THE EVOLVING VALUE OF FOREIGN PARTNERSHIPS IN TRANSITIONING ECONOMIES

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Through studying joint ventures during the early (1993) and late phases (2001) of Hungary’s economic transition to market economy, we demonstrate how institutional and economic transformation alters foreign parents’ roles in the success of joint ventures. Foreign parent decision influence and resource provision affected market performance and knowledge acquisition differently in the two phases. We conjecture that the value of foreign partner involvement in a transition economy depends in part on the maturity of the transition.

Investment from foreign multinational firms has played a vital role in countries transitioning from centrally planned to market economies, such as the Czech Republic, Hungary, and Poland. These countries rely on such foreign direct investment as a means of improving their overall technological and economic competitiveness. Because multinational firms often wish to hedge their risk in these relatively unfamiliar environments, foreign investments most often occur through joint venture partnerships with local firms (Beamish, 1994).

Foreign partner involvement in joint ventures can create value on a number of fronts. First and foremost, foreign partners can provide both critical resources (e.g., product technology, operations, marketing) and their influence on how resources are deployed (Inkpen & Beamish, 1997). Indeed, such inputs may be essential for the early market performance and survival of a venture (Delios & Beamish, 2001). At a deeper level, the contribution of resources and expertise can lead to a transfer of knowledge from the foreign parent to the joint venture (Argote, 1999; Steensma & Lyles, 2000). Tight coupling between a joint venture’s partners can aid in the learning of tacit knowledge, and in the development of capabilities critical for the long-term competitiveness of the venture (Lane & Lubatkin, 1998). Finally, the joint venture organizational form creates value by facilitating the acquisition of resources and knowledge in a manner that reduces transaction costs (Hennart, 1991; Kogut, 1988). Shared ownership establishes mutual forbearance and decreases the need for elaborate contracts and close monitoring (Parkhe, 1993).

Research exploring the link between parent involvement and the success of joint ventures has generally taken a “resource-based” or a “learning” perspective (e.g., Das & Teng, 2000; Lane, Salk, & Lyles, 2001; Makhija & Ganesh, 1997). The focus of these perspectives tends to be the internal environment of partner firms and their ventures (Das & Teng, 2000; Miller & Shamsie, 1996). Yet joint ventures, like all organizations, operate in a broader institutional and economic context. The nature of this context is believed to have considerable influence on exchange relationships in general (Newman, 2000; Peng, 2003). Consequently, we anticipate that the state of the institutional and economic context will influence the role that foreign parents play in the success of joint ventures and is thereby important to consider when applying resource-
Based and learning theories to international joint ventures.

For example, in the case of transitioning economies, the transition process brings about three significant changes that could arguably have direct bearing on the value-creating aspects of international joint ventures noted above. First, local factor markets eventually develop (North, 1990), potentially decreasing the relative value of foreign resources (Hanley, King, & Janos, 2002). Second, the capacity and motivation for learning increase among local firms (Newman, 2000; Uhlenbruck, Meyer, & Hitt, 2003), potentially increasing the flow of knowledge from foreign parents to the local entity. Finally, market institutions become progressively more sophisticated and are able to facilitate arms-length transactions (Meyer, 2001; Peng, 2003), potentially decreasing the value of the joint venture organizational form in terms of transaction cost reduction. The parallelism between the benefits of foreign parent involvement in joint ventures (i.e., resources and influence, knowledge transfer, limiting transaction costs) and the changes occurring in a transitioning environment suggest that as an economy evolves, so too will the means by which foreign partners create value in joint ventures.

In this study, we compared how the involvement of foreign partners creates value for their joint ventures early in an economic transition with their value creation later in the transition. We used Hungary, a country that has seen dramatic changes over the past decade, as our natural laboratory for study. We examined a sample of international joint ventures in operation relatively early in the Hungarian transition (in 1993) and also a sample in operation later in the transition process (2001). Our analysis merges insights from in-depth interviews with rich empirical survey data from the two time periods. By contrasting joint venture operations in a transitional economy over the course of nearly a decade, we provide a unique glimpse into how the value of foreign parent involvement changes as an institutional and economic context develops.

Like researchers before us (e.g., Das & Teng, 2000; Lane et al., 1997), we relied on the resource-based and learning perspectives to examine the role that foreign parent resources and their influence over the deployment of resources have on venture success. However, we built on these perspectives by considering the state of the economic and institutional environment in Hungary and using it as a contingency variable. Specifically, we addressed the following research questions: (1) Are the resource inputs foreign parents provide more critical to market performance and knowledge acquisition during the early phase of a country’s transition to a market economy or later in the transition? (2) Are joint ventures better served by dominant foreign parent decision influence early in a country’s transition or by dominant foreign parent decision influence later in the transition?

We ground our theory development in the resource-based and organizational learning perspectives because their explanations of sustainable performance are complementary and are particularly relevant for transitioning economies (Uhlenbruck et al., 2003). The resource-based view addresses the role of unique and inimitable resources in market performance. Organizational learning attends to knowledge acquisition leading to the development of firm-specific and knowledge-based capabilities for effectively deploying resources (Amit & Schoemaker, 1993). Typically, long-term viability requires both resources and the knowledge-based capabilities needed to deploy resources, particularly in an increasingly dynamic environment (Makadok, 2001; Miller & Shamsie, 1996). It is knowledge-based capabilities that provide the flexibility to realign resources as markets change. Thus, the combination of resource-based and organizational learning perspectives provides a more complete picture of the potential long-term viability of these ventures. Furthermore, transitioning economies typically have underdeveloped resource factor markets (Hoskisson, Eden, Lau, & Wright, 2000) and are in particular need of learning market-based skills and capabilities in order to achieve long-term global competitiveness (Newman, 2000).

We contribute to the literature on international joint ventures as well as to the resource-based view and learning literatures. Our study provides additional insight on the success of joint ventures in transitioning economies and complements research by Lane and associates (2001), who found that knowledge acquisition depended in part on the maturity of a joint venture. We suggest that the link between foreign parent involvement and joint venture success will also depend on the maturity of an economic transition. On the theoretical front, our analysis reveals that the applicability of the resource-based and learning perspectives often used to explain venture success depends in part on the economic and institutional context of the population being studied. Understanding these relevant contingencies of our theories enhances future theoretical developments (Dubin, 1979). Moreover, we find that the resource-based view and learning perspectives are complementary in predicting joint venture outcomes. Market performance and knowledge acquisition are shown to be empirically distinct and have unique relationships with foreign parent involvement and economic context.
Specifically, our results suggest that foreign parent resources are more critical to joint venture market performance early in a transition than they are later in the transition. In contrast, foreign parent resources have a stronger influence on knowledge acquisition later in an economic transition than they do early in the transition. Foreign parent decision influence, however, is more critical for knowledge acquisition earlier rather than later. Our results have implications for both multinational firms entering transitional economies and policy makers within these countries.

THE HUNGARIAN TRANSITIONAL ECONOMY: EVOLVING INSTITUTIONS AND FACTORS

A country’s economic context can be characterized in terms of its factors and institutions (North, 1990; Spengler, 1957; Wan & Hoskisson, 2003; Wolf, 1955). Factors are that which is used in the production of goods and services. Changes in factor markets for production inputs alter competitive relationships and a firm’s optimal scope (Porter, 1985). Institutions facilitate the exchange of inputs and outputs among firms and establish the “rules of the game in a society” (North, 1990: 1). Institutions govern societal transactions in the areas of politics (e.g., corruption, transparency), the legal system (e.g., economic liberalization, regulatory regime), and society (ethical norms, attitudes toward entrepreneurship) (Scott, 1995).

In transitioning economies, institutions and factor markets are in flux. Even though central planning was abolished throughout Central and Eastern Europe rather swiftly in the early 1990s, the construction of new economic rules and the revision of informal norms is an incremental process that takes years (Child & Czégledy, 1996; North, 1990). Peng (2003) described a country’s transition from a command to a market economy as a two-phase process consisting of early and late phases. Despite a country’s proclaiming the objective of becoming a market economy, its existing institutions in the early phase of an economic transition will be inconsistent with the needs of a market-driven system. The lack of strong third-party enforcement will limit the ability to form relatively impersonal, arms-length relationships without enduring significant uncertainty and transaction costs. Optimal transactions will typically be relationship-based and dependent on personal contacts. In the later phase of the transition process, formal legal and regulatory regimes evolve in response to an increasing number of transactions. Third-party enforcement gradually emerges to dampen the uncertainty of the growing marketplace. Simply put, the early transition environment will be fraught with transaction costs because of weak market institutions (North, 1990). As market institutions develop and the costs of transactions are reduced, rule-based impersonal exchange becomes increasingly viable (Peng, 2003).

Moreover, the development of institutions and factor markets typically go hand in hand (North, 1990). Modern economic growth requires the ability to establish complex and transparent contracts. Without the confidence provided by mature market institutions, firms lack the incentive to develop and supply the necessary inputs for sustained economic growth. In sum, weak institutions and undeveloped factor markets typify the early phase of an economic transition. Market-driven institutions and relatively robust factor markets characterize the late phase.

