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EXPLAINING IJV SURVIVAL IN A TRANSITIONAL ECONOMY THROUGH SOCIAL EXCHANGE AND KNOWLEDGE-BASED PERSPECTIVES

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In this study, we combine social exchange and knowledge-based perspectives to develop a general path model of IJV survival. We further refine our expectations by considering the transitional economic context of our study and the somewhat unique managerial values resulting from the legacy of Marxist ideology. Results from structural equation modeling suggest that an imbalance in the management control structure between the parents leads to parental conflict and an increased likelihood of IJV failure. An imbalance in the ownership control structure, however, had no influence on conflict or survival. In general, support from the foreign parent is positively related to IJV learning and IJV survival. However, higher levels of technical support provided by the foreign parent to the IJV reduced the level of parental conflict, whereas management support had no effect on conflict. Our results suggest some dilemmas for firms pursuing IJVs in transitional economies. Although the foreign parent often contributes critical resources to the IJV, providing it with bargaining power and a high level of influence, an imbalance in management control between the partners may ultimately be detrimental to IJV survival. Copyright © 2000 John Wiley & Sons, Ltd.

INTRODUCTION

As competition intensifies in maturing markets, multinational firms from the West are pursuing markets in the formerly planned economies of Eastern Europe to continue their growth. Joint ventures with local firms are commonly used as a means for multinational firms to navigate those uncertain yet high-potential transitioning markets. Typically, the larger foreign enterprise provides the essential managerial and technological expertise, whereas the local firm offers knowledge about government relations, laws, and customs (Sharp and Barz, 1997). The survival of these international joint ventures (IJVs) is important for multinational firms in their efforts to establish a presence in this region, and may be consequential for the continued development of these emerging private sectors as well. IJVs are more profitable on average than the state-owned enterprises and provide a stabilizing force for these transitioning economies (Hamar, 1993). Successful investments on behalf of Western multinational firms are believed to be necessary if these emerging economies expect to obtain global competitiveness (Pearce and Branyiczki, 1997). Moreover, these IJVs offer the relatively inexperienced private sector role models and insight into management imperatives (Bruton, 1998). In this study, we investigate IJV survival in a transitional economy.

With notable exceptions (e.g., Beamish, 1993; Child, 1991; Lyles and Salk, 1996; Yan and Gray, 1994), most academic work on IJVs has been conducted in either developed countries or developing countries with established market economies. Because of their previous communist

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economic policies, however, there are some significant contextual differences between transitional economies and market economies that may limit the generalizability of this research for a transitional economic context (Beamish, 1993). Moreover, aggregating transitional economies with developing economies under the assumption that they are contextually similar is also likely to be flawed. The levels of economic development and economic system are two distinct dimensions. Development status is based on GDP levels and other output statistics (World Bank, 1997), whereas economic system refers to whether a nation's economy is planned, market-based, or is in transition from a planned to a market-based economy (United Nations, 1997). 'Developing country' status does not infer that the country's economic system is in transition. For example, Mexico is a developing country (United Nations, 1997). However, it clearly has a market economy with the appropriate infrastructure in terms of banking systems and equity markets. Neither is a transitional economy necessarily low on the development scale. For instance, the Czech Republic and Hungary are quickly approaching developed country status based on per capita incomes (Simos, 1998). They remain, however, economies transitioning from a planned system to a market-based one. It is in this context of transition that we focus our study.

Despite the ongoing transition to a market-based model, the legacy of Marxist ideology has left a significant imprint on the values maintained by local managers. Although political and economic systems can be changed over the course of a decade, the underlying values ingrained in the hearts and minds of people may require generations to alter (Vojtech, 1997). Two such values have direct implications for IJVs in a transitional context. First, the meaning and implications of *ownership* have been distorted over time in the Eastern Bloc countries. In a planned economy, the ownership of enterprises is held by the monolithic state, and authority over those firms is dispersed among many bureaucratic entities (Jeffries, 1992). Managerial influence within these enterprises is not derived from legitimate authority handed down from profit-seeking owners as it is in market economies. Instead, influence is developed through political connections and by supplying critical resources. Local managers who have been trained under such policies are likely to view ownership and control differently than would managers trained in a market economy.

Secondly, under the Marxist model, *technological* expertise is believed to be the primary stimulus for economic, institutional, and cultural change (Gomulka, 1986). Eastern Bloc countries placed extraordinary emphasis on technology and technical education. For example, the Eastern Bloc historically produced over twice as many engineers and scientists on a per capita basis than did the United States (Gomulka, 1986). In contrast, the need for managerial aptitude resulting from privatization and enhanced competition is new to these countries; consequently, these skills remain largely undeveloped (Child and Markoczy, 1993). This technological focus at the government level is likely to have had an influence on the dominant logic of local managers as well as their relative receptiveness to technical and managerial know-how.

In this study, we integrate social exchange and knowledge-based perspectives to develop a general path model of IJV survival, one that is potentially applicable for IJVs across a variety of economic contexts. In developing our theoretical model, we build on logic that has been universally developed where macro-economic context is not considered. In applying our general model, however, we are mindful of the historical background of a transitional economy and how the traditional values resulting from Marxist policies influence this model of IJV survival.

We rely on social exchange and knowledge-based perspectives to guide our research because they effectively address the two sets of relationships believed to be vital for IJVs: (1) social exchange theory provides insight on the relationship between the parent firms, their relative control over the IJV, parental conflict, and its effect on IJV survival; (2) a knowledge-based perspective is used to examine the relationship between parent firms and joint ventures, subsequent learning from the parents, and its effect on IJV survival. Although there has been extensive work done on the first relationship in terms of IJV control structure (e.g., Geringer and Hebert, 1989; Killing, 1983; Makhija and Ganesh, 1997) and more recently, consideration of the second relationship (e.g., Lyles and Salk, 1996), they have not been integrated previously. We maintain that these two sets of relationships (parent to

parent, parent to IJV) are interdependent and that the relationship between an IJV parent and the IJV is likely to have an effect on the relationship between the parents. By developing a path model, we are able to explore the intermediate mechanisms between the commonly researched exogenous variables of IJV control and parental support, and IJV survival. Figure 1 is the overall research model that will be developed and tested.

IJV CONTROL STRUCTURE AND SURVIVAL: A SOCIAL EXCHANGE PERSPECTIVE

A key issue in the study of IJVs has been the control structure over the venture, that is, the relative pattern in which partners divide power to govern the joint venture (Killing, 1983; Yan, 1998). Indeed, a critical determinant of IJV performance is thought to be the division of control over the venture (Geringer and Hebert, 1989; Killing, 1983; Makhija and Ganesh, 1997; Mjoen and Tallman, 1997; Parkhe, 1993).

Yan (1998) distinguishes between two dimensions of IJV control structure: ownership control and management control. Ownership control refers to the residual rights to making decisions regarding an asset's use that is not contractually given to another party (Grossman and Hart, 1986; Milgrom and Roberts, 1992). It is the legitimate authority that a firm has over its assets. For an IJV, this control is manifested by the percentage of capital that each partner invests in the venture.

Management control, on the other hand, is the observable pattern of decision-making power. Although ownership control may lead to management control over the IJV through board membership, other more informal control mechanisms including contractual arrangements, management teams, and the implementation of management systems from one partner may provide decision-making power apart from that which is derived from ownership (Beamish and Banks, 1987; Makhija and Ganesh, 1997; Mjoen and Tallman, 1997; Yan and Gray, 1994). These informal mechanisms may be the outcome of a bargaining process influenced by the resources (e.g., technology, know-how, market access) that each partner can provide to the IJV (Yan and Gray, 1994). In essence, these informal mechanisms can be used to extract decision-making power from majority owners. Partners may be able to exercise greater management control than their proportion of equity holdings would suggest (Beamish, 1993). Indeed, Mjoen and Tallman (1997) found these two dimensions of IJV control structure to be empirically distinct.

