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2004

Tsang, E. W. K., Nguyen, D. T., & Erramilli, M. K. (2004). Knowledge acquisition and performance of international joint ventures in the transition economy of Vietnam. *Journal of international marketing*, 12(2), 82-103.

<https://hdl.handle.net/10356/99866>

<https://doi.org/10.1509/jimk.12.2.82.32901>

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Knowledge Acquisition and Performance of International Joint Ventures in the Transition Economy of Vietnam

ABSTRACT

From a knowledge-based perspective, the authors 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. The authors test the model in Vietnam and find that parental conflict, commitment, and receptivity affect knowledge acquisition. As they hypothesize, the amount of knowledge acquired contributes significantly to venture performance.

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Transition economies are economies that are moving from erstwhile closed-market command structures to open-market capitalistic systems. In the transition process, domestic companies in transition economies are forced to compete with other local companies and foreign companies. Customers in transition economies are becoming increasingly sophisticated, demanding innovation, economy, and service. Unfortunately, most local companies lack the technological, managerial, and marketing capabilities needed to meet customers' requirements and to compete in market economies. Consequently, local companies resort to international joint ventures (IJVs) in the hope of rapidly acquiring such capabilities from foreign partners. For foreign companies, IJVs may represent the only feasible mode of entry into transition economies. This is because trade barriers make exporting difficult, institutional weaknesses (e.g., primitive legal structures, scarcity of entrepreneurial talent) make contractual modes risky, and ownership restrictions often make wholly owned subsidiaries a nonexistent option. Most important, IJVs help foreign firms quickly enter transition markets and gain local market knowledge and contacts with the host government.

Despite the proliferation of research on IJVs, both developed and developing countries with established market economies have received the most attention (Steensma and Lyles 2000). The generalizability of this research and its applicability to transition economies may be limited by the significant structural differences between market and transition economies. Transition economies share certain distinctive characteristics, such as transformation from a planned to a market economy, gradual privatization of state-owned enterprises, and opening up of the domestic economy to investments by for-

*Submitted January 2002
Accepted November 2003*

© *Journal of International Marketing*
Vol. 12, No. 2, 2004, pp. 82-103
ISSN 1069-031X

eign firms. However, transition economies may also differ from one another because of cultural, political, social, and historical factors. Consequently, research findings collected in one transition economy may not be wholly generalizable to another. Among transition economies, China and Hungary are probably the most researched. Therefore, it is necessary to expand the geographical scope and study other transition economies. By so doing, it is possible to obtain a more in-depth understanding of the common characteristics of transition economies as a whole.

Another gap in IJV knowledge is that despite the undoubted importance of the extent to which an IJV learns from its foreign parent and the effect of such learning on performance, few studies have examined how IJV characteristics determine such learning and performance. A notable exception is Lyles and Salk's (1996) study on Hungarian IJVs; they develop and test a model that links IJV characteristics, knowledge acquisition from the foreign parent, and IJV performance. Although this study makes a significant contribution to the research, further studies are needed to enhance the understanding of this complicated topic. For example, Lyles and Salk do not examine the effects of some important IJV characteristics, such as the extent to which the local parent is receptive to the knowledge brought in by the foreign parent. Moreover, they do not study the relationships among IJV characteristics.

It is in such a context that this study investigates performance determinants of Vietnamese IJVs from a knowledge-based perspective. More specifically, the objectives of the study are twofold: (1) to examine how certain IJV characteristics are related to the IJV's knowledge acquisition from its foreign parent and (2) to examine whether such knowledge acquisition affects IJV performance.

Kogut and Zander (1996, p. 503) propose that "a firm be understood as a social community specializing in the speed and efficiency in the creation and transfer of knowledge." The knowledge-based perspective integrates two major streams of research: organizational learning and the resource-based view. Knowledge is regarded as the most strategically important firm resource (Grant 1996). According to this perspective, strategic alliances provide a platform for organizational learning, giving firms access to the skills and competencies of their partners (Kogut 1988). In particular, IJVs established in transition economies provide foreign partners quick and easy access to new markets by leveraging local partners' market knowledge and networks that help reduce risks. In return, foreign partners bring not only capital but also critical know-how about manufacturing, marketing, and managing in a competitive market-

THEORETICAL MODEL OF IJV PERFORMANCE

place to the IJVs (Griffith, Zeybek, and O'Brien 2001). The focus of this study is the factors that affect the IJV's acquisition of knowledge from its foreign parent and the impact of such knowledge acquisition on its performance.

Figure 1 illustrates the theoretical model, which proposes that (1) certain IJV characteristics that affect the development of relationship capital pertain to knowledge acquisition and that (2) the amount of knowledge acquired from the foreign parent affects IJV performance. The first part of the model makes use of organizational learning theory and addresses factors that may influence how the IJV learns from its foreign parent. Because local firms in a transition economy are accustomed to operating in a planned business environment and, more often than not, are technologically backward, in general their absorptive capacities are low. Foreign partners of IJVs established in transition economies usually come from countries with more sophisticated business environments and thus possess knowledge that may enable the IJVs to gain a competitive advantage over domestic firms. The second part of the model examines, from the resource-based view, the extent to which knowledge acquired from the foreign parent contributes to IJV performance.