Hungary’s economic transition can be viewed in these terms. Hungary began its transition from socialism to capitalism in 1989, following an acute economic crisis and numerous failed reform attempts. The process involved changes in political power (from a Marxist to a market-friendly political power), property rights (from the state to private hands), and coordination mechanisms (from bureaucratic to market coordination) (Kornai, 2000). As did other formerly socialist economies, Hungary entered the 1990s with a shortage of inputs, owing to the ills of its socialist past. However, Hungary in particular was burdened with excessive national debt owing to the practice of what is referred to as “goulash communism” (Kornai, 1992). Following the 1956 revolution, the government borrowed extensively to enhance the standard of living and mitigate the potential for social unrest. These growing economic problems, together with a favorable political environment, resulted in a peaceful shift toward a democratic political system.

To reduce economic inefficiencies, the newly elected government began privatizing state-owned assets. Despite emerging inflation, unemployment, and other societal problems, privatization proceeded relatively fast as Hungary needed hard currency and debt reduction (Kornai, 2000). Moreover, pressure from the International Monetary Fund (IMF) and the European Union encouraged the participation of foreign investors (Hanley et al., 2002). By 2001, over 80 percent of local companies were privately owned, and Hungary had attracted one of the largest amounts of foreign direct investment in the region (Sharp & Barz, 1997).

The Hungarian transition appears to be highly consistent with the two-phase model Peng (2003) elaborated. Table 1 is a comparison of institutional quality early in the Hungarian transition (1990–96) with institutional quality later in the transition
(1997–2002). For example, the World Bank's index of regulatory quality indicates that Hungary's regulatory regime was much more consistent with a market-driven system in the late phase of the transition than it was in the earlier years. The index of economic liberalization (de Melo, Denizer, & Gelb, 1996) provides further evidence of Hungary's commitment to free its markets from government control during the 1990s (a rating of .57 in 1990, and of .93 in 1997; 0–1 scale). Corruption is a primary source of contractual uncertainty (Stiglitz, 1995). Transparency International's index of corruption, the level of dishonesty, bribery, and fraud in Hungary has waned significantly owing to the advent of a more stringent legal regime (a rating of 1.6 in 1990, and of 5.2 in 2000; 0–10 scale). According to the World Competitiveness Report (IMD International, 1991), the transparency of the Hungarian government’s actions has also greatly improved, thereby reducing marketplace uncertainty. The fact that the private sector’s contribution to gross domestic product (GDP) increased nearly threefold from the beginning of the 1990s to 2000 indicates that more market-friendly institutions had evolved.

Table 1 also provides a glimpse of the progress that Hungary has made in its factor markets from the early to the late transition phase. The growth rate of the GDP, a common indicator of the development of economic factors in transition economies, went from negative territory in 1991 to a respectable 3.8 percent by 2002. The number of registered incorporated firms likewise grew from just under 9,000 in 1991 to over 150,000 in 2001.

The development of human factors plays a par-

### Table 1

**A Comparison of Institutions and Factors in Hungary for Various Years**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Source and Measure</th>
<th>Transition Phase</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Early</td>
</tr>
<tr>
<td><strong>Institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory quality</td>
<td>World Bank Governance Indicators for 1996 and 2002; 0–2.5, “low quality” to “high quality.”</td>
<td>0.47</td>
</tr>
<tr>
<td>Liberalization index</td>
<td>De Melo, Denizer, &amp; Gelb (1996) for 1990 and 1997; authors’ update for 1997; 0–1, limited to high liberalization.</td>
<td>0.57</td>
</tr>
<tr>
<td>Corruption index</td>
<td>Transparency International for 1990 and 2000; 0–10 “high corruption” to “low corruption.”</td>
<td>1.60</td>
</tr>
<tr>
<td>Government transparency ranking</td>
<td>World Competitiveness Report, IMD, for 1994 and 1999.</td>
<td>43.00</td>
</tr>
<tr>
<td>Private sector as percent of GDP</td>
<td>World Development Indicators, World Bank, for 1991 and 2000.</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>Factor markets</strong></td>
<td></td>
<td></td>
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<tr>
<td>Consumer price index</td>
<td>World Development Indicators, World Bank, for 1991 and 2000.</td>
<td>35.00</td>
</tr>
<tr>
<td>GDP per capita&lt;sup&gt;b&lt;/sup&gt;</td>
<td>International Country Risk Guide, for 1991 and 2002.</td>
<td>3,221.00</td>
</tr>
<tr>
<td>Number of registered firms</td>
<td>Central Statistical Office, Hungary, 1991 and 2001.</td>
<td>8,948.00</td>
</tr>
<tr>
<td>Growth in R&amp;D&lt;sup&gt;c&lt;/sup&gt;</td>
<td>OECD reports for 1993 and 1999.</td>
<td>−8.50</td>
</tr>
<tr>
<td>Total number of patent applications</td>
<td>Hungarian Patent Office for 1992 and 2000.</td>
<td>9,070.00</td>
</tr>
<tr>
<td>Quality of management ranking</td>
<td>World Competitiveness Report for 1995 and 2000.</td>
<td>46.00</td>
</tr>
<tr>
<td>(productivity, efficiency, market culture)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurship ranking</td>
<td>A lower number indicates better quality</td>
<td>45.00</td>
</tr>
</tbody>
</table>

<sup>a</sup> A consistent set of years could not be used as the different sources from which we obtained data had different reporting periods.
<sup>b</sup> U.S. dollars.
<sup>c</sup> Percentage.
particularly important role in an economy’s transition by increasing the capacity and motivation of local firms to learn (Newman, 2000; Uhlenbruck et al., 2003; Whitley & Czaban, 1998). There is ample evidence of improvements in this regard (see Table 1). For example, aggregated R&D is viewed as a key component of a national capacity for learning (Dahlman & Nelson, 1995). Growth in R&D went from negative in 1993 to positive during the latter half of the decade. The total number of patent applications increased sixfold, indicating a greater experience base to build on for learning. An entrepreneurial ideology that encourages innovation facilitates learning under times of intense change (Meyer, 1982). The World Competitiveness Report (IMD International, 1991) ranked Hungary 45th in 1995 and labeled its lack of entrepreneurship as a significant liability. By 2000, however, Hungary was ranked 18th in the World Competitiveness Report, and entrepreneurship was considered one of Hungary’s strengths. The quality of local managers has also improved, going from a ranking of 46 to a ranking of 27 between the years 1995 and 2000.

On the basis of the evolution of its institutions and factor markets, Hungary’s transition can be roughly divided into an early phase (the early 1990s) with weak institutions, undeveloped factor markets, and a limited capacity for learning, and a late phase (the early 2000s) with relatively stronger institutions, developed factor markets, and an enhanced capacity for learning. Indeed, the International Monetary Fund (2000) suggested that Hungary had recently rejoined the ranks of middle-income countries and could claim to have transitioned.

We explore how the importance of foreign partner involvement (i.e., resource provision, decision influence) to joint venture success (i.e., market performance, knowledge acquisition) has also changed with Hungary’s evolving institutions and factor markets.

THE EVOLVING VALUE OF FOREIGN PARENT INVOLVEMENT

Market Performance

According to a resource-based perspective, a firm’s performance depends on both the resources it has at its disposal and its ability to deploy those resources effectively (Barney, 1991). Distinctive resources (e.g., technology, marketing, operations, etc.) merely provide opportunities. Whether or not firms are able to take advantage of these resources depends on the savvy decisions of those responsible for their deployment. Indeed, there are numerous examples of organizations with distinctive resources that have failed to successfully exploit them (Xerox and the resource of personal computer technology is an example) (Alexander & Smith, 1988).

Foreign parents can provide critical resource inputs as well as influence the manner in which resources are deployed. In a broad sense, tangible resource inputs and decision influence are all “resources” that can shape outcomes (Das & Teng, 1998). However, resource provision and decision influence are distinct (Mjoen & Tallman, 1997; Steensma & Lyles, 2001). A foreign parent can provide financing, technology, and equipment while allowing a venture significant autonomy. Contrarily, a foreign partner may provide limited resources and still have significant input in key decisions. Thus, we view “resource provision” and “decision influence” as two different forms of foreign parent involvement.

Resource provision. Although a firm’s market performance is determined in part by the resources that it has at its disposal, some resources are merely “table stakes” that put the firm on an equal footing with its competition. Other resources are more valuable and are difficult to imitate, and these enable the firm to distinguish itself from its competitors (Barney, 1991). Foreign parents can be a source of valuable resources that provide a competitive advantage to a joint venture. Indeed, one of the primary reasons for selecting a particular partner is the package of resources that it brings to the table (Hitt et al., 2000).

