

***Trust, Organizational Controls, Knowledge Acquisition
from the Foreign Parents, and Performance in
Vietnamese International Joint Venture***

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Abstract

Successful adaptation in strategic alliances “calls for a delicate balance between the twin virtues of reliability and flexibility” [Parkhe 1998]. On one hand, the joint venture must be flexible enough to respond to the uncertainties of competitive business environments because it is not feasible to plan for every possible contingency. Yet, on the other hand, unfettered flexibility invites dysfunctional behavior, such as opportunism and complacency. This delicate balance accompanies a parallel balance between trust and control of the joint venture. The primary goal of this study is to empirically examine this relationship in the context of Vietnamese international joint ventures (IJVs) by building on the model of knowledge acquisition and performance in IJVs established by Lyles and Salk [1996].

This study makes three major contributions to the literature. First it confirms several findings of the original Lyles and Salk study [1996]. Second, we strengthen Lyles and Salk’s original model by incorporating multiple measures of both interorganizational trust and control as independent variables. Finally, this study represents one of the first in-depth examinations of business in the emerging Vietnamese economy.

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Introduction

Successful adaptation in strategic alliances “calls for a delicate balance between the twin virtues of reliability and flexibility” [Parkhe 1998]. On one hand, joint ventures must be flexible enough to respond to the uncertainties of competitive business environments because it is not feasible to plan for every possible contingency. Yet, on the other hand, unfettered flexibility invites dysfunctional behavior, such as opportunism and complacency. This delicate balance accompanies a parallel balance between trust and control of the joint venture. However, despite recent theoretical buttressing of the trust-control-learning-performance relationships in interorganizational settings [Das and Teng 1998; Larsson et al. 1998], empirical studies have yet to confirm this work. When empirical studies of trust and control in interorganizational settings have been done, findings have often been inconclusive, limited in scope, or not based directly on the IJV context [Aulakh et al. 1996; Johnson et al. 1996; Olson & Singsuwan 1997; Nooteboom et al. 1997; Lane et al. 1997; Gulati & Singh 1998; Zaheer et al. 1998; Lyles et al. 1999]. Filling these gaps in the literature and reconciling the trust/control and learning literatures are the primary goals of this empirical study.

In order to do this, we build on the model of knowledge acquisition and performance in international joint ventures established by Lyles and Salk [1996]. By doing so, this study makes three significant contributions to the literature. First, this study re-tests the findings of Lyles and Salk's original study of Hungarian IJVs in a very

different transitional economy. Second, we strengthen Lyles and Salk's original model by incorporating multiple measures of both interorganizational trust and control as independent variables. Finally, this study represents one of the first in-depth examinations of business in the emerging Vietnamese economy.

We begin the paper by defining the role of knowledge acquisition from parents in the IJV learning process and developing the knowledge acquisition-performance link. We supplement this discussion by reviewing the theoretical framework and findings of Lyles and Salk's original study of knowledge acquisition and performance in IJVs. We follow by exploring trust's composition and establishing the hypothesized trust-knowledge acquisition link in the IJV setting. We then examine the concept of organizational control as the means IJV parents use to mitigate the perception of risk and propose the ways organizational control impacts knowledge acquisition in that setting. Finally, once our theoretical model is constructed, we test our hypotheses with data from a survey of Vietnamese IJV managers and discuss our results.

Understanding Trust-Control-Learning-Performance

As previously mentioned, we base much of our current study upon the organizational factors that relate to knowledge acquisition and performance identified by Lyles and Salk (1996). These factors include assistance from the foreign parent, articulated goals, relatedness of the foreign parent's business to IJV's, and the IJV's flexibility and creativity. Much of the original rationale for using these factors is based on Cohen and Levinthal's model of absorptive capacity [1990] and Lane and Lubatkin's model of *relative* absorptive capacity [1998]. Cohen and Levinthal [1990] define absorptive capacity as a firm's ability 'to recognize the value of new, external knowledge, assimilate it, and apply it to commercial ends'. Lane and Lubatkin [1998]

extend this concept to interorganizational learning arrangements like IJVs. We supplement the basic model by examining questions about the impact of various forms interorganizational trust and control on interorganizational learning performance. By doing so we hope to provide empirical support for theoretical propositions of trust and control's roles in interorganizational learning (i.e. Hamel 1991; Das and Teng 1998; Larsson et al. 1998).

Figure 1 here

Absorptive Capacity and Learning Structures

Developing international markets can offer corporations tremendous but risky opportunities to grow revenue and profits. These opportunities are often coupled with significant barriers to their exploitation such as government regulation, large capital requirements, and specific technological and marketing knowledge requirements. This is particularly true of transitioning economies, such as Vietnam, where overcoming knowledge deficiencies is a primary determinant of success. Local firms often lack sufficient technological and managerial know-how to be successful against experienced multinational competitors, and multinationals often lack sufficient cultural and structural market knowledge to successfully apply advanced industry know-how. In addition, the opportunities that emerge from rapidly changing business environments are frequently not recognized quickly enough for slower internal knowledge creation to be effective [Dierickx and Cool, 1989]. As a result, knowledge-sharing alliances have become an important component of the strategies to exploit opportunities in emerging international markets. Our focus is on international joint ventures, which represent a specific type of strategic alliance where two or more “parent” organizations provide complimentary resources to create an organizational entity distinct from the parents.

There is a great deal of potential value of knowledge-sharing IJVs because experienced parent organizations can provide IJVs a significant competitive advantage. This is particularly true of young IJVs [Lyles and Schwenk 1992], like those in the transitional Vietnamese economy where local managers' experience with capitalism and foreign managers' experience with the local market are limited. For this reason, we consider young IJVs in developing markets to be "learning alliances" as much as they are traditional resource or risk-sharing alliances. In a similar study, Lyles and Salk (1996) demonstrated the importance of knowledge acquired from the foreign parent in young IJVs in Hungary's transitional economy.

H1: IJV performance is positively related to the knowledge it acquires from the foreign parent.

Relatedness.

The basic premise of Cohen & Levinthal's concept of absorptive capacity [1990] is that the possession of prior related knowledge facilitates the acquisition and use of new knowledge. This premise is based upon psychological work suggesting that cues and linkages made familiar by prior knowledge acquisition and categorization make future knowledge acquisition, categorization, and use easier [Bower and Hilgard 1981]. Based on the work of Ellis [1965] and Harlow [1959], Cohen and Levinthal [1990], a case is made that the prior possession of related knowledge gives rise to a firm's capacity to learn because it permits "the sorts of associations and linkages that may have never been considered before." Lane and Lubatkin [1998] elaborate that the degree to which an IJV's prior knowledge relates to that of its parents is manifested in the relatedness of the IJV's and parent's institutional structures and organizational challenges.

H2: The *KNOWLEDGE ACQUIRED* by the IJV is positively influenced by the IJV's *RELATEDNESS* to its parents.

Capacity to Learn.

While prior related knowledge is one important determinant of an organization's ability to learn, solve problems and be creative, we view it as one component in a multi-faceted learning function that includes organizational intelligence and other learning structures. We refer to intelligence as the raw ability of an organization's members to make the joint cognitive leap from one set of knowledge to another. Kogut and Zander [1992] point out that variations in intelligence alone can have a significant impact on an organization's ability to manipulate and use knowledge, particularly if it can be broken down into certain aptitudes. Makhija and Ganesh [1997] add that certain kinds of control systems or extrinsic learning structures are also a vital determinant of an organization's capacity to learn. These learning structures, like brainstorming or training sessions, may be viewed as manifestations of certain determinants of learning identified by Hamel [1991], including learning intent, boundary transparency and receptivity. The degrees to which these determinants are supported by the extrinsic learning structures depend in part on how well these structures match the perceived requirements of the organization [Huber 1982; Levitt and March 1988]. For example, if classroom-training sessions are not transparent enough to transfer complex, tacit knowledge to workers, then those workers may require hands-on training sessions. Thus, given the importance of this match, we expect flexibility of an organization's extrinsic learning structures to be a critical determinant of success when the organization's knowledge requirements are constantly changing [Dodgeson 1993; Lyles and Baird 1994].

H3: Knowledge acquired by the IJV and performance is positively correlated with the creativity, flexibility and the acumen of its decision-makers [*CAPACITY TO LEARN*].

Articulated Objectives.

Articulated objectives can also promote knowledge transfer from parents to the IJV [Hill and Hellriegel 1994; Nonaka and Takeuchi 1995]. Commonly understood goals enable participants in the organization to focus learning resources on a common vision and mission [von Krogh et al. 1994]. Articulated objectives used as benchmarks can provide feedback about the effectiveness of learning structures and other efforts while preserving flexibility of the IJV to optimally design those structures [Lyles and Salk 1996].

H4: Knowledge acquisition by the IJV is greater when objectives are articulated.

Assistance by Foreign Parents.

As previously mentioned, an IJV's parent may be its single most important source of knowledge for future development [Markoczy 1993]; however, a parent's knowledge may not always be easily accessed by the IJV. This knowledge may be so deeply embedded in the parent firm's structures and processes that it has become tacit in nature. Or given the complex nature of modern technology and management practices, IJV members may not be able to unilaterally and efficiently decode potentially useful parental knowledge. Thus, it may be critical for the parent firm to actively provide signals, cues and coding schemes to draw the attention of IJV members to potential knowledge [Lyles and Salk 1996].

H5: Active involvement of the IJV parents by providing managerial and technical assistance and training is positively related to knowledge acquisition reported by the IJV.

Trust in International Joint Ventures

Multinational corporations (MNC) are constantly faced with risks associated with their endeavors overseas. In order for overseas investments in IJVs to be perceived as worthwhile, especially investments of proprietary knowledge, MNCs must boost their own *confidence* that potential returns will be realized by taking steps to mitigate both external and internal risks. According to Das and Teng (1998) confidence depends upon the trust and the control system within the alliance. Insufficient confidence on the part of any of the constituents about the business environment or the internal workings of the IJV can impede needed investment, create tension and gridlock, and ultimately induce parent divestment or complete IJV dissolution.

Trust.