Factors Related to IJV Knowledge Acquisition

From the knowledge-based perspective, Nahapiet and Ghoshal (1998) argue that social capital facilitates knowledge acquisition and exploitation by affecting the conditions necessary for the creation of value through the combination and

Figure 1.
Theoretical Model

Notes: Arrows with dotted lines represent effects of the control variable, and shaded ellipses represent endogenous constructs.

exchange of intellectual resources in the organization. In their study of 180 entrepreneurial high-technology ventures in the United Kingdom, Yli-Renko, Autio, and Sapienza (2001) find that social capital facilitates technology-based firms' acquisition of knowledge from their key customers. Nahapiet and Ghoshal identify three dimensions of social capital: (1) structural, (2) cognitive, and (3) relational. For the purpose of our study, we focus on the relational dimension, which in general refers to the kind of relationships that people have developed with one another through a history of interactions and that Cullen, Johnson, and Sakano (2000) describe as relationship capital. In this study, relationship capital refers to the positive and beneficial sociopsychological aspects of the relationship between IJV partners. An IJV with high relationship capital is one in which partners have positive feelings and interaction patterns.

We examine four IJV characteristics that affect the development of relationship capital in the IJV: (1) goal clarity, (2) parental conflict, (3) foreign parent commitment, and (4) local parent receptivity. Parental conflict, which in turn is affected by goal clarity, has negative influence on relationship capital, whereas commitment and receptivity have positive influence. We subsequently describe these characteristics' detailed effects on relationship capital.

Goal Clarity and Parental Conflict. Building on Fey and Beamish's (2000) definition of conflict in the IJV context, we define *parental conflict* as the interaction between parents of an IJV, in which actions of one parent prevent or compel some outcome against the resistance of the other parent. In studying intra- and interdepartmental conflict in a large utility company, Schnake and Cochran (1985) find that a lower level of goal clarity increases both types of conflict. In the IJV context, we also expect that goal clarity is negatively associated with parental conflict. When the objectives and strategies of an IJV are clearly stated, a foundation of common understanding about the purpose and the means to achieve the purpose is established between the parents. By removing the ambiguities as to how the venture should be managed, goal clarity helps reduce parental conflict. Following previous studies on conflict between strategic alliance partners (e.g., Brown and Day 1981; Yavas, Eroğlu, and Eroğlu 1994), we distinguish between two facets of conflict (intensity and frequency) and hypothesize the following:

- H₁: The extent to which an IJV's objectives and strategies are clearly stated is negatively related to (a) the intensity of parental conflict and (b) the frequency of parental conflict.

Conflict management is important to the learning process. In the context of a strategic alliance, interpartner conflict can impede the flow of knowledge between the partners and the alliance. The detrimental impact of conflict on knowledge flow is even more serious in IJVs. At the interpersonal level, Child and Rodrigues (1996) argue that national cultural differences may foster feelings of distance and discord between expatriate and local staff in an IJV and hinder the transfer of knowledge between the two groups. Parental conflict might further strengthen such feelings, because the relationship between the parents often influences the behavior of the IJV's top management team. Moreover, conflict between parties in an interfirm collaboration tends to result in frustration and dissatisfaction. Such a negative atmosphere is not conducive to the creation of an environment in which local staff work harmoniously with and learn from their expatriate counterparts.

At the interfirm level, conflict erodes trust and increases the potential for opportunistic behavior. This may result in the reluctance of parent firms to dedicate necessary resources to the IJV. From the viewpoint of the foreign parent, there is a risk that knowledge flows to the local parent in unintended and harmful ways, particularly when laws governing property rights are not well established in the host country. An economy that is moving toward a market-based system without an adequate legal framework is a place for opportunism. Even when knowledge is transferred to the local parent as the foreign parent intends, there is always a risk that the former may use that knowledge to compete against the latter. For example, the outcome of many alliances between firms in Japan and the West is perceived as detrimental to Western companies and beneficial to the Japanese partners, whose superior learning capability makes them stronger competitors (Hamel, Doz, and Prahalad 1989). Not trusting its local counterpart, the foreign parent may appoint "gatekeepers" to ensure that knowledge leaks are kept to a minimum.

In summary, parental conflict is counterproductive as it pertains to knowledge transfer between IJV partners. At the interpersonal level, conflict strengthens feelings of distance and discord between expatriate and local staff and thus hinders the latter from learning from the former. At the interfirm level, conflict erodes trust between IJV partners and adversely affects partner openness, which is a key element in determining the amount of information shared between partners.

H₂: The amount of knowledge that an IJV acquires from its foreign parent is negatively related to (a) the intensity of parental conflict and (b) the frequency of parental conflict.