However, the criticality of the resources a foreign parent provides may depend on the phase of the transition process that a country is in. There is a resource gap between the local firms in a transitioning economy and firms from more developed economies (Svetlicic & Rojec, 1994). As shown above in Table 1, in Hungary’s early transition phase, the local factor markets were not well developed, and the basic building blocks that could lead to some form of a competitive advantage tended to be scarce. In this phase, the resources that are available locally are likely to be relatively easy to imitate and have little value in a competitive sense (Hoskisson et al., 2000). Local firms are thus highly dependent on foreign firms for complementary resources that can be used to generate further downstream resources that are valuable, unique, and difficult to imitate. Returning to the case of Hungary for an example, we quote an operations director of a successful German-Hungarian auto parts joint venture, who described to us the extent and importance of its foreign parent’s inputs in the early 1990s:
Local firms can potentially rely on arms-length market transactions as opposed to a shared equity venture to access critical resources from foreign trading partners. However, in the early phase of a transition, the institutions that facilitate interfirm and arms-length transactions are not well developed. Enforcement mechanisms that ensure contractual compliance are both weak and costly, and the actions of trading partners are not readily transparent. Because of these transaction difficulties, the potential to create value through tight affiliations between firms is greater in environments where there are weak institutions than in environments with strong institutions (Khanna & Palepu, 2000). Close equity links between firms under weak market institutions can provide scale and scope economies for firms in areas such as advertising, distribution, and know-how. Allying with international partners can be used to overcome the inadequacies of the strategic factor markets and institutions of a local economy and provide a competitive advantage relative to those competitors that lack tight partnerships with foreign firms.

As the transition toward a market economy progresses and local factor markets develop, some of the resources provided by the foreign parent will no longer be as unique and difficult to imitate. Local external markets become a viable alternative. Even those foreign resources that cannot be sourced locally need not necessarily come from foreign parents per se. As institutions become more transparent and contracts become enforceable, tight equity links between firms decrease in value (Peng & Luo, 2000). Given the ability to form effective arms-length contracts, firms will become less concerned about opportunistic behavior and will not be as restricted in the type and number of exchange partners they can have. Ultimately, the benefits of partnering as a means of acquiring resources may no longer outweigh its costs and hazards (Peng, 2003; Robins, Tallman, & Fladmoe-Lindquist, 2002). Indeed, a joint venture’s overreliance on a foreign parent for resources can be an impediment to performance if resources can be more efficiently sourced from the external market.

In sum, as an economic transition progresses from the early phase to the late phase, the resource contributions of foreign parents, in conjunction with tight equity-based relationships that facilitate these contributions, become less of an advantage vis-à-vis those competitors acquiring resources without the help of foreign parents and tight relationships.

**Hypothesis 1.** Foreign parent resource provision will have a more positive influence on joint venture market performance in the early phase of an economic transition than in the late phase.

**Decision influence.** Like the capacity to acquire resources, the capacity to make good decisions with regard to the deployment of resources can be valuable, rare, and difficult to imitate and can provide a substantial competitive advantage (Barney, 1991). However, the distinctive value of foreign parent decision influence and its affect on market performance will also likely vary over the course of an economic transition.

The management capabilities and decision-making processes native to transitional economies are typically not well developed. For one, experience making business decisions among the local managers is sparse because much of the decision making in a command economy is centralized (Lau, 1998). Individuals with decision-making authority maintain their positions because of their party loyalty as opposed to their managerial expertise (Cakrt, 1993). Moreover, any experience making business decisions is in the context of a state-owned enterprise. The managing director of a Japanese-Hungarian glass products joint venture described to us the long-lived effects of managerial experience in state-owned enterprises:

> In the beginning, [Hungarian] managers had difficulties since their experiences had been gained in state-owned companies. The knowledge acquired there couldn’t prepare them for the challenges occurring in the joint venture.

Indeed, IMD International (1991) noted noted the deficiencies in competent senior managers as a significant detriment to Hungary’s growth.

Like managers in other Central and Eastern European economies, Hungarian managers at the beginning of the 1990s were also found to be short on initiative and and long-term objectives (IMD, 1991). Managers in the early phase of a transition tend to be undermotivated from working in a culture devoid of profit seeking. Simply placing these managers in a market context with market incentives is also not effective. In their study of Russian privatization, Barberis, Boycko, Shleifer, and Tsukanova (1996) found that realigning management incentives alone did not lead to needed restructuring. Only after new managers and new owners were in place did significant changes occur.

The ability to make decisions for a competitive
marketplace is valuable, rare, and difficult to imitate, particularly during the early phase of a transition. The “rules of the game” will have recently changed, and the decision-making expertise of the local parents will not yet be aligned with the changed competitive environment. The decision expertise offered by the foreign parent will be relatively unique and difficult to imitate early on and will lead to a competitive advantage vis-à-vis competitors without the luxury of foreign partner decision expertise.

As a transition progresses, local managers become trained in the ways of market economics and understand the efficacy of various managerial decisions within a competitive context. Numerous private business programs fill the need for professional management acumen. These programs are based on Western models that go beyond scientific management and teach behavioral concepts (McNulty & Katkov, 1993).

In Hungary, local universities began providing MBA degrees based on a Western model starting in the early 1990s. By the end of the decade, the MBA degree became important for securing managerial jobs in subsidiaries and joint ventures of multinational firms operating in Hungary. Younger and more appropriately trained managers have replaced the older managers educated within a command economy context. The managing director of an Irish-Hungarian agricultural equipment joint venture described to us the key difference between the older and younger Hungarian managers:

Unfortunately [Hungarian managers] don’t really like making decisions. It is more comfortable for them if other people make the decisions for them. This is especially true for our older colleagues. It isn’t necessarily true for the younger managers.

In sum, as a transition progresses, foreign parent decision influence will become less critical to the market performance of a joint venture.

_Hypothesis 2. Foreign parent decision influence will have a more positive influence on joint venture market performance in the early phase of economic transition than in the late phase._

### Knowledge Acquisition

One of the primary gains from foreign direct investment into a transitional economy is the spillover of knowledge from the foreign firms to the local firms (Caves, 1996). The mere presence of foreign firms, however, is no guarantee that knowledge transfer will take place. According to contemporary theories on organizational learning, there are two requirements for acquiring knowledge. Above all, knowledge must be made available to the potential target organizations. Much of the knowledge of foreign firms is embedded in their products, technology, and general operations (Argote, 1999; Mansfield, 1985). Thus, the degree to which the foreign partners offer such resources provides the potential for knowledge transfer. In addition, for organizational learning to occur, there needs to be a learning environment where experimentation and risk taking is encouraged (Senge, 1994). The savvy and influence of foreign partners can lead to a long-term vision and establishment of the learning systems necessary to acquire knowledge. However, the extent to which joint ventures in transitioning economies have the ability to learn from foreign parent resources and depend on foreign parent influence to establish a learning environment will be contingent on what transition phase an economy is in.

**Resource provision.** The foreign parent–joint venture relationship can be viewed as a teacher–student relationship (Lane & Lubatkin, 1998). The transfer of knowledge from a foreign parent to a joint venture depends on the willingness of the teacher to provide resources as well as on the student’s aptitude for learning from those resources. The more willing and able a foreign parent is to provide support in the form of resources such as equipment, technology, or marketing, the greater the _opportunity_ for a joint venture to learn and internalize the knowledge embedded in these resources (Hamel, 1991; Steensma & Lyles, 2000).

Although the provision of resources from a foreign parent provides an opportunity for learning, resources alone are not sufficient. For students to learn, they also need both the capacity and motivation for learning (Cohen & Levinthal, 1990; Hamel, 1991). Prior experience related to the incoming knowledge provides a capacity to absorb incoming skills and know-how from the foreign parent. However, in the early phase of a transition process, few local firms will have the prior learning experience necessary to fully exploit the opportunity for knowledge acquisition. The experience that the local firms do have will only be marginally relevant because the existing schemata that facilitate interpretation are specific to a planned economic system and are outdated. Indeed, Newman (2000) maintained that higher-order learning will be inhibited when institutional upheaval is particularly intense.

Motivation for learning is equally critical for learning to occur (Dahlman & Nelson, 1995). Be-
cause of the lack of competition, there was little incentive to gain new skills and expertise in the workplace prior to the fall of the Hungarian socialist system (Pavitt, 1997). Under this system, workplace success was based on connections and favors rather than on expertise. Shortly after the collapse of Communism, distrust and an avoidance of responsibility were widespread, particularly within Hungarian firms (Pearce, 1991). Because the risk of bankruptcy was not clearly understood early on by the local firms, the relationship between knowledge acquisition and organizational survival was also not appreciated (Grayson, 1998). In addition, local firm interaction with foreign multinational firms was limited in the early phase, and the concept of learning from partner firms was not ingrained in the local economy. Indeed, the joint venture as a structural form and the idea of knowledge transfer from partners was relatively novel.