Despite extensive efforts to examine the link between IJV control structure and various IJV outcomes such as survival, the nature of these relationships remains inconclusive. One line of theory suggests that because of their dual control structure and inherent potential for instability, IJVs that have a dominant controlling parent will be the most stable and successful (Killing, 1983). The equal division of control between the partners leads to coordination problems and transaction

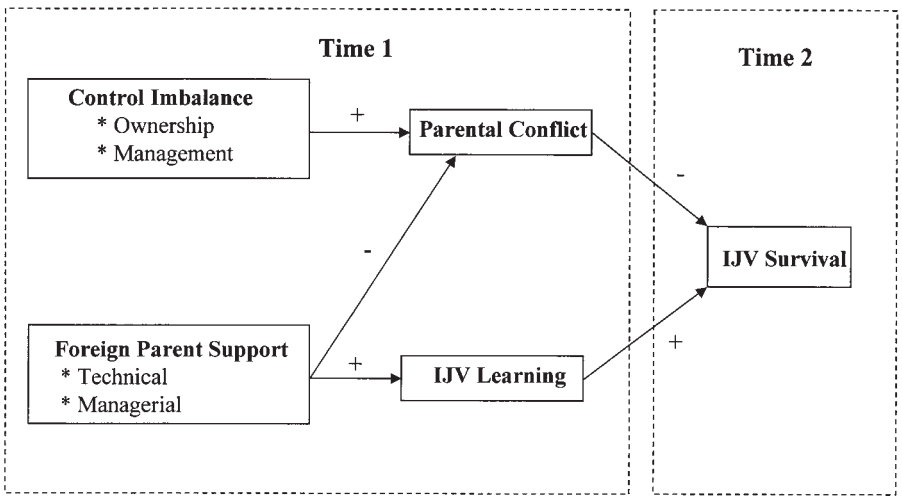

Figure 1. Model of IJV survival

costs that ultimately reduce the value of the venture (Geringer and Hebert, 1989). In essence, if one partner has dominant control, decisions will be less time consuming and easier to make. Although there has been some empirical support for this relationship (e.g., Lecraw, 1984), other empirical work on IJVs has failed to find any relationship between control structure and performance or survival (e.g., Awadzi, 1987; Kogut, 1988). Indeed, some studies have found that shared or balanced control leads to positive outcomes because of higher levels of trust and mutual forbearance (e.g., Beamish and Banks, 1987; Blodgett, 1992; Geringer and Woodcock, 1989). For instance, Lyles and Salk (1996) found that IJVs with 50/50 ownership control had significantly higher levels of knowledge acquisition than majority-controlled IJVs. Many of the studies noted, however, failed to measure the dual dimensionality of control (ownership, management) or any intermediate mechanism between control structure and performance that could explain this relationship more fully. Moreover, the economic context of the IJV (i.e., planned, market, transitional) has typically not been considered. Thus, the process by which control imbalance influences IJV outcomes remains speculative.

Social exchange theory can be used as a general framework for more finely delineating the relationship between IJV control structure and IJV outcomes (in our case, IJV survival). It provides a basis for understanding how differences in control levels between the parents of the IJV come about and it suggests possible consequences of those differences. Originally established as a theory of interpersonal relations (Thibaut and Kelley, 1959), social exchange theory has since been applied at an organizational level of analysis and has been used to examine power in channels of distribution (e.g., Anderson and Narus, 1984, 1990).

The crux of the theory is each firm's comparison of alternative outcomes. Thibaut and Kelley (1959) define two constructs that can be applied to the relationship between IJV parents. The comparison level (CL) can be defined as the quality of outcomes a parent firm can expect from a potential IJV. Such expectations are based on past experience or on the experience of a referent group of firms that have formed similar relationships under similar conditions. The comparison level for alternatives (CL_{alt}) is the average quality of outcomes available from alternative IJV relationships. Essentially, CL_{alt} represents the lowest level of acceptable outcomes for a potential IJV relationship. The spread between CL and CL_{alt} determines each firm's dependence on the other; the larger the spread, the higher the dependence. We maintain that it is the firm's perception of relative dependence that provides a 'power advantage' of one parent over another in IJVs (Emerson, 1962). Firm A's power over firm B is determined by B's dependence on A.

Indeed, the availability of comparable alternatives is believed to limit the dependency and increase the bargaining power of one IJV parent over another, and increase subsequent control over the IJV (Blodgett, 1991; Mjoen and Tallman, 1997; Yan and Gray, 1994). For example, Yan and Gray (1994) describe a Chinese partner who was simultaneously involved in negotiations with a Japanese and an American firm. The option of choosing between the two foreign firms ultimately gave the Chinese firm the upper hand in negotiations and enhanced its control and influence over the IJV.

Control structure/parental conflict relationship

Although both theoretical rationale and empirical evidence suggest a relationship between dependency, power, and control, a question remains as to how an imbalance of control between IJV parents influences IJV survival.

Joint ventures are believed to be inherently unstable because of the opportunistic tendencies of each partner in what is basically an exchange relationship. These tendencies to act opportunistically can be checked through *ex ante* and *ex post* deterrents (Parkhe, 1993). However, a power advantage in an exchange relationship often bolsters the dominant firm to act opportunistically and extract a disproportionate share of gains from the relationship (Dwyer and Walker, 1981; Frazier, Gill and Kale, 1989; Roering, 1977). For instance, Frazier and his associates (1989) found that manufacturers with a power advantage over their dealers were more prone to use coercive strategies in these exchange relationships than were manufacturers without a power advantage. Furthermore, the low-power firm often behaves opportunistically to rectify its power handicap, further aggravating the exchange relationship. For example, Provan and Skinner (1989) found that

the greater the supplier's control over the dealer's decisions, the more likely the dealer was to act opportunistically toward the supplier. Similar dynamics may occur with an IJV and the resulting opportunism is likely to lead to conflict and mistrust between the parents of the IJV. Disputes over the original agreement and intentions for the IJV may arise.

Thus, although an IJV with a shared-control structure may be more difficult to manage in terms of coordination than an IJV with a dominant-control structure (Geringer and Hebert, 1989), it may also ensure the mutual forbearance necessary for a stable relationship with limited conflict. In sum, we expect an imbalance in IJV control structure (ownership and management) to lead to conflict between the parents of the IJV.

Hypothesis 1a: In general, increasing ownership control imbalance between the parents of an IJV leads to higher levels of parental conflict.

Hypothesis 1b: In general, increasing management control imbalance between the parents of an IJV leads to higher levels of parental conflict.

However, the nature and relative strength of these relationships may depend on the economic context of the IJV. A multinational firm's preference for ownership control over its subsidiaries has been shown to vary across home countries. For example, Erramilli (1996) found that multinationals from France, Italy, and Switzerland are more likely to establish subsidiaries with majority ownership than are multinationals from the United States or the United Kingdom. One explanation for this variance is that managers from different countries vary in their beliefs regarding ownership as an effective control mechanism (Erramilli, 1996).