Foreign Parent Commitment. Organizational commitment refers to an organization's enduring desire to maintain a relationship with its counterpart (Moorman, Zaltman, and Deshpandé 1992). The literature distinguishes between two dimensions of commitment: attitudinal and behavioral (Gundlach, Achrol, and Mentzer 1995). An organization with attitudinal commitment has a strong desire to be part of the relationship with its partner. It accepts goals and values that are mutually built and shared with the partner and believes that it is obliged to exert effort for the benefit of the relationship. In contrast, behavioral commitment focuses on affirmative actions that demonstrate willingness to contribute to the relationship and to comply with rules that govern it.

Committed partners of a strategic alliance tend not to engage in opportunistic behavior that benefits only one partner because such behavior jeopardizes the relationship. Refrainment from opportunism promotes the building of mutual trust and thus relationship capital among the partners. Fey and Beamish (2000, p. 142) define conflict in an IJV as "the interaction between parties involved in an IJV, where actions of one party prevent or compel some outcome against the resistance of another party." A partner involved in a trusting relationship with another will try to avoid forcing its agenda on the other party. Moreover, conflict is detrimental to the very relationship that committed partners prefer to endure. In their study of IJVs in Russia, Fey and Beamish (2000) find that both Russian and foreign parents' commitments are negatively associated with a composite measure of IJV–Russian parent conflict, IJV–foreign parent conflict, and Russian parent–foreign parent conflict.

H₃: The level of foreign parent commitment is negatively related to (a) the intensity of parental conflict and (b) the frequency of parental conflict.

The main antecedent of commitment is the investment of resources to initiate, maintain, and develop a relationship (Cullen, Johnson, and Sakano 1995). In the case of foreign parent commitment to an IJV, such resources include not only physical assets and organizational knowledge but also the training and support that are required to make the transfer of assets and knowledge a success. Because personal contacts and face-to-face communication are rich communication media that are well suited to the identification and understanding of the information to be transferred (Argote 1999), personal interactions between the transferor and the transferee are usually required, especially during the early stage of knowledge transfer (Dutton and Starbuck 1979). In other words, foreign parents need to commit substantial resources to their IJVs to facilitate the knowledge-transfer processes. Such commitment

is particularly crucial for IJVs established in transition economies, because local partners typically lack advanced technology and managerial expertise and often expect their foreign counterparts to play the role of teacher (Child and Markóczy 1993).

H₄: The level of foreign parent commitment is positively related to the amount of knowledge that an IJV acquires from its foreign parent.

Local Parent Receptivity. We define *local parent receptivity* as the readiness of an IJV's local parent to appreciate and receive the knowledge brought in by the foreign parent. This construct corresponds to Gupta and Govindarajan's (2000) position that a subsidiary's motivational disposition to acquire knowledge from other units is an important determinant of knowledge flows in a multinational corporation. The two constructs of foreign parent commitment and local parent receptivity are mirror images in that the foreign parent's resource commitment with respect to knowledge transfer must be reciprocated by the local parent's receptivity to such knowledge. That is, the willingness to give must be matched by the readiness to take.

In addition to the usual sources of parental conflict in IJVs (e.g., goal disparity, differences in corporate and national cultures), a source of conflict specific to transition economies is that local parents are accustomed to operating in hierarchical systems rather than the market-based systems of capitalist economies (Child 1993). For example, in the former systems, enterprises are simply production units that do not need to address marketing and sales. As such, local managers may have mentalities and behaviors that are quite different from those of their expatriate counterparts (Child and Markóczy 1993). When neither side properly recognizes or handles the differences, they become a barrier to managerial learning and a major source of conflict in the IJV.

The foreign parent's commitment, which includes both technical and emotional support to the IJV, helps resolve the problems and conflicts that arise from the differences. The local parent's receptive attitude to the foreign parent's ideas, management techniques, and way of operationalizing helps establish a foundation of mutual understanding, which in turn helps develop relationship capital and reduce the likelihood of conflict.

H₅: The level of local parent receptivity is negatively related to (a) the intensity of parental conflict and (b) the frequency of parental conflict.

Child and Markóczy (1993) argue that there are two elements to host-country managerial learning in the case of IJVs established in transition economies. The first is cognitive change, which refers to an understanding of the new market-based system and the appropriate way to do business. The second is behavioral change, which is concerned primarily with adopting business practices that are more effective in the new system. In comparing the findings of empirical studies on Chinese and Hungarian IJVs, Child and Markóczy (1993) find close similarities in the reported behavior of local managers in these ventures. Usually no significant cognitive or behavioral change occurred, or behavioral change took place without accompaniment by cognitive change. They maintain that effective managerial learning calls for both behavioral and cognitive change. To achieve this, local managers need to be “receptive to concepts and practices brought in by their foreign partners” (Child and Markóczy 1993, p. 627). In a similar vein, Hamel (1991, p. 96) suggests that “[h]umility may be the first prerequisite for learning.” In his study of strategic alliances between Japanese and Western firms, Hamel finds that partners with high receptivity develop appropriate attitudes that enable them to internalize new skills more effectively than can partners with less receptivity.

H₆: The level of local parent receptivity is positively related to the amount of knowledge that an IJV acquires from its foreign parent.