Although many transition economies have strong formal academic systems, their educational systems have typically done a poor job in preparing future employees for the demands of a market economy (European Bank for Reconstruction and Development [EBRD], 2000). Early in the transition process in Hungary, foreign partners were welcomed, but local managers and employees clearly did not comprehend the intensity of learning expectations. Forty percent of the large multinational investors in Hungary noted the inadaptability of workers as a significant obstacle to future development (EBRD, 2000). The belief systems of local workers change at a much slower pace than do formal rules and regulations (Peng & Heath, 1996). Thus, the norms and motivation for learning will remain relatively weak in an early transition phase.

As a transition progresses, however, both the capacity and motivation for learning develop within local firms. In the case of Hungary, the economic liberalization and privatization that occurred during the mid to late 1990s facilitated knowledge acquisition (Lane et al., 2001). The link between knowledge acquisition and survival became increasingly evident as market forces distinguished between successful and unsuccessful firms. Moreover, there is some evidence that a country’s absorptive capacity relates positively to per capita productivity (Le Goc, 2002). Hungarian per capita GDP has increased 60 percent during the decade of transition. The growth in patent applications and improvements in entrepreneurial capabilities provide further evidence of an improvement in the capacity and motivation to absorb knowledge (Table 1).

In sum, as an economic transition progresses from the early to the late phase, a joint venture will develop the capacity and motivation for learning and will be better able to exploit the potential for knowledge acquisition from the resources provided by the foreign parent.

**Hypothesis 3.** Foreign parent resource provision will have a more positive influence on joint venture knowledge acquisition in the late phase of economic transition than in the early phase.

**Foreign parent decision influence.** Although we expected the resource provision of a foreign parent to have a stronger relationship with knowledge acquisition during the late phase of a transition, foreign parent decision influence will provide a greater payoff in terms of knowledge acquisition during the early phase.

Experimenting and allowing for failure are essential for learning to occur (Argyris, 1991). In the early phase of an economic transition, foreign managers from developed market economies will have a deeper appreciation than will local managers for the critical role that knowledge acquisition and capability development play in the long-term viability of ventures. Foreign managers will also be more proficient at setting expectations, creating learning processes, and establishing a culture that facilitates knowledge transfer. Thus, the influence and guidance of the foreign partner will be particularly critical to the level of knowledge acquired by a joint venture in the early phase of the transition, when local managers are lacking in the ways of market economics and an understanding of the importance of learning.

A Hungarian manager from a Japanese-Hungarian joint venture recalled the early effect of the Japanese partner’s influence:

I got to the firm in the best time—in 1991. After the period of reorganization, full of uncertainty, a very intensive learning process started. The Japanese deputy director working in the factory and other Japanese leaders taught, controlled, and influenced our workers. They had strong and direct impact on attitudes.

Similarly, a senior manager of a food-processing joint venture described how the heavy-handed influence of the foreign parent in the early 1990s led to the local company’s knowledge acquisition within the realm of information systems:

They [the French partner] wanted and started the changes. It was pressure since the introduction of information systems required the learning and training of individuals. We did not initiate this. It was the expectation of the French owner. They needed more information and better access to it.
As a transition progresses and local managers become more in tune with competing in a market economy, the difference in local and foreign managers’ ability to appreciate and facilitate knowledge transfer will lessen. More local managers will develop expertise in establishing learning organizations.

One Hungarian manager from a German-Hungarian publishing joint venture demonstrated to us the relatively recent change in his attitude toward the importance of learning:

“In the old regime, if somebody learns something, it’s enough for life. But now it’s not enough. You always need to learn and change. You must be able to change.”

Indeed, the quality of local management has improved precipitously between the early and late phases of many transitions, according to the World Competitiveness Report (IMD, 1991; Table 1). Ultimately, the significance of foreign parent influence to knowledge acquisition will wane in the late phase of an economic transition.

Hypothesis 4. Foreign parent decision influence will have a more positive influence on knowledge acquisition in the early phase of economic transition than in the late phase.

METHODS

Sample Selection

Hungary was selected as the setting for this study because in the early stage of its economic transition it exhibited characteristics typical of the former socialist economies, including an informal economy, inaccurate reporting, slow decision making, and little market knowledge. Furthermore, of all the Eastern Bloc countries, Hungary had and continues to have one of the largest amounts of foreign direct investment (Sharp & Barz, 1997).

We used a two-group cohort design to test our hypotheses (Cook & Campbell, 1979). A random sample of foreign-Hungarian joint ventures was observed in 1993. A separate and independent group of foreign-Hungarian joint ventures was then observed in 2001. This design is particularly useful when some cohorts receive a particular treatment and a preceding cohort does not. In our case, the change in institutional and economic context represents the treatment. The advantage of this design is that there is “quasi comparability” (Cook & Campbell, 1979). In essence, the Hungarian context provided us with a natural laboratory for studying how context influences key relationships between foreign parent involvement and joint venture outcomes.

We used a stratified sampling technique to generate the 1993 subsample. The stratified sample consisted of international joint ventures that were representative of all firms in Hungary in terms of industry. The sample and sampling criteria were developed with the assistance of a Hungarian government agency that received information from the government about joint ventures in Hungary. Sample stratification was based on statistics provided by Hungary’s Central Statistical Office. The firms that participated were identified through directories, contacts, and a database from the statistical office. To be included in the sample, a joint venture had to employ between 15 and 500 employees. In 2001, a separate listing of joint ventures was no longer available from the government. We determined the joint venture population by working with the Hungarian Joint Venture Association and obtaining directories from the embassies of countries that were major foreign investors (e.g., Austria, the United Kingdom, Germany, Switzerland, the United States, Italy, Japan, and France). We contacted each firm in these directories to determine its ownership structure and then contacted the general managers of joint ventures and asked them to participate in the study. By constructing the list of joint ventures in this manner, we came as close as possible to sampling from the full population.

Data Procurement

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. In brief, the structured interviews yielded survey data on each joint venture’s founding, parental involvement, and success. In addition, we supplemented this survey data with in-depth interviews of between four and eight managers at each of eight joint ventures.

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 in Hungary with a round of data collection in 1991. On the basis of this data collection, we modified and improved the items. Prior to the 1993 data collection, the instrument was translated, back-translated, retranslated back into Hungarian, and reviewed at the
Hungarian research institute to ensure appropriate meanings of the questions. We 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 joint venture manager, but virtually all interviews were done in Hungarian or English.

The informants were joint venture presidents or general managers. Ideally, multiple informants would have been used, and they would have included representatives of parent firms as well as representatives of the joint ventures, but the size and nature of the study precluded such an approach. Previous research provides support for relying on joint venture general managers for reliable data. Geringer and Hebert (1991) found a significant correlation between a parent’s assessment of an international joint venture’s performance and that of the joint venture’s general manager. Peng and Luo (2000) found a high correlation between self-reported data and archival data in China. Child, Yan, and Lu (1997) also found significant interrater reliability among international joint venture managers for the assessment of parental influence.

Telephone verification of joint venture status was followed by a letter to the general manager of each venture requesting that he or she participate in the study. The response rates for the two samples were 25 and 56 percent, respectively. The main reason managers gave for not participating was lack of time. The combined final sample included 241 joint ventures (145 early phase, 96 late phase) for the models involving knowledge acquisition. Because of missing values, the combined final sample for market performance was reduced to 225 joint ventures (132 early phase, 93 late phase). The average number of employees in the sampled joint ventures was 113, and an average of five foreign expatriates worked full- or part-time in a venture. The average level of export sales was 39 percent. The type and extent of information collected in our project is unavailable elsewhere because joint ventures, particularly in transitional economies, do not have stringent reporting requirements in terms of detailed information. Our survey, therefore, created a unique database on international joint ventures in Hungary.

Measure Validity

This study relied on data collected from single respondents, raising the possibility of common method variance (Harrison, McLaughlin, & Coalter, 1996). We took steps to both limit and assess these effects. First, multiple-item constructs were used. Response biases have been shown to be more problematic at the item level than at the construct level (Harrison et al., 1996). A post hoc analysis using Harman’s single-factor test (Podsakoff & Organ, 1986) also showed no evidence of artificial response bias.

We used confirmatory factor analysis with MPlus and maximum likelihood estimation to assess the psychometric properties of the scaled items for constructs derived from the survey instrument. We used an iterative process to respecify the measurement model on the basis of both content and statistical considerations (Anderson & Gerbing, 1988). A satisfactory fit was achieved ($\chi^2 = 717.46, df = 334, p < .01$, $RMSE_A = .07$, $CFI = .90$). The ratio of chi-square to the degrees of freedom is 1.55; a value of less than 3 for this ratio indicates a good fit (Carmines & McIver, 1981). A CFI value of .9 or above is also considered an indication of good fit (Bentler & Bonett, 1980). Although the chi-square statistic is still significant, the measurement model was considered acceptable, given the other supportive indexes (Anderson & Gerbing, 1988). Table 2 reports the standardized coefficients, $Z$-statistics, and composite reliability values for the measurement model. We further assessed convergent validity by examining reliability values and the amount to their foreign parents. This relatedness variable showed no relationship to knowledge acquisition in the 2001 portion of the data, perhaps because of its constrained variance of the variable. Although unfortunately this information was not collected for the 1993 data, we expect it would have been quite similar. International joint ventures in these emerging markets are typically extensions of the operations of foreign multinational firms. Thus, the design and sample of the study somewhat controlled relatedness.