In the formerly planned economies of Eastern Europe, Marxist ideology has shaped managerial attitudes with regard to ownership and its implications for control. In a planned economy, the principal–agent problem between managers of a firm and the 'owners' of the firm is exacerbated because the discipline from market forces normally found in market economies is nonexistent (Lin, Cai, and Li, 1998). Moreover, the ownership of the firm lies with the state and, in effect, is highly diluted (Jeffries, 1992). Because of this dilution, actual ownership carries little meaning. Indeed, a common Russian saying claims that 'what belongs to everyone, belongs to no one' (Smith, 1990). Ownership was not a source of power in a communist model; rather, power and authority were derived through informal mechanisms and political dealings.

These deep-rooted attitudes towards ownership and control are likely to influence the dynamics between IJV partners in a transitional context. Local management may not perceive the relative levels of partner ownership as indicative of relative power and influence over IJV operations. This is reflected in the bargaining between potential IJV partners. Yan and Gray (1994) discovered equity share to be a relatively minor issue in negotiations for Chinese IJVs. Stark (1996) found Hungarian managers often unwilling to assume high levels of ownership because of their avoidance of risk and overall lack of appreciation for the benefits of ownership. Ownership control and management control appear to be loosely linked in a transitional context. Control and decision-making influence over the IJV may be determined by resource provision and other sources of bargaining power outside of the ownership makeup of the IJV. Because of their contribution of more sophisticated know-how, foreign multinationals are often able to exercise greater management control than their proportion of equity holdings would suggest (Beamish, 1993).

Because of the managerial values regarding ownership, local parent firms in transitional economies will be more sensitive to management control imbalance than to ownership control imbalance. Consequently, opportunism and conflict are more likely to occur as a result of management control imbalance than ownership imbalance.

Hypothesis 2: In transitional economies, the relationship between an imbalance in management control and increased parental conflict will be stronger than the relationship between an imbalance in ownership control and increased parental conflict.

Parental conflict/IJV survival relationship

Parental conflict will be detrimental to the performance of the IJV (Lyles and Salk, 1996). Mutual trust between IJV partners is believed by

some to be critical to success (e.g., Beamish and Banks, 1987) and empirical research has lent support to this assertion (e.g., Roos, 1989; Inkpen and Currall, 1997). Conflict can adversely affect performance and survival in a number of ways. First, conflict and trust may be related inversely in a feedback loop (Anderson and Narus, 1990). Ongoing conflict and disagreements may decrease one IJV parent's trust in the other and create a sense that one parent is being opportunistic and attempting to take advantage of the other. That initial loss of trust can spiral into continued conflict, further reducing trust. Second, continually resolving conflicts can detract efforts from current tasks. Frequent disagreements take considerable effort to unravel and may increase the time required to make critical decisions.

Members of the IJV's top management team may also look to the relationship between the parents as a guide for their own behavior (Pearce, 1997). In essence, the political behavior and conflict between the parents will set the tone for conduct within the IJV. This is likely to reduce decision-making quality within the IJV and further divert attention from immediate needs of the IJV (Tjosvold, 1988).

We expect an unbalanced control structure over the IJV to be related directly to the level of conflict between the parents. This conflict, in turn, will decrease the likelihood of IJV survival.

Hypothesis 3: In general, parental conflict will lead to a decreased likelihood of IJV survival.

A KNOWLEDGE-BASED PERSPECTIVE OF IJV SURVIVAL

Whereas social exchange theory provides insight into the relationship between the parents of an IJV, a knowledge-based perspective addresses the resources and capabilities of the IJV and, in particular, the transfer of critical know-how from the parents to the IJV. The knowledge-based perspective integrates several substreams of research including the resource-based view (e.g., Barney, 1991; Conner, 1991), organizational learning (Fiol and Lyles, 1985; Huber, 1991), and organizational competencies (Leonard-Barton, 1992; Prahalad and Hamel, 1990). At the core of the perspective is the belief that an organization's idiosyncratic know-how and its ability to replicate and exploit knowledge are fundamentally responsible for organizational success. The strategic potential of knowledge, however, depends on certain characteristics of that knowledge. It must be simultaneously valuable, difficult to imitate, and limited in prevalence among the competitors in order to earn the organization above-normal returns (Barney, 1991).

The knowledge-based perspective is an alternative to transaction cost economics for explaining firm integration (Conner and Prahalad, 1996; Kogut and Zander, 1993; Madhok, 1996). The premise is that firms forgo arm's-length arrangements (e.g., licensing) and pursue joint equity ventures and wholly-owned subsidiaries not necessarily to reduce transaction costs, but because higher levels of integration provide a more effective means of transferring know-how that is tacit, difficult to imitate, and likely to lead to above-normal returns (Kogut and Zander, 1993).

Knowledge transfer considerations are particularly applicable to the viability of IJVs. The parents of an IJV are sources of knowledge that is both tacit and difficult to imitate, and that can be used for above-normal rents by the IJV. The foreign parent typically provides two types of support: (1) technical support including process and product technology, and (2) managerial support entailing administrative know-how, managerial expertise, and marketing direction (Sharp and Barz, 1997). The relatively interdependent relationship between the foreign parent and the IJV enables more face-to-face interaction and closer working relationships than nonequity arrangements and contracts. In sum, these shared equity arrangements are believed to be effective vehicles for transferring tacit know-how (Hamel, 1991; Mowery, Oxley and Silverman, 1996).

Foreign parent support/IJV learning relationship

However, the potential for high levels of interaction between the foreign parent and IJV does not guarantee an IJV's procurement of tacit know-how from the parent. The parent/IJV relationship is analogous to a teacher/student relationship. The transfer of tacit know-how depends on how effective both parties are in their respective role (Lane and Lubatkin, 1998). Indeed, this transfer of know-how depends on (1) the willingness and

ability of the foreign parent to act as a teacher and provide the IJV with necessary knowledge, and (2) the IJV's aptitude for learning.

The foreign parent as teacher. The extent to which the foreign parent provides its support and know-how to an IJV may vary according to the firm's *ability* and *intent*. Some firms are more adept at transferring know-how than others (Nonaka and Takeuchi, 1995). For example, Teece (1976) uncovered a learning curve whereby the cost and difficulty of knowledge transfer decrease with time. The process of transferring know-how to an IJV may not be well understood initially. Over time and through experience, however, firms proceed along a learning curve by developing new methods, procedures, and programs that facilitate effective transfer, such as formal training seminars and the temporary transfer of key employees to the IJV (Inkpen, 1997; Teece, 1976).

Although the foreign parent may establish procedures and programs to enhance knowledge transfer, it may also intentionally limit its support and knowledge flow to the IJV. Cooperation through IJVs may be a low-cost way for the local partners to gain competencies that later can be used to compete effectively against the foreign parent (Hamel, Doz, and Prahalad, 1989). To avoid that possibility, the foreign parent may take precautions to limit its transparency and guard against transferring competitive advantages to opportunistic partners by using systems and structures to impede the transfer of knowledge to the IJV (Tiemessen *et al.*, 1997). Often, firms establish gatekeepers who are responsible for determining what information and resources may be off limits to the IJV.

Thus, from the foreign parent's side of the parent/IJV relationship, impediments to knowledge transfer include its inability to teach because of limited knowledge transfer experience, and its intentional restriction of support as a means of protecting competitive resources. Ultimately, however, the level of support provided by the foreign parent will directly influence the extent to which the IJV can learn from the foreign parent. In general, the more willing and able the foreign parent is to provide technical and managerial support, the greater the opportunity for the IJV to learn and internalize capabilities in these areas. If support is limited, learning from the foreign parent is also likely to be limited.

Hypothesis 4a: In general, higher levels of technical support provided by the foreign parent to the IJV lead to enhanced learning by the IJV.