According to the knowledge-based perspective, knowledge is the most strategically important firm resource (Grant 1996). In the context of IJVs in Kazakhstan, Griffith, Zeybek, and O'Brien (2001) argue that successful ventures necessitate the development of strong relationships, and they demonstrate that knowledge transfer is an important element in the process of relationship development. When a firm transfers knowledge to its IJV, the success of the transfer is reflected in the extent to which the IJV acquires the knowledge. Acquisition of knowledge by IJVs in transition economies is particularly crucial for their success because of the knowledge gap between foreign and local firms. Foreign parents of the IJVs normally come from countries with more sophisticated competitive environments. The business practices and skills that foreign parents transfer to their IJVs are often more effective than the ones held by domestic firms. The IJVs' acquisition of such knowledge should enable them to perform better than domestic firms in the increasingly market-oriented systems. Lyles and Salk (1996) find that the positive relationship between knowledge acquisition and performance is significant for all indicators of performance. In a follow-up study conducted three years later of the same

Knowledge Acquisition and IJV Performance

IJVs, Lane, Salk, and Lyles (2001) find a similar positive relationship between knowledge acquisition and performance.

H₇: The amount of knowledge an IJV acquires from its foreign parent is positively related to IJV performance.

Moderating and Control Variables

Age of IJV. We expect that the age of the IJV moderates the relationship between knowledge acquisition and performance for two main reasons. First, the principle of learning by doing states that as the firm becomes more practiced, it becomes more efficient at what it already does. The simplest example of learning from direct experience is the effects of cumulative production and operator experience on manufacturing productivity. Evidence of these effects has been well established by many empirical studies (Adler and Clark 1991). The principle of learning by doing has also been observed in the area of strategic alliances. For example, in a study of IJVs set up in China, Tsang (2002) finds that foreign parent companies that had more Chinese experience were capable of acquiring knowledge more efficiently from their IJVs. Thus, in general, firms improve their information-processing skills through learning by doing (Nass 1994). It is likely that older IJVs are more capable of leveraging the knowledge acquired from their foreign parents and converting it to competitive advantage.

Second, relationship duration is positively associated with communication frequency and information exchange between partners (Hallén, Johanson, and Seyed-Mohamed 1991). In general, the longer the relationship, the greater is the opportunity for the parties involved to interact, to share ideas, and to develop mutual understanding. The shared experience facilitates conflict resolution through open problem solving and compromise (Lin and Germain 1998). Such approaches help create a harmonious work environment in which local and expatriate managers of the IJV collaborate and make effective use of the foreign parent's knowledge.

H₈: The age of the IJV moderates the positive relationship between knowledge acquisition and performance such that the strength of the relationship increases with the age of the IJV.

Firm Size. Firm size has been recognized as a key variable affecting organizational learning. For example, Hagedoorn and Schakenraad (1994) find a strong, positive effect of firm size on the intensity of strategic partnering and technological cooperation. Firm size also affects the likelihood that the firm develops competitive advantage and achieves above-average performance (Porter 1980). Thus, in this study, we use firm size as a control variable with respect to knowledge acquisi-

tion and performance (correlation of firm size to all the model's constructs produces approximately the same result).

Others. We also control for the direct effects of foreign parent commitment, local parent receptivity, and intensity and frequency of conflict on performance because these factors affect how IJV partners collaborate and work together, and they may have significant performance implications. However, we do not expect that goal clarity has any direct impact on performance because of the remote theoretical linkage between the two. So as not to clutter Figure 1 with arrows, the paths are not shown therein.

We conducted this study in 1998 and gathered data through a questionnaire survey. Our population consisted of IJVs that were jointly established by one or more foreign firms with one or more local enterprises in Vietnam. According to various issues of *The List of Licensed Projects* (Vietnam Ministry of Planning and Investment 1988–97), which provided information on all foreign investment projects in Vietnam, there were 1353 IJV agreements signed between 1988 and 1997. We excluded 227 of these projects because either the IJV agreements had expired or the IJVs had been dissolved at the time of our survey. Thus, the final sample consisted of 1126 IJVs located throughout Vietnam.

We mailed cover letters, questionnaires, and postage-paid reply envelopes to the top representatives of local parents and made follow-up calls within one week of the mailing. We received 89 completed questionnaires, which represents a response rate of 7.9%. A main reason for the seemingly low response rate is that it is not common for Vietnamese companies to share information with outsiders by responding to surveys, given the country's history of the command economy. However, there were no significant differences between the responding and the nonresponding IJVs in several key parameters, including year of establishment, capitalization, number of local partners, number of foreign partners, and total number of partners. Therefore, any nonresponse bias present is minimal.

The 89 IJVs operated in several industries, including chemicals, food processing, electrical and electronics, construction materials, and hospitality. Because of the small sample size, we did not separate manufacturing from service industries. A total of 76.4% of IJVs had only two parents (foreign and local), and 91% had one local parent. With the exception of two cases, the foreign parents of the IJVs held 50% or more of shares. There were eight cases of 50%–50% equity distribution between local and foreign parents. Of the IJVs, 36 had an equity distribution of 70%–30%, which was the most popular option for distribution. The largest equity share held by the foreign parent was 85% in one case.