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1 To maintain independence between the 1993 and 2001 samples, we removed joint ventures from the 2001 subsample that also appeared in the 1993 sample.

2 We can provide some indication of the relatedness (the similarity) between the operations and industry of the foreign parents and those of the joint ventures for the 2001 sample. Our data show that 91 percent of the joint ventures were similar in terms of operations and industry.
of variance extracted from each factor by its components. The composite reliability values for the constructs ranged from .87 to .89, all above the cutoff suggested by Bagozzi and Yi (1988). The variance extracted from each construct ranged from .50 to .65, all above the cutoff suggested by Fornell and Larcker (1981).

We assessed discriminant validity by comparing our target measurement model with various nested models, moving from a highly restricted single-factor structure to a final, target structure that contained four factors (market performance, knowledge acquisition, resource provision, decision influence). Chi-square difference tests for the nested models were consistently large and significant, showing that large improvements in fit were gained as we moved from restricted models to the target model (see Table 3). The mean correlation between the factors was 28.

### TABLE 2
Characteristics of the Latent Variables

<table>
<thead>
<tr>
<th>Construct/Indicator</th>
<th>Standardized Coefficient</th>
<th>Estimate/s.e. a</th>
<th>Reliability b</th>
<th>Variance Extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected Hungarian parent rating</td>
<td>.89</td>
<td>.88</td>
<td>.65</td>
<td></td>
</tr>
<tr>
<td>Projected foreign parent rating</td>
<td>.78</td>
<td>13.97***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint venture manager rating</td>
<td>.85</td>
<td>15.56***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Composite measure of joint venture manager</td>
<td>.65</td>
<td>10.69***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological expertise</td>
<td>.79</td>
<td>.88</td>
<td>.55</td>
<td></td>
</tr>
<tr>
<td>Marketing expertise</td>
<td>.76</td>
<td>11.66***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product development</td>
<td>.79</td>
<td>12.17***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge of foreign cultures/tastes</td>
<td>.60</td>
<td>8.97***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial techniques</td>
<td>.76</td>
<td>11.68***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production processes</td>
<td>.73</td>
<td>18.84***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource provision</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product-related technology</td>
<td>.72</td>
<td>.85</td>
<td>.50</td>
<td></td>
</tr>
<tr>
<td>Operations-related technology</td>
<td>.80</td>
<td>14.75***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations support</td>
<td>.74</td>
<td>9.51***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales/marketing support</td>
<td>.59</td>
<td>7.87***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative support</td>
<td>.65</td>
<td>8.49***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>.70</td>
<td>9.24***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision influence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td>.62</td>
<td>.89</td>
<td>.59</td>
<td></td>
</tr>
<tr>
<td>Product technology</td>
<td>.79</td>
<td>9.14***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process technology</td>
<td>.76</td>
<td>8.89***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>.82</td>
<td>9.35***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales/marketing</td>
<td>.72</td>
<td>8.51***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial decisions</td>
<td>.61</td>
<td>10.32***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>.60</td>
<td>9.59***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pricing</td>
<td>.80</td>
<td>9.20***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a For each construct, the coefficient of the leading indicator was set to 1.0 to establish the scale.

b Denotes composite reliability.

*** p < .001

### Dependent Variables

**Market performance.** Survey data on market performance exhibit high validity (Venkatraman & Ramanujam, 1987). Thus, we measured market performance with a multiple-item survey measure. The respondent was asked how (1) key managers in the Hungarian parent would rate the performance of a joint venture (JV), (2) key managers in the foreign parent would rate the JV’s performance, and (3) the respondent him- or herself would rate the JV’s performance (1 to 5, “poor” to “excellent”). A fourth item was an aggregate measure of performance, in which the respondent was asked to rate the firm’s performance for the last year in the following seven activities: increase business volume, lower unit costs, increase market share, increase employee productivity, lower overhead costs, achieve planned goals, and make profits (1 to 5,
“poor performance” to “excellent performance”; $\alpha = .82$). Each of these four items was standardized and combined. The composite reliability was .88.\(^3\) The Wilks-Shapiro test indicated that market performance for the 1993 and 2001 subsamples was normally distributed. In addition, Levene’s test for equality of variance was insignificant, suggesting that the variances of the two subsamples were not significantly different. There was, however, a significant difference between the average market performance for 1993 and that for 2001 ($p < .05$). The 2001 subsample, on average, had higher market performance.

**Knowledge acquisition.** We created an index of the knowledge that a JV had acquired from its foreign parent (Lyles & Salk, 1996). Six items, each with the frame “to what extent have you learned from your foreign parent” appraised technological expertise, marketing expertise, product development, foreign cultures and tastes, managerial techniques, and production processes. The composite reliability was .88.\(^4\) The Wilks-Shapiro test indicated that market performance for the 1993 and 2001 subsamples was normally distributed. Levene’s test also suggested that the variances were not significantly different. A $t$-test indicated that there was no significant difference in the means of knowledge acquisition for the two subsamples.

**Foreign parent resource provision.** Our six-item measure assessed the extent to which a joint venture received support from its foreign parent in each of the following areas (1 to 5, “little support” to “strong support”): product technology, operations technology, operations support, sales/marketing, administrative support, and training. The composite reliability was .87. Empirical support for one underlying factor suggested that when parent firms provide resource support, they tend to use “packages” containing all six of the resource types we asked about. These resources are inextricably linked. For example, modern methods of operations typically need to be combined with advanced marketing and organization techniques to be fully effective (Milgrom & Roberts, 1990).

**Foreign parent decision influence.** We collected measures of the degree of influence over specific areas and issues of joint venture management (Child, Yan, & Lu, 1997; Lin, Yu, & Seetoo, 1997). The joint venture managers were asked to evaluate the influence that the Hungarian parent, foreign firm, and JV managers had over eight issues by dividing 100 percent among the three groups. The issues of interest included financing, product technology, process technology, operations, sales/marketing, management decisions, administrative sup-

\(^3\) We were able to validate our measure of market performance for a subsample of our 2001 sample of joint ventures. Hungarian joint ventures were required to report basic financial information to the Office of the Registry for 1999. Sixty-five of the joint ventures in the 2001 sample reported return on assets figures for this year. The correlation between our perceptual measure of market performance and ROA was .41 ($p < .01$). This correlation provides some evidence of convergent validity. Unfortunately, financial information for joint ventures operating in the early phase of the Hungarian transition was not required.

\(^4\) In addition to completing the six-item scale, each respondent for the 2001 sample also selected one of ten possible pictorial depictions of the process of knowledge acquisition from the foreign partner over time. These depictions were analyzed and coded into three categories (1 = “little knowledge acquired,” 2 = “some knowledge acquired,” 3 = “extensive knowledge acquired”). This measure had a .62 correlation with the knowledge acquisition scale and provided some evidence of convergent validity.

---

**TABLE 3**

*Nested Models Assessing Discriminant Validity*

<table>
<thead>
<tr>
<th>Model</th>
<th>CFI</th>
<th>$\Delta$CFI</th>
<th>$\chi^2$</th>
<th>$\Delta\chi^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Four-factor model</td>
<td>.92</td>
<td></td>
<td>514.27</td>
<td></td>
</tr>
<tr>
<td>2. Single-factor model</td>
<td>.67</td>
<td>.25</td>
<td>1,393.61</td>
<td>879.34***</td>
</tr>
<tr>
<td>Difference between models 2 and 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Three-factor model combining resource provision and foreign parent decision influence</td>
<td>.84</td>
<td></td>
<td>772.31</td>
<td></td>
</tr>
<tr>
<td>Difference between models 3 and 1</td>
<td></td>
<td>.08</td>
<td></td>
<td>258.04***</td>
</tr>
<tr>
<td>4. Three-factor model combining market performance and knowledge acquisition</td>
<td>.79</td>
<td></td>
<td>975.25</td>
<td></td>
</tr>
<tr>
<td>Difference between models 4 and 1</td>
<td></td>
<td>.13</td>
<td></td>
<td>460.98***</td>
</tr>
</tbody>
</table>

*** $p < .001$
port, and pricing decisions. The values on these issues for the foreign parent were combined. The composite reliability was .89.

**Transition phase.** A dichotomous variable was used to indicate the sample to which a joint venture belonged. A 0 indicated a member of our early transition phase sample (the 1993 data), whereas a 1 indicated a member of our late transition phase sample (the 2001 data).

**Control Variables**

*Age.* Older ventures may have overcome the liability of newness and may have benefited from a first-mover advantage. To control for and assess the potential for survivor bias and first-mover advantage, we controlled for the age of a venture.