Trust is one of the primary means of mitigating perceptions of internal risk [Das and Teng 1998]. We adopt Sitkin and Roth's [1993] broad definition of trust as one party's "belief and expectation about the likelihood of having a desirable action performed by the trustee." Our focus in this study is specifically the risk that a partner or the IJV itself will act opportunistically and unfairly. Hosmer [1995] elaborates that trust in economic exchanges may be seen as an expectation that involved parties will act in good faith, uphold commitments, be honest, and not take advantage of others. This expectation that an IJV participant will behave with *integrity* by adhering to an agreed upon set of ethical principles may be derived from the belief in other participants' specific benevolence. It may also be based in the belief that the partner is uniformly honest and principled in all of its dealings [McKnight, Cummings and Chervany 1998].

The majority of discussion in the interorganizational trust literature has focused on the positive influence of trust between alliance parents on performance. Larsson et al.

(1998) extend this discussion to the learning arena by proposing that the commonly understood benefits of trust are particularly important in the creation and exchange of proprietary knowledge. It is trust that enables continuous economic relationships in the theoretic sense [Beamish & Banks, 1987; Parkhe 1993b]. Kogut [1988] points out that trust reduces transaction costs associated with resources and knowledge exchange by reducing fears of partners' opportunistic behavior. In addition, trust in alliances provides an environment which helps ensure that information exchanged between partners and the IJV is "accurate, timely and comprehensive" [Inkpen 1997]. Furthermore, by reducing uncertainty, trust can remove the fetters of hierarchical controls that may impede absorptive capacity and ultimately, adaptive capabilities [Aulakh et al. 1996; Lane et al. 1997; Gulati & Singh 1998; Spreitzer & Mishra 1999]. Finally, trust between the parents of an IJV may also have an important positive effect on levels of trust between the IJV and its parents. After experiencing trustworthy behavior in the parent/parent relationship, foreign parents may feel more comfortable in its relationship with local IJV managers and be more willing to provide proprietary knowledge to the IJV. Conversely, the IJV may also be more receptive to the technical and managerial knowledge offered by the foreign parent and thus, more willing to commit resources to the application of that knowledge.

H6a: Trust between IJV parents (*TRUST*) has a positive impact on the IJV's acquisition knowledge from the foreign parent.

H6b: Trust between the foreign parent and the IJV (*INTEGRITY*) has a positive impact on the IJV's acquisition knowledge from the foreign parent.

Organizational Control Mechanisms.

The other primary means of reducing internal uncertainty and risk associated with joint ventures is the establishment of control mechanisms [Geringer & Hebert, 1989; Das Teng, 1998]. Shaan [1983: 57] defines control in the JV context as “the process through which a parent company ensures that the way a JV is managed conforms to its own interest”. From a learning perspective, control systems play a critical role in ensuring that parties are forthcoming with critical information, that the knowledge transfer process is efficient and that transferred knowledge is appropriately utilized [Mintzberg 1979; Fiol & Lyles 1985; Makhija & Ganesh 1997]. On the other hand, inappropriate control systems can inhibit learning by creating interorganizational barriers that impede the flow of knowledge [Huber 1982]. Ineffective control system can also unduly remove the organizational slack necessary for learning to occur and inadvertently create incentives for organizational members to hide valuable knowledge from each other.

Control mechanisms have been categorized multiple ways in the literature and the resulting subdivisions have been employed to create contingency frameworks that illustrate the effects of these mechanisms on trust and performance. Parkhe [1993b] distinguishes ex ante deterrents or controls, such as non-recoverable investments (asset specificity), from ex post deterrents designed to minimize risk in on-going relationships. Our focus is on the maintenance of IJV relationships and therefore, on ex post controls. Das and Teng [1998] divide the latter into formal controls and social (informal) controls.

Social Controls

Social controls refer to mechanisms, such as informal communication, information exchange and training, that foster shared values and norms without explicitly

restricting the behavior of the people targeted by those social controls. The term, “social control”, has been used interchangeably with “informal control,” “normative control,” and “clan control” [Leifer and Mills 1996]. We expect social controls to indirectly and directly promote interorganizational learning in the Vietnamese context. Indirectly, social controls promote learning by enhancing interorganizational trust. Without explicit restrictions on IJV member behavior, social controls can foster a sense of respect between the IJV and its parents when those controls are not blatantly manipulative. By relying on social controls, a parent provides a cue to the IJV about the level of confidence it has in the IJV’s integrity [Larson 1992]. The IJV may reciprocate this gesture of goodwill over time by engaging in trustworthy behavior, such as openness and honesty about operations. The result is a build-up of confidence that leads to trust building over the course of the social exchange [Whitener et al. 1998]. Furthermore, successful social control aligns the values and expectations of the relationship participants, which enhances inter-firm trust [Aulakh et al. 1996; Creed & Miles 1996; Madhok 1995]. Social controls also directly promote interorganizational learning by providing the medium through which knowledge can be transferred. Inherently, social controls entail social interactions through informal communication, team meetings, and training [Makhija & Ganesh 1997]. We expect the flexibility and lateral movement of knowledge afforded by social control systems to be particularly useful in uncertain environments, such as Vietnam.

H7: The use of *SOCIAL CONTROLS* in IJVs is associated with higher levels of knowledge acquisition from the foreign parent.

Formal Controls

According to Das and Teng [1998], “Formal controls employ codified rules, procedures, goals, and regulations that specify desirable patterns of behavior.” Formal

controls differ from social controls in that they are much more detailed and explicit in their prescription of behavior and in their means of enforceability. Makhija and Ganesh [1997] suggest that the influence of formal controls on interorganizational learning is contingent on the degree to which learning requirements are stable, certain and codifiable. On one hand, when knowledge requirements are explicit and precise, formal controls may serve as effective means of standardizing information and streamlining the transfer process. In addition, when the assumptions underlying the formal controls do fit the task at hand, then formal controls can help create a basis on which a higher order of social exchange and trust building can develop [Goold & Campbell 1987; Sitkin 1995]. On the other hand, if the formal controls do not fit the task at hand, they may be viewed as a signal of a parent's distrust of the IJV and can serve as an impediment to productive knowledge transfer and application. This can lead to a self-reinforcing downward spiral of trust because the IJV members may respond by hiding important operational activities and information or pursue dysfunctional short-term goals [Das and Teng 1998; Sitkin and Stickel 1996]. If the organization's environment plays a major role in determining the tasks required for success, then organizations in rapidly changing environments (i.e. Vietnamese IJVs) might have significant difficulty fitting rigid, formal controls to rapidly changing task requirements. As a result, we expect the emergent disjunction between formal controls and tasks in dynamic environments to create tension in the relationship and inhibit knowledge transfer.

H8: The use of *FORMAL CONTROL* mechanisms in Vietnamese IJV is negatively correlated with knowledge transfer from the foreign parent.

Methodology

Data Collection

Data were collected through surveys of 73 international joint venture general managers and presidents in Vietnam during 1998. We define joint ventures as separate organizational entities owned by two or more parents. At least one parent was foreign and no wholly owned subsidiaries were included in the sample. Joint ventures surveyed were controlled for both size and age. The average surveyed IJV had 146 employees and had been in operation for 5.45 years. The average manager surveyed had 21.6 years of total work experience and 3.6 years of experience in their current position. The study represents a stratified sample of the industrial categories in Vietnam, including the manufacturing of machinery, electronics, textiles, food processing and construction.

Data collection was done by a policy research institute in Vietnam and involved a structured interview with the joint venture manager. The structured interview was designed to capture information about the joint ventures formation, ownership structure, financial management, and strategic practices. Survey questions were pre-tested, translated into Vietnamese and back-translated to avoid error. Interviewers and the project managers received standardized, detailed instructions. Interviewers were bilingual so the survey could be conducted in either English or Vietnamese depending on the interviewee's preference, although most were conducted in Vietnamese. The type and extent of information available in this survey is unavailable elsewhere.

Variables

Absorptive Capacity and Learning Structures. All variables used in the analysis and their item composition are shown in Appendix 1. With the exception of *ARTICULATED*

OBJECTIVES, all variables are comprised of items with Likert-type scales.

ARTICULATED OBJECTIVES includes two binary items and is identical in composition to the variable, *GOALS*, used by Lyles and Salk [1996]. *FOREIGN PARENT*

ASSISTANCE is composed of seven items previously used in the Lyles and Salk study to define managerial contributions (*MGRCONTRIBUTE*) and technical contributions

(*TECHCONTRIBUTE*) from the foreign parent. The decision to collapse those items in this study was the result of factor analysis. *RELATEDNESS* is comprised of four items measuring the degree to which the IJV's business is similar to that of the foreign parent.

All multi-item variable scales were tested for consistency using Cronbach's alpha and met Nunnally's reliability hurdle of .7 [1967] with the exception of *CAPACITY TO LEARN*, which demonstrated an alpha of .69 and was identical in construction to the *CAPACITY* variable used in Lyles and Salk [1996].

Trust. The *INTEGRITY* variable was based on six trust-related items (alpha = 0.79) administered by Nootboom et al. [1997]. These five-point Likert-type items were focused on the IJV manager's confidence that participants in the IJV relationship will not act opportunistically (see Appendix A for details). The composition of *INTEGRITY* is identical to Nootboom et al.'s *Habitualization and Institutionalization* variable with the exception of one item designed to measure the degree to which "informal agreements have the same significance as formal contract." Factor analysis dictated that this item be replaced by an item that determined whether "both sides know the weaknesses of the other and do not take advantage of it." *TRUST BETWEEN PARENTS* is based on three items listed in the appendix.

Controls. Both the *SOCIAL CONTROLS* and *FORMAL CONTROLS* variables were created from five items (alphas = .81 and .72 respectively). The items that comprise the

SOCIAL CONTROLS variable were chosen to reflect behavioral mechanisms identified by Das and Teng [1998: 502] through which social control is exercised. Items contributing to the *FORMAL CONTROLS* variable range from measures of rigid, bureaucratic process controls to output controls, such as incentive systems.

Performance. Performance was created by seven items ($\alpha = 0.90$) identical to those used by Lyles and Salk [1996]. Qualitative measures of performance were chosen for several reasons. First, many IJVs do not report performance [Makino & Delios, 1997]. When they do, those quantitative measures of performance are subject to manipulation and are often not comparable across national borders and cultures [Brown, Soybel and Stickney 1994]. In addition, Geringer and Hebert [1991] found that qualitative measures of performance were significantly correlated with actual performance. Finally, in a transitional economy, such as Vietnam, it is close to impossible to get accurate data that represents financial performance (Lyles & Salk, 1996).

Knowledge Acquisition. This measure is comprised of 6 items designed to assess the degree to which the IJV has learned from the foreign parent. It is nearly identical in composition to the knowledge acquisition variable used by Lyles and Salk [1996].

