmental dynamism and sensing the need to reconfigure the IJV's resources structure.	0.832	0.122
DC-6 Our IJV has the motivation and ability to learn so as to generate new capabilities.	0.266	0.743
DC-7 Our IJV often uses alliances and acquisition that bring new resources into our IJV.	0.113	0.803
DC-8 Our IJV dedicates to building new resources and capabilities needed for local operations through learning, R&D and innovation.	1.290	0.756
Eigenvalues	4.515	1.326
Percentage of variance explained	56.443%	16.578%

*Bold numbers indicate the factor loadings for each item

Note that DC1-1 to DC1-5 are five items corresponding to the first five items in Section 6 of the questionnaire, which are generated through the above three phases, defined as the ability to exploit

the current resources of IJVs through integration, combination and reconfiguration. The following three items corresponding to the last three items in Section 6 of the questionnaire are used to measure capability exploration, defined as the ability to constantly renew and build new resources for IJVs through learning, innovation and alliances. The EFA result demonstrates the two dimensions of Dynamic Capability and the clear factor loading pattern shows that capability exploitation and capability exploration are two distinct dimensions of Dynamic Capability. As argued in the hypotheses development section, we argue for the moderating (strengthening) role played by capability exploitation and at the same time, we emphasize the importance of capability exploration to the generation of new competitive advantage for IJVs. Based on the analysis above, we will use the two dimensions separately in the data analysis, rather than using the broader construct Dynamic Capability since the two dimensions have complementary yet differential influences on IJVs. Capability exploitation is expected to strengthen the positive impact of resource acquisition from foreign partner and local partner on the performance of IJVs as it deals with the exploitation of current resources. Capability exploration is supposed to directly impact the performance of IJV as it deals with the exploration (building) of new resources and capabilities so as to generate new competitive advantage.

The empirical validation of DC and its two dimensions, to the best of our knowledge, is the first attempt in spite of some theoretical and conceptual papers on the construct. The DC perspective is an emerging yet important theoretical perspective and the validation could be regarded as one contribution of the study.

4.3.3 Data collection from both partners

Data collection from both IJV partners was motivated by the idea that both partners' perspectives are necessary for a complete understanding of the IJV. However, we chose the top management

representatives of IJVs rather than contacting the top management members of their parent firms because the IJV top managers are directly involved in the operations of IJVs. They are more familiar with the strategies, policies and operations of IJVs than their parents. Since one purpose of the study is to explore the value of the resources contributed by local partner and foreign partner in terms of quantity and quality, it would be better for IJV management to evaluate the value. We feel that evaluation by either local parent firm or foreign parent firm would be inappropriate due to the possible bias for their own contribution. Second, Dynamic Capability is argued to have two dimensions. The two dimensions deal with the exploitation of current resources and exploration of new resources. As a result, it would be appropriate for the IJV top management members to assess the key construct for the study. The approach is consistent with the current IJV literature because they found that local general manager or expatriate managers were heavily involved in overseeing the IJVs on behalf of their respective parent firms (e.g., Yan, 2000).

Therefore, this study utilizes English version and Chinese version of the questionnaire to obtain data. However, it should be noted that the purpose of attempting to collect data from both sides was not to study the perceptual differences between the partners, but to acquire a complete understanding. Ideally, if we could get the assessment from each side of each IJV, we could cross-check the data to see whether there exists a reasonable consistency.

4.3.4 Single informant for each partner

Following prior IJV studies, a single informant approach was used to collect the perceptual data from both IJV partners. Subjective and perceptual measurements are used for some reasons. First, there are no objective and secondary data sources available for some constructs, such as resources acquisition and dynamic capability. Second, firms are reluctant to reveal their real information, such as financial performance. It would be better to seek their subjective and perceptual response to

those sensitive questions. Third, current studies (e.g., Luo, 2003; Luo and Park, 2004) utilize the same approach and they have validated their perceptual measures through a number of means. The general conclusion is that the perceptual measurement is highly consistent with the objective one.

The approach of single informant was based on the assumption that there is a high level of consensus among a firm's managers concerning the perceptions of this study's key research variables. If there were significant individual differences among a firm's managers regarding the perceptions of those research variables, a single informant approach would no longer be valid. The possibility could exist because of the different job responsibilities, experiences, interests and objectives associated with different managers of the same IJV. However, prior IJV researchers have provided empirical evidence supporting the validity of a single informant approach to collecting perceptual data. In his study of IJV partner selection criteria in the US, Geringer (1991) collected perceptual data from one senior manager of each parent firm. His choice of single informant approach was based on his pilot study that had examined ten executives from four firms. The pilot study found that one to three executives in each parent typically had intimate involvement throughout the IJV formation and management process, and there was a high level of consensus among the firms' key executives regarding their perceptions of key research variables. In the context of emerging markets, Yan (2003) and Yan (2000) also collected data from a single informant for each IJV partner, although their major informants were local general managers for local partners and expatriate managers for foreign partners. In his study of IJVs in China, Luo and Park (2004) argue that the ideal way to test hypotheses on multiparty cooperation and IJV performance would be to survey individuals from all three parties in an IJV. But this was not possible because of the constraints and limitations of this type of research project. Instead, they use the second-best survey results and apply five stages of validity check to ensure the credibility of the data. The five-stage rigorous validity check warrants the use of single informant.

In short, the empirical findings of the previous studies suggest that a significant number of senior managers hold converging perceptions of a number of key research variables. As a result, this study also utilizes one informant for each partner of IJVs, targeting the IJV local general managers for Chinese partners and the expatriate managers for foreign partners.

4.3.5 Sample selection and survey implementation

Data for this study originated from a survey conducted from 2004 to 2005 of IJVs in three major FDI-centered regions in China. After our field study, a cross-regional mail and e-mail survey of top (general or deputy) managers in IJVs was conducted. Our sample list was drawn from the *Directory of Foreign-Invested Industrial Enterprises*, compiled by MOFTEC, China. About 500 questionnaires were randomly sent to senior managers of foreign manufacturing IJVs in East Coast China, South China and Inland China. Since this study emphasizes local market-seeking IJVs, export-oriented IJVs were excluded on our list. We also excluded those IJVs with more than two partners. Those non-equity IJVs, such as contractual IJVs, were also excluded due to the scope of the study. The geographical focus was the Yangtze River Delta (Shanghai, Jiangsu and Zhejiang) and the Pearl River Delta (Guangdong). These regions are the major hosts of FDI, representing about 60% of the total value of FDI nationwide. Also included are those IJVs set up in the Inland China (Chengdu, Chongqin and Xi'an) because of the increasing importance of this region for FDI.

In the survey, we kept individual IJV and respondents anonymous to improve the response rate and data quality. It has been reported that in emerging markets in particular, managers are more willing to provide accurate information when their identities are not revealed. The anonymous approach is also critical to avoid a potential social desirability effect. Since the items in our questionnaire are questions on the perception of the respondents regarding the key issues examined, rather than the objective and exact questions, we assume that the social desirability effect is diminished.

After several rounds of follow-up contacts, 113 questionnaires have been received, representing about 25.6% response rate. The reminder was by either fax or phone. Of the 113 questionnaires received, some questionnaires were dropped because of too many missing data, explicit response pattern, and noticeable social desirability, resulting in the final 102 useable questionnaires for data analysis.

Before implementing the survey, the researcher contacted Nanyang Business School (NBS) and succeeded in gaining support from the school. Securing legitimacy for the survey through NBS was essential to increasing the response rate and enhancing the data quality. In fact, the business communities in emerging market countries, like China, are not used to responding to surveys and are even reluctant to give insight information to outsiders. In implementing the survey, both Chinese version and English version of the questionnaire with NBS logo, together with the cover letters were sent out. The cover letter indicated that NBS was conducting this study for the purpose of academic research. The researcher's cover letter addressed four main issues: 1) the importance and purpose of this study; 2) the importance of IJVs' participation for the success of the project; 3) a guarantee of the confidentiality of the responses; 4) an offer to send a summary of the results in return for the participation. (see Appendix).

We sent one copy of Chinese version questionnaire and one copy of English version questionnaire together within one envelope to the top manager of IJVs. We did not specify whether the respondents would be foreign manager or local manager. We just stated that the receipt be general or deputy manager. Inside the envelope, we sought the cooperation of the receipt in transferring one version of the questionnaire to his/her counterpart. A questionnaire, a cover letter and a self-addressed return envelope were mailed to Chinese and foreign partners' informants, respectively but within one mail.

4.3.6 Common method bias

The data for this study relied on self-reported data by IJV partners' informants of both independent and dependent variables. One important concern here is that common method bias may artificially inflate observed relationship between independent and dependent variables.

To reduce the potential common method bias, we collected data for the dependent variables from reliable public information. However, as can be seen from the questionnaire, we use a collection of items to come up with a comprehensive, multidimensional construct that reflects various aspects of IJV performance, including both strategic performance and financial performance. Hence, we intended not to use the objective and publicly available data like ROI and ROA to replace the current subjective and self-reported measure of the dependent variable. However, in the next chapter on data analysis, we will check the potential common method bias and suggest the remedies if the bias is serious.

4.4 Operationalization of the research model

The study examined the performance implications of resources acquisition from local partners and foreign partners of IJVs in China, which are mainly based on the RBV arguments. In addition, we integrate the RBV and the DC perspective, examining the roles played by the two dimensions of DC in moderating the impact of resource contribution on IJV performance as well as directly influencing the IJV performance. Hence, three types of constructs were operationalized. The first was the IJV performance, measured by the IJV top managers' self-reported perceptual assessment of satisfaction with IJV performance along multiple dimensions. The second was the resources acquisition from local partners and foreign partners, measured by assessment of the quantity of the resources and the quality of the resources. The third was the dynamic capability, measured by

assessment of the degree of agreement with eight statements capturing the two dimensions of DC. Specific measures for each of these constructs are discussed in more detail below.

4.4.1 Dependent variable: IJV performance

A theme that cuts across previous empirical work is the difficulty in conceptualizing and operationalizing IJV performance, as Luo and Park (2004) argue. Previous studies have applied various objective measures (such as termination, duration, and financial gains) and subjective measures (such as goal achievement, satisfaction, and learning) to estimate the success or failure of IJVs. Some studies use public information like ROI, ROA and sales to measure IJV performance while others rely on subjective, self-reported and perceptual assessment of IJV performance. Both measures would be relevant, but the collection of such information becomes a daunting task and one that is often operationally impossible. This measurement constraint has complicated the estimation of IJV outcomes and comparison across studies. This study introduces a comprehensive, multidimensional construct that reflects various aspects of IJV performance, following the example of Luo and Park (2004). We come up with an index based on the mean of responses (five-point Likert scale ranging from “1 = extremely dissatisfied” to “5 = extremely satisfied”) on the degree of satisfaction in the following areas:

- (1) Sales growth
- (2) ROI
- (3) ROA
- (4) Market share
- (5) Competitive position against competitors
- (6) Customer satisfaction
- (7) Organizational reputation and product image
- (8) Realization of long-term strategic goals
- (9) Overall performance

These aspects covered the diverse concerns of local or foreign partners of IJVs to evaluate IJV performance. The subjective approach is appropriate because these measures of performance have

been validated and shown to correlate with objective measure with a high degree of reliability. For instance, Arino (1996) shows a strong convergent and discriminant validity for subjective performance measures in international joint ventures.

4.4.2 Independent variables

Hypotheses 1a and 1b test whether IJV performance is positively related to the “value” of resources consisting of quantity dimension and quality dimension. Hypothesis 1a is developed for resources acquisition from foreign partners and hypotheses 1b for resources acquisition from local partners.

Departing from previous studies, this study posits that the *value* of resource will hinge on (1) whether the resources could generate competitive advantage to IJVs and (2) how much the IJVs acquire such resources. As a result, we do not test the quantity and quality dimensions of resources *separately* since we feel that doing so will fail to capture the complete picture. Instead, we argue that both quantity dimension and quality dimension be considered *simultaneously* and that the *combination* of these two be viewed as a new construct, which we prefer to call *value* of the resources. Figure 4.3 demonstrates the value of the resources.

Figure 4.3

Value of resources

<p>Value <u>Modest</u></p> <p>Quantity (<i>little</i>) × Quality (<i>competitive</i>)</p>	<p>Value <u>Greatest</u></p> <p>Quantity (<i>great</i>) × Quality (<i>competitive</i>)</p>
<p>Value <u>Least</u></p> <p>Quantity (<i>little</i>) × Quality (<i>uncompetitive</i>)</p>	<p>Value <u>Modest</u></p> <p>Quantity (<i>great</i>) × Quality (<i>uncompetitive</i>)</p>

Unlike previous studies, we do not assume that some types of resources come from foreign partner while others from local partner. Based on prior relevant studies, the specific resources identified include:

- (1) Product technology
- (2) Manufacturing process knowledge
- (3) Leading edge plant and machinery
- (4) Marketing expertise
- (5) Business operation expertise
- (6) Invisible assets, e.g., trademark, patent
- (7) Local market knowledge
- (8) Local distribution network
- (9) Access to local resource

For this measure, managers were asked to evaluate the quantity of the resources acquired from foreign partner and local partner (1 = small amount and 5 = great amount). Also, managers were asked to evaluate the quality of the resources acquired from foreign partner and local partner, in terms of generating competitive advantage to IJVs (1 = no advantage and 5 = great advantage). When we initially developed the measure to capture the quality dimension of the resources, we

intended to capture the value, rareness, inimitability and unsubstitutability as originally asserted by Barney (1991). We abandoned the idea because, from the pilot study, it would become too complicated for the respondents who are managers not quite familiar with the four terms in academic literature. One well-published professor, from his experiences in doing relevant research projects, also suggested one single item be used to measure the overall quality, which refers to whether the resources could generate competitive advantage to IJVs. In so doing, the ambiguity and complexity of the items have been reduced.

Hypotheses 2 and 3 concern the effect of the two dimensions of Dynamic Capability. Hypothesis 2a and hypothesis 2b are concerned with the moderating effect of Capability Exploitation and hypothesis 3 concerned with the direct impact of Capability Exploration. As discussed in section 4.4.2, we followed a rigorous process of developing the measurement for such a construct and validated the two dimensions. Based on the process, the DC of IJVs was measured by the degree of agreement with eight statements (1 = strongly disagree and 7 = strongly agree) as can be found in the Appendix.

Hypothesis 4 is concerned about the contingency perspective of the roles played by DC. In the study, we emphasize that the roles of DC will be contingent on the dynamism of business environment in which the IJVs operate. In addition to the dimensions of unpredictability and variability, we add another dimension to the dynamism, which is the competitive intensity defined as the degree of competition among the IJVs and their competitors. We measure the dynamism of the business environment along three sub-dimensions, namely, unpredictability, variability and competitive intensity. For each sub-dimension, we measure the extent to which the following five actors are unpredictable, variable and competitive (1 = little extent and 5 = large extent), including competitors, customers, suppliers, regulatory and social-culture. Our approach is similar to that used by Luo and Peng (1999)'s study on the experiences, environment and performance of foreign

entrants in China. The scales for each sub-dimension were then summed and averaged to generate the average scores representing the degree of unpredictability, variability and competitive intensity. The three sub-dimensions were then summed and averaged to generate an average score representing the overall degree of dynamism.