METHODS

Sample

Most respondents (75.3%) were top executives who held positions such as chair, vice chair, managing director, general manager, and deputy general manager. As members of the top management teams, respondents had an in-depth understanding of the IJVs' management systems and strategies. They were also able to observe and determine the impact of the skills and technologies transferred to the IJVs. Heide and John (1990) argue that the quality of information from key informants is sufficiently rich for building theories that address complex organizational phenomena, despite the problems inherent in a reliance on single respondents. In brief, the seniority of most respondents in our study alleviates the problem of single-respondent bias.

Measures

The following three steps guided the development of the measures we included in our questionnaire: First, we thoroughly reviewed the existing literature to locate, wherever possible, measures that would capture the constructs under study. Second, one of us interviewed 20 Vietnamese managers who were involved in IJV operations. The interviews provided rich and useful information about our topic in the Vietnamese context. The managers also helped us assess the clarity and face validity of each questionnaire item and suggested any modifications or enhancements that they considered appropriate. Third, three marketing and management scholars studied our questionnaire and commented on it.

The questionnaire we used was written in Vietnamese and developed by the usual steps of translation and back-translation. We first constructed the questionnaire in English and then translated it into Vietnamese. An English–Vietnamese language expert checked the readability and understandability of the Vietnamese translation. We discussed any confusing or unclear expressions with the expert and revised the questionnaire accordingly. We then sent the new Vietnamese version of the questionnaire to another language expert, who translated it back into English. We compared the translation with our original English version and made suitable amendments. The Appendix lists the survey items used to measure the latent constructs. All items were based on a five-point scale.

Exogenous Constructs. We measured goal clarity with a three-item scale, appraising the degree to which the IJVs' objectives and long-term strategies were clearly written and the extent to which the goal of every project was clear. We believe that the three items capture the IJVs' most important goals. We measured foreign parent commitment with respect to the transfer of skills and technologies to the IJV. The eight items we used mostly pertained to the support that the foreign parent provided to the IJV. Local parent receptivity was a three-item measure that assessed the extent to which the local parent adapted

to its foreign counterpart's way of business and appreciated the latter's decision making and management techniques, where "appreciate" means "recognize the good qualities." All three items pertain to the knowledge that the foreign parent usually brings to an IJV in a transition economy.

Endogenous Constructs. Because information about the financial performance of IJVs in Vietnam was not publicly available, and because most IJVs would decline to disclose such sensitive information, we used 12 items to measure performance subjectively in terms of the various aspects of IJV operations. Of the 12 items, 8 address measures in the marketing domain, including business volume, market share, market penetration, product quality, customer service, and customer satisfaction. To measure knowledge acquisition, we used the 6 items that Lyles and Salk (1996) propose, and we added one more: business operational experience. Marketing expertise is a critical dimension of acquired knowledge, but we tapped various other functional aspects of knowledge as well. This is because a combination of several multifunctional and cross-functional tasks affects IJV performance. We measured the intensity and frequency of parental conflict in ten different areas, most of which Yavas, Eroğlu, and Eroğlu (1994) consider important in their study of joint ventures between U.S. and Saudi firms.

Moderating and Control Variables. We estimated the age of an IJV by subtracting the year of formation from the year of survey (i.e., 1998). We used capitalization, or the total amount of capital that the IJV's partners contribute, to measure firm size.

Reflective Versus Formative Indicators. To analyze the data, we used partial least squares (PLS), which is particularly suitable for data analysis during the early stage of theory development, when the theoretical model and its measures are not well established (Chin 1998). Two basic types of construct-to-indicators relationships (reflective and formative) need to be considered when using structural equation modeling such as PLS. In a construct with reflective indicators, the indicators are expressed as a function of the construct. In other words, the indicators are believed to "reflect" the construct, and the construct "causes" the observed measures. In contrast, a construct with formative indicators is expressed as a function of those indicators; that is, the indicators "form" or "cause" the unobservable construct.

The choice between reflective and formative relationships has direct implications for the estimates. For example, traditional assessments of individual item reliability, convergent validity, and discriminant validity are irrelevant for formative indicators and their associated constructs (Hulland 1999). Unfortunately, no hard-and-fast rules govern the

choice (see Bollen and Lennox 1991). In this study, we regard performance and the intensity and frequency of conflict as constructs with formative indicators; we consider the other four latent constructs reflective. A characteristic of constructs with formative indicators is that the indicators of the same construct “can have positive, negative, or no correlation” with one another (Bollen and Lennox 1991, p. 307). We considered that performance and conflict, rather than other constructs, are formed by indicators that measure IJV performance and parent conflict in various operational aspects, because the extent of performance or conflict in one aspect is not necessarily correlated with that in another aspect.