Data Analysis

We tested the majority of our propositions using multiple regressions performed by SPSS 9.0. Our analysis is divided into two parts. The first stage of our analysis tested hypotheses 2 through 8 by including several stepwise regressions using *KNOWLEDGE ACQUIRED* as the dependent variable. The second stage was designed to test hypothesis 1 by regressing *KNOWLEDGE ACQUIRED* against IJV *PERFORMANCE*. We also included regressions of the other antecedents on

PERFORMANCE although this procedure was outside the scope of our articulated hypotheses.

Results

Table 1 provides the summary statistics and correlations. All variables exhibit reasonable variance in responses. The average age is about five years. A quick glance at the correlation matrix reveals several significant positive relationships between knowledge acquisition and several IJV characteristics, including *PERFORMANCE*, *INTEGRITY*, *TRUST BETWEEN PARENTS*, *SOCIAL CONTROLS*, *FOREIGN PARENT ASSISTANCE*, *ARTICULATED OBJECTIVES*, and *RELATEDNESS* of the IJV and foreign parent. Performance is significantly correlated with *KNOWLEDGE ACQUISITION*, *INTEGRITY*, *TRUST BETWEEN PARENTS*, *SOCIAL CONTROLS*, *FOREIGN PARENT ASSISTANCE*, and *ARTICULATED OBJECTIVES*.

**** Insert Tables 1 & 2 ****

Table 2 represents our findings from the first stage of analysis where we examined the impact of certain IJV characteristics on knowledge acquisition from the foreign parent. In models 1 through 4, we examine the impact of separate categories of variables on knowledge acquisition; and in model 5, we look at the overall impact of all of the variables. Models 1 through 4 in table 2 also provide support for the hypothesized relationships between knowledge acquisition and *INTEGRITY*, *SOCIAL CONTROLS*, and *FOREIGN PARENT ASSISTANCE*. It is interesting to note that our analysis revealed a counterintuitive, negative relationship between knowledge acquisition and *CAPACITY TO LEARN*.

Models 1 through 4 demonstrate subsequent improvement over each previous model as measured by the pseudo r-square for which values increased from .045 to .555.

Model 5 does not significantly change the pseudo r-square where it remains at .546. This model adds no improvement to our explanatory ability. *CAPACITY TO LEARN* and *FOREIGN PARENT ASSISTANCE* are supported by the overall regression in model 5. The adjusted R-squares of models 1 through 4 indicate that changes in learning structures, such as foreign parent assistance, provide a better explanation for changes in the IJV's knowledge acquisition than do changes in trust levels.

**** Insert Table 3 ****

Model 7 of Table 3 provides additional support for our first hypothesis that *KNOWLEDGE ACQUIRED* is positively related to *IJV PERFORMANCE*. Although not directly related to our hypotheses, Table 3 also provides some other interesting results. Model 8 suggests that *TRUST BETWEEN PARENTS* plays a greater role in influencing performance than does *INTEGRITY* perceptions between the foreign parent and the IJV, despite *INTEGRITY*'s relatively larger role in the knowledge transfer process. Models 9 and 10 reiterate the significant roles that *SOCIAL CONTROLS* and *FOREIGN PARENT ASSISTANCE* play. Model 10 also provides some support for the hypothesis that *ARTICULATED OBJECTIVES* promote better performance. The summary regression in model 11 emphasizes the importance of *TRUST BETWEEN PARENTS*, *CAPACITY TO LEARN* and the use of *SOCIAL CONTROL* to overall *PERFORMANCE*.

Discussion

Findings

This study proposed and tested a model of trust, controls, and structural variables in the context of knowledge acquisition and performance from foreign parents. While prior research has not focused on the two aspects of trust, namely trust between the

foreign parent and the IJV and trust between the parents, our model includes both. We tested our model using a sample of relatively new Vietnamese IJVs surveyed in 1998. The results provide support for the hypotheses of factors influencing the IJV's knowledge acquisition from its foreign parent, and strong support for the hypotheses regarding factors influencing the IJV's performance. Unexpectedly, trust between the parents and the IJV are associated with performance instead of directly with learning. These findings have implications for academics involved in organizational learning theory and research, as well as for practitioners.

Knowledge Acquisition and Performance. As mentioned in the introduction, this study makes three major contributions to the literature. First, it confirms several findings of the original Lyles and Salk study [1996], including the significant positive relationship between foreign parent knowledge transfer and IJV performance exhibited in model 7 of table 3. However, like Lyles and Salk [1996], we too found that the variations in the other independent variables provided better explanations for outcomes in performance, as the relatively larger R-squares of models 8 through 10 suggest. Rather than using knowledge transfer as the primary lens through which IJV performance is viewed, like Lyles and Salk [1996], we believe that a model of IJV performance should include the knowledge transferred from foreign parents as an important factor in a larger resource-based explanation. Incorporating sources of knowledge other than the foreign parent (i.e. the environment) in future studies of IJVs should improve the explanatory value of knowledge or resource-based models.

Absorptive Capacity and Learning Structures. Like Lyles and Salk's study, this study also confirms the roles of several organizational factors related to absorptive capacity and learning. We confirm the hypothesis that direct foreign parent involvement plays a

significant role in the knowledge transfer process. While not a hypothesis, we also found that foreign parent assistance and articulated objectives may have some impact on overall performance, although these variables did not emerge as a significant factor in the summary regression on performance (model 11).

Like Lyles and Salk, we also found that the IJV's capacity to learn (creativity, flexibility and management knowledge of employee activities) exhibited a positive relationship with performance; while conversely exhibiting a negative relationship with knowledge acquired. There are several possible explanations for this reversal. The first is that learning requirements in the Vietnamese business environment may not be as dynamic as we originally assumed or the dynamics of the environment may be more industry-dependent than previously thought. Thus, the need for more flexible learning structures may not be as great as we originally hypothesized. Learning requirements may also be more complex than we originally assumed in that knowledge acquired from the *foreign parent* is best transferred through more formal mechanisms while knowledge acquired from the dynamic *environment* may require more flexible learning structures. Another important, possible explanation for our failure to confirm hypotheses related to formal control and flexibility is that culture plays a significant moderating role as Das and Teng [1998] suggest. No formal studies of Vietnamese culture have been conducted to our knowledge. But, if uncertainty avoidance is a salient cultural trait in Vietnam as with many other Asian cultures [Hofstede 1980], then it is possible that Vietnamese joint ventures may learn more efficiently when more formal mechanisms are used to transfer knowledge. We speculate that most of the workers in the new IJVs were former employees of state-owned enterprises in the communist system and may be more accustomed to hierarchical control. As a result, the new IJVs may be more agile and

capable of adaptation when orders come down through the channels rather than when employees are asked to reconcile the uncertainties associated with flexibility and creativity.

Trust and Control. The second contribution that this study makes is that it examines multiple forms of trust and control in IJVs as they relate to knowledge acquisition and performance. While the results of this study are intuitively consistent with most of the theoretical propositions in the literature about the positive benefits of interorganizational trust, it is the first to empirically demonstrate these benefits [Aulakh et al. 1996; Olson & Singiswan 1997; Lane et al. 1997; Lyles et al. 1999]. Other studies that have provided empirical evidence [Zaheer et al. 1998] have not been focused directly on international joint ventures or not tested the mechanisms through which trust enhances the performance of alliances and organizations in general.

In much of the IJV literature, the importance of trust is defined as the expectation that the partners will act in good faith (Hamel, 1991; Inkpen and Currall, 1997). Our measures of trust reflect this perspective as well. However, while we measure trust between the parents and trust between the IJV and the foreign parent, we simultaneously look at knowledge transfer between the foreign parent and the joint venture. We find that changes in trust levels provide less explanatory value for changes in the IJV's knowledge acquisition than do changes in learning structures, such as foreign parent assistance. These results are similar to the results of Lane et al. (1999) who also does not find a direct relationship between learning and trust. This may be because foreign parents often also provide the financial capital required to exploit the knowledge being transferred or because the knowledge being transferred is too complex or tacit to be applied without ongoing assistance from the foreign parent. Therefore IJV participants need not be

overly concerned about misuse of the knowledge being transferred. Alternatively, trust becomes more important when there is a risk of other forms of opportunistic behavior by the parents regarding the performance of the IJV. This highlights the importance of other forms of resource exchange in the IJV relationship.

Consistent with the findings of Aulakh et al. [1996], social controls, such as informal communication and other means of aligning the values and norms in the IJV, appear to contribute to the overall performance of the IJV. However, there is weaker support for their contribution to the knowledge transfer process. This suggests social controls may have the greatest impact on performance by enhancing activity coordination and forms of resource exchange other than knowledge transfer. Nonetheless, these findings confer with findings related to foreign parent assistance in that they both generally emphasize the importance of direct involvement of the foreign parent in the IJV's operation. Also like Aulakh et al. [1996], we failed to find a significant relationship between formal controls and the dependent variables. As mentioned earlier in the discussion about the IJV's capacity to learn, this either highlights the complexity of formal controls and the learning requirements they address or it suggests that cultural and organizational factors may play an important moderating role on the influence of formal control.

Finally, we want to reiterate that this is one of the first in-depth empirical studies of business in the transitioning Vietnamese economy. The emergence of Vietnam into the mainstream global economy has and will continue to create tremendous opportunities and challenges for those organizations willing to participate. We believe this study offers valuable insight into these opportunities and challenges, and we hope it will serve as a basis for future studies in this area.

Limitations and Future Research.

Several limitations of this study exist. First, the transitional nature of the Vietnamese economy inherently means that IJVs studied are relatively young, limiting the ability to generalize about these findings. Our findings may also reflect a positive bias because poorly performing IJVs may have been reluctant to participate and we do not include IJVs that have failed. We also recognize the dynamic nature of the relationship between performance and other explanatory variables, such as knowledge acquisition. Longitudinal data and other research methods, such as case studies, may be required to fully examine the lagged effects of many organizational variables on performance and learning.

The results of this study suggest several avenues for future research. Child and Markoczy [1993] suggest that cultural matches between partners of different nationalities may have a significant impact on communicative abilities of the partners and subsequently, the knowledge transfer process. As mentioned earlier, a lack of formal studies of Vietnamese culture limited our ability to use cultural matches between parents as a moderating variable for knowledge acquisition. Thus, we recommend the inclusion of culture as a moderating variable in future studies of interorganizational learning. Also, due to their apparent complex nature, we want to recommend more detailed studies of formal control and flexibility, and their impact on interorganizational learning. Finally, as suggested by our findings about the role of trust in knowledge transfer, the relative contributions and bargaining power of the parents may also play a significant moderating role. We recommend that future research on trust in alliances incorporate measures of these relative contributions.