4.4.3 Control variables

While the focus of the study centers on the resources and DC, we constructed models that have controlled for numerous other variables known to affect IJV performance. Ideally, we should control for all the variables affecting the performance of IJVs. However, there are so many variables related to industry, host country, home country, and the IJVs that it is almost impossible to control for all the variables in the study. Therefore, we use a second-best strategy of choosing the control variables. Based on the thorough literature review and the review papers on the determinants of IJV performance (e.g., Mattew et al., 2002), we identified those variables which have been supported without ambiguity to affect the IJV performance. The variables we control for include: national culture distance, organizational culture distance, IJV equity stake, cooperation, strategic goal compatibility, IJV age, IJV size, international experiences of foreign partner and local partner. Such a full set of controls not only allows for relatively unbiased estimate of the effect of the main independent variables, but it also affords a comparison of the relative predictive power of the independent variables versus other determinants.

National Culture Distance and Organizational Culture Distance

Previous studies have addressed culture distance between foreign and local partner as an important factor influencing cooperation and performance (Park and Ungson, 1997). Barkema et al. (1996) demonstrate that cultural distance between parent firms is a prominent determinant in establishing

international cooperation and learning. However, when it comes to the operationalization of the culture distance, there are different approaches. The most popular approach is the measurement with Kogut and Singh's (1988) composite index utilizing Hofstede's conceptualization containing five cultural dimension: power distance, uncertainty avoidance, individuality, masculinity and long-term orientation. But, we argue that this approach is a macro measurement at the national level. Admittedly, these macro and broad culture distances between nations will influence the cooperation and performance. Misunderstanding, cooperation, conflict and trust involved in IJVs are all related to national culture distance. The other approach to measuring culture distance is to use a more micro measurement of culture distance at the organizational level. Vijay et al. (2002) found that the presumed negative effect from culture distance on IJV performance originates more from differences in organizational culture than from differences in national culture. In other words, it is more appropriate to use the culture distance at the organizational level. In this study, culture distances at both the national level and the organizational level are controlled for.

IJV age

The age of IJV which serves as kind of proxy for international experiences has been examined as control variable. As Luo and Park (2004) argue, associated with length of operations, year of IJV formation reflects the level of organizational learning and experience, which may influence the path and extent of competitive success under uncertain circumstances. As partners interact over a longer period of time, there is a better mutual understanding which makes it easier to improve cooperation and resolve conflicts. The variable is measured by the year when the IJV was established in China.

IJV size

IJV size often affects the firm's market power over competitors, and its risk-taking capability in a dynamic environment. It also influences the potential to improve productivity, increase economy of

scales, and access profitable industries in China. IJV size is defined as the number of employees in the IJV.

IJV equity stake

Equity stake is a critical organizational variable affecting partners' vulnerability to each other's action and the IJV's survival (Luo and Park, 2004). Imbalanced equity stake often induces opportunistic behavior. Increased ownership imbalance between partners is reported to lead to higher levels of parental conflict. Equity stake is measured by a continuous variable representing the foreign ownership.

Cooperation

Luo and Park's (2004) study shows a strong positive impact of cooperation between IJV partners on performance. They identified three distinct factors for three types of cooperation, i.e., cooperation in strategic goal setting, cooperation in top management and cooperation in functional operation. In this study, we also capture the three factors and come up with a general construct of cooperation as one control variable.

Experiences

To control for partners' prior experiences, we also included two variables representing parent firms' prior experiences of IJVs in China. Prior IJV experiences suggest each parent firm's expertise and learning in managing IJV. Given the high level of managerial complexity in IJVs, prior experiences affect the IJV performance positively. Chinese and foreign partners' prior IJV

experiences with other foreign and local partners in China respectively are measured by dummy variables, with 1 indicating the presence.

Strategic goal compatibility

The goals of local and foreign partners of IJVs often diverge. Hence, whether strategic goals of both partners are compatible will determine the possible conflict and commitment to the IJV. It has been supported that many problems in IJVs stem from the incompatibility of the partners of the IJVs. The variable is also controlled for in this study.

4.5 Data analysis technique

By integrating the RBV and the DC perspectives, this study is intended to examine the contribution of the resources acquired from both foreign and local partners of IJVs in China to the performance of IJVs, hypotheses mainly developed from the RBV. In addition, we argue that *Capability Exploitation* would positively moderate (strengthen) the positive relationship between resource and performance and *Capability Exploration* directly impact the performance of IJVs, hypotheses mainly developed from the DC perspective. Through the integration of the two important theoretical perspectives, this study is expected to be the first systematic attempt to examine not only the static *exploitation* of the current resources but also the dynamic *exploration* of new sources and capabilities. With regard to the roles played by DC, we adopt a contingency perspective which states that the roles of DC will hinge on the *dynamism* of the business environment in which IJVs operate. The roles would become more significant when the business environment is more dynamic, implying that whether IJVs possess strong *Capability Exploitation* and *Capability Exploration* will become more critical under the highly dynamic business environment.

Most hypotheses will be tested by moderated regression analysis testing the relation between dependent and independent variables. OLS regression will be used. Before doing the analysis, however, we would conduct some preliminary analyses, such as Exploratory Factor Analysis (EFA), to examine some of the independent variables and the dependent variable.

The following is the multiple regression model used to test the hypotheses.

$$\text{IJV performance} = a + b_1VF + b_2VL + b_3CET + b_4CER + b_5CET * VF + b_6CET * VL + b_7\text{SIZE} + b_8\text{AGE} + b_9\text{EQUIT} + b_{10}\text{COOP} + b_{11}\text{EXEPF} + b_{12}\text{EXEPL} + b_{13}\text{NCD} + b_{14}\text{OCD} + b_{15}\text{GOAL}$$

Where, VF = Value of the resources acquired from foreign partner of IJV

VL = Value of the resources acquired from local partner of IJV

CET = Dynamic Capability dimension, Capability Exploitation

CER = Dynamic Capability dimension, Capability Exploration

CET*VF = Interaction between CET and VF

CET* VL = Interaction between CET and VL

SIZE = Size of IJV

AGE = Age of IJV

EQUIT = Equity stake of IJV

COOP = Cooperation between foreign partner and local partner of IJV

EXEPF = Prior experiences of foreign partner of the current IJV

EXEPL = Prior experiences of local partner of the current IJV

NCD = National culture distance

OCD = Organizational culture distance

GOAL = Strategic goal compatibility

Since we argue for the contingency perspective concerning the roles played by DC, we need to test the moderating effect of the dynamism of business environment. However, since we hypothesize that *Capability Exploitation* moderates the relationship between resources and performance, the inclusion of dynamism as a moderating variable will result in a second-order moderating effect. To

reduce the complexity of the model, we will not use higher order moderated regression. Instead, we would test the moderating effect of dynamism through the split regression analysis. Based on the median value of dynamism, we will split the sample into two sub-samples with high dynamism sub-sample and low dynamism sub-sample. We then re-do the above-mentioned moderated regression analysis to see whether the moderating role played by *Capability Exploitation* and the direct impact role played by *Capability Exploration* will become more significant for the high dynamism sub-sample.

4.6 Summary

This chapter set the research setting and defined the target population. The sampling technique and the data collection procedures were described. The instrument of the survey was discussed in detail with a particular focus on the construct, Dynamic Capability. Factor analysis was conducted and the two dimensions of DC, namely, *Capability Exploitation* and *Capability Exploration*, were validated. The operationalizations of the dependent variable, the independent variables, the moderating variables and the control variables were elaborated. The data analysis techniques were also suggested. The next chapter presents the results of these empirical analyses.

CHAPTER 5

ANALYSIS AND RESULT

This chapter presents the results of the statistic analysis that was conducted on the survey data discussed in the preceding chapter. The following three tests were conducted to examine the quality of the data: test for non-response bias, test for representativeness and test for common method bias. Then, some preliminary analyses were conducted. Based on the results of the preliminary analyses, modification of some of the hypotheses was discussed. Characteristics of the sample were discussed before the results of the testing of the hypotheses were presented.

5.1 Test for non-response bias

In order to test for the non-response bias, we compared the IJVs that responded to the survey with those that did not. The comparison was based on three important background variables: age, size and foreign ownership of the IJV. Data on each of these variables for non-responding IJVs were collected from *Directory of Foreign-Invested Industrial Enterprises*, compiled by MOFTEC, China. The age of the IJV was calculated by taking the differences (in years) between 2004 when the data were collected and the year when the IJV was established. The size of IJV was measured by the total investment (USD million) of the IJV reported when IJV was established. The foreign ownership was measured by the share of foreign partner of the total investment at the IJV's founding. Three sets of t-test were conducted. None of the t-tests was significant, suggesting that no significant difference exists between responding and non-responding IJVs, as the following table shows.

Table 5.1

**Comparison of some research variables
Responding IJVs vs. Non-responding IJVs**

Research Variables	Responding IJVs (N=102)	Non-responding IJVs (N=387)	T-test for difference in mean
Age	9.44	11.22	P= 0.163
Size	1.45	1.76	P=0.241
Foreign Ownership	54.23	51.86	P=0.115

5.2 Test for representativeness

There is concern about the representativeness of the sample given the number of IJVs set up in China. Hence, tests were conducted to check the representativeness of the sample. The representativeness of the sample in terms of investment size and the number of employees was checked by comparing the mean project size and the number of employees with those of the population nationwide, using information from the *China Statistics Yearbook*. The t-tests results were insignificant, suggesting no significant bias from the population in this respect.

Further tests were conducted to test other dimensions of the characteristics of the sample. In term of the country-of- origin, foreign partners' nationalities are widely distributed, as the following table shows. Hong Kong, Taiwan and Macao are the dominant FDI investors in China (31.5%), followed by Japan (22.5%), US (18.6%), Europe (11.8%) and others. Furthermore, the sample distribution of foreign partner's nationalities closely follows the population's distribution in China.

Table 5.2
Distribution of the nationality of the foreign partner of IJVs

COO of foreign partner

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid US	19	18.6	18.6	18.6
Europe	12	11.8	11.8	30.4
Japan	23	22.5	22.5	52.9
KS	5	4.9	4.9	57.8
HK, Taiwan and Macao	32	31.4	31.4	89.2
Singapore	2	2.0	2.0	91.2
others	9	8.8	8.8	100.0
Total	102	100.0	100.0	

In terms of industry distribution, as can be seen from the table, machinery (22.5%), light industry consumer good (14.7) and textiles and garments (13.7) are the three dominant industries to which FDI inflows, which is consistent with the overall pattern of the population's distribution.

Table 5.3
Distribution of the industry of the IJVs

Industry type

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Textiles and garments	14	13.7	13.7	13.7
light industry				
consumer good	15	14.7	14.7	28.4
daily-use electronics	6	5.9	5.9	34.3
machinery	23	22.5	22.5	56.9
food and beverage	6	5.9	5.9	62.7
processing				
construction	2	2.0	2.0	64.7
materials				
chemical	3	2.9	2.9	67.6
medicine	6	5.9	5.9	73.5
transportation	1	1.0	1.0	74.5
others	26	25.5	25.5	100.0
Total	102	100.0	100.0	

In terms of the location distribution of the IJVs in the sample, the following table shows that the distribution of the sample is centered on East Coast, South China and Inland China. Based on the

literature review, we found that some studies use only one location, for example, East China or Jiangsu province or Guangdong province while some others studies use multiple locations, for example, Beijing, Shanghai and Guangdong. Since the results of these studies did not show significant bias in term of location of the FDI projects, the study intends to adopt the second approach in that there are now four main FDI-centered regions in China, namely, East China including Shanghai and the surrounding areas, Beijing and the surrounding areas, South China including Guangdong and the surrounding areas, and West China including Sichuan, Chongqing, Shangxi, which are now the emerging FDI hotspots because of the attractive governmental policies with the aim of accelerating the development of West China.

Table 5.4
Distribution of the location of the IJVs
Locations of IJVs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Shanghai and other close areas	15	14.7	14.7	14.7
	Beijing and other close areas	3	2.9	2.9	17.6
	Guangzhou, Shenzhen and other close areas	14	13.7	13.7	31.4
	Other coastal areas	26	25.5	25.5	56.9
	Inland areas	44	43.1	43.1	100.0
	Total	102	100.0	100.0	

We also checked other characteristics of the sample IJVs, such as the ownership type of local partner of IJVs, foreign ownership of IJVs, total investment and the starting time of operation. We did not find significant differences except the starting time of operation. The sample was skewed to IJVs set up in the past 15 years. Out of the 102 IJVs in our sample, 13.7% of them were set up before 1990 while most of the IJVs (86.3%) were set up in the 1990s. The pattern, to some extent, is biased towards IJVs established in recent years. We do not know whether there exist significant differences between the IJVs established in the early years after China's Opening Up policy and the

IJVs established since 1990s. We keep the bias in our mind and will interpret the results of the data analysis with caution.

5.3 Test for common method bias

To test common method bias, we utilized multiple methods as follow. First, we test for the common method bias by validating the dependent variable using objective accounting-based measure of IJV performance. We compiled data for two objective measures: ROI and ROA for 52 IJVs. We were then able to check the consistency between the self-reported perceptual measures and the objective performance measures. First, we check the self-reported ROI and ROA with the objective ROI and ROA, respectively. The correlation analyses show a high level of congruence between the objective measure and the subjective measure, with Pearson correlation coefficients larger than 0.60. Second, we compute a subjective performance satisfaction score by using the rest items excluding ROA, ROI and the last item and replicated the correlation analysis. The high correlation, with coefficients ranging from 0.34 to 0.42, between the score and the objective ROI and ROA again validated the use of the subjective measure as valid measure of the dependent variable. Last, we correlate the objective ROI and ROA with the last item on the satisfaction with the overall performance of IJV. The congruence between the satisfaction and the objective measures indicates that satisfaction with various dimensions of IJV performance is a valid measure of the dependent variable.

Second, in the pre-test stage, 40 top managers from 20 IJVs (two respondents from each IJV) were interviewed to check whether the two informants from the same IJV revealed high consistency in their views of the resources contributions, dynamic capability and IJV performance. The results indicated a high level of inter-rater consistency. Also, the answers in the interview and the responses in the survey are highly correlated, demonstrating the validity of the subjective measure.