RESULTS

Measurement Model

We assessed the item reliability of reflective indicators in PLS by examining loadings. A rule of thumb that many researchers use is to accept items with loadings of .7 or greater; Hulland (1999) recommends that items with loadings of less than .5 be dropped. Because the measures of most of the constructs with reflective indicators in this study had not been well established empirically, we followed Birkinshaw, Morrison, and Hulland (1995) and used .6 as the cutoff. The Appendix indicates the two items we dropped: One was associated with knowledge acquisition and the other with local parent receptivity. All other item loadings were greater than .7.

To assess the convergent validity of constructs, Fornell and Larcker (1981) developed the internal consistency measure, which is similar to Cronbach’s alpha. Nunnally (1978) suggests that .7 as a benchmark for “modest” reliability is applicable in the early stages of research. Both the internal consistency and the Cronbach’s alpha of each of the four constructs with reflective indicators are listed in the Appendix. The internal consistency scores of all the constructs were greater than or equal to .8, and one of the Cronbach’s alphas was .69, slightly below .7. In brief, the constructs had adequate internal consistency.

To assess discriminant validity, Fornell and Larcker (1981) recommend the use of average variance extracted (i.e., the average variance shared between a construct and its indicators), which should be greater than the variances shared between the construct and other constructs in the model (i.e., the squared correlation between two constructs). The comparison is usually made in a correlation matrix, which consists of the correlations between different constructs in the off-diagonal elements of the matrix and the square roots of the average variance extracted values calculated for each construct with reflective indicators along the diagonal. The discriminant validity of a construct is adequate when its diagonal element is greater than each of the off-diagonal elements in the corresponding rows and columns. Table 1 indi-

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Performance	2.81	.70	—								
2. Knowledge acquisition	2.84	.81	.69	.82							
3. Firm size (US\$ million)	7.57	14.1	.07	.08	1.00						
4. Age (year)	3.57	2.37	-.18	-.09	-.04	1.00					
5. Intensity of conflict	2.24	.65	-.40	-.38	-.07	.04	—				
6. Frequency of conflict	2.22	.76	-.25	-.37	-.08	-.08	.23	—			
7. Foreign parent commitment	2.84	.75	.65	.71	.17	-.14	-.09	-.31	.81		
8. Goal clarity	4.00	.68	.39	.44	-.02	-.27	-.36	-.42	.31	.80	
9. Local parent receptivity	3.46	.82	.46	.62	.04	-.15	-.29	-.28	.48	.51	.87

Notes: Diagonal elements are square roots of average variance extracted values. S.D. = standard deviation.

Table 1.
Means, Standard Deviations,
Correlations, and
Discriminant Validity

cates that the four constructs with reflective indicators had adequate discriminant validity.

Table 2 reports the results of hypotheses testing and the amounts of explained variance in the model's endogenous constructs. We tested the significance of path estimates using jackknife analysis with subsamples generated by deleting one case from the entire data set (Chin 1998). Models 1 and 2 examine the separate effects of the four IJV characteristics on knowledge acquisition. Model 3 examines the effects of all the characteristics together. Model 4 is the full model, corresponding to that shown in Figure 1. With the exception of the effect of foreign parent commitment on intensity of conflict, the signs of all path estimates of the four models were predicted by their respective hypotheses.

The findings support H₁: Goal clarity is associated with lower intensity and frequency of conflict. For H₂, only intensity, not frequency, of conflict is negatively and significantly related to knowledge acquisition. The data did not support H₃, which states that foreign parent commitment leads to lower parental conflict. The relationship between foreign parent commitment and knowledge acquisition is highly positive and significant, in support of H₄. For H₅, although local parent receptivity is negatively associated with intensity of conflict, its association with frequency of conflict is minimal. In Model 2, local parent receptivity is positively and significantly related to knowledge acquisition, in sup-

Structural Model

Table 2.
Path Estimates
and Variance Explained

Hypothesis	Path	Expected Sign	Path Estimate			
			Model 1	Model 2	Model 3	Model 4
H _{1a}	Goal clarity → Intensity of conflict	–	–.371*		–.295*	–.272*
H _{1b}	Goal clarity → Frequency of conflict	–	–.430**		–.360 [†]	–.351 [†]
H _{2a}	Intensity of conflict → Knowledge acquisition	–	–.327**		–.238**	–.235**
H _{2b}	Frequency of conflict → Knowledge acquisition	–	–.293		–.073	–.080
H _{3a}	Foreign parent commitment → Intensity of conflict	–			.090	.104
H _{3b}	Foreign parent commitment → Frequency of conflict	–			–.189	–.191
H ₄	Foreign parent commitment → Knowledge acquisition	+		.539***	.540***	.539***
H _{5a}	Local parent receptivity → Intensity of conflict	–			–.188 [†]	–.191*
H _{5b}	Local parent receptivity → Frequency of conflict	–			–.010	–.008
H ₆	Local parent receptivity → Knowledge acquisition	+		.360***	.270*	.275*
H ₇	Knowledge acquisition → Performance	+				.369**
H ₈	Knowledge acquisition × Age → Performance	+				.105
	Intensity of conflict → Performance					–.240
	Frequency of conflict → Performance					.008
	Foreign parent commitment → Performance					.356**
	Local parent receptivity → Performance					.057
	Age → Performance					–.162
	Firm size → Knowledge acquisition		.037	–.026	–.044	–.046
	Firm size → Performance					–.040
Endogenous Construct			R² Value			
Intensity of conflict			.138		.154	.137
Frequency of conflict			.185		.213	.207
Knowledge acquisition			.241	.603	.663	.664
Performance						.600