Hypothesis 4b: In general, higher levels of managerial support provided by the foreign parent to the IJV lead to enhanced learning by the IJV.

The IJV as student. Although the absorption of know-how by the IJV from the foreign parent depends, in part, on the level of foreign parent support, it also depends on the ability of the IJV to learn, that is, its absorptive capacity (Cohen and Levinthal, 1990). Lane and Lubatkin (1998) found that a 'student' firm is more apt to learn from a 'teacher' firm when both firms' underlying knowledge bases are similar. In essence, the absorptive capacity of a student firm depends on the relative relationship between its knowledge and that of its teacher.

For IJVs formed in transitional economies, there will be greater similarity between the technical knowledge bases of the IJV and foreign parent than there will be for their managerial knowledge bases. The former Marxist economies have a strong record of science and have the largest concentration of well-trained engineers in the world (Dyker and Perrin, 1997). Despite lacking practical know-how, scientists from the East are considered by some to be superior in scientific theory to those trained in the West (Sharp and Barz, 1997). Moreover, the Eastern Bloc's past reliance on imitating Western technology suggests that these countries are especially geared to learn technical innovations made elsewhere (Sabel and Prokop, 1996).

Whereas technical skills and production output were historically the yardstick of success, marketing and managerial expertise was thought to be less critical (Smith, 1990). Because of the lack of competition, there was little incentive to develop marketing and general management skills (Pavitt, 1997). Though there have been recent efforts by Western business schools to supply managerial education based on free market competition, these types of skills remain in short supply (Shama,

1993). Thus, in terms of managerial know-how, there is little underlying shared knowledge between the foreign parent and the IJV to build on. In these transitional economies, the relative absorptive capacity will be greater for technological expertise than for managerial know-how.

Hypothesis 5: In a transitional economy, the relationship between the technical support provided by the foreign parent and increased IJV learning will be stronger than the relationship between the managerial support of the foreign parent and increased IJV learning.

IJV learning/IJV survival relationship

The capabilities derived through learning provide a lasting competitive advantage and enable organizations to survive (Choi and Lee, 1997). Although an IJV relationship and the contingent foreign parent support provide the opportunity for the IJV to attain the capabilities necessary for survival, it is the learning process that converts parent support into IJV capabilities that can be exploited for a competitive advantage (Lyles and Salk, 1996). Learning is the mechanism by which IJV technological and managerial capabilities are internalized through the support of the foreign parent. Such capabilities enable the IJV to effectively compete against other IJVs or subsidiaries that are vying for market share and a position in the emerging economy. Thus, foreign parent support enhances the likelihood of IJV survival through IJV learning and capability development.

Hypothesis 6: In general, IJV learning from the foreign parent leads to an increased likelihood of IJV survival.

Foreign parent support/parental conflict. The social exchange and knowledge-based theories provide a foundation for understanding how the parent/parent and parent/IJV relationships independently influence IJV survival. The foreign parent/IJV relationship, however, may also influence the foreign parent/local parent relationship (Child and Yan, 1998). Specifically, foreign parent support of the IJV may reduce the level of conflict between the parents.

Knowledge transfer between joint venture parents through the joint venture can potentially lead to a 'race to learn' and eventual instability as one partner becomes less dependent on the other (Hamel, 1991). Inkpen and Beamish maintain, however, that instability is not likely to result from a foreign multinational providing managerial and technical support to an IJV: 'Even if local partners have unhindered access to the foreign partner's skills, the knowledge required to eliminate a foreign dependency is usually more difficult to acquire for the local partner than for the foreign partner' (1997: 189). They attribute the difficulty to the inherently tacit nature of the technological and managerial knowledge being transferred by the foreign parent. Thus, the technical and managerial capabilities of the local partner and foreign partner are unlikely to merge in the short term. Yan and Gray (1994) found this true in their case studies of Chinese IJVs. When partner firm capabilities continue to be dissimilar yet complementary, joint ventures tend to be stable and long-lasting (Nakamura, Shaver and Yeung, 1996).

Indeed, high levels of foreign parent support provided to the IJV may reduce the level of conflict between the foreign firm and the local partner, and increase the stability of the IJV. A foreign partner that is perceived to be highly supportive of the IJV will be viewed by the local partner as particularly concerned for the welfare of the IJV and the local partner itself. The local partner may not want to jeopardize this relationship with tension and conflict. Some support for this observation is found in marketing literature. Frazier *et al.* (1989), using a sample of foreign manufacturer–dealer relationships in India, found that the greater the support provided by the foreign manufacturers to dealers, the lower the level of conflict between the exchange partners. Thus, we anticipate increasing levels of foreign parent support to decrease the level of conflict between the IJV parents.

Hypothesis 7a: In general, increasing levels of technical support provided by the foreign parent to the IJV will decrease the level of conflict between the parents.

Hypothesis 7b: In general, increasing levels of managerial support provided by the foreign parent to the IJV will decrease the level of conflict between the parents.

However, the nature and relative strength of

these general relationships may depend on the economic context of the IJV. An envoy of U.S. management specialists visiting the Eastern Bloc countries soon after the fall of communism found local management to lack significant appreciation for the managerial and marketing skills believed to be critical for success in a free market system (Osborn, 1992). A subsequent series of 24 case studies conducted in 1995 in Hungary, the Czech Republic, and Slovakia further suggests little fundamental change in the management behavior within these countries (Grayson, 1998). Local managers appear to be reluctant to modify their behavior because they value their past economic and social power, and feel that change may place their positions at risk. Moreover, they do not fully comprehend the need to make changes because they do not understand the risk of bankruptcy (Grayson, 1998).

In contrast, a high regard for technological and scientific know-how has been instilled by the previous communist regimes that viewed such resources as critical to the prosperity of Marxist ideology. Marxist policies and reward systems have ingrained a dominant logic in local management that links success to technological expertise. Technology transfer was the primary incentive compelling Marxist governments to initially allow foreign direct investment (Bell, 1997). Furthermore, Eastern Bloc markets demonstrate an overall preference for foreign technology because local goods are perceived to be of lower quality than Western-made products (Bruton, 1998).

Thus, even though outside experts recognize that a key to the future success of these transitional economies is the adoption of Western management techniques (e.g., Shama, 1993), the existing dominant logic emphasizing technological adeptness over managerial expertise is pervasive. We expect local IJV parents in transitional economies to have a stronger appreciation for the foreign parents' contribution of technological know-how than for their contribution of management expertise. The provision of technical know-how by the foreign partner will be more effective at reducing parental conflict than the provision of managerial know-how.

Hypothesis 8: In a transitional economy, the negative relationship between the technical support provided by the foreign partner and the level of parental conflict will be stronger than the negative relationship between managerial support and the level of parental conflict.

METHODS

Sample selection

The sample of IJVs used for the analysis was derived from a larger sample that included both service and manufacturing IJVs located in Hungary. Our sample for this study was restricted to IJVs in the manufacturing sectors because such IJVs are potentially in need of both the technical and managerial know-how of the foreign parent (Inkpen and Beamish, 1997). Hungary was selected because, of all the Eastern Bloc countries, it had and continues to have the largest amount of foreign direct investment from Western countries (Sharp and Barz, 1997). Hungary also exhibited characteristics typical of the former socialist economies including an informal economy, inaccurate reporting, slow decision making, little market knowledge and an economic slowdown from 1988–95. Furthermore, although the Eastern Bloc generally has a reputation for technical excellence, Hungary is particularly astute in technical and engineering know-how (Dyker and Perrin, 1997).