Third, in order to check the possible threat of common method variance arising from same-source response to the dependent variable and the independent variables, we conducted a principal components factor analysis on the questionnaire measurement items. Neither a single factor emerged nor was there a general factor that could account for the majority of covariance in these variables. The latent structure remained stable and item loadings held together in proposed variables, indicating the absence of severe common method variance.

5.4 Preliminary analysis

Before performing the data analysis to test the hypotheses, we conducted several preliminary analyses to check the dependent variable and the independent variables. Building on the preliminary analyses, we modify some of the hypotheses accordingly.

5.4.1 Verification of the underlying dimensions of DC

In order to rigorously test the two dimensions of the construct, an Exploratory Factor Analysis (EFA) was conducted with varimax rotation. As can be seen in Table 4.1 in Chapter 4, we identified two factors whose eigenvalues were greater than 1.0. Factor 1 consists of five items measuring capability exploitation and Factor 2 consists of three items measuring capability exploration.

5.4.2 Exploration of the underlying dimensions of IJV performance

As explained, this study introduces a comprehensive, multidimensional construct that reflects various aspects of IJV performance, following the example of Luo and Park (2004). We come up with an index based on the mean of responses (five-point Likert scale ranging from “1 = extremely dissatisfied” to “5 = extremely satisfied”) on the degree of satisfaction in the following areas: sales growth, ROI, ROA, market share, competitive position against competitors, customer satisfaction,

organizational reputation and product image, realization of long-term strategic goals, and overall performance.

These aspects covered the diverse concerns of local or foreign partners of IJVs to evaluate IJV performance. We conducted an Exploratory Factor Analysis (EFA) to validate the use of the set of items to reflect the various aspects of IJV performance. However, it turned out from the EFA analysis that the factor structure revealed suggests the presence of two distinct dimensions of IJV performance, rather than a general factor of IJV performance. Moreover, a cross-loading was found for the last item, suggesting that the item is not as clear as that of the remaining items. The variances explained by the two factors are 66.64% and 11.87%, respectively. Factor analysis was re-run after the item with the cross-loadings was dropped from the initial factor analysis. Still, there are two distinct dimensions of IJV performance. Such items as sales growth, ROI and ROA, load highly on one factor and the rest items excluding the item dropped load highly on the other. The variances explained by the two factors are 66.11% and 13.34%, respectively.

Table 5.5

Results for Exploratory Factor Analysis for IJV Performance

A: initial factor analysis model

Items	Factor 1 Strategic Performance	Factor 2 Financial Performance
Sales growth	0.442	0.772
ROI	0.216	0.928
ROA	0.315	0.881
Market share	0.688	0.440
Competitive position	0.843	0.146
Customer satisfaction	0.843	0.331
Image and reputation	0.799	0.283
Realization of long-term strategic goal	0.813	0.378
Overall performance	0.679	0.518
Eigenvalues	5.979	1.068
Percentage of variance explained	66.43%	11.81%

*Bold numbers indicate the factor loadings for each factor

B: second factor analysis model

Items	Factor 1 Strategic Performance	Factor 2 Financial Performance
Sales growth	0.440	0.775
ROI	0.210	0.927
ROA	0.324	0.887
Market share	0.696	0.445
Competitive position	0.859	0.155
Customer satisfaction	0.840	0.334
Image and reputation	0.789	0.284
Realization of long-term strategic goal	0.810	0.379
Eigenvalues	5.288	1.067
Percentage of variance explained	66.11%	13.34%

*Bold numbers indicate the factor loadings for each factor

Factor 1 consists of the following five items:

1. Market share
2. Competitive position against competitors
3. Customer satisfaction
4. Image and reputation
5. Realization of long-term strategic goal

It appears that all the five items measure the *strategic* dimension of IJV performance, which is related to yet different from the short-term, accounting-based and financial performance of IJVs.

Factor 2 consists of the following three items:

1. Sales growth
2. ROI
3. ROA

On the other hand, factor 2 appears to represent the *financial* dimension of IJV performance. Based on the interpretation of the second factor analysis, factor 1 and factor 2 are tentatively labeled as Strategic Performance and Financial Performance of IJVs, respectively. Hence, rather than having

one general dependent variable, we use Strategic Performance and Financial Performance as two dependent variables separately in the following analysis to see whether using the two dimensions makes sense. The use of two dimensions of performance is consistent with some prior studies (e.g., Murray et al., 1995). In the paper, it is found that several variables moderate the relationship between global-sourcing strategy and financial performance, but not for strategic performance. However, it should be noted that these findings are empirical in nature without considerable theoretical reasoning *ex ante* to explain why this is the case. In the hypotheses part, it is only generally stated that there could be moderators for the sourcing strategy-market performance relationship. No distinction is made between financial performance and strategic performance. Similarly, a variety of IJV studies empirically use multiple performance indicators such as ROA, ROI and sales growth as dependent variables (e.g., Luo, 2003). The above exploratory factor analysis reveals that there are two distinct dimensions of performance. We may believe that some variables better predict strategic performance while others may predict financial performance. However, there are no strong theoretical underpinnings for such predictions. To the best of my knowledge, almost all IJV studies using multiple performance indicators as dependent variables do not explicitly specify the different impact of different independent variables on the different dependent variables probably due to the lack of strong theoretical support. Hence, the study follows the tradition of IJV literature and uses financial performance and strategic performance as two dependent variables in the empirical analysis without explicitly arguing for potential distinctions between these two dimensions. As a matter of fact, it is argued that the independent variables will positively impact financial performance as well as strategic performance. Intuitively, there could be variation in terms of the degree of impact but we leave such variation to the empirical analysis.

5.4.3 Exploration of the underlying dimensions of resource acquisition

Unlike previous studies, this study posits that the *value* of resource acquired from either foreign partner or local partner of IJVs will hinge on (1) whether the resources could generate competitive advantage to IJVs and (2) how much such resources are acquired. As a result, we do not test the quantity and quality dimension of resources *separately* since we feel that doing so will fail to capture the complete picture. Instead, we argue that both quantity dimension and quality dimension be considered *simultaneously* and that the *combination* of these two could be viewed as a new construct, which we prefer to call *value* of the resources.

Unlike previous studies, we do not assume that some types of resources come from foreign partner while others from local partner. Based on the prior relevant studies, the specific resources identified include: product technology, manufacturing process knowledge, leading edge plant and machinery, marketing expertise, business operation expertise, invisible assets (e.g., trademark, patent), local market knowledge, local distribution network, and access to local resource.

For this measure, managers were asked to evaluate the *quantity* of the resources acquired from foreign partner and local partner (1 = small amount and 5 = great amount), respectively. Also, managers were asked to evaluate the *quality* of the resources acquired from foreign partner and local partner, respectively, in terms of generating competitive advantage to IJVs (1 = no advantage and 5 = great advantage).

In the study of IJVs in Vietnam, Wu et al. (2004) identified three dimensions of resources acquisition from foreign partner and categorized them into Property-based Resources, Knowledge-based Resources and Market-based Resources. They found both individual and collective impact of the three categories of resources on IJV performance. In this study, we also conducted EFA to explore the possible dimensions of resources acquisition but the study differs from the above-

mentioned study in two ways. First, we examined the dimension of resources from both foreign partner and local partner. We then compare the factor analysis structure to see whether consistency exists. Second, we examined both quantity dimension and quality dimension of resources to see whether consistency exists. If such consistency does exist, we could categorize the resources acquisition and modify the hypotheses pertaining to the relation between resources acquisition and IJV performance in a more fine-tuned way. Put differently, we separately examine different categories of resources from both foreign partner and local partner.

The followings report the results of four EFAs and revealed the factor structure of the analysis. Interestingly, consistent factor structure does exist. Three factors have been identified and are labeled as Property-based Resource (Factor 2), Knowledge-based Resource (Factor 3) and Market-based Resources (Factor1). The findings are consistent with Wu et al. (2004)'s study on IJVs in Vietnam. Factor 1 consists of three items concerning local market knowledge, local distribution channel and access to local resource. Factor 2 consists of four items concerning product technology, process technology, advanced plant and machinery and invisible assts. Factor 3 consists of marketing knowledge and business operation expertise. One item is inconsistent with our initial expectation, which is the item on the invisible asset. We initially expect it to measure the knowledge-based resources along with marketing knowledge and business operation expertise. However, from the four EFAs, it is clear that this item loads consistently on Factor 1, which we label as property-based resources. We re-examine the wording of the item and found that this item refers to patent, trademark, etc, which might be integral part of product technology or production process technology. As a result, we group this item with other items measuring property-based resources. In so doing, we split the resources acquisition into six categories as follow.

1. *Property-based resources from foreign partner*
2. *Knowledge-based resources from foreign partner*
3. *Market-based resources from foreign partner*
4. *Property-based resources from local partner*
5. *Knowledge-based resources form local partner*
6. *Market-based resources from local partner*

Table 5.6 Exploratory factor analysis of resources acquisition**A: quantity and foreign partner**

	Factors		
	Factor 1	Factor 2	Factor 3
Resource acquisition from foreign partner: product tech.		.855	
Resource acquisition from foreign partner: process tech.		.719	
Resource acquisition from foreign partner: advanced plant and machine		.642	
Resource acquisition from foreign partner: marketing capability			.667
Resource acquisition from foreign partner: business operation			.870
Resource acquisition from foreign partner: invisible asset		.781	
Resource acquisition from foreign partner: local market knowledge	.885		
Resource acquisition from foreign partner: local distribution channel	.890		
Resource acquisition from foreign partner: access to local resources	.851		

B: quantity and local partner

	Factors		
	Factor 1	Factor 2	Factor 3
Resource acquisition from local partner: product tech.		.827	
Resource acquisition from local partner: process tech.		.862	
Resource acquisition from local partner: advanced plant and machine		.867	
Resource acquisition from local partner: marketing capability			.837
Resource acquisition from local partner: business operation			.842
Resource acquisition from local partner: invisible asset		.599	
Resource acquisition from local partner: local market knowledge	.827		
Resource acquisition from local partner: local distribution channel	.862		
Resource acquisition from local partner: access to local resources	.867		

C: quality and foreign partner

	Factors		
	Factor 1	Factor 2	Factor 3
Resource acquisition from foreign partner: product tech.		.847	
Resource acquisition from foreign partner: process tech.		.827	
Resource acquisition from foreign partner: advanced plant and machine		.853	
Resource acquisition from foreign partner: marketing capability			.905
Resource acquisition from foreign partner: business operation			.879
Resource acquisition from foreign partner: invisible asset		.748	
Resource acquisition from foreign partner: local market knowledge	.889		
Resource acquisition from foreign partner: local distribution channel	.845		
Resource acquisition from foreign partner: access to local resources	.873		

D: quality and local partner

	Factors		
	Factor 1	Factor 2	Factor 3
Resource acquisition from local partner: product tech.		.838	
Resource acquisition from local partner: process tech.		.893	
Resource acquisition from local partner: advanced plant and machine		.907	
Resource acquisition from local partner: marketing capability			.840
Resource acquisition from local partner: business operation			.897
Resource acquisition from local partner: invisible asset		.742	
Resource acquisition from local partner: local market knowledge	.690		
Resource acquisition from local partner: local distribution channel	.849		
Resource acquisition from local partner: access to local resources	.879		

Building on the conceptualization of *value* of resources, we calculate the *value* for each of the six categories of resources by multiplying quantity dimension with quality dimension of each item for each category as follow.

(1) VPF (value of property-based resources from foreign partner) = Mean (the quantity for the item $\times$ the quality for the item) (4 items)

(2) VKF (value of knowledge-based resources from foreign partner) = Mean (the quantity for the item $\times$ the quality for the item) (2 items)

(3) VPM (value of market-based resources from foreign partner) = Mean (the quantity for the item $\times$ the quality for the item) (3 items)

(4) VPL (value of property-based resources from local partner) = Mean (the quantity for the item $\times$ the quality for the item) (4 items)

(5) VKL (value of knowledge-based resources from local partner) = Mean (the quantity for the item $\times$ the quality for the item) (2 items)

(6) VML (value of market-based resources from local partner) = Mean (the quantity for the item $\times$ the quality for the item) (3 items)

On the basis of the above calculations, we modify some of the hypotheses accordingly to reflect our more fine-tuned conceptualization of the diverse categories of resources as follow.

H1a: There is a positive relationship between superior IJV performance and *value* of Property-based Resources, Knowledge-based Resources and Market-based Resources acquired from foreign partners of IJVs in transition economies.

H1a: There is a positive relationship between superior IJV performance and *value* of Property-based Resources, Knowledge-based Resources and Market-based Resources acquired from local partners of IJVs in transition economies.

H2a: Capability Exploitation will positively moderate the relationship between resource acquisition (i.e., Property-based Resources, Knowledge-based Resources and Market-based Resources) from foreign partners and IJV performance.

H2b: Capability Exploitation will positively moderate the relationship between resource acquisition (i.e., Property-based Resources, Knowledge-based Resources and Market-based Resources) from local partners and IJV performance.

5.5. Test for reliability

Based on the modified and refined measurement, reliability test for the various measures was conducted to test the internal consistency.

Table 5.7
Results of reliability test

Variable	Description	No. of items	Internal Consistency (α)
Y1 (SP)	Strategic Performance of IJVs	5	0.88
Y2 (FP)	Financial Performance of IJVs	3	0.89
X1 (APF)	Quantity of Property-based Resource from Foreign Partner	4	0.78
X2 (AKF)	Quantity of Knowledge-based Resource from Foreign Partner	2	0.76
X3 (AMF)	Quantity of Market-based Resource from Foreign Partner	3	0.86
X4 (CPF)	Quality of Property-based Resource from Foreign Partner	4	0.83
X5 (CKF)	Quality of Knowledge-based Resource from Foreign Partner	2	0.85
X6 (CMF)	Quality of Market-based Resource from Foreign Partner	3	0.86
X7 (APL)	Quantity of Property-based Resource from Local Partner	4	0.82
X8 (AKL)	Quantity of Knowledge-based Resource from Local Partner	2	0.79
X9 (AML)	Quantity of Market-based Resource from Local Partner	3	0.84
X10 (CPL)	Quality of Property-based Resource from Local Partner	4	0.90
X11 (CKL)	Quality of Knowledge-based Resource from Local Partner	2	0.92
X12 (CML)	Quality of Market-based Resource from Local Partner	3	0.83
X13 (CET)	Capability Exploitation	5	0.91
X14 (CER)	Capability Exploration	3	0.82
X15(COOP)	Cooperation between Foreign Partner and Local Partner	3	0.81
Other variables such as SIZE, AGE, EQUITY, EXEPF, EXEPL, NCD and OCD	Variable with only one item	1	n.a

5.6 Model specification and results

5.6.1 Resources from foreign partner and IJV performance

We use two separate sets of models to test the relationship between resources acquisition from foreign partner and local partner and the performances of IJVs, respectively. The following specified models were used to test the hypotheses.