[†] $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$.

port of H_6 . Nonetheless, the relationship is less strong, though statistically significant, in Models 3 and 4. As H_7 implies, knowledge acquisition has a strong, positive effect on performance. Foreign parent commitment also has a similarly strong effect on performance. Finally, we analyzed the moderating effect of IJV age using the approach that Chin, Marcolin, and Newsted (1996) suggest. The effect is not significant, and thus H_8 is not supported. In brief, of the 12 hypotheses, the full model supports 7 of them.

The R^2 value in PLS represents the percentage of variance in an endogenous construct that is explained by other constructs connected to it directly and, to a certain extent, indicates the model goodness-of-fit (Hulland 1999). Table 2 shows that the R^2 value of knowledge acquisition in Models 3 and 4 was .66. This represents a substantial amount of variance explained in view of the notion that a considerable number of factors is likely to affect how much knowledge IJVs acquire from their foreign parents. To study the power of the four IJV characteristics in explaining knowledge acquisition, we compared the R^2 values of knowledge acquisition in Models 1 and 2 individually with that in Model 3 using a Chow test (Hulland 1999). The difference in R^2 values between Models 2 and 3 is not significant, whereas the difference between Models 1 and 3 is significant at $p < .01$. Among the four IJV characteristics, foreign parent commitment and local parent receptivity together thus provide greater explanatory power. Last, the full model explains more than half the variance in performance. In short, the explanatory power of our model lends support to its theoretical soundness.

As in other transition economies, domestic companies in Vietnam are increasingly resorting to joint ventures with foreign companies in the hope of acquiring valuable knowledge from them. Foreign entrants into transition markets often prefer to establish joint ventures with local partners because of the cultural distance, regulatory requirements, political risks, and need for market access. Although the motives for establishing IJVs are fairly well established, the key factors that make the ventures successful are less understood. Our study has made several contributions to the international marketing literature by shedding some light on these factors. First, ours is one of the first IJV studies conducted in Vietnam, a transition economy of increasing importance. Second, our findings reveal the links between and the relative importance of parental conflict, commitment, and receptivity in affecting knowledge acquisition. Because these constructs influence the development of relationship capital in an IJV, our study provides evidence of the important role relationship capital plays in interorganizational knowledge transfer and its subsequent impact on IJV performance. Our results also suggest that knowledge transfer is an

DISCUSSION

arduous process that requires significant levels of commitment from the transferor and receptivity from the transferee. Finally, our study empirically confirms the claim made by the knowledge-based perspective that knowledge is a key resource that contributes to IJV performance.

Although some of our findings are consistent with those of Lyles and Salk (1996), others are not. For example, we found that intensity of conflict had a significant, negative effect on knowledge acquisition, whereas parental conflict had no effect on knowledge acquisition in their study. Of many possible reasons for this difference in findings, we focus on two: First, although both Hungary and Vietnam are transition economies, the two countries are significantly different in other respects, such as geographical location, culture, history, and political ideology. It is not surprising that certain research findings in one country are not generalizable to another. Second, Lyles and Salk (1996) measure conflict with a three-item scale that assesses the extent to which (1) mistrust, (2) conflict over the original IJV agreement, and (3) cultural differences between the parents are issues in the IJV. They do not distinguish between intensity and frequency of conflict. It seems that our measure not only is different from theirs but also may be more refined.

The implications of our findings for international marketing managers are clear. An IJV established in a transition economy will not succeed unless the foreign parent makes a strong commitment to the venture. This commitment should be more than a pledge of equity, management talent, or technical personnel. The foreign parent should proactively find ways to transfer crucial knowledge needed to shore up the competitive position of the venture. At the same time, the local partner cannot remain passive; it must be receptive to the foreign partner's knowledge transfer. The critical backdrop to this is a high degree of trust and the minimization of conflict between partners. Therefore, partner selection should be treated as an extremely critical phase of IJV establishment. Our results emphasize the importance of relationship marketing and management in dynamic and volatile environments, which characterize transition economies. Relationships between foreign firms and their partners play a crucial role. Contracts mean little when legal systems change rapidly and rules of the competitive game are in flux. However, strong relationships between the IJV partners will ensure that through both rough and smooth times, the venture will make progress toward its goals.