The initial population used to generate our sample was limited to IJVs that had a maximum of 350 employees. Most of the private entities that were created around the onset of the transition were small or medium sized. Of the 117,000 registered firms in 1995, only 1000 were large firms (i.e., greater than 350 employees) (Institute for Small Business Development, 1996). Moreover, most of these large firms had some element of state ownership (Stark, 1996). Even with a minority position, the state can have a disproportionate influence on the strategies and decisions of private firms (Antal-Mokos, 1998). Thus, restricting the sample to small- and medium-sized IJVs (between 11 and 350 employees) was driven, in part, by the nature of the population of private entities (i.e., non-government owned).

We used a stratified sampling technique to generate the overall sample. The stratified sample consisted of small- and medium-sized joint ventures that were representative of all IJVs in Hungary in terms of industries and the country of

origin of the foreign partner. The sampling criteria and sample were developed with the assistance of a Hungarian government agency that receives information from the government about joint ventures in Hungary. Sample stratification was based on statistics provided by Hungary's Central Statistical Office. The statistics gave the percentage of IJVs in each industry as well as the percentage involving firms from the various foreign locales. The firms that participated were identified through directories, contacts, and the Hungarian data base.

The final sample was composed of 135 manufacturing IJVs involving a partnership between a local Hungarian firm and a firm from the West. However, because of missing data for three of the IJVs, the sample was reduced to 132. In addition, 11 of the IJVs had been converted to a wholly-owned subsidiary within the time period used for the study. Because of the uncertainty regarding whether the acquisition of an IJV by one of the parents should be treated as an IJV failure or organizational survival (Geringer and Hebert, 1991), those 11 IJVs were dropped and the remaining 121 IJVs were used for the empirical analysis.[1] Indeed, IJV sell-offs and IJV liquidations are distinct phenomena that should not be aggregated (Hennart, Kim, and Zeng, 1998). The average number of employees across the sample of IJVs was 70.4. The average starting year of the sample of IJVs was 1989. Ninety-three percent of the IJVs had been started between 1988 and 1991. These IJVs fall into seven primary industry groups: chemicals, electronics, construction, machinery, auto components, food processing, and textiles.

Data procurement

Data on the IJVs were collected in 1993 and again in 1996. Because mail and telephone surveys were likely to have a poor response rate, we conducted personal interviews to gather the data for our research. We minimized the chance of interviewer bias by using a structured and standardized interview process, and Likert-type scales for responses whenever possible. The complete interview process for each IJV consisted of two distinct phases separated by a 3-year time period. In brief, the structured interviews yielded data on each IJV's founding, control and ownership, parental support, and the relationship between the parents.

The research project involved cooperation between one of the authors and a leading economic research institute in Hungary. The development of the survey instrument began in 1989 with qualitative interviews with joint venture managers. From these interviews, basic constructs were identified and items were developed. U.S. and Hungarian managers were then asked to review the instrument. The instrument was pretested with a round of data collection in 1991. Based on this data collection, the items were modified and improved. Prior to the 1993 data collection, the instrument was translated, back-translated, retranslated back into Hungarian and reviewed by the Hungarian research institute to ensure appropriate meanings of the questions. The senior author trained the interviewers and developed detailed instructions for the project manager at the research institute. The interviewers were bilingual and could conduct the interviews in the language most suitable to the IJV manager, but virtually all interviews were done in Hungarian.

The informants were IJV presidents or general managers. Ideally, multiple informants would have been used and would have included representatives of parent firms as well as the IJV, but the size and nature of the study precluded such an approach. However, previous research provides support for relying on the IJV general manager for reliable data. Geringer and Hebert (1991) found a significant correlation between the parent's assessment of IJV performance and that of the IJV's general manager. Child, Yan and Lu (1997) also found significant interrater reliability among IJV managers for the assessment of parental power and influence. On average, the general managers had been in their current position for 3.4 years as of our first contact.

Joint venture status was first verified by tele-

[1] From one perspective, an acquisition of the IJV may represent one parent taking action on a strategic option (Kogut, 1991). According to this view, an IJV may allow a parent to limit its risk initially with a shared venture while still allowing for further investment in the future as additional information is gained. Thus, an acquisition may be an indication of organizational success, at least from one parent's perspective. Alternatively, an acquisition may be an outcome of problematic relations between the parents. There may be differences in goals between the parents resulting in one parent buying the other out of the IJV. Thus, even if the venture survives as a wholly owned subsidiary, it has failed in terms of being an IJV.

phone followed by a letter to the IJV general manager requesting that he or she participate in the study. Of the 800 IJV general managers contacted, 202 agreed to participate and were interviewed, providing for a response rate of 25 percent. Of these 202 IJVs, 135 were in the manufacturing sector. It is possible that the sample was somewhat biased in the direction of better-performing IJVs. We suspect that the more poorly performing IJVs might have been less likely to agree to an interview. The main reason managers gave for not participating was the lack of time. Of the usable sample (n = 121), 83 remained operational as IJVs and 38 had been dissolved at the time of the second survey (i.e., 1996).

The type and extent of information collected in our project is unavailable elsewhere, since small IJVs, particularly in transitional economies, do not have stringent reporting requirements in terms of detailed information. Our survey, therefore, created a unique longitudinal data base on small- and medium-sized IJVs in Hungary.

Model specification

Structural equation modeling is particularly effective when testing models that (1) are path analytic with mediating variables, and (2) contain latent constructs that are being measured with multiple indicators. Structural equation modeling allows for the simultaneous estimation of the relationships between the exogenous variables, and the various levels of endogenous variables. Moreover, it provides for more purified measures of latent constructs that have been measured with multiple indicators. A structural equation program (e.g., LISREL, AMOS, EQS, Mplus) estimates the parameters in the model to get the best possible fit between the covariance structure of the observed data and the covariance structure of the conceptual model. Because our model of IJV survival contains several latent variables and involves mediating variables, structural equation modeling was deemed appropriate.

However, the final dependent variable in our model, IJV survival, is dichotomous. Estimation of models involving endogenous categorical variables using structural equation modeling has been problematic in the past because of the necessary assumption of normality. However, Muthen and Muthen (1998) recently introduced Mplus, a comprehensive structural equation-modeling program designed to estimate models that contain both continuous latent constructs and endogenous categorical variables. In essence, this program integrates linear regression modeling and probit analysis in a structural equation framework. Mplus uses a weighted least-squares estimator with robust standard errors, and mean and variance-adjusted chi-square test statistics. These statistics have been proven viable with relatively small samples (Muthen, du Toit and Spisic, forthcoming). Thus, we used Mplus to test our model.

Besides those variables specified in our theoretical model, previous research provides a number of control variables that should be considered. For instance, the stability of a joint venture may depend on industry conditions (Kogut, 1989). In addition, younger organizations may have a higher mortality rate than older organizations because of a 'liability of newness' and limited external legitimacy (Carroll and Delacroix, 1982). Finally, larger organizations may also have higher survival rates due to excess slack.

Thus, we considered nine control variables including seven industry groups, founding date (age), and number of employees (size). To facilitate the estimation of a manageable structural equation model relative to our sample size, we initially examined the relationship between the control variables and IJV survival. Preliminary cross-tabs analysis indicated that firms from two industries—machinery and auto components—had survival rates that significantly differed from the survival rate of the overall sample. Thus, these two dummy variables (0 = not a member of industry, 1 = member of industry) were integrated into the overall model. A difference in means test indicated that there were no statistical differences in the average size and age of those IJVs that had survived and those that had failed. This insignificance, however, should not be interpreted to mean that size and age have no influence on IJV survival. Because the sample was restricted to IJVs of small and medium size, almost all of which were formed around the onset of transition (1989), it is likely that the variance of these variables was not large enough to explain differences in survival. In effect, the influence of IJV size and age on survival was primarily controlled for through sampling.