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Appendix 1 Variable Items

Performance (7 Items, alpha=.90):

1. How would key managers in the Vietnamese parent rate the JV's performance?
2. How would key managers in the foreign parent would rate the JV's performance?
3. How would you would rate the JV's performance?

Rate the JV's performance for the last year in the following activities:

4. Increase business volume
5. Increase market share
6. Achieve planned goals
7. Make profits

Foreign Parent Similarity to the IJV (4 Items, alpha=.83):

To what extent is the joint venture related to the foreign parent in the following areas? Technology, Products, Industry and Customer

Conflict between the IJV and parent (3 items, alpha=.79):

1. To what extent have you had to deal with conflict over the original agreement?
2. To what extent have you had to deal with cultural misunderstandings?
3. To what extent have you had to deal with tensions between JV management and partners?

Foreign Parent Assistance (9 Items, alpha=.91):

To what extent have you received support from your foreign parent in each of the following areas? Financial, Product related technology, Manufacturing related technology, Manufacturing support, Sales/marketing, Managerial resources, Administrative, Training, Time.

Articulated Objectives (2 Items):

1. Does your business have a written long term (3-5 yrs.) plan?
2. Do you have written objectives for your business?

Trust between Parents (3 Items, alpha=.73):

1. To what extent have you had to deal with mistrust among parent firms? (Inverse)
2. How would you characterize the level of trust between the parent firms?
3. The parents are honest and do not try to take advantage of each other?

Perceptions of Integrity between the IJV and its parents (6 Items, alpha=.79):

To what extent would you rate the following statements as true of your relationship with your foreign parent?

1. Because we have been doing business so long, all kinds of procedures have become self-evident.
2. Because we have been doing business for so long, we can understand each other well and quickly.
3. In our contacts with the foreign parent, we have never had the feeling of being misled.
4. In this relation, both sides are expected not to make demands that can seriously damage the interests of the other.
5. In this relation, the strongest side is expected not to pursue its interest at all costs.
6. Because we have been doing business so long, both sides know the weaknesses of the other and do not take advantage of them.

IJV's Capacity to Learn (3 Items, alpha=.69):

Indicate the extent to which you agree with the following statements as they describe your joint venture:

1. The venture is flexible and continually adapting to change.
2. Creativity is encouraged in the JV.
3. Superiors know whether or not employees are doing a good job.

Knowledge Acquired from the Foreign Parent (6 Items, alpha=.91):

To what extent have you learned from your foreign parent:

1. New technological expertise
2. New marketing expertise
3. Product development
4. Knowledge about foreign cultures and tastes
5. Managerial techniques
6. Manufacturing/Production Processes

Formal Controls (5 Items, alpha=.72):

Indicate the extent to which you agree with the following statements as they describe your joint venture:

1. Written rules, procedures and work instructions are used.
2. The main function of members is to follow orders that come down through channels.
3. There's a formal system of measuring performance.
4. There is a system of peer reviews among the venture's managers.
5. Significant raises and promotions are given for outstanding work performance.

Social Controls (5 Items, alpha=.72):

1. To what extent do the expatriates working in the JV help to facilitate communication between the JV and the foreign parent?
2. To what extent is there a lot of informal communication (outside regular channels) in the JV?
3. To what extent have you received emotional support from your foreign parent?
4. To what extent do the expatriates working in the JV help to transfer skills and knowledge from the foreign parent?
5. To what extent do the expatriates working in the JV help joint venture to learn managerial know-how?

Table 1 Correlation Matrix

	MEAN	STD DEV	CAPITAL	JV AGE	PERFORMANCE	ACQUIRED KNOWLEDGE	INTEGRITY	CAPACITY TO LEARN	SOCIAL CONTROLS	FORMAL CONTROLS	PARENT ASSISTANCE	RELATEDNESS	ARTICULATED OBJECTIVES
CAPITALIZATION	6.31	0.62											
JV AGE	5.45	1.58	-0.0485										
PERFORMANCE	22.73	6.06	0.0696	0.0743									
ACQ. KNOWLEDGE	17.83	5.97	0.0914	-.2550*	.2974*								
INTEGRITY	19.85	4.31	0.0655	-0.1282	.2442*	.3197**							
CAPACITY TO LEARN	12.71	1.73	-0.0208	0.2047	0.1542	-.2410*	-0.032						
SOCIAL CONTROLS	15.26	4.73	0.1939	-0.1851	.4692**	.5970**	.3961**	-0.0106					
FORMAL CONTROLS	19.51	3.01	0.2097	0.1517	0.2282	0.0116	0.0381	.4844**	0.1507				
ASSISTANCE	23.77	8.90	0.1377	-0.1748	.3154**	.7314**	.4115**	-0.0582	.7399**	0.0217			
RELATEDNESS	12.99	4.61	0.1711	-0.1038	.1414**	.4335**	0.0565	-0.0493	.3410**	0.0944	.4819**		
ART. OBJECTIVES	1.46	0.63	-0.0008	-0.0984	.2978*	.3378**	.2771*	-0.0664	.4227**	-0.0446	.3966**	0.2044	
PARENT TRUST	11.04	2.56	0.0576	-0.1382	.4496**	.2492*	.3013**	-0.1698	.3089**	0.0332	.2743*	0.0506	0.0906

* p<.05 ** p<.01

Table 2 Multiple Regression Analysis for KNOWLEDGE ACQUIRED from the Foreign Parent

	Model 1		Model 2		Model 3		Model 4		Model 5	
JV Age	-0.251	0.033	-0.201	0.078	-0.140		-0.093		-0.095	
Log JV Capitalization	0.079		0.057		-0.018		-0.023		-0.058	
Integrity			0.247	0.038					0.013	
Trust b/w Parents			0.144						-0.004	
Social Controls					0.582	0.000			0.099	
Formal Controls					-0.051				0.119	
Capacity to Learn							-0.177	0.031	-0.240	0.014
For. Parent Assistance							0.643	0.000	0.573	0.000
Articulated Objectives							0.040		0.026	
Relatedness							0.101		0.095	
F	2.687		3.511		10.467		15.981		9.664	
Significance	0.075		0.012		0.000		0.000		0.000	
Adjusted R sqr.	0.045		0.122		0.345		0.555		0.546	

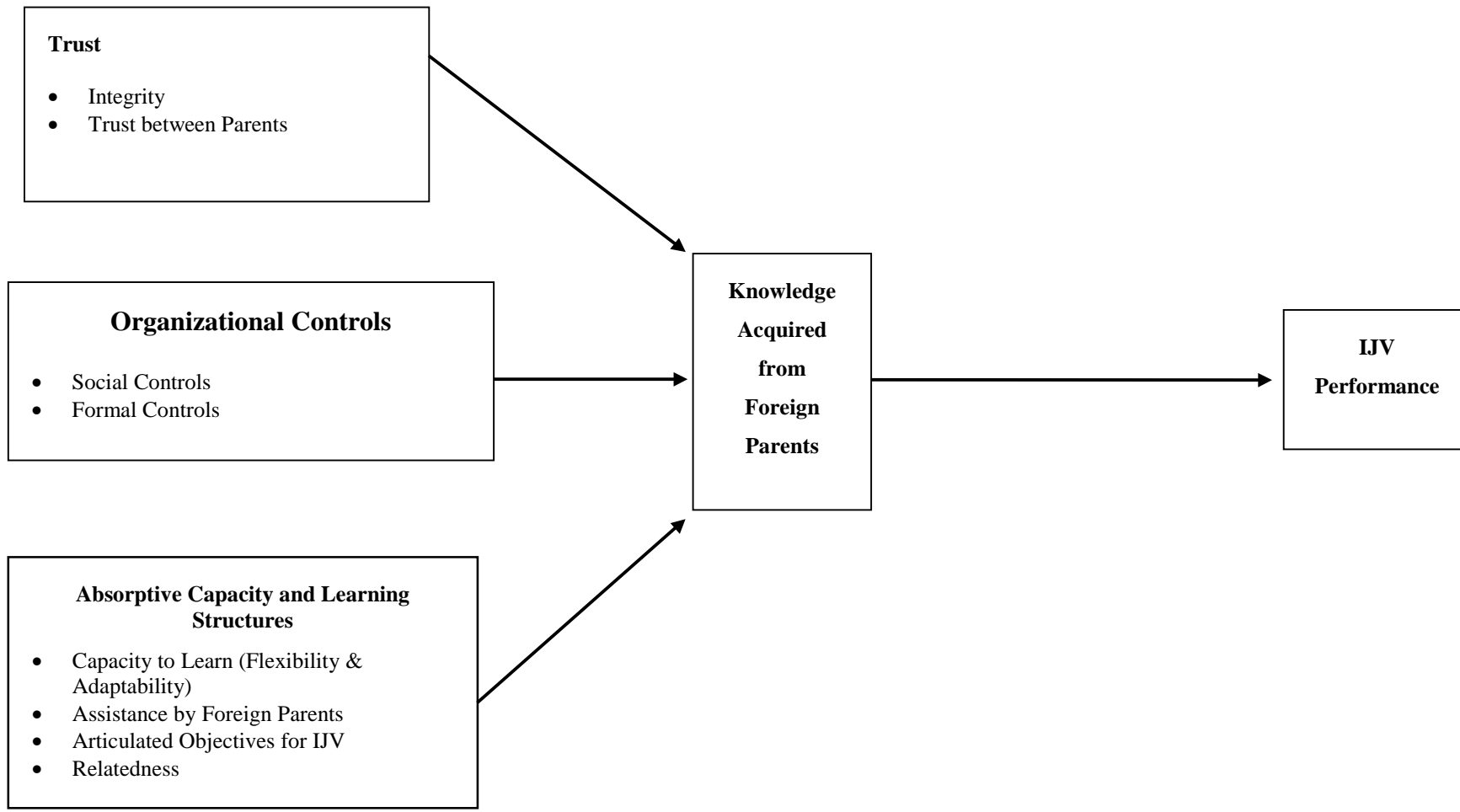
Significance levels less than 0.1 are listed to the right of coefficients.