*Size.* Larger ventures may have certain advantages, such as economies of scale and market power, that may influence performance (Hambrick, MacMillan, & Day, 1982). Larger firms may also have excess slack that allows for experimentation and learning (Hedberg, 1981). We controlled for the size (number of employees) of a joint venture.

*Hungarian equity.* Ownership structure has been shown to influence both the learning and performance of an international joint venture (Child, 2002; Lyles & Salk, 1996). We controlled for the level of Hungarian equity in all models.

*Industry.* Ventures in certain industries may be inherently better performing than ventures in other industries owing to structural differences. We created dummy variables to account for industry differences.

*Export sales.* Firms that rely on exports may be more likely to develop capabilities for learning and may be less dependent on the whims of a domestic market (Newman, 2000). We controlled for export sales as a percentage of overall sales.

*Nationality of foreign partner.* The multinationals from the various countries in our sample may have differed in their cultural similarity and effectiveness in partnering with Hungarian local firms. We created dummy variables for the six most highly represented countries in our sample.

**Results**

**Primary Analysis**

Table 4 reports the means, standard deviations, and correlation coefficients between the dependent, independent, and control variables. We used hierarchical moderated regression models to test the hypotheses. We centered our measures of resource provision and decision influence prior to the regression analysis and ran separate models for our two dependent measures. Interaction terms between the variables of interest and the dummy variable for transition phase were created. We compared restricted regression models without the interaction terms to full regression models to assess moderation effects. This comparison is a relatively conservative test of moderation, particularly when used to assess small samples and models in which the moderator is a categorical variable (Stone-Romero, Alliger, & Aguinis, 1994). Collinearity diagnostics indicated that multicollinearity did not adversely affect the models (Belsley, Kuh, & Welsch, 1980). Table 5 reports the results of the hierarchical regression models.

Our analysis showed a significant, positive relationship between transition phase and market performance ($p < .05$), suggesting that the performance of our 2001 subsample of joint ventures was enhanced overall by improvements in economic and institutional conditions. The change in explained variance between the restricted model and full model was significant for both dependent measures. This finding supported the contention that the transition phase of the economic context of a joint venture moderated the relationship between foreign parent involvement and joint venture market performance and knowledge acquisition.

Hypothesis 1 states that foreign parent resources have a stronger influence on market performance in the early phase of a nation’s economic transition than in the late phase. The coefficient of the interaction between foreign parent resources and transition phase was significant for market performance ($p < .001$). To gain further insight into the moderation effect, we plotted the interaction effect for the regression model using one standard deviation above and below the mean of the interacting variables to establish end points. We calculated the significance of the simple slopes (Aiken & West, 1991). Figure 1a shows the relationship between foreign parent resource contribution and performance. During the early transition phase, the relationship between resource provision and market performance

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5 The insignificance of our age control variable is noteworthy and suggests the absence of a survivor bias or first-mover advantage. Experience in this relatively volatile environment may not offer the performance premium that it does in more advanced and predictable environments. Indeed, one could question whether there is a late-mover advantage. Perhaps the better foreign firms waited until later to enter the uncertain Hungarian economy, leading to a possible sample selection bias. We considered this possibility and examined the relationship between age and market performance in the 2001 sample. We found no relationship.
was positive and significant (p < .001). However, the relationship was not significant during the late transition phase. Hypothesis 1 was supported.

Hypothesis 2 states that foreign parent decision influence has a stronger influence on market performance in the early phase than in the late phase of an economic transition. The coefficient associated with the decision influence–transition phase interaction was not significant. Hypothesis 2 was not supported.

Hypothesis 3 predicts that foreign parent resources have a stronger influence on knowledge acquisition in the late phase of economic transition. The coefficient associated with the interaction between foreign parent resources and transition phase was significant (p < .05). Figure 1b shows the plot for this interaction effect. The provision of foreign parent resources was positively related to knowledge acquisition during the late phase of the transition (p < .001). However, the same relationship was not significant during the early transition phase. This finding supports Hypothesis 3.

Hypothesis 4 predicts that foreign parent decision influence has a stronger influence on knowledge acquisition early in economic transition. The coefficient for the interaction between decision influence and transition phase was significant (p < .01). Figure 2 shows the positive relationship between foreign parent decision influence and knowledge acquisition in the early phase (p < .001). This relationship was not significant during the late phase of the transition. Hypothesis 4 was supported.

Post Hoc Analysis

Our confirmatory factor analysis provided evidence that the categories of resources (e.g., technology, sales/marketing support) were measured represented one underlying construct, as did the categories of knowledge (e.g., technological expertise, managerial techniques). However, we conducted further analysis to see if our results were robust at the category level.

It could be argued that the resource categories had varying levels of inimitability. We disaggregated our measure of resource provision and created separate market performance models using interaction terms containing the individual categories of resources (for instance, product-related technology interacted with transition phase). In all cases, the interaction terms were significant and negative, indicating that each of these resource categories was more critical to market per-

---

**TABLE 4**

Correlations for Dependent, Independent, and Control Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>s.d.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Market performance</td>
<td>-0.20</td>
<td>3.43</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Knowledge acquisition</td>
<td>15.16</td>
<td>7.06</td>
<td>.12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Age</td>
<td>6.00</td>
<td>3.26</td>
<td>.06</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Size</td>
<td>113.17</td>
<td>185.93</td>
<td>.20**</td>
<td>.08</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Hungarian equity</td>
<td>50.02</td>
<td>21.84</td>
<td>-19**</td>
<td>-29**</td>
<td>-.07</td>
<td>-.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Chemicals/pharmaceuticals</td>
<td>0.07</td>
<td>0.25</td>
<td>.01</td>
<td>.08</td>
<td>.03</td>
<td>-.08</td>
<td>.04</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Electronics</td>
<td>0.09</td>
<td>0.29</td>
<td>.04</td>
<td>.08</td>
<td>-.04</td>
<td>-.06</td>
<td>.05</td>
<td>-.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Construction</td>
<td>0.08</td>
<td>0.27</td>
<td>.08</td>
<td>-.06</td>
<td>.07</td>
<td>-.05</td>
<td>-.03</td>
<td>-.08</td>
<td>-.09</td>
<td></td>
</tr>
<tr>
<td>9. Financial services</td>
<td>0.03</td>
<td>0.19</td>
<td>.05</td>
<td>-.06</td>
<td>.08</td>
<td>-.01</td>
<td>.03</td>
<td>-.05</td>
<td>-.06</td>
<td>-.06</td>
</tr>
<tr>
<td>10. Computers/software</td>
<td>0.05</td>
<td>0.23</td>
<td>.02</td>
<td>-.06</td>
<td>.00</td>
<td>-.01</td>
<td>.03</td>
<td>-.06</td>
<td>-.08</td>
<td>-.07</td>
</tr>
<tr>
<td>11. Machinery</td>
<td>0.23</td>
<td>0.42</td>
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<td>.08</td>
<td>.05</td>
<td>-.11</td>
<td>.00</td>
<td>-.15*</td>
<td>-.18**</td>
<td>-.16*</td>
</tr>
<tr>
<td>12. Textiles</td>
<td>0.13</td>
<td>0.33</td>
<td>-.01</td>
<td>.10</td>
<td>-.20**</td>
<td>.14*</td>
<td>-.02</td>
<td>-.10</td>
<td>-.12</td>
<td>-.11</td>
</tr>
<tr>
<td>13. Food processing</td>
<td>0.07</td>
<td>0.25</td>
<td>-.08</td>
<td>-.12</td>
<td>-.10</td>
<td>.09</td>
<td>.06</td>
<td>-.07</td>
<td>-.09</td>
<td>-.08</td>
</tr>
<tr>
<td>14. Export sales</td>
<td>39.10</td>
<td>36.68</td>
<td>.03</td>
<td>.16*</td>
<td>-.03</td>
<td>.13*</td>
<td>-.05</td>
<td>-.05</td>
<td>.04</td>
<td>-.11</td>
</tr>
<tr>
<td>15. United Kingdom</td>
<td>0.06</td>
<td>0.23</td>
<td>-.07</td>
<td>-.07</td>
<td>.04</td>
<td>.05</td>
<td>.07</td>
<td>-.07</td>
<td>.05</td>
<td>-.07</td>
</tr>
<tr>
<td>16. United States</td>
<td>0.09</td>
<td>0.28</td>
<td>-.03</td>
<td>-.06</td>
<td>.11</td>
<td>.04</td>
<td>.14*</td>
<td>-.02</td>
<td>.01</td>
<td>-.04</td>
</tr>
<tr>
<td>17. Germany</td>
<td>0.32</td>
<td>0.47</td>
<td>.01</td>
<td>.13</td>
<td>-.08</td>
<td>-.04</td>
<td>-.04</td>
<td>.01</td>
<td>-.05</td>
<td>.05</td>
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<tr>
<td>18. Austria</td>
<td>0.20</td>
<td>0.41</td>
<td>.06</td>
<td>-.02</td>
<td>.01</td>
<td>.00</td>
<td>-.21**</td>
<td>-.05</td>
<td>.00</td>
<td>.10</td>
</tr>
<tr>
<td>19. Switzerland</td>
<td>0.07</td>
<td>0.24</td>
<td>.13*</td>
<td>.02</td>
<td>.00</td>
<td>.04</td>
<td>.08</td>
<td>.00</td>
<td>.04</td>
<td>.00</td>
</tr>
<tr>
<td>20. Italy</td>
<td>0.05</td>
<td>0.22</td>
<td>-.16*</td>
<td>.02</td>
<td>-.06</td>
<td>-.04</td>
<td>.05</td>
<td>.10</td>
<td>.00</td>
<td>-.07</td>
</tr>
<tr>
<td>21. Transition phase</td>
<td>0.41</td>
<td>0.49</td>
<td>.13*</td>
<td>-.06</td>
<td>.76**</td>
<td>.22**</td>
<td>-.14*</td>
<td>-.04</td>
<td>-.05</td>
<td>.09</td>
</tr>
<tr>
<td>22. Foreign parent resources</td>
<td>15.43</td>
<td>5.86</td>
<td>.27**</td>
<td>-.48**</td>
<td>-.32**</td>
<td>.06</td>
<td>-.17*</td>
<td>.07</td>
<td>.02</td>
<td>-.02</td>
</tr>
<tr>
<td>23. Foreign parent decision influence</td>
<td>154.95</td>
<td>182.91</td>
<td>.02</td>
<td>.44**</td>
<td>-.14*</td>
<td>.08</td>
<td>-.32**</td>
<td>.07</td>
<td>.03</td>
<td>-.01</td>
</tr>
</tbody>
</table>