Model 1: Baseline model with the all the control variables: size, age, equity, cooperation, prior experiences, national culture distance, organizational culture distance, strategic goal compatibility

Model 2: Add to model 1 the value of property-based resources, the value of knowledge-based resources and the value of market-based resources from the foreign partner in addition to Capability Exploration

Model 3: Add to model 2 the Capability Exploitation

Model 4: Add to model 3 the interaction between Capability Exploitation and the value of the three categories of resources.

Table 5.8 represents the results for the above models concerning the overall relationship between resource acquisition from *foreign partner* of IJVs and the IJV performance, using *Financial Performance* as the dependent variable. Table 5.9 is similar to Table 5.8 except that *Strategic Performance* is used as the dependent variable.

Table 5.8
DEPENDENT VARIABLE: Financial Performance of IJV^{a,b}

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
VPF		0.26***	0.24***	0.22***
VKF		0.10	0.16	0.14
VMF		0.11	0.11	0.10
Capability Exploration		0.17*	0.14*	0.12*
Capability Exploitation			0.24**	0.23**
Moderating Effect				
Capability Exploitation * VPF				0.16**
Capability Exploitation * VKF				0.15**
Capability Exploitation * VMF				0.08
Control Variables				
Number of employees	0.08	0.06	0.07	0.05
Length of operation	0.07	0.06	0.04	0.06
Foreign ownership (%)	0.23**	0.11*	0.07*	0.06*
Cooperation	0.30**	0.19*	0.15*	0.11*
Prior experiences of foreign partner	0.05	0.04	0.02	0.02
Prior experiences of local partner	0.04	0.03	0.03	0.02
National culture distance	0.29**	0.24*	0.12*	0.11*
Organizational culture distance	0.14	0.20	0.08	0.04
Strategic goal compatibility	0.15	0.15	0.14	0.13
Model F	5.69***	6.64***	6.67***	6.20***
Adjusted R²	0.49	0.53	0.55	0.65
R² Change		0.04*	0.02	0.10**
<p>a The entries in the table are the standardized β and their significance levels, where + $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ b The mean centering techniques was used in all models to remove the multicollinearity between predictors and interaction terms that contain these predictors.</p>				

Table 5.9
DEPENDENT VARIABLE: Strategic Performance of IJV^{a,b}

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
VPF		0.36***	0.21***	0.17***
VKF		0.07	0.08	0.09
VMF		0.10	0.08	0.10
Capability Exploration		0.18**	0.15**	0.12**
Capability Exploitation			0.22**	0.17**
Moderating Effect				
Capability Exploitation * VPF				0.16*
Capability Exploitation * VKF				0.15+
Capability Exploitation * VMF				0.08
Control Variables				
Number of employees	0.12	0.08	0.11	0.10
Length of operation	0.02	0.04	0.03	0.04
Foreign ownership (%)	0.21*	0.13*	0.13*	0.11*
Cooperation	0.34**	0.16**	0.14*	0.12*
Prior experiences of foreign partner	0.10	0.10	0.09	0.10
Prior experiences of local partner	0.12	0.11	0.07	0.09
National culture distance	0.25*	0.19*	0.15*	0.14*
Organizational culture distance	0.14	0.15	0.12	0.13
Strategic goal compatibility	0.02	0.01	0.01	0.02
Model F	8.89***	9.93***	8.49***	10.21***
Adjusted R²	0.52	0.66	0.68	0.72
R² Change		0.14*	0.02	0.04**
<p>a The entries in the table are the standardized β and their significance levels, where + $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ b The mean centering techniques was used in all models to remove the multicollinearity between predictors and interaction terms that contain these predictors.</p>				

5.6.2 Resources from local partner and IJV performance

Similarly, we use the following specified models to test the hypotheses concerning the value of resources from local partner and IJV performance.

Model 1: Baseline model with the all the control variables: size, age, equity, cooperation, prior experiences, national culture distance, organizational culture distance, strategic goal compatibility

Model 2: Add to model 1 the value of property-based resources, the value of knowledge-based resources and the value of market-based resources from local partner in addition to Capability Exploration

Model 3: Add to model 2 the Capability Exploitation

Model 4: Add to model 3 the interaction between Capability Exploitation and the value of the three categories of resources.

Table 5.10 represents the results for the above models concerning the overall relationship between resource acquisition from *local partner* of IJVs and the IJV performance, using *Financial Performance* as the dependent variable. Table 5.11 is similar to Table 5.10 except that *Strategic Performance* is used as the dependent variable.

Table 5.10
DEPENDENT VARIABLE: Financial Performance of IJV^{a,b}

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
VPL		0.08	0.6	0.05
VKL		0.11	0.09	0.08
VML		0.24***	0.22***	0.19**
Capability Exploration		0.17*	0.14*	0.12*
Capability Exploitation			0.24**	0.23**
Moderating Effect				
Capability Exploitation * VPL				0.08
Capability Exploitation * VKL				0.11
Capability Exploitation * VML				0.21**
Control Variables				
Number of employees	0.07	0.06	0.05	0.04
Length of operation	0.10	0.11	0.07	0.05
Foreign ownership (%)	0.27*	0.21*	0.17*	0.14*
Cooperation	0.39**	0.29*	0.22*	0.21*
Prior experiences of Foreign partner	0.13	0.11	0.13	0.12
Prior experiences of Local partner	0.11	0.12	0.08	0.07
National culture distance	0.30**	0.25*	0.16*	0.14*
Organizational culture Distance	0.13	0.08	0.10	0.11
Strategic goal compatibility	0.15	0.15	0.14	0.13
Model F	5.79***	15.50***	17.02***	21.340***
Adjusted R²	0.36	0.48	0.55	0.61
R² Change		0.12*	0.07	0.06**
a The entries in the table are the standardized β and their significance levels, where + $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ b The mean centering techniques was used in all models to remove the multicollinearity between predictors and interaction terms that contain these predictors.				

Table 5.11
DEPENDENT VARIABLE: Strategic Performance of IJV^{a,b}

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
VPL		0.16	0.11	0.09
VKL		0.07	0.08	0.09
VML		0.22**	0.18**	0.10+
Capability Exploration		0.18***	0.15***	0.12**
Capability Exploitation			0.19**	0.18**
Moderating Effect				
Capability Exploitation * VPL				0.08
Capability Exploitation * VKL				0.05
Capability Exploitation * VML				0.17*
Control Variables				
Number of employees	0.11	0.07	0.11	0.10
Length of operation	0.05	0.04	0.03	0.04
Foreign ownership (%)	0.21*	0.12*	0.13*	0.11*
Cooperation	0.42***	0.36**	0.24*	0.12*
Prior experiences of Foreign partner	0.18	0.17	0.09	0.10
Prior experiences of Local partner	0.12	0.11	0.07	0.09
National culture distance	0.21+	0.19+	0.15+	0.14+
Organizational culture distance	0.04	0.05	0.04	0.03
Strategic goal compatibility	0.02	0.01	0.01	0.02
Model F	10.89***	12.34***	18.49***	21.32***
Adjusted R²	0.49	0.56	0.58	0.62
R² Change		0.07*	0.02	0.04**
<p>a The entries in the table are the standardized β and their significance levels, where + p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001</p> <p>b The mean centering techniques was used in all models to remove the multicollinearity between predictors and interaction terms that contain these predictors.</p>				

5.6.3 The full model

We specify a full model to test the impact of the resources from foreign partner and local partner simultaneously. Given the sample size, we just keep the significant control variables in the models, in addition to the main effects and the interaction terms. The models are specified as follow.

Model 1: Baseline model with only significant control variables

Model 2: Add to model 1 the value of property-based resources, the value of knowledge-based resources and the value of market-based resources from the *foreign* partner

Model 3: Add to model 2 the value of property-based resources, the value of knowledge-based resources and the value of market-based resources from the *local* partner

Model 4: Add to model 3 the *Capability Exploitation* and *Capability Exploration*

Model 5: Add to model 4 the six interaction terms concerning the value of the six categories of resources and Capability Exploitation

Table 5.12 and table 5.13 represent the results for the models, with *Financial Performance* and *Strategic Performance* as the dependent variables, respectively.

Table 5.12
DEPENDENT VARIABLE: Financial Performance of IJV^{a,b}

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
VPF		0.23***	0.22***	0.19**
VKF		0.10	0.09	0.08
VMF		0.07	0.05	0.03
VPL			0.06	0.04
VKL			0.09	0.05
VML			0.17**	0.13*
CAPABILITY EXPLOITATION				0.18**
CAPABILITY EXPLORATION				0.14*
Moderating Effect				
CAPABILITY EXPLOITATION * VPF				
CAPABILITY EXPLOITATION * VKF				
CAPABILITY EXPLOITATION * VMF				
CAPABILITY EXPLOITATION * VPL				
CAPABILITY EXPLOITATION * VKL				
CAPABILITY EXPLOITATION * VML				
Control Variables				
Foreign ownership (%)	0.18*	0.20*	0.17*	0.14*
Cooperation	0.24**	0.22**	0.22**	0.21**
National culture distance	0.23**	0.21*	0.16*	0.14*
Model F	4.29***	14.51***	15.02***	21.34***
Adjusted R²	0.26	0.38	0.46	0.57
R² Change		0.12*	0.08*	0.11**
<p>a The entries in the table are the standardized β and their significance levels, where + p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001</p> <p>b The mean centering techniques was used in all models to remove the multicollinearity between predictors and interaction terms that contain these predictors.</p>				

(continued)

DEPENDENT VARIABLE: Financial Performance of IJV^{a,b}

Variables	Model 5
Main Effect	
VPF	0.15**
VKF	0.05
VMF	0.04
VPL	0.06
VKL	0.04
VML	0.12*
CAPABILITY EXPLOITATION	0.16**
CAPABILITY EXPLORATION	0.13*
Moderating Effect	
CAPABILITY EXPLOITATION * VPF	0.15**
CAPABILITY EXPLOITATION * VKF	0.14**
CAPABILITY EXPLOITATION * VMF	0.08
CAPABILITY EXPLOITATION * VPL	0.07
CAPABILITY EXPLOITATION * VKL	0.11
CAPABILITY EXPLOITATION * VML	0.24**
Control Variables	
Foreign ownership (%)	0.16*
Cooperation	0.20**
National culture distance	0.19*
Model F	30.12***
Adjusted R²	0.61
R² Change	0.04**

Table 5.13
DEPENDENT VARIABLE: Strategic Performance of IJV^{a,b}

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
VPF		0.21***	0.19***	0.17**
VKF		0.11	0.09	0.06
VMF		0.10	0.08	0.07
VPL			0.10	0.08
VKL			0.09	0.07
VML			0.25**	0.23*
CAPABILITY EXPLOITATION				0.14**
CAPABILITY EXPLORATION				0.12*
Moderating Effect				
CAPABILITY EXPLOITATION * VPF				
CAPABILITY EXPLOITATION * VKF				
CAPABILITY EXPLOITATION * VMF				
CAPABILITY EXPLOITATION * VPL				
CAPABILITY EXPLOITATION * VKL				
CAPABILITY EXPLOITATION * VML				
Control Variables				
Foreign ownership (%)	0.20*	0.20*	0.17*	0.15*
Cooperation	0.18**	0.19**	0.16**	0.15**
National culture distance	0.23**	0.20*	0.15*	0.12*
Model F	6.49***	13.45***	15.02***	21.34***
Adjusted R²	0.35	0.40	0.46	0.52
R² Change		0.05*	0.06*	0.06*
<p>a The entries in the table are the standardized β and their significance levels, where + p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001</p> <p>b The mean centering techniques was used in all models to remove the multicollinearity between predictors and interaction terms that contain these predictors.</p>				

(continued)

DEPENDENT VARIABLE: Strategic Performance of IJV^{a,b}

Variables	Model 5
Main Effect	
VPF	0.18**
VKF	0.09
VMF	0.07
VPL	0.06
VKL	0.03
VML	0.21*
CAPABILITY EXPLOITATION	0.16**
CAPABILITY EXPLORATION	0.14*
Moderating Effect	
CAPABILITY EXPLOITATION * VPF	0.14*
CAPABILITY EXPLOITATION * VKF	0.17**
CAPABILITY EXPLOITATION * VMF	0.08
CAPABILITY EXPLOITATION * VPL	0.07
CAPABILITY EXPLOITATION * VKL	0.11
CAPABILITY EXPLOITATION * VML	0.22**
Control Variables	
Foreign ownership (%)	0.18*
Cooperation	0.21**
National culture distance	0.15*
Model F	29.15***
Adjusted R²	0.60
R² Change	0.08**

5.6.4 Contingency perspective of Dynamic Capability

We argue that the roles played by the two dimensions of DC will be contingent on the environment characteristics faced by each IJV. MNCs entering emerging markets often face diverse business environments due to different industry, location, product line, institution and rivalry. Hence, not all IJVs face the same environment. We argue that when operating in a dynamic environment, IJVs with strong *Capability Exploitation* in integrating, combining and transforming resources will lead to stronger competitive advantage. However, in a less dynamic environment, whether the IJVs have strong *Capability Exploitation* does not make big differences in that the need for integrating and transforming the resources is not so urgent. Similarly, in a highly dynamic environment, IJVs with strong *Capability Exploration* will enjoy the competitive advantage stemming from continuously renewing competitive advantage by building new resources and capabilities. In contrast, in a less dynamic environment, whether IJVs possess strong *Capability Exploration* does not matter too much because the pressures for building new resources and capabilities are not great.

As explained in Chapter 4, we originally intend to test such moderating effect of the dynamism of the business environment by splitting the sample into high-dynamism and low-dynamism subsamples. And, we plan to re-run the regression analyses to test the hypothesized moderating effect. However, we did not do so because of the data limitation.

One explanation is that these IJVs in our sample were largely established in the 1990s when the business environment of China has become highly competitive. The privileges enjoyed by the early foreign entrants diminished and the foreign entrants faced competitive foreign competitors and local Chinese competitors. We examined the distribution of the variable, dynamism, and found that there is little variation with mean of 5.81. We suspect that lack of variances could lead to the failure of testing such hypothesized moderating effect. In fact, most cases operate in highly dynamic

business environment and a small number of IJVs in less dynamic business environment. In other words, there are insufficient cases of IJVs operating in less dynamic business environment. We admit that this is one of the limitations of the study since our sample is biased towards IJVs operating in dynamic business environments. As a result, we are unable to test the contingency perspective of DC as hypothesized. However, we still suspect that DC will matter more in a dynamic environment than it does in a less dynamic environment. We hope that a more diverse sample with sufficient IJVs operating in both dynamic environment and less dynamic environment will be used to test such moderating effect. In addition, longitudinal study and case study would be helpful. In the last chapter, we leave such hypothesis as a proposition for future research.