Table 3 Multiple Regression Analysis for PERFORMANCE

	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
JV Age	0.078	0.162	0.152	0.139	0.108	0.170
Log JV Capitalization	0.073	0.047	0.044	-0.047	0.046	-0.008
Integrity			0.132			-0.003
Trust b/w Parents			0.428	0.000		0.399 0.000
Social Controls				0.482 0.000		0.353 0.026
Formal Controls				0.144		0.044
Capacity to Learn For. Parent Assistance Articulated Objectives Relatedness					0.162 0.258 0.064 0.22 0.075 -0.017	0.212 0.084 -0.217 0.168 0.020
Acquired Knowledge		0.334 0.006				0.176
F	0.385	2.981	5.345	6.170	2.428	4.285
Significance	0.682	0.037	0.001	0.000	0.035	0.000
Adjusted R sqr.	-0.017	0.076	0.194	0.223	0.106	0.334

Significance levels less than 0.1 are listed to the right of coefficients.

Figure 1 Trust, Controls, Knowledge Acquisition from Foreign Parents and Performance in Vietnamese IJVs



Summary Provided to Study Participants

1998 Survey Results

This report provides a summary of a survey of current business practices of joint ventures in Vietnam (hereinafter VJV) in 1998. The data on 75 VJVs was collected through structured interviews with the joint venture's general manager or other upper level management personnel.

This summary highlights the results in the following areas: partner nationality and ownership structure; distribution of joint ventures by industry; size; sales and export patterns; performance; issues of relationship with the foreign partner(s); problem areas in functioning and managing VJVs; financial management; and competitive strategies.

Ownership of the Joint Ventures

Overall, the average percent of equity held by the Vietnamese in the sample was 39%. The average percent of equity held by the foreign partner(s) was 61%. A 2-partner structure (consisting of 60 VJVs) occurred in the majority of the cases. In addition, there were 14 VJVs with a 3-partner structure and 1 VJV consisting of a 4-partner structure. In 15 of 75 cases, the Vietnamese partner(s) held the majority control with an average of 56% equity ownership. In 12 cases, the Vietnamese and Taiwan partners had the most frequent 2-partner joint venture structure with the Vietnamese owning on average 38% of the equity and Taiwan owning on average 62% of the equity. In 1 VJV, the Vietnamese owned 90% of equity and Russia owned 10% equity.

Of the 60 2-partner VJV structures in the sample, the most common nationality for foreign partners was represented by Vietnam and Taiwan (12 VJVs). Other nationalities of the 2-partner VJV structure included: Vietnam and Japan (7 VJVs), Vietnam and Singapore (6 VJVs), Vietnam and Korea (5 VJVs), Vietnam and Hong Kong (5 VJVs), Vietnam and Australia (4 VJVs), Vietnam and Netherlands (3 VJVs), Vietnam and Sweden (3 VJVs), Vietnam and Russia (2 VJVs), Vietnam and Thailand (2 VJVs), and Vietnam and Malaysia (2 VJVs). Included in the sample once were other foreign countries with 2-partner VJVs. These included the countries of British-Netherlands, British Virgin Island, Belgium, Denmark, United States, France, Hungary, China, and the United Kingdom. In 1 VJV, the United States owned 70% of equity and Vietnam owned 30% of equity. (Table 1).

Description of Joint Ventures

Approximately 70% of the VJVs in the sample were started between 1992 and 1994, with the first sale ordinarily made between 1993 to 1995.

The average age of the general manager (hereinafter GM) was 47, with an age range between 27 and 74 years old. The GMs were in their current position on average for 3.87 years and prior to that had changed firms three times (Table 2). Men constituted 93% of the GMs. A vast majority (97%) of respondents held University degrees; 37% majored in sciences/engineering; 35% in economics/business; 14% in marketing/trade; 12% in finance; and 1% in the social sciences.

In 1995, the average VJV had 112 employees, which grew to 129 in 1996 and 145 in 1997. The size of the firms surveyed ranged from 1 to 658 people in 1995; 11 to 703 people in 1996; and 16 to 610 in 1997 (Table 3). The number of joint ventures with more than 500 employees was 1 in 1995 and 1996 and 3 in 1997.

Of the VJVs sampled, almost 75% engaged in manufacturing, 13% in services, and 7% in construction (Table 4). The range of manufacturing trades was fairly diverse, with the majority in industrial/machinery (24%); textiles/clothing (15%); construction (15%); and agriculture (12%) (Table 5).

Performance of VJV

Seventy percent (70%) of the current sales were reported to be within the Vietnam market; exports to Japan, Singapore, South Korea, Taiwan, Malaysia and Hong Kong accounted for approximately 20% of VJV sales. However, exports to China and Thailand accounted for only 0.6% of all sales. Trade to the U.S., Western Europe, France, and Germany accounted for 5.4% of all sales. CIS sales accounted for 2.1% of all sales (Table 6).

The average gross sales for VJVs for 1995, 1996, and 1997 were U.S. \$2.41, 2.94, and 3.54 million dollars respectively. The average net income after taxes for 1997 was U.S. \$474,286 in 1996 but then decreased dramatically to U.S. \$263,551 in 1997. The VJVs reported an average growth in sales of 74% in the last 2 years previous to the survey. They reported an average increase in earnings of 44% in the last 2 years previous to the survey (Table 2). However, 50% of all VJVs reported a decrease in net earnings for the last 2 years of operation.

The VJVs' performance was assessed by a broad range of indicators. Only 8% of the respondents rated their performance as "below average" in their industry; 30% reported "better than average" in performance; and 32% assessed their own performance as "much better than average" in their industry.

In the majority of joint ventures, the GMs stated that they had satisfactory performance in achieving goals, increasing business volume, providing adequate worker training, improving management skills, decreasing unit costs, increasing market share, attracting young workers, increasing employee productivity, decreasing overhead costs, and implementing new strategies. The GMs rated the VJVs as below average in their ability to make profits (Table 7).

Several changes in the industry in the past 12 months were reported by GMs. They reported an average of 4 new competitors, 3 new customers, 1 new supplier, 1 new distributor, and 17 new product lines. The average number of customers in the last 12 months was 407 and ranged from 0 to 15,700. The VJVs had an average of 14 suppliers during that time period. GMs reported that 44% of their suppliers and 36% of their customers were foreign, while 21% of their suppliers and 21% of their customers were state owned enterprises.

Management of Joint Ventures

Although the VJVs work was regulated by written rules, procedures and instructions, and a formal system of measuring performance was available, on the whole, the managers strongly agreed that their venture was flexible in adopting to change. They also strongly agreed that the joint venture encouraged creativity and that superiors knew whether or not employees were doing a good job. Outstanding work was rewarded with significant raises and promotions. As a rule, peer review among managers was available. The GMs were neutral on whether they had the authority to set their own budgets without requiring prior approval of the parent company. The respondents reported that it was frequently the case that the foreign parent provides the technology while the domestic parent provides manufacturing capabilities. While GMs of VJVs tended to agree that business decisions needed to be cleared by their domestic and foreign parents, they reported that major business decisions did not need government clearance (Table 8).

While the joint venture managers exerted most of the decision making influence, the GMs perceived that they had the most influence in making major decisions. With two exceptions, in all areas surveyed, the Vietnamese partners felt that they had the majority share of influence in management decision making in comparison with their foreign partner (Table 9). Only in the areas of investment decisions and dividend payment decisions did the foreign partner have a majority influence over the Vietnamese firm in making decisions.

Managers were asked to what extent they had learned from their foreign parent. Managers responded to six areas using a rating scale ranging from 1 (little extent) to 5 (great extent). Positive responses were considered to be those in the range of 3 (neutral) to 5 (great extent). Most managers indicated learning from their foreign parent in the areas of new technological expertise (72%); new marketing expertise (57%); product development (70%); managerial techniques (73%) and manufacturing and production processes (78%). However, only 47% indicated learning some or more from their foreign parent in the area of foreign cultures, tasks, and tastes (Table 10).

Managers were also asked to what extent their domestic parent taught them. Managers responded to the same six areas as indicated above using the same rating scale of 1 (little extent) to 5 (great extent). Positive responses were considered to be those in the range of 3 (neutral) to 5 (great extent). Most managers indicated being taught by their domestic parent in the areas of managerial techniques (59%) and knowledge about foreign cultures, tasks, and tastes (60%). Just under half reported learning from the domestic parent in the areas of product development (49%); new marketing expertise (48%); and manufacturing

and production processes (48%). Finally, managers reported being taught to a little extent by their domestic parent in the area of new technological expertise (29%) (Table 11).

Support from the foreign partner, an important factor in successful operation of the venture, was at the level expected to strong support (3 to 5 on the rating scale) in the areas of financial support (71%), as well as in product (67%) and manufacturing related technology (59%). It was perceived that the foreign partner received little to some support (1 to 3 on the rating scale) than expected from their partner in the areas of manufacturing support (65%), sales/marketing support (69%), managerial resources (80%), emotional support (80%), and training (77%). It was also perceived that the foreign partner received the least support (1 to 2 on the rating scale) than expected in the areas of time (65%) and administrative support (63%) (Table 12).

The problem areas that the GMs were most concerned about were integrating manufacturing, marketing, personnel, and financial functions of the venture, high costs, obtaining high quality inputs, and especially mistrust among parent firms. They were least concerned with conflict over the original agreement, incompetence in parent firm, personality conflicts, conflicting goals of partners, tensions between JV management and partners and tensions between local and expatriate managers in the JV (Table 13).

Financial Management of VJVs

When asked how GMs planned to finance their investment in building or machinery/equipment, it appeared that most companies would finance such investments through income from sales of their company or financing from their foreign partner. Nineteen companies indicated they would obtain at least 51% of investment funds from income from sales of their company and 43 companies said they would obtain at least 51% of investment funds from their foreign partner. Other common sources of investment were loans from commercial banks, investment by the Vietnamese partner, and loans from foreign banks. Few would finance investments through local money lenders, government loans, or loans from suppliers. None would seek financing from family and friends. Obtaining financial loans often reflects perceived viability of companies. Few companies reported being turned down for a loan frequently. Seventy-six percent (76%) had never been turned down for a loan while 93% had been turned down 3 or fewer times. However, a single company reported being turned down 20 times (Table 14).

General managers responded to the severity of some obstacles to obtaining financing. While all listed obstacles were viewed as relatively unimportant, collateral requirements were viewed as the most important obstacle and access to non-bank investors was seen as least severe (Table 15).