* n = 225.
* p < .05
** p < .01
formance during the early phase of economic transition than during its late phase.

Likewise, one could claim that our knowledge categories varied in tacitness. For example, managerial and marketing expertise may be more organizationally embedded and not as readily codified as product development and production skills (Shenkar & Li, 1999). For a finer-grained analysis, we disaggregated our measure of knowledge acquisition and created separate knowledge acquisition models using each of the six categories as dependent variables. With two notable exceptions, the results were consistent with those obtained when we used the combined six-item construct. The exceptions were management and marketing expertise, arguably the more tacit categories of knowledge. Increasing foreign parent involvement (resources and influence) directly enhanced the transfer of management and marketing expertise. However, these effects did not vary between the early and late transition phases. Our analyses suggest that differences between the early and late transition phases in terms of absorptive capacity and local managerial capabilities for instilling a learning environment are significant considerations in the transfer of explicit knowledge, and perhaps are less so for tacit knowledge. These results highlight the difficulty of transferring tacit knowledge (Von Glinow & Teagarden, 1988). The level of tacit knowledge transfer due to foreign parent involvement remains similar over time even as absorptive capacity and local managerial capabilities improve within an economy. Perhaps a stronger differentiation between the early and late transition phases is needed to detect effects for tacit knowledge transfer comparable to those found here for more explicit knowledge.

Finally, it could be argued from a resource-based view that foreign parent resource provision and decision influence mutually support joint venture market performance. Moreover, their mutual support may be contingent on the current transition phase of an economy. The coefficient for our test of this three-way interaction was not significant. However, detecting three-way interactions with small samples and a categorical interaction term is difficult (Stone-Romero et al., 1994). Our data simply may not have been suitable for detecting such an effect.

**DISCUSSION**

In this study, we set out to better understand how the role of foreign parents in the success of local
joint ventures changes as an economic and institutional environment transitions from a planned economy to a market economy. We found that the value of foreign parent involvement for current market performance and knowledge acquisition differed depending on transition phase. Foreign parent resources have a stronger influence on market performance in the early phase of an economic transition than in the late phase. Foreign parent resources may be more critical to market performance earlier, when alternative local factor markets are less developed, foreign resources are relatively rare and inimitable, and market institutions capable of facilitating arms-length relationships are lacking. By sourcing resources internally from a parent, a venture avoids the pitfalls of weak market institutions. These results supplement the work of Khanna and Palepu (2000), who found that the value provided by tightly knit Chilean business groups in the early development of their market system shrank as the institutional context matured.

In contrast, foreign parent resources had a stronger influence on knowledge acquisition for joint ventures in the late phase of the transition than in the early phase. We conjecture that the capacity to absorb new knowledge and the motivation for

### TABLE 5
Results of Hierarchical Regression Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Market Performance&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Knowledge Acquisition&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Restricted</td>
<td>Full</td>
</tr>
<tr>
<td>Constant</td>
<td>0.86</td>
<td>0.43</td>
</tr>
<tr>
<td>Controls</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge acquisition</td>
<td>-0.03</td>
<td>-0.02</td>
</tr>
<tr>
<td>Age</td>
<td>-0.13</td>
<td>-0.11</td>
</tr>
<tr>
<td>Size</td>
<td>0.00&lt;sup&gt;*&lt;/sup&gt;</td>
<td>0.00&lt;sup&gt;**&lt;/sup&gt;</td>
</tr>
<tr>
<td>Hungarian equity</td>
<td>-0.02&lt;sup&gt;*&lt;/sup&gt;</td>
<td>-0.02&lt;sup&gt;**&lt;/sup&gt;</td>
</tr>
<tr>
<td>Chemicals/pharmaceuticals</td>
<td>0.90</td>
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<tr>
<td>Electronics</td>
<td>1.03</td>
<td>0.65</td>
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<tr>
<td>Construction</td>
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<td>0.97</td>
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<tr>
<td>Financial services</td>
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<td>0.85</td>
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<tr>
<td>Computers/software</td>
<td>0.62</td>
<td>0.54</td>
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<tr>
<td>Machinery/components</td>
<td>0.21</td>
<td>0.25</td>
</tr>
<tr>
<td>Textiles</td>
<td>0.20</td>
<td>-0.14</td>
</tr>
<tr>
<td>Food processing</td>
<td>-1.10</td>
<td>-1.40</td>
</tr>
<tr>
<td>Export sales</td>
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<td>0.00</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-0.45</td>
<td>-0.60</td>
</tr>
<tr>
<td>United States</td>
<td>-0.37</td>
<td>-0.35</td>
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<tr>
<td>Germany</td>
<td>-0.15</td>
<td>-0.22</td>
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<tr>
<td>Austria</td>
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<td>0.25</td>
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<tr>
<td>Switzerland</td>
<td>1.67</td>
<td>1.49</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.82</td>
<td>-1.66</td>
</tr>
<tr>
<td>Direct effects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign parent resource provision</td>
<td>0.21&lt;sup&gt;***&lt;/sup&gt;</td>
<td>0.37&lt;sup&gt;***&lt;/sup&gt;</td>
</tr>
<tr>
<td>Foreign parent decision influence</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Transition phase&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1.92&lt;sup&gt;*&lt;/sup&gt;</td>
<td>1.72&lt;sup&gt;**&lt;/sup&gt;</td>
</tr>
<tr>
<td>Interaction effects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign parent resource provision × transition phase</td>
<td>-0.30&lt;sup&gt;***&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Foreign parent decision influence × transition phase</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>.23&lt;sup&gt;***&lt;/sup&gt;</td>
<td>.28&lt;sup&gt;***&lt;/sup&gt;</td>
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<tr>
<td>$\Delta R^2$</td>
<td>.05&lt;sup&gt;***&lt;/sup&gt;</td>
<td>.04&lt;sup&gt;**&lt;/sup&gt;</td>
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</tbody>
</table>

<sup>a</sup> $n = 225.$  
<sup>b</sup> $n = 241.$  
<sup>c</sup> Early versus late.  
* $p < .05$  
** $p < .01$  
*** $p < .001$
learning is limited immediately after the onset of market reforms. Only after a local economy has had time to develop a capacity and intent for learning will local ventures be able to fully exploit the opportunity to acquire knowledge from the resources provided by their foreign parents. These results support the theoretical insights of Newman (2000), who argued that an organization’s capacity for learning and transformation depend on institutional context. She maintained that Central and Eastern Europeans in particular lack the mental maps needed for interpreting concepts from the West. Hungarian joint ventures were unable to exploit the opportunity for learning from foreign resources in the early years of institutional upheaval but were able to do so in the later phase of the transition. In sum, the efficacy of foreign parent resources changes as an economy evolves, being more critical to market performance in the early phase and increasingly vital for learning in the late phase.

Foreign parent decision influence was shown to have a stronger link to knowledge acquisition during the early phase of the transition process than during the late phase. Foreign management influence may reflect a deeper appreciation for learning and knowledge transfer to a joint venture than local management decision influence, particularly during the early phase of transition. Foreign parents are more likely to provide the guidance that leads
to a learning environment. Only as local managers become increasingly adept in the ways of market economics and gain an appreciation for knowledge acquisition over time and through experience will they begin to replace foreign managers as advocates for learning.