5.7 Discussion of results

Based on the preliminary analysis in this chapter, we have modified our hypotheses somehow by categorizing the resources into property-based resources, knowledge-based resources and market-based resources. As such, we hypothesize that six categories of resources, three from foreign partner and three from local partner, would impact the performance of IJVs. We posit that the categorization presents a comprehensive mapping of the sources of IJV resources. Previous studies are deficient in this regard because they *either* examine the resources from foreign partner while ignoring the resources from local partner *or* examine the resources as ONE bundle without differentiating among them.

In addition, we examined quantity dimension and quality dimension of the six categories of resources by coming up with a new construct, the *value* of resources, which is defined by taking into account the two dimensions at the same time. Prior studies are limited in the respect as they normally capture the quantity dimension without exploring whether these resources could generate competitive advantage, a serious shortcoming in the current literature. As there are six hypotheses

concerning the impact of resource on the performance, there are six hypotheses concerning the moderating role played by *Capability Exploitation*. Furthermore, we test the direct impact of *Capability Exploration* in all analyses. Table 5.14 summarizes the results. Overall, the results provide reasonable support for the hypotheses. Although some hypotheses are not supported, the implications are worth discussion.

Table 5.14 Summary of results

Initial Hypotheses	Modified Hypotheses	Results
H1a: There is a positive relationship between superior IJV performance and <i>value</i> of resources acquired from <i>foreign</i> partners of IJVs in transition economies.	H1a (1) property-based resources (2) knowledge-based resources (3) market-based resources	(1) yes (2) no (3) no
H1b: There is a positive relationship between superior IJV performance and <i>value</i> of resources acquired from <i>local</i> partners of IJVs in transition economies.	H1b (1) property-based resources (2) knowledge-based resources (3) market-based resources	(1) no (2) no (3) yes
H2a: <i>Capability Exploitation</i> will positively moderate the relationship between resource acquisition from foreign partner and IJV performance.	H2a (1) property-based resources (2) knowledge-based resources (3) market-based resources	(1) yes (2) yes (3) no
H2b: <i>Capability Exploitation</i> will positively moderate the relationship between resource acquisition from local partners and IJV performance.	H2b (1) property-based resources (2) knowledge-based resources (3) market-based resources	(1) no (2) no (3) yes
H3: There is a positive and direct relationship between the <i>Capability Exploration</i> of IJVs and IJV performances.		yes

H4a: The moderating effect of <i>Capability Exploitation</i> on the relationship between resources acquisition from foreign partners and IJV performance will be stronger in a dynamic environment.		Not tested
H4b: The moderating effect of <i>Capability Exploitation</i> on the relationship between resources acquisition from local partners and IJV performance will be stronger in a dynamic environment.		Not tested
H4c: The direct impact of <i>Capability Exploration</i> on the IJV performance will be stronger in a dynamic environment.		Not tested

5.7.1 Resources from foreign partner and IJV performance

Hypothesis 1a looks at the relationship between the resources and IJV performance. It predicts that the value of the resources from foreign partner has a positive impact on IJV performance. Based on the preliminary analysis, however, the resources from foreign partner have been decomposed into property-based resources, knowledge-based resources and market-based resources, which is similar to the approach used in Wu et al.(2004)'s study of IJVs in Vietnam. We then examined the three categories of resources separately rather than regarding them as a bundle, as Lyles and Salk (1996) did.

With regard to the property-based resources, results provided good support for the prediction. As argued by Wu et al. (2004), in transition economies, the markets for many of the more advanced PB resources, such as modern plant and equipment, either do not exist or function with high degrees of inefficiency. Local competitors in transition economies may have easy access to local factors but face great difficulties in accessing more advanced PB resources from advanced countries. First, there are *information barriers*, as local firms in transition economies often lack knowledge in understanding and evaluating the value of factors in foreign factor markets (Buckley and Casson,

1998). Second, there are *financial barriers* which prevent local firms in transition economies from acquiring the resources from foreign markets. Third, even if local competitors were to acquire the necessary PB resources, they may lack the appropriate *complementary assets* (Teece et al. 1997) needed to leverage these acquired resources into advantage-generating products and services. Compared with local competitors, therefore, IJVs are in a much better position to avoid these problems when they acquire advanced PB resources from their foreign partners.

With regard to the knowledge-based resources, we did not find the impact of knowledge-based resources, which seems to be a little surprising. In fact, one of the objectives for attracting FDI into China is to acquire both property-based resources and knowledge-based resources. We argue that the characteristics of the knowledge-based resources result in the “value” erosion problem, as argued by Wu et al. (2004). As discussed before, most scholars have noted that intangible knowledge-based resources, such as technological, marketing, and managerial capabilities could represent powerful sources of sustainable competitive advantage. Intangible knowledge-based resources are often tacit, are deeply embedded within an organization’s routines and are firm-specific (Hu, 1995; Madhok, 1997). These arguments suggest that KB resources from foreign parents could yield strong competitive advantage to IJVs. However, the challenge for transition economy IJVs is to ensure that the resources do not lose significant value during the transfer process. Factors that make *competitive imitation* difficult also make *cooperative replication* difficult (Erramilli et al., 2002). Precisely because the tacit nature and embeddedness of intangible knowledge-based resources make replication by competitors challenging, they render transfer across firm boundaries (and across national boundaries) to foreign partners difficult as well (e.g., Hu, 1995; Kogut and Zander, 1995; Mowery et al., 1996; Madhok, 1997). In the study of IJVs in Vietnam, Wu et al. (2004) found that learning capacity of IJVs and foreign majority ownership could mitigate such value erosion problem. In this study, we argue that *Capability Exploitation* could also mitigate such problem.

With regard to the market-based resources, we did not find any impact on IJV performance. Although foreign partners have earned experiences through organizational learning from operation of IJVs, they still could not provide the market-based host-country specific resources needed to generate competitive advantage. We examine our data and find that the market-based resources from foreign partner are either little in terms of quantity or uncompetitive in terms of quality, or both. This finding demonstrates that although foreign partners try to provide all resources needed by IJVs, the market-based resources are unlikely to be built through the foreign partners' own effort.

5.7.2 Resources from local partner and IJV performance

Hypothesis 1b predicts that the value of the resources from local partner has a positive impact on IJV performance. In a similar way, the study separately examined the property-based resources, knowledge-based resources and market-based resources. With regard to the property-based resources and knowledge-based resources, we did not find the impact, implying that local partners' contribution of these resources is not valuable to IJV performance. Close examination of the data showed that the competitiveness of the resources is relatively low compared with that of the resources from foreign partner. The findings confirmed the fact that local partners still could not provide the competitive and valuable property-based resources and knowledge-based resources needed to generate superior performance.

However, with respect to the market-based resources, we find the positive impact on the performance. As argued by Wu et al. (2004), transition economies are characterized by institutional stringency, regulatory ambiguity, structural uncertainty and weak legal systems (Peng, 2000). Market-based resources can be defined as resources that arise from the interaction of the firm with external entities, including relationships with customers, channel members, partners, government agencies etc. (Srivastava, Shervani and Fahey, 1998; Griffith and Harvey, 2001). As Griffith and

Harvey (2001) emphasize, the market-based view (MBV) is complementary to the RBV in that it provides firms with external assets that are valuable, rare, imperfectly imitable, and strategically difficult to duplicate by competitors. Hence, the valuable market-based resources could lead to superior performance and it is local partners which provide such resources to IJVs.

5.7.3 Moderating impact of Capability Exploitation

Hypothesis 2a and hypothesis 2b focus on the moderating role played by *Capability Exploitation*. Since there are six categories of resources from foreign partner and local partner, we separately examined the moderating role played by *Capability Exploitation*.

With regard to the moderating effect of *Capability Exploitation* on the relation between the property-based resources from foreign partner and IJV performance, the results do show that moderating effect is significant, implying that the greater the ability to integrate, combine and reconfigure the resources, the greater the IJVs could generate more value from the current resources. Put differently, *Capability Exploitation* will strength the positive relation. As argued in the hypothesis section, the contribution of *Capability Exploitation* is the emphasis on the ability of IJVs to exploit the existing resources pooled by partners by integrating, combining and transforming the resources in an effective manner, thereby resulting in *idiosyncratic resources* based on the component resources but different form the component resources. *Capability Exploitation* complements the traditional RBV because it addresses the question of *how to exploit the resources effectively*. The result here validates the integration of RBV and DC perspective.

With regard to the moderating effect of *Capability Exploitation* on the relationship between the knowledge-based resources and IJV performance, the result shows that while knowledge-based resources donot directly impact the IJV performance because of value erosion problem, they will

positively impact the IJV performance when the IJV is capable of integrating, combining and reconfiguring the resources. We posit that the value erosion problem is particularly relevant to the knowledge-based resources. Problems such as stickiness arising from tacitness, causal ambiguity and social interaction, and embeddedness stemming from path dependency and social interface will render the resources transfer across MNCs difficult, a topic receiving a lot of attention in current literature. Extending the same logic, these same problems will also render the resources from respective parents of IJVs difficult to be integrated, combined and transformed to unleash the competitive advantage. These problems are especially serious for knowledge-based resource compared with the property-based resource. Hence, in order to effectively exploit the knowledge-based resource brought in by foreign partners, IJVs should possess strong *Capability Exploitation* to mitigate the value erosion problems and generate superior performance from the knowledge-based resources.

As to the possible moderating effect on the relationship between the market-based resources and IJV performance, we did examine the interaction between *Capability Exploitation* and the market-based resources. We did not find significant moderating effect, implying that the market-based resources brought in by foreign partner are of little use even when the IJVs possess strong *Capability Exploitation*. In other words, only when the resource themselves are valuable will the *Capability Exploitation* matter. If the resources are of no value, whether the IJVs have strong *Capability Exploitation* will become irrelevant.

Similarly, we did not find significant moderating effects of *Capability Exploitation* on the relationship between the property-based resources and knowledge-based resources brought in by local partner, and the performance. The explanation logic is the same. The property-based resources and knowledge-based resources brought in by local partner are so backward that they could not provide any value to the IJVs. As a result, they will not lead to superior performance even when

IJV possess strong *Capability Exploitation*. But, we did find the significant moderating effect of *Capability Exploitation* on the relationship between the market-based resources and IJV performance, implying that IJVs need to effectively integrate the market-based resources, which are somehow embedded into the local market and location-specific, with other resources so as to generate the superior performance. Mere possessing the market-based resources will not maximize the inherent value and the potential.

In sum, the above results demonstrate the moderating role played by *Capability Exploitation*. Resources are the building blocks of competitive advantage and superior performance. But, the extent to which IJVs could generate value from the resources will depend on whether the IJVs could effectively integrate, combine and reconfigure the various resources from both foreign and local partner. We could imagine such a scenario that IJVs effectively exploit the resources by optimally integrating, re-combing and re-configuring the *property-based resources* and *knowledge-based resources* from *foreign partner* and the *market-based resources* from *local partner*.

5.7.4 Direct impact of Capability Exploration

The above discussion emphasizes the exploitation of the current resources without considering the exploring or building new resource and capabilities. Classic MNCs theories argue that firms are motivated to go overseas to exploit ownership-advantage but fail to elaborate on the importance of capability building. Capability building is a key building block and a major source of sustained competitive advantage. These advantages are only possible when firms continuously reinvest in building new resources (Teece et al., 1997). The assumption that sustainable competitive advantage can come from an unchanging resource bundle is inherently at odds with operating in a dynamic environment, for example, those transition economies and emerging markets like China (Luo, 2002). Hence, we stress the need to continuously explore new resource and capabilities. Firms with

high levels of motivation and the capacity to learn should be more likely to gain experiences from different situations. To respond to the complexity, diversity, and dynamism of the external environment, MNCs must build a multifaceted organization able to develop new capabilities while protecting existing strengths. Hypothesis 3 predicts there is a positive relation between *Capability Exploration* and IJV performance.

The results from all models above provide strong support for this hypothesis, validating the separation of *resource exploitation* and *resource exploration*.

5.7.5 Control variables

Control variables were included in all statistical models. As a proxy of firm size, number of employees is expected to have positive impact on performance. However, number of employees is not significant in all models. One possible explanation of this result is that firm size does not necessarily equal to competitiveness of firms. The competitive advantage of firms stems from the resources and capabilities of the firms and firm size cannot capture the competitiveness of resources and capabilities. The finding is consistent with other studies on IJVs in transition economy. As such, we expect that there is no relationship between firm size and performance.

Length of operation represents the experiences and organizational learning of firms. We expect that length of operation would translate into experiences of firms, which in turn will overcome the liability of foreignness. Luo and Peng (1999) showed that the intensity and diversity of experiences of firms in transition economy will lead to superior performance. The length of operation is not significant in this study, which might be due to two reasons. One is concerning the variances of this variable. The IJVs in our sample were mainly established in the 1990s and the span of the variable

is limited. Second is concerning the source of experiences. Since the study is focused on IJVs, we suspect that IJVs could acquire the experiences from the local partner of IJVs.

Foreign ownership is significantly related to performance in this study. Although the relationship between ownership structure (e.g., WOS, majority IJVs, split IJVs, minority IJVs) and the performance of foreign entrants is inconclusive, we expect that for IJVs, there is positive relationship between foreign ownership and IJVs performance since foreign majority ownership could diminish the governance costs associated with the coordination, conflict, distrust and others. In recent years, foreign entrants in China have gradually bought out the share of the local partners and transformed IJVs into either foreign majority ownership IJVs or wholly-owned-subsidiaries because (1) they had acquired what they intended to learn and the importance of the local partners is not so critical and (2) the transaction costs related to managing the IJV partner relationship had outweighed the benefits. Our study confirms this explanation and shows that foreign ownership could increase the IJV performance.

Prior experience of foreign partner and prior experience of local partner are not related to IJV performance, which is consistent with Luo and Park's (2004) study of IJVs in China. The prior experience might be too specific to be applied in current operation. However, cooperation between foreign partner and local partner is strongly related to IJV performance. This finding confirms prior studies (e.g., Luo and Park, 2004) and demonstrates the importance of cooperation to IJVs.