Competitive Strategies

The GMs attributed their success to a variety of competitive methods emphasized over the last 2 years. Given “considerable” emphasis were extensive customer service

capabilities, specific efforts to ensure a pool of highly trained, experienced personnel, and very strict product quality control. “Some” to “considerable” emphasis was placed on developing new products, offering many different products, continuing concern for lowest cost per unit, building brand identification, major effort to obtain raw materials, developing and refining existing products, efforts to build firm’s reputation within the industry, and having products in the higher priced market segments. “None” to “limited” emphasis was placed on maintaining high inventory levels, offering a narrow, limited number of products serving only a few customers as well as offering products in lower price market segments (Table 16).

When making decisions about the firm’s strategy, GMs reported that the following items would receive “medium” to “high” emphasis: assessing environmental risk, scanning the firm’s environment, setting goals, assessing available resources, gaining a competitive advantage, allocating financial and physical resources to carry out strategies, buffering management and operations from unnecessary interference from partners and creating increased strategic autonomy over time. Gaining an advantage over competitors would receive the “highest” degree of emphasis while deterring authority and influencing relationships among the firm’s departments would receive only “low” to “medium” emphasis in a strategic decision making process.

Conclusion

For the VJVs in the sample, the most frequent VJV had a 2-partner structure (60 VJVs), followed by 14 3-partner VJV structures and 1 4-partner VJV structure. In 15 of 75 cases, the Vietnamese partner(s) held the majority of the control with an average of 56% equity ownership. However, on average, the Vietnamese partner held the smallest equity ownership (39%) in the majority of joint ventures with the foreign partners owning the greatest equity (61%). In one case involving a 2-partner joint venture, Vietnam owned 90% equity and Russia owned 10%.

Although the mean average size of the VJV was 112 employees in 1995, 129 employees in 1996, and 145 employees in 1997, 31 VJVs had 50 or fewer employees in 1995, 21 VJVs had 50 or fewer employees in 1996, and 17 VJVs had 50 or fewer employees in 1997. The ventures were predominantly in the manufacturing industries and had gross average receipts of U.S. \$2.41 million in 1995, U.S. \$2.94 million in 1996, and U.S. \$3.54 million in 1997.

Most of the ventures were initially financed by the contributing partners and later with the generated cash-flow . More than half of the ventures stated they would finance their investments from commercial banks, investment by the Vietnamese partner, and loans from foreign banks. Few would finance their investments from local money lenders, government loans, or loans from suppliers. None would seek financing from family and friends.

To become successful, the ventures employed a variety of competition techniques, but primarily stressed were extensive customer service capabilities, highly trained and experienced personnel, and very strict product quality control. GMs reported that there were several changes in the industry in the past 12 months. They reported an average of 4

new competitors, 3 new customers, 1 new supplier, 1 new distributor, and 17 new product lines.

Overall, the performance of the VJV was rated “more than satisfactory” and such levels were achieved by means of achieving goals, increasing business volume, providing adequate worker training, improving management skills, decreasing unit costs, increasing market share, attracting young workers, increasing employee productivity, decreasing overhead costs, and implementing new strategies. “Less than satisfactory” performance was achieved by their inability to make profits.

Partners in Vietnamese Joint Ventures - 1998

Table 1

<u>2-PARTNER VJVs</u>	<u>FREQ</u>	<u>3-PARTNER VJVs</u>	<u>FREQ</u>
1 Vietnam + 1 British-Netherlands	1	1 Vietnam + 1 France + 1 China	1
1 Vietnam + 1 British Virgin Island	1	1 Vietnam + 1 Germany + 1 Germany-Vietnam	1
1 Vietnam + 1 Belgium	1	1 Vietnam + 2 Korea	1
1 Vietnam + 1 Japan	7	1 Vietnam + 2 Germany	1
1 Vietnam + 1 Singapore	6	1 Vietnam + 1 Japan + 1 Philippines	1
1 Vietnam + 1 Denmark	1	1 Vietnam + 2 Taiwan	1
1 Vietnam + 1 Sweden	3	2 Vietnam + 1 Hong Kong	1
1 Vietnam + 1 Australia	4	1 Vietnam + 1 Malaysia + 1 Austria	1
1 Vietnam + 1 Korea	5	1 Vietnam + 2 Hong Kong	1
1 Vietnam + 1 Hong Kong	5	1 Vietnam + 2 Thailand	1
1 Vietnam + 1 Malaysia	2	1 Vietnam + 1 Singapore + 1 Hong Kong	1
1 Vietnam + 1 United States	1	1 Vietnam + 1 Taiwan + 1 Japan	1
1 Vietnam + 1 France	1	1 Vietnam + 1 Australia + 1 Singapore	1
1 Vietnam + 1 Taiwan	12	1 Vietnam + 1 Singapore + 1 Taiwan	1
1 Vietnam + 1 Netherlands	3		
1 Vietnam + 1 Hungary	1		<hr/> 14 VJVs
1 Vietnam + 1 China	1		
1 Vietnam + 1 Russia	2		
1 Vietnam + 1 Thailand	2	<u>4-PARTNER VJVs</u>	<u>FREQ</u>
1 Vietnam + 1 United Kingdom	1	1 Vietnam + 1 Asian-Thailand + 2 Japan	1
	<hr/> 60 VJVs		<hr/> 1 VJV

Q.3/98 VJV Data
Lyles 1998

Characteristics of Vietnamese Joint Ventures and Their General Managers

TABLE 2

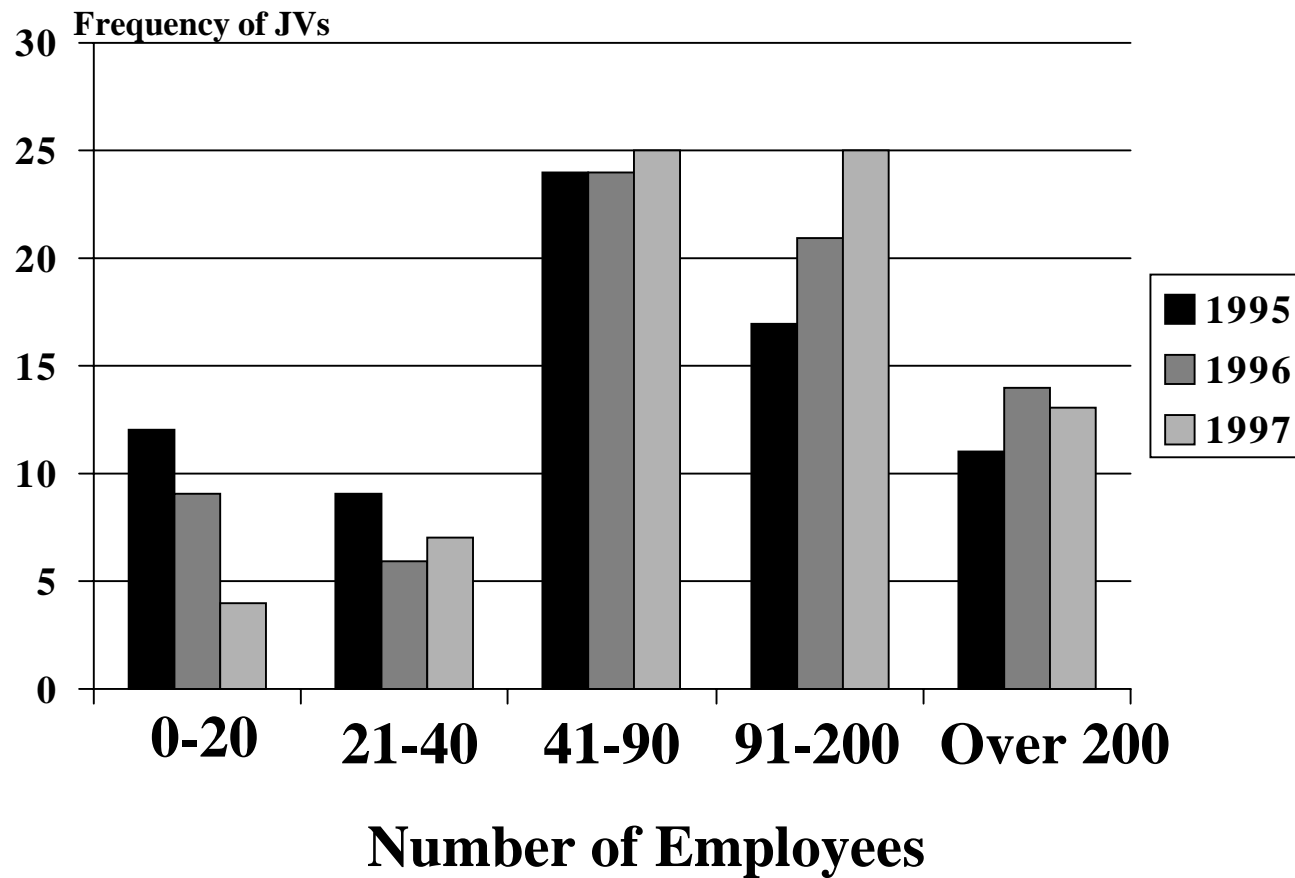
Variable	Mean	Range
Age of General Manager	47	27-74 years old
Years as General Manager	3.87	1-20 years
Highest Degree	University = 73	Not completed grammar - Doctorate
Total Yrs. Managerial Experience	20	2-50 years
Year JV Founded	1992	1993-1997
Gross Sales in 1995	U.S. \$2.41 million dollars	\$0 - \$25,000,000
Gross Sales in 1996	U.S. \$2.94 million dollars	\$0 - \$29,000,000
Gross Sales in 1997	U.S. \$3.54 million dollars	\$167,000 - \$44,000,000
Avg. # Employees in 1995, 1996, 1997	112, 129, 145	1-658; 11-703; 16-610
Net Income After Taxes – 1995	\$474,286	-\$643,032 - \$12,000,000
Net Income After Taxes – 1996	\$512,027	-\$728,591 - \$10,000,000
Net Income After Taxes – 1997	\$263,551	-\$1,166,248 - \$6,000,000
Written Long Range Plan	Yes = 41	No = 34
Years Current Position as GM	3.87	1-20 years
# of Organizations GM Worked	3	1-6
Avg. Growth in Sales – Last 2 Yrs.	74%	-150%-1030%
Avg. Employee Growth – Last 2 Years	97%	-127%-999%
Avg. Net Growth Earn – Last 2 Yrs.	44%	-181.4%-800%