The five latent constructs in our model are (1)

the level of conflict between the parent firms; (2) learning by the IJV; (3) the level of managerial support from the foreign parent to the IJV; (4) the level of technical support from the foreign parent to the IJV; and (5) the imbalance in management control between the parent firms. *Parental conflict* was a three-item measure including the level (1 to 5, low to high) of mistrust between the parents, conflicting goals of parents, and conflict over the original agreement. We measured *IJV learning* with a five-item scale appraising the extent to which the venture had learned technological expertise, marketing expertise, product development, managerial techniques, and manufacturing processes. *Managerial support* was a four-item measure assessing the extent the IJV received sales, managerial, administrative, and emotional support from the foreign parent. Similarly, *technical support* was a three-item measure assessing the degree to which the IJV received product- and manufacturing-related technology from the foreign parent. For *management control imbalance*, we collected measures of the degree of influence over specific areas and issues of IJV management (Child *et al.*, 1997; Killing, 1983; Lin, Yu and Seetoo, 1997). The IJV general managers were asked to evaluate the influence that the Hungarian parent, foreign firm, and IJV managers had over seven issues by dividing 100 percent influence across the three groups. The issues of interest included financing, process technology, manufacturing, sales/marketing, management decisions, administrative support, and pricing decisions. The difference between the foreign parent influence and the Hungarian parent influence was calculated for each issue. The natural logarithm of the absolute value was computed to enhance the normality of each of these dimensions.

We used the absolute difference in equity share between the foreign parent and the primary Hungarian firm measured at time 1 as an indicator of ownership control imbalance. Sixty-five percent of the IJV sample had a dominant foreign parent and 12 percent had split ownership. IJV survival was coded as a dichotomous variable (0 = dissolved, 1 = survived).

A system of three simultaneous equations was used to estimate the coefficients of the structural model. Figure 2 depicts these three equations with the empirically derived standardized coefficients.

Data analysis

We used a two-step approach to analyze the model (Anderson and Gerbing, 1988). Confirmatory factor analysis was used to establish the validity of the measurement model and our latent constructs. The structural model then estimated the relationships between all constructs.

Measurement model. An iterative process was used to specify the measurement model on the basis of both content and statistical considerations (Anderson and Gerbing, 1988). Maximum likelihood parameter estimation was used and a satisfactory fit was achieved ($\chi^2 = 408.98$, d.f. = 258, $p < 0.01$, RMSEA = 0.07, CFI = 0.90). The ratio of chi-square to degrees of freedom is 1.39; a value of less than 3 for the ratio indicates a good fit (Carmines and McIver, 1981). A CFI value of 0.9 or above is also considered an indication of good fit (Bentler and Bonett, 1980). Although the chi-square statistic is still significant, the measurement model was considered acceptable, given the other supportive indexes (Anderson and Gerbing, 1988).

Table 1 reports the standardized coefficient for each item and composite reliability for each construct. The composite reliability statistic assesses the internal consistency of a measure and is analogous to coefficient alpha (Fornell and Larcker, 1981). These reliability estimates ranged from 0.78 to 0.89 for the five latent constructs in the model, all above the 0.6 cut-off value suggested by Bagozzi and Yi (1988). Overall, the results indicate that the measurement model is appropriate for use with the full structural model.

Structural model. Figure 2 is the structural model that we tested and includes parameter values for the various linkages. The exogenous latent variables were allowed to correlate freely.[2] Weighted least-squares parameter estimation was used and the value for the chi-square statistic with 48 degrees of freedom is 107.26 ($p < 0.01$). The ratio of the chi-square statistic to the degrees

[2] This is a default setting for Mplus and is consistent with standard modeling practices (Pedhazur and Schmelkin, 1991). When there are no hypothesized relationships between the exogenous latent variables, they are allowed to correlate freely. Fixing these correlations to 0 does not change the significance of our hypothesized relationships, but does decrease the overall fit of the model.

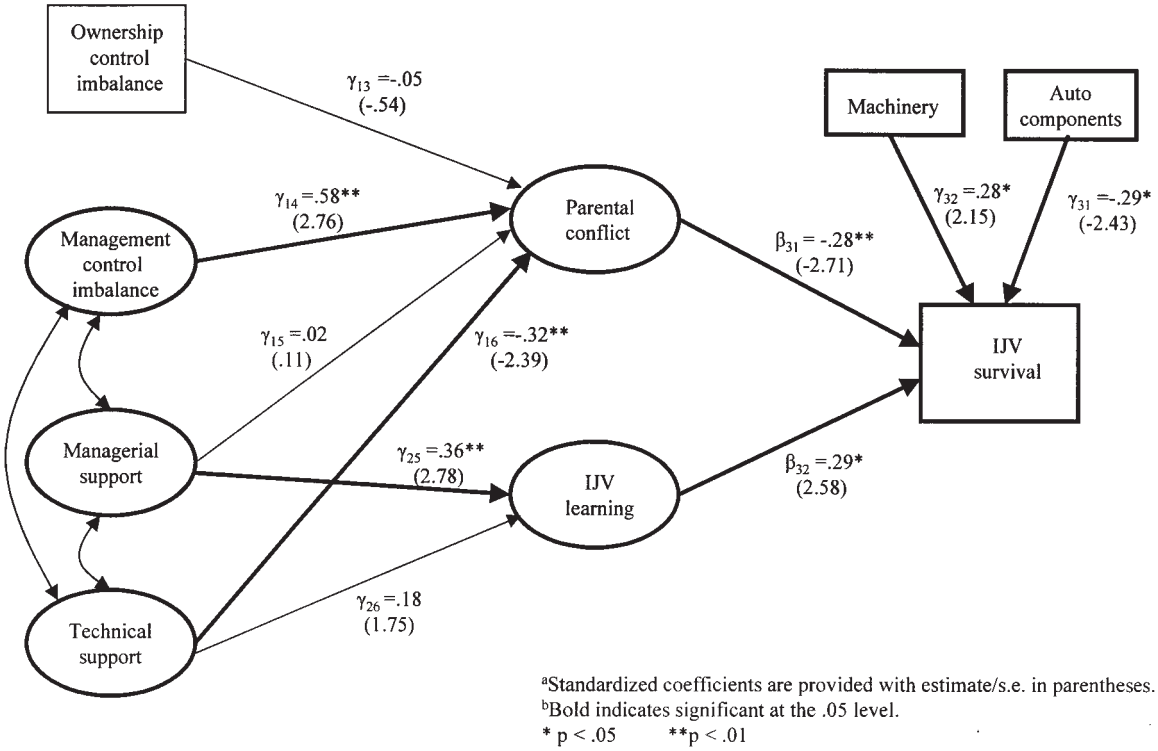

Figure 2. Structural model with significant coefficients[b]

of freedom was 2.23, indicating a good fit and allowing for the testing of the structural linkages among the constructs.[3] Of the eight linkages proposed in the *a priori* model, five are significant at the 0.05 level and are in the expected direction.