As to culture distance, we conceptual this construct as having two dimensions. National culture distance and organizational culture distance are the two dimensions, representing the macro-level culture distance and the micro-level culture distance, respectively. National culture distance had a positive and significant impact on IJV performance, while organizational culture distance had no impact on the performance. One possible explanation for the seemingly unexpected positive

relation is that culture distance is highly correlated with the country-of-origin. There are anecdotal and empirical evidences that U.S. and European foreign entrants outperform other foreign entrants from “Great China” region such as Hong Kong, Taiwan, Macau and Singapore, due to factors like technology edge, management practice and other competitive advantage of parents. Interestingly, the national culture distance between China and those “culturally remote” home countries are greater as compared with the “Great China” region. Admittedly, there could be some “loss” because of the national culture distance but we seem to be able to assume that the competitive advantage transferred to IJVs in China from the foreign parents outweigh the negative impact brought about by the big national culture distance. It is too simple to argue that national culture distance will definitely result in *net* negative impact. In contrast, the relationship between culture distance and IJV performance is complex and ambiguous. We hope that more studies be conducted to test the relationship. We expect that the relation is not so simple and there might be some moderating or mediating variables involved. For instance, the national culture distance and organizational culture distance might be mediated by conflict which is related to performance of IJVs. However, the ability to minimize conflict and manage conflict might moderate the relationship. If an IJV is capable of coping with conflict derived from national culture distance or organizational culture distance, then the impact of these distances might be attenuated. On the other hand, if the foreign entrants could effectively transfer their own organizational culture to the local Chinese partner and reform the local entity, the organizational culture distance might be “hidden”. In other words, the local partner’s organizational culture might be “absorbed” and “assimilated” by that of foreign partners. However, the distance at the more macro level, i.e., national culture distance, might not be easily changed and will exert consistent impact on the operation of IJVs. We argue that more case studies on how the two dimension of culture distance operate in IJVs are warranted.

Contrary to our expectation, strategic goal compatibility is not related the IJV performance. We could not find some reasonable explanations for this finding and leave it to the discussion.

5.8 Summary

The empirical investigation in this chapter examined the performance implications of the six categories of resources in IJVs and the two dimensions of DC of IJVs, namely, *Capability Exploitation* and *Capability Exploration*. Some of the hypotheses are supported while others are not. We discussed the results of the analyses in detail. The next chapter will summarize the empirical findings, discuss the contributions of the study to theory and practice, explore the limitations of the study and delineate the directions for future research.

CHAPTER 6

DISCUSSION AND CONCLUSION

6.1 Summary of hypotheses and empirical findings

The study's primary research objective is to examine the performance drivers of IJVs by integrating the RBV and DC perspectives. We thoroughly review the literature on IJV performance drivers in general and focus on the literature on IJV performance from RBV in particular. Based on the literature review, five key gaps have been identified and five research questions aimed at filling the gaps have been proposed.

We examined the performance drivers of IJVs in China. In the conceptual model, we conceptualize DC as having two dimensions, which are capability exploiting and capability exploration, respectively. Building on the RBV, we argue that the resources of IJVs come from both foreign partner and local partner. It is the combination of quality and quantity of the resources that determines the performance of IJVs. Integrating the RBV and DC perspectives, we propose that capability exploitation would strengthen the relationship between resources and performance through effective resource exploitation, such as integration, combination and re-configuration. Capability exploration will exert direct and positive impact on IJV performance by constantly building new resource and capabilities, thereby renewing the competitive advantage. In addition, we adopt a contingency perspective with regard to the role played by DC. We argue that the dynamism of the business environment in which IJVs operate would moderate the roles played by the two dimensions of DC so that the DC would matter more under the condition of dynamic business environment.

In the empirical part, we modified our hypotheses based on the preliminary analysis. Firstly, we operationalized the construct dynamic capability and developed the scale by means of a rigorous instrument development process. Secondly, we identified three distinct dimensions of resource acquisition by IJVs, namely, property-based resources, knowledge-based resources and market-based resources. Hence, we conceptualize that there are six categories of resources arising from foreign partner and local partner of IJVs. And, capability exploitation is expected to moderate (strengthen) the resource acquisition – performance relationship. The following conclusions summarize the empirical findings of the study.

Conclusion 1: The higher the *value* of the *property-based resources* contributed by the *foreign partner*, the greater is the IJV performance. The IJV's *capability exploitation* strengthens the relationship.

Conclusion 2: The higher the *value* of the *knowledge-based resources* contributed by the *foreign partner*, the greater is the IJV performance, but only when the IJV's *capability exploitation* is strong.

Conclusion 3: The higher the *value* of the *market-based resources* contributed by the *local partner*, the greater is the IJV performance. The IJV's *capability exploitation* strengthens the relationship.

Conclusion 4: The stronger the IJV's *capability exploration*, the greater is the IJV performance.

Although the contingency perspective concerning the role played by DC is not empirically tested by the study due to the data limitation, we expect the roles of DC to be more significant under the dynamic business environment. Hence, we propose the following which is subject to further studies.

Proposition: The roles played by the two dimensions of DC, namely, *capability exploitation* and *capability exploration*, will become more important when the business environment is more *dynamic*.

6.2 Implications and contributions

In general, this study contributes to the IB literature by examining the performance drivers of IJVs. Within the broad IB literature, this study extends the research in the RBV and DC perspective literature. The sections below elaborate the implications of the study to the academic research and to the business practitioners.

6.2.1 To RBV literature

This study contributes to RBV literature by addressing the major gaps. Although RBV and the related KBV have been applied in IB research to examine IJV performance, the present study seems to address the five gaps and in so doing, contributes to RBV literature in several ways. We examined the resources of IJVs from foreign partner as well as local partner. Based on the preliminary analysis, we decomposed the resources into property-based resources, knowledge-based resources and market-based resources. Empirical findings demonstrate that the property-based resources and knowledge-based resources from foreign partner and the market-based resources from local partner are the sources of superior performance. Prior studies (e.g., Lyles and Salk, 1996) did not use such fine-tuned approach and seem to regard the resources from foreign partner only as ONE bundle.

Moreover, the study differs from previous studies in the operationalization of the resource acquisition. Previous studies normally operationalize the resource or knowledge acquisition by examining the *amount* of the resources. The underlying logic is that the more the IJVs acquire resources from foreign partner, the better the performance. We argue that this is a serious limitation in that this operationalization is only able to capture the quantity dimension while ignoring the quality dimension. By combining both dimensions, the study came up with a new construct, the *value* of resources, to represent both quality dimension and quantity dimension. Its contribution to RBV lies in taking into account the value, rareness, imperfect imitability and imperfect substitutability of resources, which are the cornerstones of RBV.

6.2.2 To DC literature

Although Dynamic Capability has been discussed, the discussions are mostly theoretical or conceptual in nature. There are very few empirical studies. This study is the first one that employs concepts from the DC perspective to examine the IJV performance drivers. Specifically, this study empirically validated this construct and the two dimensions of the construct. Through a rigorous scale development process, this study developed a scale to measure the construct. The results from this study offered the empirical support for the two dimension of DC, namely, capability exploitation and capability exploration.

In addition to the validation of the construct, the study integrated the DC perspective with the RBV perspective by examining the moderating effect of capability exploitation and the direct impact of capability exploration. The results showed that capability exploitation will positively moderate the relationship between the knowledge-based resources from foreign partner and IJV performance, thereby mitigating the value erosion problem. Therefore, capability exploitation is one of the mechanisms available to effectively exploit the tacit and intangible knowledge-based resources by mitigating the value erosion problem. Capability exploitation also strengthens the relationship

between the property-based resources from foreign partner and the market-based resources from local partner, and IJV performance, respectively, implying that capability exploitation is able to maximize the potential of the current resources and generate more values. One major contribution of the study is the argument that the resources are just the building blocks of superior performance and whether and to what extent the resources could translate into competitive advantage and superior performance will depend on how effectively these building blocks are exploited. To the best of our knowledge, the study is the first one to integrate the RBV and DC perspectives in a systematic manner.

Another contribution of the study to DC literature lies in the examination of the dynamic building of new resources and capabilities. Current literature seems to adopt a static stance and emphasize the exploitation of the current resources. The results from the study strongly supported the capability exploration in impacting the IJV performance. They showed that mere exploiting the current resources might not be sufficient in the long-term, given the increasingly competitive business environment faced by all firms in transition economies like China. Constant and dynamic resources and capabilities exploration will become imperative for the success of IJVs in transition economies. By tapping the role of capability exploration, the study has injected the *dynamism* to the current literature.

Regarding the contingency perspective of the DC, we did not empirically test the hypotheses concerning the contingency perspective in the study. However, as explained above, this could be due to the sample limitation and we hope that further studies will test such proposition that DC will become more important under dynamic condition compared with less dynamic condition.

6.2.3 To IJV literature

As Matthew et al.'s review paper (2002) points out, understanding IJV performance dynamisms is vitally important for both academic researchers and managers interested in developing and maintaining such cross-cultural and cross-national strategic alliances. Prior research explores the IJV performance drivers from diverse perspectives, using such theories/approaches as transaction cost (TC) economies, agency theory, Resource-based View (RBV), behavioral perspective, organizational learning/knowledge-based perspective and strategic management perspective.

The study contributed to IJV literature by extending the RBV perspective and by introducing another emerging perspective, DC perspective, to the study of IJV performance. To the best of our knowledge, this study is the first comprehensive one deploying the DC perspective to IJV study. Although the external variables are important, we argue that the resources and capabilities possessed by the IJVs and how to effectively exploit these resources and build new resources and capabilities will to a larger extent determine the sources of competitive advantages of IJVs and hence the superior performance. As a result, it is worthwhile to conduct further studies to explore the IJV performance from the RBV and DC perspectives. For instance, how the resource complementarity impacts the IJV performance is worth exploring. How the foreign partners adapt the resources transferred from home country to the unique characteristics of host country is another promising research avenue. How to overcome the value erosion problems for the tacit and intangible resources also warrants further study.

6.2.4 To practitioners

The findings of the study have direct managerial implications because the primary focus of the study is the IJV performance. While the findings have implications for IJVs, they also apply for WOS, which is another important entry mode used by foreign entrants.

Overall, the results demonstrate the intrinsic value of resources to the performance of IJVs. The positive relationship between resources and firm performance has important managerial implications because it encourages IJVs to pay attention to the resources acquired from foreign partner and local partner. IJVs ought to be cautious in evaluating the resources acquired. IJVs need to mainly acquire the property-based and knowledge-based resources from foreign partner and the market-based resources from local partner. Furthermore, it is especially crucial for IJVs to evaluate the *value* of the resources acquired. They should not focus on the quantity of the resources. Nor should they focus on the quality of the resources. In contrast, they have to focus on both. Ideally, IJVs should acquire *valuable* resources from both partners.

The study also reveals that mere possessing valuable resource is necessary but not sufficient condition for the superior performance of IJVs. IJVs must pay particular attention the effective exploitation of current resources. They should not assume that the resources from both partners will automatically be integrated and re-configured without much effort of the IJVs. IJVs need to possess another higher-order resource, which is Dynamic Capability, to generate more competitive advantage out of the resources. This is particularly imperative for tacit knowledge-based resource because of the inherent characteristics.

Not only should IJVs effectively exploit the current resources, but also they need to dynamically build up new resources and capabilities to constantly review the competitive advantage. While it might be true that MNCs have some firm –specific assets to compensate for ‘foreignness’ in certain international markets, when it enters markets more and more dissimilar, the difference will

increasingly stretch the capabilities of MNCs. Eventually it becomes essential for the MNCs to develop knowledge and capabilities suited to the increasingly disparate markets (Lu, 2001). Although foreign partners of IJVs transfer their own firm-specific advantages complemented by the firm-specific advantages of local partners, the existing resource pool might not be sufficient for creating and sustaining competitive advantages over time. These goals cannot be achieved unless the firm is committed to building new capabilities or creating new bundles of distinct resources (Luo, 2000). New inputs to the resource base of a firm are imperative for permitting flexible responses in a changing environment. Thus, a dynamic resource mix and organizational learning are crucial for the growth of firms in a complex foreign market like China.

6.3 Limitations

While the study has made incremental contributions to multiple academic literatures and has a variety of managerial implications, it has several limitations. First, the results were derived from a sample of IJVs in China. While China is the world largest transition economy and emerging market as well as the second largest FDI receipt, whether the findings in this study can be generalized in other transition economies and emerging markets need replications, which is beyond the scope of the study. In addition, we limit the study to the market-seeking manufacturing IJVs with only one foreign partner and one local partner. This restriction will further limit the external validity of the study.

Further to the limitation of the Chinese setting, the study's sample consists of IJVs set up mainly in the 1990s. Due to this sample limitation, we did not test the moderating effect of the dynamism of the business environment, as hypothesized. We call for further studies to test such moderating effect. The limitation of the sample could limit the generalization of the findings from the study. We need to be cautious in interpreting the findings.

Another limitation of study is about the construct validity. In this study, we operationalized the construct dynamic capability through a rigorous process. However, we feel that we still need a more rigorous process to validate this scale. As to the two dimensions of DC, we are not sure whether the current items have sufficiently captured the two dimensions. We need to conduct further tests to validate an array of validities, such as convergent validity and discriminant validity.

Another limitation is that the findings of the study are based on perceptual data collected mainly from one informant representing the IJV top management. Objective data were not used to test the hypotheses although attempts were made to assess the quality of the perceptual data. Common method bias is only partly addressed in the study. Because we have only one informant representing the IJV top management, we could not assess the reliability and representativeness of the informants. Ideally, we need to collect data from multiple informants representing multiple entities respectively, namely, foreign parent, local parent and IJV top management. Such multiple-informant and multiple-party approach could allow for inter-informant consistency check and cross-entity consistency check. However, it should be admitted that it is extremely difficult to satisfy such criteria in transition economies and emerging markets like China.

6.4 Future research

In general, the empirical setting of this study could be extended to other emerging markets and transition economies to validate the findings of the study. Comparative samples from other countries could be used to test and extend the generalizability of the findings. The empirical setting of the study can also be extended to the service sector to see whether the general hypotheses in this study will also hold true in the service sector. Given the increasing number of IJVs in the service

sector in China and other countries, an attempt to apply the frameworks to the service sector would be an interesting topic for future research.

To apply the frameworks developed in the study to IJVs in the service sector, researchers should first define the sources of resources that foreign partner and local partner bring to the venture. As in the manufacturing sector, local firms contributing local market-based resources to the venture are the focus of the study in the service sector. However, we need to identify the firm-specific advantages which reside in each of the value-creation activities of the service firms. Researchers should then identify what foreign partner and local partner bring to the IJVs. We assume that in terms of tacitness, the resources that foreign partner bring to service IJVs would be somehow different from those that foreign partners bring to manufacturing IJVs. As such, the role played by DC is hypothesized to become more critical for IJVs in service sector in that it is more difficult to integrate the resources with high level of tacitness. It is worthwhile to compare the role of DC in the case of service IJVs with that of DC in the case of manufacturing IJVs.

With regard to the contingency perspective of DC, we recommend that further studies be conducted to examine under what conditions DC will play a more important role and under what conditions DC will not be so critical. The proposition in the study needs to be validated by future study.

Besides extending the study in different empirical settings, there are other meaningful avenues to extend the research. One such avenue is to employ objective performance measure rather than subjective perceptual performance measure to replicate the study. In so doing, the common method bias could be minimized. Another avenue is to employ a rigorous process to validate the scale we develop in the study to capture the construct Dynamic Capability. More items could be tested to see whether they are better able to measure the construct or able to complement the current items used in the study. The items should also be discussed with company managers to confirm their practical

applicability. We feel that it is a major task to develop a measurement for such an important construct and validate the reliability and validity. Although this study has tried to follow a thorough process to develop such a scale, we argue that more work be done in this regard.