Q.1,5-6,9-11,29/98

Lyles 1998

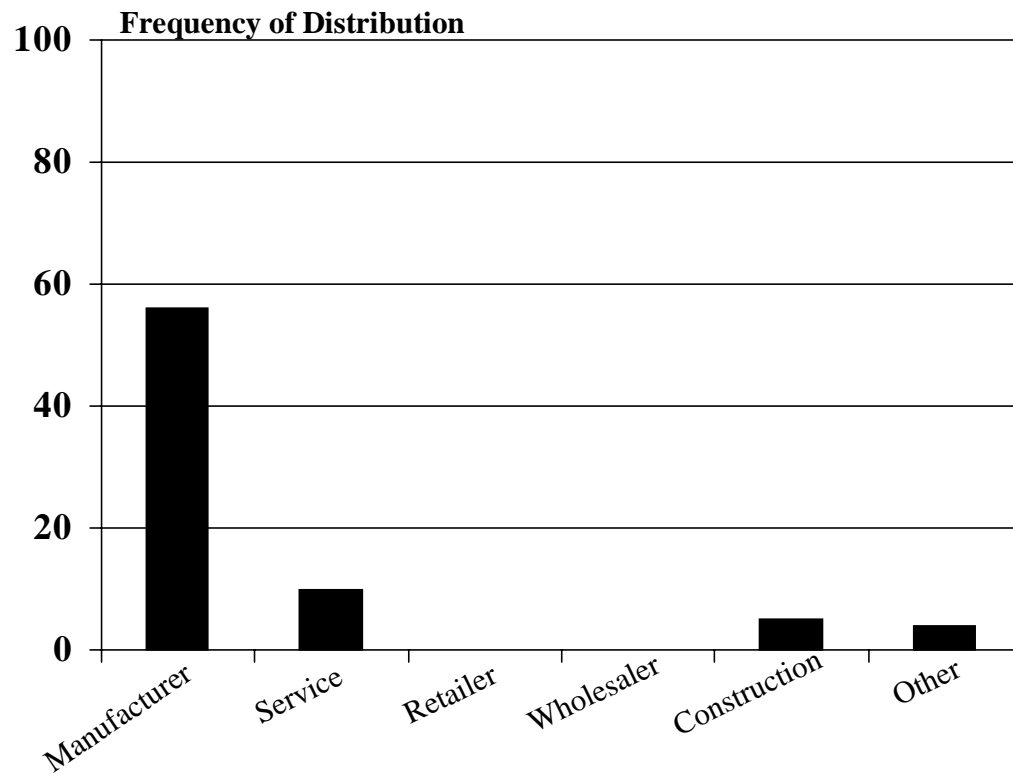
Number of Employees in Vietnamese JVs

Table 3



Type of Vietnamese Joint Ventures

Table 4



Q.7/98 VJV Data
Lyles 1998

Industry Of Vietnamese Joint Ventures
TABLE 5

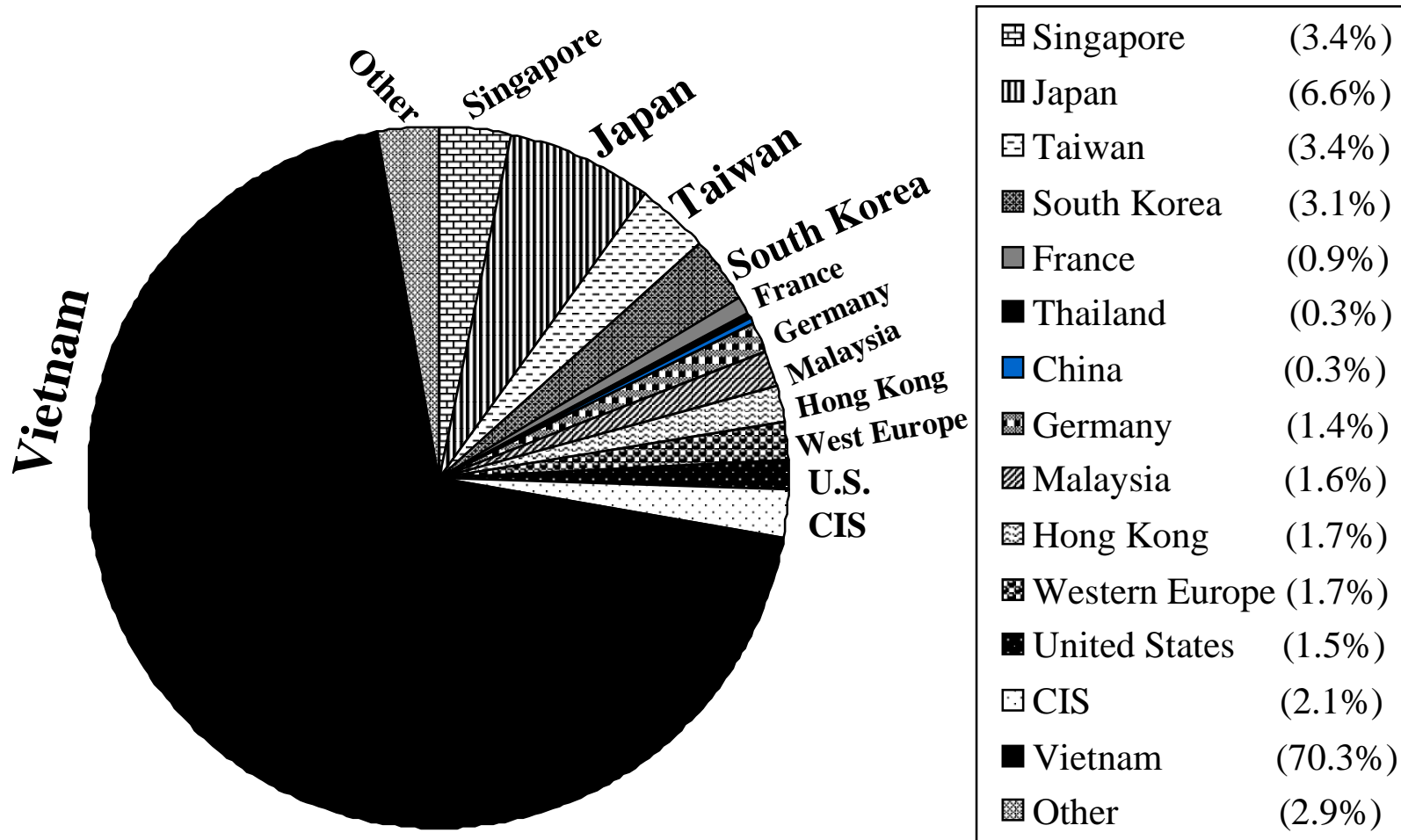
Industry	Frequency of Joint Ventures
Chemical/Pharmaceutical	3
Electronics	5
Transportation	2
Agriculture	9
Forest Products	1
Construction	11
Textiles/Clothing	11
Industrial/Machinery	18
Automobile/Components	2
Service/Financial	3
Tourism	2
Cosmetics	1
Gemstones	1
Infrastructure	1
Medical Equipment	1
Tissue Products	1
Other	3
N = 75	75

Q. 8/98 VJV Data
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VJV Export Market

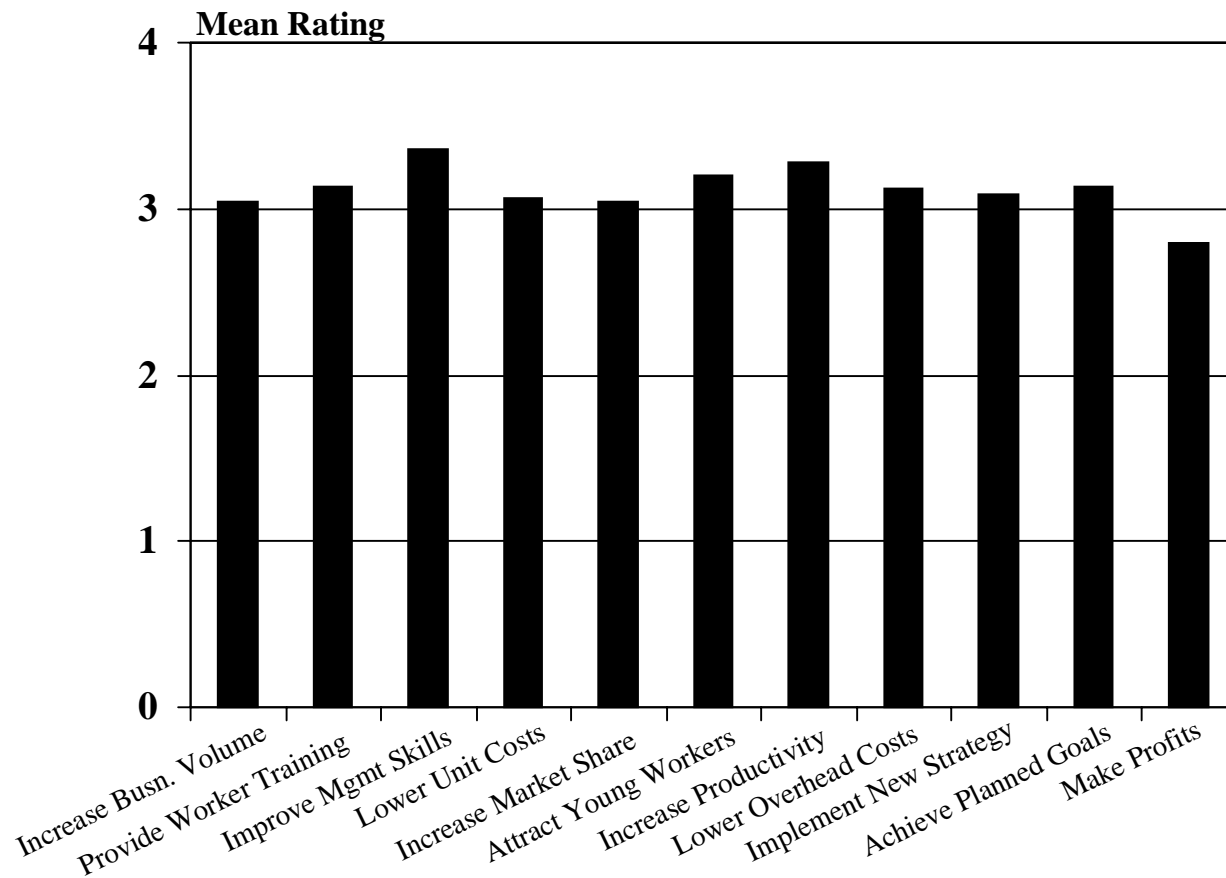
Percentage of Sales Sold in Each Market

TABLE 6



Q.13/98 VJV Data
Lyles 1998

Rating of JV Performance in Various Activities Table 7



Scale: (1) Poor Performance; (5) Excellent Performance
Q.25a-k/98 VJV Data
Lyles 1998