Implications for Theory

Overall, our results complement those of other studies that have examined the influence of institutional and economic environment on firm boundaries and scope (e.g., Mayer & Whittington, 2003; Wan & Hoskisson, 2003) and knowledge transfer (Kostova & Roth, 1999). For example, Steensma, Marino, Weaver, and Dickson (2000) demonstrated that descriptive theories predicting alliance formation are more or less viable depending on the national cultural contexts of potential alliance partners. We extended such research by showing that management theories predicting joint venture outcomes are also contingent on the broader environmental context. Understanding the limitations on generalizability and the boundary conditions under which our theories hold or do not hold is a critical step in the development of sound theory (Dubin, 1978).

As Porter (1991) argued, resources and their value are only meaningful when placed in a larger context. An inward focus is insufficient. Researchers are still in the early stages of understanding the external contingencies that influence the value of the various resources that firms may have at their disposal—that is, the “what” and the “when” of resource value. Miller and Shamsie (1996) found that assorted types of resources influenced firm performance differently as the stability of an industry environment changed. Our analysis further reveals that the value of foreign parent involvement varies with the quality of factor markets and institutions. Clearly, when applying the resource-based and learning perspectives often used to explain venture success, one needs to take broader economic and institutional context into account. This broad focus becomes particularly important as resources cross borders. Resources that may provide value in the forms of performance and capability development for a domestic joint venture may be less valuable in a foreign context, and vice versa.

If sustainable performance depends on both resources and knowledge-based capabilities, as many have suggested (cf. Amit & Schoemaker, 1993), the resource-based and organizational learning perspectives are inseparable, and researchers need to use them together to obtain a more complete story of long-term viability. This is particularly true in the context of joint ventures, where resources and knowledge are being sourced from parent firms. Our results suggest that the resource-based and organizational learning perspectives are indeed complementary. Our two outcome variables, market performance and knowledge acquisition, are empirically distinct and have unique relationships with foreign parent involvement and transition phase. Future theoretical development that tightly integrates these two perspectives while addressing how external environment might affect market performance and capability development uniquely would be worthwhile.

For example, how might a competitive environ-
Sacrificing the success of the ventures. Late foreign entrants may possibly relinquish some influence without relinquishing roles in their joint ventures, whereas late entrants should consider taking dominant decision-making that early entrants into transitioning economies (Lyles, 2000). Taken together, these results suggest that foreign parent influence can lead to conflict in joint ventures during the late phase of transition. Indeed, there is some evidence that heavy-handed influence does not appear to be vital for market performance or knowledge acquisition. Heavy-handed influence does not appear to be vital for learning than their local counterparts. Managers are better equipped to establish a vision that is significant upheaval (Newman, 2000). Our results do suggest, however, that early entrants can enhance knowledge acquisition through their decision influence and authority. Foreign parent managers are better equipped to establish a vision that encourages learning than their local counterparts. Heavy-handed influence does not appear to be vital for market performance or knowledge acquisition by joint ventures during the late phase of transition. Indeed, there is some evidence that heavy-handed influence by foreign parents can lead to conflict and the dissolution of a joint venture (Steensma & Lyles, 2000). Taken together, these results suggest that early entrants into transitioning economies should consider taking dominant decision-making roles in their joint ventures, whereas late entrants can possibly relinquish some influence without sacrificing the success of the ventures. Late foreign entrants can create value for their joint ventures by providing resources. However, they do so not by enhancing market performance, but by providing opportunities for learning. Our results also provide insights for policy makers in transitioning economies. Government officials typically view international joint ventures as a valuable mechanism for transferring knowledge. However, we found that a joint venture’s ability to acquire knowledge depends on both the role of the foreign parent and the transition phase. Foreign parent influence is often viewed as a threat to sovereignty, and government officials in transitioning economies may take steps to limit foreign parent influence over their local joint ventures. Our results suggest that such restrictions may limit knowledge acquisition, particularly early in a transition, when local managers lack the wherewithal to create a learning environment. Foreign parent influence is needed to facilitate learning. Moreover, the sourcing of foreign resources is commonly emphasized as a means of acquiring state-of-the-art knowledge. However, without the requisite capacity and motivation for learning, which are often lacking early in a transition, real knowledge transfer may not occur. Instead, patience may be needed to allow these capabilities to evolve over time. Indeed, our results suggest that a “big bang” approach to transition, in which reforms are implemented rapidly, may be too aggressive and inconsistent with the gradual evolution of the softer factor markets in terms of managerial and learning capabilities. Local ventures may need to be protected for some time from the “hidden hand” of market forces until knowledge-based capabilities are developed.

Implications for Practice

Our results provide insight for foreign multinationals as well as for government policy makers. In today’s global economy, many firms are looking across their borders to new markets. Foreign firms’ entry into emerging markets can range from early to late. Foreign parents may need to take the timing of their entry into account when considering the level and type of their involvement. Strong resource provision is vital for market performance in the early phase of a country’s economic transition. Early entrants should plan to provide extensively for their ventures if they are to succeed. Early entrants may also need to adjust their expectations as to how fast their foreign ventures will internalize capabilities from provided resources and become more autonomous. The capacity for learning is limited early in a transition, when there is significant upheaval (Newman, 2000). Our results do suggest, however, that early entrants can enhance knowledge acquisition through their decision influence and authority. Foreign parent managers are better equipped to establish a vision that encourages learning than their local counterparts. Heavy-handed influence does not appear to be vital for market performance or knowledge acquisition by joint ventures during the late phase of transition. Indeed, there is some evidence that heavy-handed influence by foreign parents can lead to conflict and the dissolution of a joint venture (Steensma & Lyles, 2000). Taken together, these results suggest that early entrants into transitioning economies should consider taking dominant decision-making roles in their joint ventures, whereas late entrants can possibly relinquish some influence without sacrificing the success of the ventures. Late foreign entrants can create value for their joint ventures by providing resources. However, they do so not by enhancing market performance, but by providing opportunities for learning. Our results also provide insights for policy makers in transitioning economies. Government officials typically view international joint ventures as a valuable mechanism for transferring knowledge. However, we found that a joint venture’s ability to acquire knowledge depends on both the role of the foreign parent and the transition phase. Foreign parent influence is often viewed as a threat to sovereignty, and government officials in transitioning economies may take steps to limit foreign parent influence over their local joint ventures. Our results suggest that such restrictions may limit knowledge acquisition, particularly early in a transition, when local managers lack the wherewithal to create a learning environment. Foreign parent influence is needed to facilitate learning. Moreover, the sourcing of foreign resources is commonly emphasized as a means of acquiring state-of-the-art knowledge. However, without the requisite capacity and motivation for learning, which are often lacking early in a transition, real knowledge transfer may not occur. Instead, patience may be needed to allow these capabilities to evolve over time. Indeed, our results suggest that a “big bang” approach to transition, in which reforms are implemented rapidly, may be too aggressive and inconsistent with the gradual evolution of the softer factor markets in terms of managerial and learning capabilities. Local ventures may need to be protected for some time from the “hidden hand” of market forces until knowledge-based capabilities are developed.

Limitations and Future Research

Our study is limited by our reliance on one country. Hungary’s economic system prior to World War II was based on market institutions. Other transitioning economies may lack this history with market traditions and experience additional difficulties. However, Hungary is one of the more advanced economies in terms of transition to a market structure (Economist, 2002). Hungary pursued a more gradual process that focused on foreign investment and institutional change as opposed to a “big bang” transitional strategy. Others have been relatively late in recognizing the benefits of foreign investment (e.g., Romania and Bulgaria; Economist [2002]). Thus, Hungary’s experiences can provide important lessons for those countries that are still early in their transitions. While our one-country, two-period design provided certain advantages, a
multicountry study examining how the relationships between foreign parent involvement and joint venture success vary depending on national context would be particularly provocative.

Although focusing on two points in time enabled us to collect rich primary data not available from archival sources, the time-based dummy variable is an admittedly crude proxy for transition phase. Researchers may want to consider using a longitudinal panel design to tease out how specific changes in the institutional and economic environment influence various aspects of joint venture behavior.

We also focused on only one organizational form, the joint venture. By doing so, we were able to concentrate on constructs that are specific to joint ventures. Joint ventures, however, are inherently unstable, owing to shared equity. Understanding how foreign parent involvement, knowledge acquisition, and market performance influences how joint ventures in transitioning economies evolve to wholly owned subsidiaries and the control of those subsidiaries (foreign or local) would also provide a contribution.

Conclusion

Despite these limitations, this study provides evidence that the role that foreign parents play in the success of their joint ventures depends on the broader institutional and economic environment of those ventures. We contribute to the resource-based and learning perspectives on international joint ventures by showing how the value of foreign partner involvement changes as economic transition from centrally planned to free market economy progresses. In today’s global environment, where firms are pursuing emerging markets in different stages of development, understanding how economic and institutional context influences the role that firms might play in the success of their partnerships is not only interesting from an academic perspective, but also has practitioner and policy implications.

REFERENCES


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