One challenging task is to explore how the new resources and capabilities developed are integrated with the current resources and capabilities. In other words, how can the IJVs effectively integrate the resources at time T_0 with the resources at T_1 ? Such a test requires more longitudinal studies, which is beyond the scope of the study. It would be intriguing to explore how IJVs constantly discard the resources, build up new resources and integrate various resources over time. Such a dynamic test would offer more insights into the process through which the resource bundle of firms, which underlies the competitive advantage, evolves over time.

In this study, we integrate the RBV with the DC perspective with a particular focus on the roles played by the two dimension of DC. In this sense, we test the consequences of DC. However, one critical question that has important implications for practitioners is **where does DC come from?** Therefore, it would be theoretically and practically meaningful to explore the antecedents of Dynamic Capability. How can IJVs cultivate such important an organizational capability?

The study can also be extended from a research design point of view. First, more qualitative studies can be done to complement the survey study. Since case study could provide more details and insights than the survey-based quantitative study, it would be interesting to examine some typical IJVs and employ such techniques as focus-group discussion, interview, field study, archival data mining and content analysis to examine how the resources from both partners of IJVs are exploited and how the IJVs constantly build up new resources and capabilities to renew their competitive advantage. We believe that such efforts are suitable for the construction of the scale for Dynamic Capability. The case studies could provide the necessary information for the scale development

which survey-based studies could not. More importantly, these exploratory, inductive and in-depth studies would provide us with more detailed information with regard to the specific mechanisms used to exploit and explore the resources. We feel that answers to items in questionnaire might not satisfactorily fulfill such need.

Second, the level of analysis can be changed. A meaningful way of extending the study is to investigate the resources integration, combination and reconfiguration at the functional level of IJVs. Using value-chain framework, we could construct the value-chain for each IJV and investigate where the resources from both partners reside in the value-chain and how they are integrated along the value chain. In addition, we could find out how IJVs replace the obsolete resources and capabilities along the value chain with new resources and capabilities developed.

6.5 Concluding remarks

How do the valuable resources acquired from foreign partner and local partner of IJVs in transition economies contribute to the superior performance? How do the IJVs effectively exploit the valuable resources and translate them into greater competitive advantage and hence superior performance? How do the IJVs constantly explore and build up new resources and capabilities to renew the competitive advantage? How do the dynamisms of the business environment in which IJVs operate imply for the roles played by the Dynamic Capability of IJVs?

This study is undertaken to answer these critical questions faced by IJVs in transition economies. Hopefully, this study has made incremental contributions to both theory and practice. Admittedly, more studies need to be done to enhance our understanding of the antecedents of the success of IJVs in transition economies. It is both challenging and rewarding to explore this issue given the fact that a large number of IJVs in transition economies are unsuccessful. We hope that this study has served as the starting point for future endeavor.

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Appendix A: Cover Letter in English
NANYANG TECHNOLOGICAL UNIVERSITY
NANYANG BUSINESS SCHOOL

To: General Manager/CEO of the International Joint Venture

Date

Dear Sir/Madam,

As the largest emerging market and transition economy in the world, P.R. China is the second largest FDI recipient country in the world. International Joint Venture (IJV), established between Chinese partner and foreign partner, is the most important and popular entry mode used by foreign entrant. Of great importance to any IJV are the factors which are critical in influencing the performance of IJVs. The current research project conducted by Nanyang Business School in Singapore is to investigate the resources possessed and developed by IJVs in China and the implications of the resources for the IJV performance. This important issue is of significance to not only foreign partner but also Chinese partner, in addition to foreign parent country and local Chinese government.

We would appreciate very much if you could participate in the survey. We do hope that your experiences and answers to the questions in the survey will make contribution to the research project. In return, we would like to e-mail/mail you the summary of the research project on request.

Please note that this is a pure academic research without any profit motivation. The questionnaire is carefully designed to elicit both factual information and information based on your perceptions of the issues being explored rather than seeking confidential information of your IJV. Therefore, anonymity of responses will be ensured and all information provided will be strictly kept confidential. A code number in every questionnaire is made for follow-up purpose.

Your objective, accurate and complete responses will be appreciated very much. Thank you in advance for your support for the research project!

Yours sincerely,
Wu Zhan
Ph.D Candidate
E-mail: PG01043492@ntu.edu.sg

Appendix B: Questionnaire in English

NANYANG TECHNOLOGICAL UNIVERSITY

NANYANG BUSINESS SCHOOL

**A SURVEY ON
INTERNATIONAL JOINT VENTURES IN P.R.CHINA©**

NO: _____

The purpose of this survey is to elicit both factual information and information based on your perceptions of the resources possessed and developed by IJVs. It will help the researchers understand the characteristics of the resources of IJVs and the implications of the characteristics of the resources for the IJV performance. In addition, the survey is to explore how the resources contributed by foreign partner and Chinese partner are exploited as well as how IJVs build new resources and capabilities needed to win in the increasingly competitive Chinese environment. All information provided will be kept confidential. Thank you very much for your participation and cooperation!

INSTRUCTIONS

1. The questions you are about to answer are designed to elicit both factual and perceptual information of the IJV. Your objective, accurate and complete response will be appreciated.
2. Please write down your answers or check/circle the appropriate boxes/numbers as applicable. If precise information is unavailable, please give us your best estimate.
3. Kindly finish the completed questionnaire in the pre-paid business reply envelope, as soon as possible.
4. If you wish to have a copy of the survey results, please enclose your business card together with your completed survey.

1. Below is a list of resources contributed by foreign partner and Chinese partner of your IJV. Please evaluate the amount of the resources contributed by the partners. This is a question concerning the quantity of the resources contributed. For each resource please circle the number that best represents your assessment.

A. Resources acquired from foreign partner

	Small Amount				Large Amount
1. Product Technology.....	1	2	3	4	5
2. Manufacturing process knowledge.....	1	2	3	4	5
3. Leading edge plant and machinery.....	1	2	3	4	5
4. Marketing expertise.....	1	2	3	4	5
5. Business operational expertise.	1	2	3	4	5
6. Invisible assets, e.g., trademark, patent...	1	2	3	4	5
7. Local market knowledge.....	1	2	3	4	5
8. Local distribution network.....	1	2	3	4	5
9. Access to local resources	1	2	3	4	5

B: Resources acquired from Chinese partner

	Small Amount				Large Amount
1. Product Technology.....	1	2	3	4	5
2. Manufacturing process knowledge.....	1	2	3	4	5
3. Leading edge plant and machinery.....	1	2	3	4	5
4. Marketing expertise.....	1	2	3	4	5
5. Business operational expertise.	1	2	3	4	5
6. Invisible assets, e.g., trademark, patent...	1	2	3	4	5
7. Local market knowledge.....	1	2	3	4	5
8. Local distribution network.....	1	2	3	4	5
9. Access to local resources	1	2	3	4	5

2. Please evaluate the attributes of the resources contributed by the partners in generating competitive advantages of your IJV, compared to your major competitors. This is a question concerning the quality of the resources contributed. On a scale of 1 to 5, where 1 indicates no advantage and 5 great advantage, indicate the degree to which the resources from foreign partner and Chinese partner have competitive advantage. For each resource, please circle the number that best represents your assessment.

A. Resources acquired from foreign partner

	No Advantage				Great Advantage
1. Product Technology.....	1	2	3	4	5
2. Manufacturing process knowledge.....	1	2	3	4	5
3. Leading edge plant and machinery.....	1	2	3	4	5

4. Marketing expertise.....	1	2	3	4	5
5. Business operational expertise.	1	2	3	4	5
6. Invisible assets, e.g., trademark, patent...	1	2	3	4	5
7. Local market knowledge.....	1	2	3	4	5
8. Local distribution network.....	1	2	3	4	5
9. Access to local resources	1	2	3	4	5

B. Resources acquired from Chinese partner

	No Advantage				Great Advantage
1. Product Technology.....	1	2	3	4	5
2. Manufacturing process knowledge.....	1	2	3	4	5
3. Leading edge plant and machinery.....	1	2	3	4	5
4. Marketing expertise.....	1	2	3	4	5
5. Business operational expertise.	1	2	3	4	5
6. Invisible assets, e.g., trademark, patent...	1	2	3	4	5
7. Local market knowledge.....	1	2	3	4	5
8. Local distribution network.....	1	2	3	4	5
9. Access to local resources	1	2	3	4	5

3. Please provide your assessment of the business conditions facing your IJV. For each item please circle the number that best represents your assessment.

Dynamism

a. To what extent do you think the following sectors are unpredictable?

	Little Extent					Large Extent	
1. Competitors.....	1	2	3	4	5	6	7
2. Customers.....	1	2	3	4	5	6	7
3. Suppliers.....	1	2	3	4	5	6	7
4. Regulatory.....	1	2	3	4	5	6	7
5. Social-culture.....	1	2	3	4	5	6	7

b. To what extent do you think the following sectors have undergone major changes over the last five years?

	Little Extent					Large Extent	
1. Competitors.....	1	2	3	4	5	6	7

2. Customers.....	1	2	3	4	5	6	7
3. Suppliers.....	1	2	3	4	5	6	7
4. Regulatory.....	1	2	3	4	5	6	7
5. Social-culture.....	1	2	3	4	5	6	7

c. Please assess the extent of competitive intensity in the following sectors.

	Little Extent					Large Extent	
1. Competitors.....	1	2	3	4	5	6	7
2. Customers.....	1	2	3	4	5	6	7
3. Suppliers.....	1	2	3	4	5	6	7

5. In relation to expected objective, please indicate the extent to which you are satisfied with the performance of your IJV along the following dimensions. For each dimension please circle the number that best represents your assessment.

	Extremely Dissatisfied				Extremely Satisfied			
1. Sales growth	1	2	3	4	5	6	7	
2. ROI.....	1	2	3	4	5	6	7	
3. ROA.....	1	2	3	4	5	6	7	
3. Market share.....	1	2	3	4	5	6	7	
4. Competitive position against competitors.....	1	2	3	4	5	6	7	
5. Customer satisfaction.....	1	2	3	4	5	6	7	
6. Organizational reputation and product image....	1	2	3	4	5	6	7	
7. Realization of long-term strategic goals.....	1	2	3	4	5	6	7	
8. Overall performance	1	2	3	4	5	6	7	

7. Please indicate the degree to which you agree or disagree with each of the following statements concerning the Organizational Capabilities of your IJV. For each statement please circle the number that best represents your assessment.

	Strongly Disagree				Strongly Agree			
1. Our IJV has the ability to integrate the resources contributed by foreign partner and Chinese partner to create value-adding products and services	1	2	3	4	5	6	7	

Example: Our IJV could integrate the technology contributed by foreign partner and the local market knowledge contributed by Chinese partner to create

values to our customers and match the emerging market environmental characteristics.

2. Our IJV is capable of making sure that resources from partners are compatible..... 1 2 3 4 5 6 7

Example: Our IJV is able to ensure the compatibility between the technology from foreign partner and the manufacturing plant from local Chinese partner.

3. Our IJV is able to determine the optimal resource allocation along the value chain of IJV.....1 2 3 4 5 6 7

Example: Our IJV is capable of optimally allocating resources from foreign partner and Chinese partner along the value chain ,i.e., procurement, R&D, manufacturing and marketing.

4. Our IJV is able to re-configure the current resources from partners to meet the specific needs of the Chinese market..... 1 2 3 4 5 6 7

Example: Microsoft has developed Chinese version of Office 2000 through cooperation with Qinhua University.

5. Our IJV is capable of constantly surveilling the environmental dynamism and sensing the need to reconfigure the IJV's resource structure..... 1 2 3 4 5 6 7

Example: Our IJV is able to sense the dynamism in the market and transform the internal resource to meet the changing requirement.

6. Our IJV has the motivation and ability to learn so as to generate new capabilities..... 1 2 3 4 5 6 7

Example: Our IJV is a learning organization which is capable of utilizing repetition and experimentation enabling tasks to be performed better and quicker.

7. Our IJV often uses alliances and acquisition that bring new resources into our IJV..... 1 2 3 4 5 6 7

Example: Cisco system in China has a

very effective acquisition processes through which it has acquired and assembled new resources from external environment.

8. Our IJV dedicates to building new resources and capabilities needed for local operations through learning, R&D and innovation. 1 2 3 4 5 6 7

Example: Our IJV has established R&D center in China to develop new technology and product for this market.

7. Please indicate the degree to which you agree or disagree with each of the following statements concerning the traits of your IJV. For each statement please circle the number that best represents your assessment.

	Strongly Disagree	Strongly Agree
1. The differences in national culture between China and the home country of foreign partner are very large.	1 2 3 4 5 6 7	
2. The differences in organizational culture between Chinese partner and foreign partner are very large.....	1 2 3 4 5 6 7	
3. Our IJV enjoys autonomy in formulating and implementing our strategy.....	1 2 3 4 5 6 7	
4. Parent's control of our IJV is flexible so that our IJV could take into account emerging market characteristics.....	1 2 3 4 5 6 7	
5. Foreign partner and Chinese partner establish cooperative relationship in strategic goal setting achievement.....	1 2 3 4 5 6 7	
6. Foreign partner and Chinese partner establish cooperative relationship in concrete business plan formulation and execution.....	1 2 3 4 5 6 7	
7. Foreign partner and Chinese partner establish cooperative relationship in functional areas like manufacturing, HR, marketing, etc.....	1 2 3 4 5 6 7	
8. Foreign partner and Chinese partner have complementary and compatible goals with respect to the IJV.....	1 2 3 4 5 6 7

8. IJV Profile

1. The major industry which your IJV is in? _____
 2. How many employees are there in your IJV? _____
 3. When did your IJV start operating? (Year) _____
 4. The total investment of your IJV (USD Million) _____ and the percentage of foreign equity share (%) _____
 5. The origin of the foreign partner of your IJV (Country or Region) _____
 6. Where is the IJV located? _____
 7. The name of your IJV (optional) _____
 8. Ownership of the Chinese partner of your IJV:
 - a. State-owned enterprise ()
 - b. Private enterprise ()
 - c. Cooperation enterprise ()
 9. Did the foreign partner of your IJV engage in any activity with any other local Chinese partner prior to the IJV in question? Yes () No ()
 10. Did the local partner of your IJV engage in any activity with any other foreign partner prior to the IJV in question? Yes () No ()
-

We thank you very much for your patience and cooperation. If you would like to have a copy of the survey results, please enclose a business card with the completed survey!