Organizational Descriptions of Vietnamese Joint Ventures
TABLE 8

Item	Mean
Major Decisions Cleared By Domestic Partner	3.41
Major Decisions Cleared By Foreign Partner	3.47
Decisions Cleared By Government	2.29
Foreign Parent Provides Technology	3.64
Foreign Parent Provides Education	3.36
Written Rules and Procedures Used	4.24
Formal Performance Measurement	3.85
Sets Own Budget Without Parent Company	3.09
Venture Is Flexible	4.17
Creativity Is Encouraged	4.32
Superiors Know Employees Are Doing Good Job	4.20
Lots of Informal Communication	3.15
Venture Strategy Involves Minimal Risk of Failure	3.49
Significant Raises and Promotions	3.95
Members Follow Orders	3.73
System of Peer Reviews	3.69

Scale: (1) Strongly Disagree; (5) Strongly Agree
 Q. 31a-p/98 VJV Data
 Lyles 1998

Total Percentage of Influence In Decision Making

TABLE 9

Of 100% of the total amount of influence in making each type of the following kinds of decisions, below is the average percent exerted by each of the listed groups.

Type of Decision	% JV Management Influence	% Vietnamese Parent Influence	% Foreign Parent Influence
Financing	63.65	12.95	23.40
Product Technology	73.56	4.80	21.64
Process Technology	60.75	6.58	32.67
Manufacturing	65.40	6.08	28.51
Sales/Marketing	78.00	4.80	17.27
Management Decisions	83.87	7.87	8.27
Administrative Support	81.85	10.34	7.80
Pricing Decisions	81.00	4.01	15.00
Investment Decisions	36.53	27.00	36.60
Payment Decisions	30.44	32.68	36.74

Q. 18/98 VJV Data
Lyles 1998

Percent To Which Managers Learned From Foreign Parents

TABLE 10

AREA	(Little Extent) 1	2	(Neutral) 3	4	(Great Extent) 5
Manufacturing and Production Processes	15.0	6.8	28.8	38.4	11.0
Managerial Techniques	17.6	9.5	27.0	32.4	13.5
New Technological Expertise	18.9	9.5	23.0	35.1	13.5
Product Development	16.2	13.5	39.2	25.7	5.4
New Marketing Expertise	18.9	24.3	17.6	32.4	6.8
Foreign Culture, Tasks, and Tastes	23.0	29.7	28.4	16.2	2.7

Scale: (1) Little Extent; (5) Great Extent Q.32 a-f/98 VJV Data Lyles 1998

Percent To Which Managers Were Taught By Domestic Parent

TABLE 11

AREA	(Little Extent) 1	2	(Neutral) 3	4	(Great Extent) 5
Manufacturing and Production Processes	28.8	23.3	34.2	13.7	0
Managerial Techniques	20.5	20.5	37.0	20.5	1.5
New Technological Expertise	43.8	27.4	21.9	6.9	0
Product Development	24.7	26.0	31.5	16.4	1.4
New Marketing Expertise	27.4	24.7	35.6	12.3	0
Foreign Culture, Tasks, and Tastes	21.9	17.8	35.6	19.2	5.5

Scale: (1) Little Extent; (5) Great Extent Q.33 a-f/98 VJV Data Lyles 1998

Extent to Which Foreign Parent Provides Support

TABLE 12

Support From Foreign Partner	Mean
Financial Support	3.1
Product Related Technology	3.1
Manufacturing Related Technology	3.0
Manufacturing Support	2.7
Sales/Marketing Support	2.7
Managerial Resources	2.5
Emotional Support	2.4
Training	2.4
Time	2.1
Administrative Support	2.1

Scale: (1) Little Support; (5) Strong Support

Q. 21a-j/98 VJV Data
Lyles 1998

Problem Areas of the Joint Ventures

TABLE 13

Item	Mean
Integrating Functional Areas	3.6
High Costs	3.4
Obtaining High Quality Inputs	3.3
Mistrust Among Parent Firms	4.1
Slow Decision Making	2.6
Conflict Over Original Agreement	1.8
Incompetence in Parent Firms	1.7
Personality Conflicts	1.8
Conflicting Goals of Partners	1.8
Cultural Misunderstandings	2.1
Cultural Differences in Expectations of Partner Perform.	2.0
Tension: JV Managers versus Partners	1.6
Tension: JV Managers Local versus Expatriate	1.5
Difficulty in Obtaining Financing	2.2
Differences in Partner Profit Retention Strategies	2.1
Budgeting/Cost Control Standards	2.8

Scale: (1) Very Little; (5) Very Much

Q. 19a-p/98 VJV Data

Lyles 1998

Sources of Funds For New Buildings Or Machinery/Equipment
TABLE 14

Sources	<u>FREQUENCY</u> <u>OF FIRMS</u> <u>RESPONDING</u>				
	0% (None)	1-24%	25-50%	51-75%	More Than 75%
Income - Sales of Company	24	14	18	10	9
Commercial Banks	54	5	12	1	3
Local \$ Lender	68	5	2	0	0
Vietnamese Partner	35	13	24	2	1
Foreign Partner	24	8	30	13	0
Foreign Banks	58	2	11	3	1
Family/Friends	75	0	0	0	0
Suppliers	70	3	2	0	0
Government	71	3	1	0	0

Q. 42a-j/98 VJV Data; Lyles 1998

Obstacles To Financing

TABLE 15

Severity For Each Obstacle	Mean
Collateral Requirements	2.48
Deposit/Loan Track Record	2.15
Requirement to Produce Financial Documents	2.38
Bank's Risk Perception	2.28
Access to Non-Bank Investors	2.01
Level of Interest Rates	2.31
Preference of Favored Clients	2.20
Other	3.00

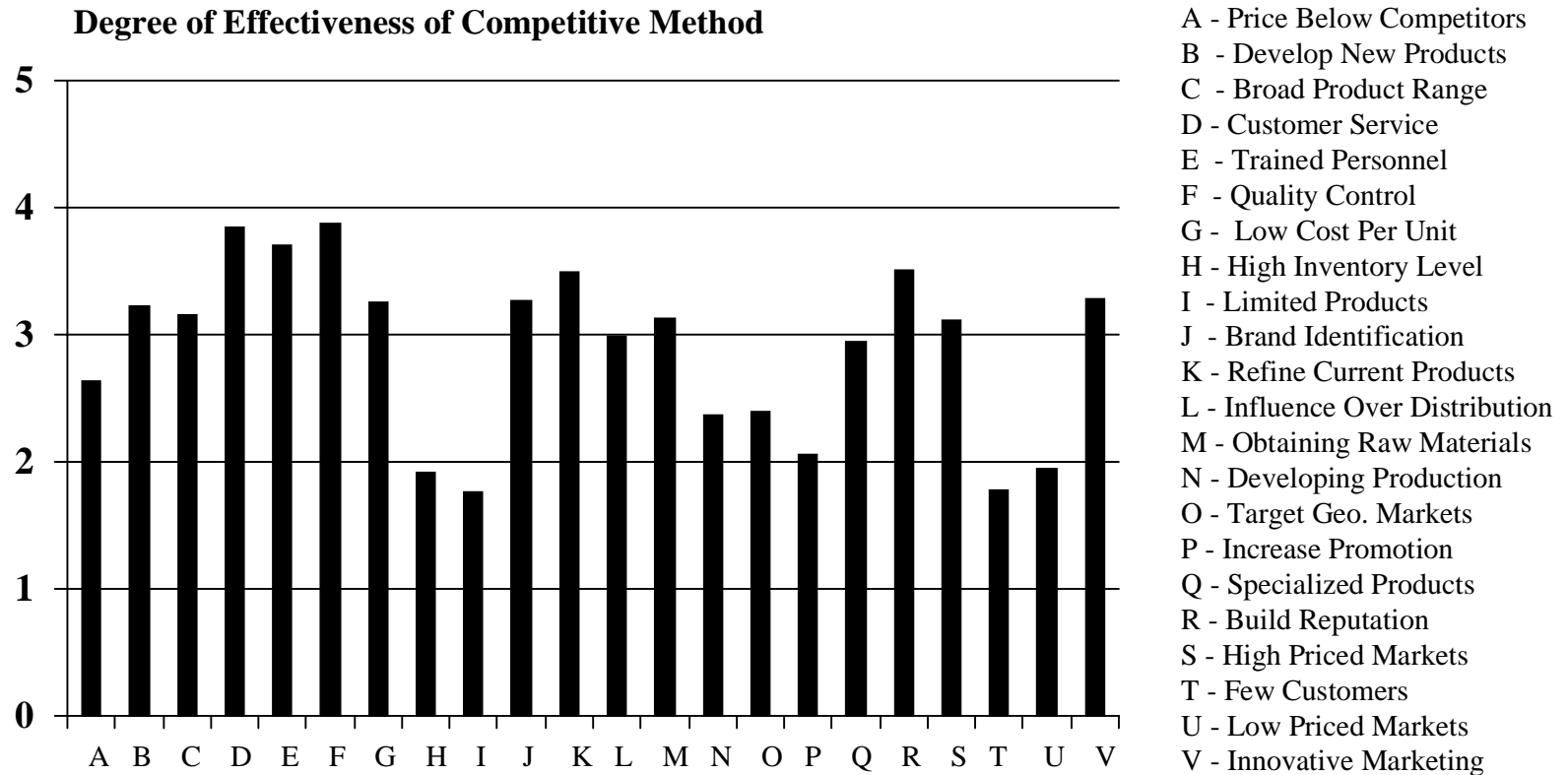
Scale: (1) No Obstacle; (5) Very Severe Obstacle

Q. 45a-h/98 VJV Data

Lyles 1998

VJV's Competitive Strategies

Table 16



Scale: (1) None; (2) Limited; (3) Some; (4) Considerable; (5) Major Emphasis

Q.44a-v/98 VJV Data

Lyles 1998


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