FINDINGS

Table 2 reports means, standard deviations, and correlation coefficients between each composite construct. A conservative two-tailed test was used to evaluate significance. In Hypotheses 1a and b, we predicted that an imbalance in ownership control and management control over the IJV would lead to parental conflict. The relationship between ownership control imbalance and parental conflict was not significant. Thus, Hypothesis 1a was not supported. The imbalance in management control, however, had a significant and positive influence on parental conflict (γ_{14} = 0.58, $p < 0.001$), lending support for Hypothesis 1b.

In Hypothesis 2, we predicted that, due to the transitional economic context, the positive relationship between management control imbalance and parental conflict would be stronger than the positive relationship between ownership control imbalance and parental conflict. Although only the management control/parental conflict relationship was significant in the final model, to determine whether there was a significant difference between the partial regression coefficients derived from the same sample, we used the significance test described in Cohen and Cohen (1983) involving the inverse correlation matrix.[4] According to this test, there was a significant difference between the two partial coefficients (t = 2.95, $p < 0.01$) and Hypothesis 2 is supported.

[3] CFI and RMSEA are not defined for models with categorical outcomes and estimated using weighted least squares (Muthen and Muthen, 1998).

[4] To test the difference between partial regression coefficients computed from the same sample, Cohen and Cohen (1983: 479) derive the following formula for the t distribution: $t = (\beta_i - \beta_j) / SE_{\beta i - \beta j}$; where $SE_{\beta i - \beta j} = \sqrt{[(1 - R^2)(r_{ii} + r_{ij} - 2r_{ij}) / (n - k - 1)]}$, where r_{xx} are the elements of the inverse matrix.

Table 1. Coefficients, *z*-statistics, and reliability values for the measurement model

Construct/indicator	Standardized coeff.	Estimate/S.E.	Reliability[a]
Parental conflict			
Mistrust among parent firms	0.73	–[b]	0.78
Conflict over the original agreement	0.72	6.67***	
Conflicting goals of parents	0.75	6.79***	
IJV Learning			
New technological expertise	0.90	–[b]	0.89
New marketing expertise	0.61	5.04***	
Product development	0.75	5.85***	
Managerial techniques	0.85	7.99***	
Manufacturing/production processes	0.79	11.94***	
Managerial support			
Sales/marketing support	0.58	–[b]	0.79
Managerial resources	0.88	5.65***	
Administrative support	0.70	5.67***	
Emotional support	0.60	3.74***	
Technical support			
Product-related technology	0.90	–[b]	0.85
Manufacturing-related technology	0.91	12.02***	
Manufacturing support	0.58	6.96***	
Management control imbalance			
Financing	0.56	–[b]	0.87
Process technology	0.71	5.75***	
Manufacturing	0.85	6.35***	
Sales/marketing	0.76	6.01***	
Management decisions	0.58	7.39***	
Administrative support	0.65	6.43***	
Pricing decisions	0.78	6.10***	
Ownership control imbalance	1.00	–[b]	
Machinery	1.00	–[b]	
Auto components	1.00	–[b]	
Survival	1.00	–[b]	

[a]Denotes composite reliability.
[b]Coefficient of leading indicator for each construct was set to 1.0 to establish scale.
***$p < 0.001$

In Hypothesis 3, we suggested that parental conflict would decrease the likelihood of survival. This relationship was significant ($\beta_{31} = -0.28$, $p < 0.01$) and in the predicted direction. Hypothesis 3 is supported. We predicted in Hypotheses 4a and 4b that foreign parent support (technical and managerial) would be positively associated with IJV learning. We found that support in terms of managerial skills was related to IJV learning ($\gamma_{25} = 0.36$, $p < 0.01$). Technical support, however, was not significantly related to IJV learning at the 0.05 level. Those results support Hypothesis 4b but not Hypothesis 4a. In Hypothesis 5, we argued that that the link between technological support and IJV learning would be stronger than the link between managerial support and IJV learning. From the empirical results, this is clearly not the case and Hypothesis 5 is not supported.

In Hypothesis 6, we suggested that IJV learning would lead to IJV survival. This relationship was significant and in the positive direction ($\beta_{32} = 0.29$, $p < 0.05$). Hypothesis 6 is supported.

We proposed that higher levels of foreign parent support (technical and managerial) provided to the IJV would decrease the level of conflict between the parents in Hypotheses 7a and 7b.

Table 2. Intercorrelation matrix for dependent, independent and control variables

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Survival	0.69	0.47	–														
2. Chemicals	0.10	0.30	0.10	–													
3. Electronics	0.20	0.40	0.07	–0.16	–												
4. Construction	0.07	0.26	–0.01	–0.09	–0.14	–											
5. Machinery	0.21	0.41	0.22*	–0.17	–0.26*	–0.15	–										
6. Auto components	0.07	0.26	–0.28**	–0.09	–0.14	–0.08	–0.15	–									
7. Food processing	0.12	0.32	–0.14	–0.12	–0.18*	–0.10	–0.19*	–0.10	–								
8. Textiles	0.22	0.42	–0.06	–0.18	–0.27**	–0.15	–0.28**	–0.15	–0.19*	–							
9. Starting year	1989	1.59	–0.06	–0.15	–0.14	0.02	0.05	0.00	0.02	0.16	–						
10. Ln (employees)	3.46	1.19	–0.02	–0.12	–0.06	0.09	–0.16	–0.08	0.04	0.25**	–0.08	–					
11. Parental conflict	6.21	3.25	–0.11	0.00	–0.20*	0.00	0.22*	0.00	–0.05	0.00	0.14	0.12	–				
12. IJV learning	13.84	6.23	0.12	0.08	–0.05	–0.08	0.09	0.05	–0.12	0.00	0.05	0.13	0.05	–			
13. Ownership control imbalance	24.50	22.87	–0.04	–0.07	0.07	–0.11	0.06	0.05	–0.07	0.02	–0.09	–0.02	–0.04	–0.01	–		
14. Management control imbalance	14.14	11.49	–0.12	–0.03	–0.17	–0.11	–0.09	0.05	0.06	0.27**	0.13	0.21*	0.38**	0.19*	0.18*	–	
15. Managerial support	12.19	3.18	0.25**	–0.10	–0.01	–0.03	0.04	–0.09	0.12	0.02	0.15	0.16	0.02	0.27**	0.03	0.22*	–
16. Technical support	9.09	2.48	0.28**	0.11	–0.14	–0.05	–0.05	0.05	0.03	0.08	–0.03	0.08	–0.17	0.37**	–0.02	0.08	0.47**

*$p < 0.05$; **$p < 0.01$

Technological support was related negatively to conflict as anticipated ($\gamma_{16} = -0.32$, $p < 0.05$). However, we found no relationship between managerial support and parental conflict. Hence, only Hypothesis 7a is supported. Moreover, the test for the difference between the partial regression coefficients for technological and managerial support is significant ($t = 4.20$, $p < 0.001$). This result lends support for Hypothesis 8, which maintained that in a transitional economy the technical support provided by the foreign parent to the IJV would be more effective in reducing parental conflict than would managerial support.

DISCUSSION

Our study of IJV survival makes several contributions. First, we developed a general model of IJV survival that incorporates both those variables associated with the relationship between the parents (i.e., relative ownership, management control, parental conflict), and those associated with the relationship between the foreign parent and the IJV itself (i.e., technical and managerial support, IJV learning). We further considered how the foreign parent/IJV relationship might influence the foreign parent/local parent relationship. Finally, we examined IJV survival in a transitional market context where research has been relatively limited, and we considered how the managerial values instilled from the years of Marxist economic policies might alter the more general model of IJV survival. Overall, we find that both social exchange theory and a knowledge-based theory significantly explain IJV survival.