Please return this survey to:

XX
XXX
XX

Appendix C: Cover Letter in Chinese

南洋理工大学 南洋商学院

致: 总经理/CEO (中外合资企业)

时间:

尊敬的先生/女士:

作为全球最大的新兴市场和转型经济, 中国是世界上第二大对外直接投资流入国。国际合资企业是由中国本地合作者和外国投资者共同建立的经济实体。它是外商投资者最广泛使用的和最重要的进入模式。

对于一个合资企业而言, 那些影响合资企业业绩的因素是非常重要的。当前, 这个由新加坡南洋商学院进行的研究课题是要探讨在中国的合资企业所拥有和发展的资源以及这些资源对于合资企业的意义。这个问题不仅对于外商投资者而且对于中国本地投资者都具有重要的意义。同时, 对于外资来源国和中国同样具有重要的意义。

我们非常感谢您参与这次问卷调查。我们希望您的经验和您在问卷调查中的答案能对这个研究课题做出贡献。作为回报, 我们愿意给您提供这个研究项目的摘要。

这是一个纯学术的研究而没有任何商业动机。这个问卷调查表主要用于获取事实和您对当前被探讨问题的主观看法, 而不是用于获取贵企业的商业机密。因此, 我们将确保您提供答案的匿名性。所有提供的信息将严格保密。每一个问卷调查表上的标码主要用于调查后的一些事宜。

如您能提供客观、准确、完整的答案, 我们将不胜感激。非常感谢您对这个研究课题的支持!

此致

敬礼

博士候选人: 吴展

E-mail: PG01043492@ntu.edu.sg

Appendix D: Questionnaire in Chinese

南 洋 理 工 大 学
南 洋 商 学 院

对在中国的合资企业的问卷调查

NO: _____

本次问卷调查的目的是获取关于合资企业拥有和发展的资源的事实及主观信息。它能帮助研究者理解合资企业资源的特点以及这些资源特点对于合资企业业绩的意义。而且，这次问卷调查也要研究外商投资者和中国本地投资者提供的资源是如何被利用的以及合资企业如何发展新资源和能力以赢得竞争日益激烈的中国市场的胜利。所有提供的信息将严格保密，非常感谢您的参与和合作！

填表注意事项

1. 您将回答的问题主要是用于获取您的合资企业的客观和主观信息。我们对您的客观、准确、完整的回答将不胜感激。
2. 请在问卷调查表中的方框或数字处画“○”或“√”。
3. 请在填完这个问卷调查表后，把它放入已预付费的信封里，并尽快寄回。
4. 如果您想要一份本次调查的结果，请随附您的名片与已完成的问卷调查表一同寄回。

1. 下面是由合资企业的中方和外方所提供的资源列表。请评价由合资企业的双方提供的资源数量。这是一个关于合资企业的资源的数量问题。对每一个答案，请圈出最符合您答案的数字。

A 来自外方的资源

	极少量			极大量	
① 产品技术 -----	1	2	3	4	5
② 制造技术 -----	1	2	3	4	5
③ 先进的产房和生产机器 -----	1	2	3	4	5
④ 营销能力 -----	1	2	3	4	5
⑤ 商业运作经验 -----	1	2	3	4	5
⑥ 无形的资产(比如: 商标, 专利) -----	1	2	3	4	5
⑦ 当地市场知识 -----	1	2	3	4	5
⑧ 当地分销网络 -----	1	2	3	4	5
⑨ 当地资源的获取渠道 -----	1	2	3	4	5

B 来自中方的资源

	极少量			极大量	
① 产品技术 -----	1	2	3	4	5
② 制造技术 -----	1	2	3	4	5
③ 先进的厂房和生产机器 -----	1	2	3	4	5
④ 营销能力 -----	1	2	3	4	5
⑤ 商业运作经验 -----	1	2	3	4	5
⑥ 无形的资产(比如: 商标, 专利) -----	1	2	3	4	5
⑦ 当地市场知识 -----	1	2	3	4	5
⑧ 当地分销网络 -----	1	2	3	4	5
⑨ 当地资源的获取渠道 -----	1	2	3	4	5

2. 请评价由合资企业的中方和外方所提供的资源对于建立您合资企业的竞争优势的意义。是一个关于资源质量的问题。在下面的问题中，1 表明来自中方或外方的资源对于合资企业的竞争优势没有作用，而 5 则表明来自中方或外方的资源对于合资企业的竞争优势有很大作用。对每一种资源，请圈出最符合您答案的数字。

A 来自外方的资源

	竞争优势 极弱			竞争优势 极强	
① 产品技术 -----	1	2	3	4	5
② 制造技术 -----	1	2	3	4	5
③ 先进的厂房和生产机器 -----	1	2	3	4	5
④ 营销能力 -----	1	2	3	4	5
⑤ 商业运作经验 -----	1	2	3	4	5
⑥ 无形的资产(比如: 商标, 专利) -----	1	2	3	4	5
⑦ 当地市场知识 -----	1	2	3	4	5

- ⑧ 当地分销网络 -----1 2 3 4 5
- ⑨ 当地资源的获取渠道 -----1 2 3 4 5

B 来自中方的资源

- | | | 竞争优势
极弱 | | | 竞争优势
极强 | | |
|---------------------------|---|------------|---|---|------------|--|--|
| ① 产品技术 ----- | 1 | 2 | 3 | 4 | 5 | | |
| ② 制造技术 ----- | 1 | 2 | 3 | 4 | 5 | | |
| ③ 先进的厂房和生产机器 ----- | 1 | 2 | 3 | 4 | 5 | | |
| ④ 营销能力 ----- | 1 | 2 | 3 | 4 | 5 | | |
| ⑤ 商业运作经验 ----- | 1 | 2 | 3 | 4 | 5 | | |
| ⑥ 无形的资产(比如: 商标, 专利) ----- | 1 | 2 | 3 | 4 | 5 | | |
| ⑦ 当地市场知识 ----- | 1 | 2 | 3 | 4 | 5 | | |
| ⑧ 当地分销网络 ----- | 1 | 2 | 3 | 4 | 5 | | |
| ⑨ 当地资源的获取渠道 ----- | 1 | 2 | 3 | 4 | 5 | | |

3. 请评价您的合资企业所面临的商业环境。对于每一个问题，请圈出最符合您答案的数字。

商业动态

A 您认为下列主要商业环境因素的可预见性

- | | | 可预见性
很低 | | | 可预见性
很高 | | | |
|-----------------|---|------------|---|---|------------|---|---|--|
| ① 竞争对手 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ② 消费者 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ③ 供应商 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ④ 政府管理机构 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ⑤ 社会与文化因素 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |

B 您认为下列主要商业环境因素在过去 5 年内的变化程度

- | | | 变化程度
很小 | | | 变化程度
很大 | | | |
|-----------------|---|------------|---|---|------------|---|---|--|
| ① 竞争对手 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ② 消费者 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ③ 供应商 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ④ 政府管理机构 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| ⑤ 社会与文化因素 ----- | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |

C. 您认为下列主要商业环境因素的竞争程度

	竞争程度 很低							竞争程度 很高						
① 竞争对手 -----	1	2	3	4	5	6	7							
② 消费者 -----	1	2	3	4	5	6	7							
③ 供应商 -----	1	2	3	4	5	6	7							

4. 相对于您最初的期望，请表明您对下列合资企业业绩的满意程度。对每一个方面，请圈出最符合您答案的数字。

		非常 不满意							非常 满意						
① 销售增长 -----	1	2	3	4	5	6	7								
② ROI -----	1	2	3	4	5	6	7								
③ ROA -----	1	2	3	4	5	6	7								
④ 市场份额 -----	1	2	3	4	5	6	7								
⑤ 相对于竞争对手,您的企业在市场中所处的位置 -----	1	2	3	4	5	6	7								
⑥ 消费者满意度 -----	1	2	3	4	5	6	7								
⑦ 企业的声誉和产品形象 -----	1	2	3	4	5	6	7								
⑧ 实现了长期战略目标 -----	1	2	3	4	5	6	7								
⑨ 总体业绩表现 -----	1	2	3	4	5	6	7								

5. 对于下列每一个关于您合资企业的陈述，请表明您对它们同意的程度。对每一个陈述，请圈出最符合您答案的数字。

		非常 不同意							非常 同意						
① 我们的合资企业能够整合来自中方和外方的资源以创造有价值的产品和服务 -----	1	2	3	4	5	6	7								
② 我们的合资企业能够确保来自中方和外方的资源互补并且相互融合 -----	1	2	3	4	5	6	7								
③ 我们的合资企业能够确保来自中方和外方的资源在合资企业的价值链中的最优分配 -----	1	2	3	4	5	6	7								
④ 我们的合资企业能够重组来自中方和外方的资源以满足中国市场的特殊需要 -----	1	2	3	4	5	6	7								
⑤ 我们的合资企业能够持续的捕捉环境的动态并重组企业资源结构 -----	1	2	3	4	5	6	7								
⑥ 我们的合资企业有动力和能力去不断学习以获取新的能力 -----	1	2	3	4	5	6	7								
⑦ 我们的合资企业经常用战略联盟和收购的方式来获取资源 -----	1	2	3	4	5	6	7								
⑧ 我们的合资企业能够致力于通过学习、研发和创新来不断创造新的资源和能力 -----	1	2	3	4	5	6	7

6. 对于下列每一个关于您合资企业的陈述，请表明您对它们同意的程度。对每一个陈述，请圈出最符合您答案的数字。

非常
不同意 非常
同意

- ① 中国和外资来源国的文化差异非常大 -----1 2 3 4 5 6 7
- ② 外商投资者母公司和在中国本地投资者母
公司的组织文化差异非常大 -----1 2 3 4 5 6 7
- ③ 我们的合资企业在制定我们的
战略方面享有自主权 -----1 2 3 4 5 6 7
- ④ 母公司对我们合资企业的控制很灵活。
因此,我们合资企业能够考虑到新兴市
场国家的特点 -----1 2 3 4 5 6 7
- ⑤ 外方和中方在战略目标的制定方面建
立起合作关系 -----1 2 3 4 5 6 7
- ⑥ 外方和中方在具体的商业计划的制定
和实施方面建立起合作关系 -----1 2 3 4 5 6 7
- ⑦ 外方和中方在具体的职能领域(如:制
造, 人力资源, 市场营销等)建立起合作
关系 -----1 2 3 4 5 6 7
- ⑧ 外方和中方就合资企业有相一致的并且
是互补的战略目标 -----1 2 3 4 5 6 7

7. 合资企业的概况

- ① 合资企业所属的产业部门? _____
- ② 合资企业所拥有的员工? _____
- ③ 合资企业开始运作的时间? _____ (年)
- ④ 合资企业总投资额? _____ (百万美元) 以及外方所占的
比例? _____ (%)
- ⑤ 外方的来源国或地区? _____
- ⑥ 合资企业所处的地理位置? _____
- ⑦ 合资企业的名称? _____ (选择)
- ⑧ 合资企业中方的所有权;
- a. 国有企业 ()
- b. 私有企业 ()
- c. 合作制企业 ()
- ⑨ 合资企业的外方在与本中方企业合作之前是否有与其它中方企业合作的关系?
- 是 ()
- 否 ()
- ⑩ 合资企业的中方在与本外方企业合作之前是否有与其它外方企业合作的关系?
- 是 ()
- 否 ()

非常感谢您的合作与参与！

如果您需要一份本次问卷调查的结果，请随附您的名片并与已完成的问卷调查表一并寄回！

VITA

Personal Information

Name: Wu Zhan
Place of Birth: Chengdu, Sichuan, P.R.China
Year of Birth: 1975
Mail address: Ph.D Office
 Nanyang Business School
 Nanyang Technological University
 Singapore, 639798
E-mail: PG01043492@ntu.edu.sg

Post-Secondary Education and Degrees

Sichuan University
 Chengdu, Sichuan
 1994-1998
 BS in Economics majoring in International Business
 Minor in Law

Sichuan University
 Chengdu, Sichuan
 1998- 2001
 MS in Economics majoring in International Business

Nanyang Technological University
 Singapore
 2001-2006
 Ph.D in Business Administration
 Major: International Business Minor: Strategy

Hours and Awards

Bank of Tokyo Scholarship
 Philippines MetroBank Foundation Scholarship
 US ZhenYuan Scholarship
 Excellent Undergraduate Student Scholarship
 Excellent Graduate Student Scholarship
 University Entrance Fellowship
 1994-2001

Nanyang Research Scholarship
 2001-2005

Publications

1. Do Perceptions Fully Mediate the Impacts of Individual Differences on Technology Use? (with Yi Yuandong and Lai Lai Tung), accepted by *Journal of Computer Information Systems*, USA, Winter Issue, 2005
2. Acquisition of Organizational Capabilities and Competitive Advantage of IJVs in Transition Economies, under review by *Management International Review (MIR)* 2005 Special Issue
3. The Determinants of Competitive Advantage of IJVs in Transition Economies: The Case of Vietnam (with Krishna and Duc Tri Nguyen), accepted for presentation, *Academy of International Business (AIB) 2003 Conference*, Monterey, California, USA
4. Acquisition of organizational capabilities and sustainable competitive advantages of IJVs in transition economies: A different perspective (with Krishna, Roger and Nguyen), accepted, *Journal of International Business Studies (JIBS) Paper Development Workshop – Academy of International Business (AIB) 2004 Conference*, Stockholm, Sweden
5. Explaining Organizational Mode of Cross-border R&D Alliance: Going Beyond Transaction Cost Perspective (with Kim Changsu), accepted, *Southwest Review of International Business Research*, proceedings of Academy of International Business Southwest (AIBSW) 2004 Conference, Orlando, Florida, USA
6. Organizational Capability Perspective of Entry Mode Choice of MNCs in Emerging Markets: Conceptual Framework and Research Proposition (with Krishna), accepted for presentation, *European Academy of Management (EURAM) 2004 Conference*, Scotland, U.K.
7. Individual Differences in Country-of-Origin Effects Among Consumers in Developed and Emerging Markets: A Conceptual Framework (with Piyush Sharma), accepted, *American Marketing Association (AMA) 2004 Summer Conference*, Boston, USA
8. Asymmetrical Effects of Country-of-Origin on Consumers Product Evaluations in Developed and Emerging Markets: An International Consumer Perspective (with Piyush Sharma and Xia Yang), accepted for presentation, *Asian Academy of Management 2003 Conference (AAMC)*, Malaysia
9. Incorporating Technology Readiness (TR) into TAM: Are Consumer Traits Important For Understanding B2C Website Usage? (with Yi Yuandong and Lai Lai Tung), accepted for presentation, *DIGIT 2003 Conference*, Seattle, Washington, USA

Teaching

1. With Prof. Krishna, *Contemporary Issues in Marketing: International Business Development (IBD) – A holistic perspective*, undergraduate course, 2004
2. With Prof. Roger Marshall, *Marketing Research Methods*, undergraduate course, 2002-2004
3. With Prof. Krishna, *International Marketing*, MBA course, 2004