We encountered significant limitations when carrying out the study. In addition to the caveats pertaining to the low response rate and the single-respondent bias, there were other limitations. First, our sample was biased toward young IJVs; the

mean age was 3.57 years. We were not surprised by this because the first IJV agreement in Vietnam was signed in only 1988, but it may limit the generalizability of our findings. However, it may also represent a strength, because during the early stage of liberalization in transition economies, local parents of IJVs do not have confidence in their own administrative and managerial capabilities and thus tend to focus on acquiring technological and managerial knowledge from their foreign counterparts (Child and Markóczy 1993). These acquisition activities are precisely what we intended to investigate. Another limitation is that our sample consisted of surviving IJVs only. We could not reach IJVs that had been closed down at the time of our survey. The survival bias might affect our findings because we dropped the more extreme cases of poor performance. Finally, our findings need to be interpreted in the context of an IJV in a transition economy in which the foreign parent is often technologically and managerially more sophisticated than its local counterpart. Knowledge tends to flow from the foreign parent to the IJV, and we designed the two constructs (foreign parent commitment and local parent receptivity) to reflect the knowledge differential between the two parents. The findings associated with these constructs may not be generalizable to IJVs established in developed economies because the knowledge-flow pattern can be very different. In these IJVs, both parents may be motivated to learn from each other.

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Appendix.
Survey Items Used
to Measure Constructs

Survey Item	Mean	Standard Deviation
Performance		
Relative to your expectation, to what extent has your IJV achieved the following items? (1 = "far less than expected," 5 = "far more than expected")		
Planned goals	2.47	1.03
Increase of business volume	2.56	.97
Increase of market share	2.59	.95
Market penetration of new products	2.76	.99
Product quality	3.17	.82
Reduction of product defects	2.98	.86
Development of customer service	3.10	.86
Customer satisfaction	2.95	.97
Reduction of customer complaints	2.91	.88
Reduction of operational cost	2.64	.87
Increase of operational efficiency	2.69	.91
Increase of employee productivity	2.86	.87
Knowledge Acquisition (internal consistency = .94, α = .91)		
Relative to your expectation, to what extent has your IJV acquired the following items from its foreign parent(s)? (1 = "far less than expected," 5 = "far more than expected")		
New technological expertise	2.90	.98
New marketing expertise	2.85	1.04
Product development	2.85	.92
Knowledge about foreign cultures and tastes ^a	2.76	.88
Managerial techniques	2.74	1.03
Manufacturing processes	2.89	.86
Business operational experience	2.83	.99
Conflict^b		
Please indicate how often the foreign and the local parents are in conflict with respect to the following issues (frequency) and the seriousness of the conflicts, if any (intensity). (frequency: 1 = "never," 5 = "all the time"; intensity: 1 = "not serious at all," 5 = "extremely serious")		
Separation of the operation	2.11	.87
of the IJV from that of each parent	1.77	.94
Each parent's attempt to control	2.36	.78
key decisions in the IJV	2.74	1.31
Amount of profit to be retained	2.33	.88
in the IJV	2.00	1.17
Whether to expand the IJV's size	2.11	.89
	2.22	1.12
Transfer of technology from	2.10	.89
the foreign parent to the IJV	2.10	1.18
Pricing of input provided	2.24	.78
by each parent to the IJV	2.10	1.05
Role of each parent in the IJV	2.28	.80
	2.36	1.08
Renegotiation of the terms	2.36	.83
of the IJV contract	2.51	1.14
Placement of each parent's	2.38	.90
personnel in the IJV	2.02	1.04
Formulating strategies and	2.54	1.07
planning for the IJV	2.41	1.26

Survey Item	Mean	Standard Deviation
Foreign Parent Commitment (internal consistency = .94, α = .93)		
Relative to your expectation, to what extent does the foreign parent(s) contribute the following items to the IJV? (1 = "far less than expected," 5 = "far more than expected")		
Physical resources	2.79	.87
Guidance to make sure that the transferred resources are smoothly acquired by the IJV	3.00	.88
Emotional support given to the IJV's management team when the team encounters obstacles	2.84	.95
Training the IJV's management team	2.78	.95
Looking after the IJV's management team	2.64	.99
Helping the IJV build its product-specific technology	2.82	.90
Helping the IJV build its manufacturing-specific skills	2.75	.93
Looking after the manufacturing operation of the IJV	3.07	.90
Goal Clarity (internal consistency = .84, α = .73)		
To what extent do you agree or disagree with the following statements about your IJV? (1 = "strongly disagree," 5 = "strongly agree")		
The IJV's objectives are clearly written.	4.20	.80
The IJV's long-term strategies are clearly written.	3.82	.97
There is a clear vision for every project.	3.98	.74
Local Parent Receptivity (internal consistency = .86, α = .69)		
To what extent do you agree or disagree with the following statements about your IJV? (1 = "strongly disagree," 5 = "strongly agree")		
We adapt to the foreign parent's way of doing things ^a	3.44	.94
We appreciate the nature of the foreign parent's decision making	3.40	.89
We appreciate the foreign parent's management techniques	3.51	.98

^aWe dropped this item in the final analysis.

^bThe upper and lower rows indicate the means and standard deviations of the survey items corresponding to the intensity and frequency of conflict, respectively.

Appendix.
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ACKNOWLEDGMENTS

The authors thank Henry Yeung and the four anonymous *JIM* reviewers for their valuable comments on previous drafts of this article.

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