Consistent with a social exchange perspective, inequity between the parents in terms of management control over the IJV is shown to affect IJV survival adversely by increasing conflict between the parents. A more balanced approach to decision-making power reduces the level of conflict between the parents and increases the likelihood of IJV survival in transitional economies. Equality between the partners in terms of influence over the IJV provides the mutual forbearance necessary for IJV stability. A dominant partner approach in terms of decision making does not appear to promote stability in the context of our study.

Notably insignificant in the final model is the ownership control imbalance of the IJV as measured by the difference in equity share between the parents. Unlike management control imbalance, a difference in equity holdings did not lead to conflict between the parents or to IJV failure. Our results further support the recent distinctions made between management and ownership control (e.g., Mjoen and Tallman, 1997; Yan, 1998). The results are also consistent with the speculation of Pearce and Branyiczki (1997). Relative ownership levels may have little meaning for local firms in a transitional economy where the legitimate authority–control relationship has been weakened over time by authority dispersion among many bureaucratic entities, and where bargaining power as determined by resource provision is the primary mode of influence. Thus, an imbalance in ownership may not be related to parental conflict or IJV survival in transitional economies.

An important distinction has been made regarding the influence of technical support and managerial support on IJV learning, parental conflict, and IJV survival in transitional economies. Consistent with a knowledge-based perspective, we argued that effective learning from the foreign parent stabilizes the IJV by providing it with the capabilities necessary to compete. Our results suggest that foreign parent managerial support had an indirect positive influence on IJV survival through the learning occurring in the IJV. Although we expected that there would be higher absorptive capacity for technical know-how than managerial know-how, technical support was not significantly related to IJV learning at the 0.05 level. Based on additional analysis, the managerial and technical support of the foreign parent does not appear to have a direct influence on IJV survival independent of its influence through learning. IJV learning appears to be a necessary mechanism for foreign parent support to influence IJV survival.

We returned to the literature on absorptive capacity to find a possible explanation for the difference in the effect of managerial and technical support on IJV learning. Cohen and Levinthal (1990) argued that for effective learning to take place the source firm's knowledge base must be fairly diverse, relative to the student firm. This enables the student firm to be exposed to new

uses of the particular knowledge. Lane and Lubatkin (1998) expanded on this and argued that although similarities in basic knowledge would be conducive to learning (because of a common base to build on), similarities in more applied knowledge may be detrimental to learning because the difference in expertise between the two parties would be too small. Thus, one possible reason why we find managerial support and not technical support to be significantly related to learning is simply because IJVs have more to learn regarding managerial expertise than they do regarding technical expertise.[5]

Some interesting results arise when we integrate a social exchange and knowledge-based perspective and examine how the level of foreign parent support provided to the IJV influences the level of conflict between the parents. Support in terms of technical know-how reduces the level of conflict between the parents which, in turn, increases the likelihood of survival. Such technical support may indicate a high level of commitment from the foreign partner to the local partner—commitment the local firm may not want to jeopardize with friction that could end continued support and training from the multinational firm.

Although technical support provided by the foreign parent appears to decrease parental conflict, higher levels of managerial support had no significant effect on the level of conflict between the IJV parents. What might account for this significant difference in conflict reduction? Managerial techniques from the Western world may be ill fitted for transitional contexts and thus not appreciated by local partners. Years of socialism and a centrally planned economy have created a unique workforce in terms of motivation and work ethic (Shama, 1993; Smith, 1990). For example, the participative style of management that has become prevalent in the Western world, where the employee is expected to take part in various facets of decision making, may be unsuitable for the Hungarian workforce. Furthermore, even if such techniques are applicable, local partners may not value managerial support of the foreign parents to the extent that they value technical support because Marxist logic maintained that technical expertise was vital, whereas managerial expertise was deemphasized (Gomulka, 1986).

Implications

Understanding factors that can distinguish between the survival and failure of an IJV can help management identify potential problems during the negotiation and decision-making stages of a venture and thus reduce the likelihood of failure (Bruton, 1998). Our results provide insight on contingencies that are critical and those that are less so. Stark (1996) found that managers in transitional economies lack the desire for ownership dominance in their collaborations. Furthermore, from our results, inequity in ownership levels between partners does not appear to have adverse ramifications in terms of survival. Thus, the division of ownership may not be a crucial factor for IJV formation in transitional economies.

Our results do suggest, however, a dilemma for foreign multinationals that want to establish stable IJVs in transitional economies in terms of management control and decision-making influence. We have found that strong foreign parent support is conducive to IJV survival by both enhancing IJV learning (from managerial support) and reducing parental conflict (from technical support). Past research has also shown that a foreign parent can also use its resources and capabilities to enhance its bargaining power and gain higher levels of management control and influence over the IJV (e.g., Mjoen and Tallman, 1997; Yan and Gray, 1994). However, doing so appears to *decrease* the likelihood of IJV survival in the future. Our findings indicate that an imbalance in management control is related to IJV mortality in a transitional economy because it leads to parental conflict.

Thus, to increase the likelihood of IJV survival in a transitional context, the foreign parent may need to provide support to the IJV without necessarily imposing a level of control that matches its bargaining power. This observation is consistent with the results of marketing studies done in developing countries. Frazier *et al.* (1989) found that the power and control of the foreign manufacturer over the local dealer are related positively to conflict. However, high levels of support provided by the manufacturers to the dealers offset that relationship and decreased the level of conflict.

[5] We thank an anonymous reviewer for suggesting this line of reasoning.

Indeed, the roots of the IJV instability in general may partially be attributed to these competing forces. Multinationals are being presented with an inherently conflicting situation. It may be natural for the multinational management to exert a level of control over the IJV consistent with its contributions to the IJV. However, it may also be reasonable to expect the local partner to rebuff such control. Ultimately, IJV survival may benefit from a high degree of foresight by the multinational firms, and from their willingness to forgo a high level of management control in order to enhance the level of cooperation.

Limitations and future research

While our study sheds some light on IJV survival in transitional economies, it has certain limitations. Although a survey methodology enables researchers to collect rich data that cannot be collected from archival sources, managers are potentially biased in their responses. Though we have no cause to believe they were biased, the possibility does exist. Our sample size was also relatively small. However, despite the small sample size, many of the hypothesized effects were sufficiently large to be statistically significant. Our sample was also limited to small- and medium-sized IJVs. Although this is representative of the vast majority of new firms started around the time of transition, our results should be generalized only to IJVs of this size.

We have developed a model of a general case of IJV survival, but we have only been able to test it using IJVs in a transitional economy. It would be informative to apply our model of IJV survival in other contexts including market economies in developing and developed countries. Do the relationships between ownership control, management control, and parental conflict vary across settings? Is ownership control and management control more closely linked in market economies? Future research may also wish to consider how multinationals contend with the resource–control dilemma discussed above. One means would be to study successful IJVs and the dynamics between the local firm, multinational, and the IJV. Exploring how the various relationships (parent to parent, parent to IJV) interact and influence each other would be informative. Examining how these IJVs evolve over a longer time period and examining the performance of not only the IJV but also the local parent firm would be worthwhile.

The findings of other IJV studies can be integrated with the results from the present study to suggest future lines of inquiry. For example, Park and Ungson (1997) find that IJVs that include a Japanese partner have higher rates of survival. Are multinational firms from certain cultures more willing to provide managerial and technical support to their IJVs (Kedia and Bhagat, 1988)? Are there differences in terms of control preferences (Erramilli, 1996)? By combining these questions with our findings, scholars may be able to gain a better understanding of the *means* by which culture may influence IJV survival.

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