

# **Successful Knowledge Transfer in IJVs: The Role of Trust, Partner Compatibility and Expected Benefits**

**European Journal of International Management**

Vol. 15, No. 4, 2021, pp. 595–614.

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## **Abstract**

The purpose of this research is to investigate the influence of trust on knowledge transfer and expected benefits from knowledge transfer, and the influence of partner compatibility on knowledge transfer, trust and expected benefits from knowledge transfer. Based on elements from the Resource Based View and Social Exchange Theory, Greek IJVs operating in South East Europe are empirically examined. This research contributes to the literature in four ways: First, by showing a positive impact of the level of trust the foreign partner has towards the local IJV partner on a) successful knowledge transfer to the IJV and b) expected benefits from knowledge transfer to the IJV. Second, by revealing a positive impact of the degree of partner compatibility on a) successful knowledge transfer to the IJV and b) the level of trust

the foreign partner has towards the local IJV partner. Third, by providing empirical evidence regarding the above impacts in new national environments. Finally, it contributes by enhancing the understanding of knowledge transfer from the foreign partner to IJVs in emerging markets.

**Keywords** international joint ventures, knowledge transfer, trust, partner compatibility, expected benefits.

## **Introduction**

International Joint Ventures (IJVs) are considered a significant strategy for achieving global competitiveness in many industries (Gulati et al., 2000). In addition, literature suggests that knowledge transfer success is regarded critical for IJV overall performance (Cheng et al., 2016). Triki and Mayrhofer (2016) note that recent literature denotes the need for more research on IJV related issues (Bener and Glaister, 2010). Moreover, according to Park et al. (2015, p. 89) “...it is important for the field of international business to improve understanding of the factors that may influence knowledge transfers in joint ventures and their impacts on firm performance”.

In this research, elements are drawn from the Resource Based View (RBV) and the Social Exchange Theory (SET). The research questions are i) the investigation of the impact of the level of trust the foreign partner has towards the local IJV partner on a) successful knowledge transfer to the IJV and b) expected benefits from knowledge transfer to the IJV, and ii) the examination of the impact of the degree of partner compatibility, as perceived by the foreign partner, on a) successful knowledge transfer to the IJV, b) the level of trust the foreign partner has towards the local IJV partner and c) expected benefits from knowledge transfer to the IJV. The objective is to identify the aspects that facilitate the development of an environment that is conducive to successful knowledge transfer from the foreign partner firm to the IJV. To the best of our knowledge, there is very limited research on the above impacts.

According to Inkpen and Beamish (1997) and Cheng et al. (2016), the success of knowledge transfer is considered as very important for the overall performance of IJVs. However, research has produced contradictory results concerning the factors

that impact the success of knowledge transfer. The latter was an incentive to examine the impact of trust and partner compatibility on successful knowledge transfer from the foreign partner to the IJV. More specifically, Lee et al. (2012) argue that previous research about the influence of social capital, which includes trust, on knowledge transfer has produced contradictory findings. Furthermore, this paper focuses on partner compatibility since another aim is to investigate the partner characteristics that facilitate knowledge transfer. Previous research on how partner compatibility affects collaboration and successful knowledge transfer has generated contradicting results (Luo and Deng, 2009).

A second incentive for this paper is the lack of research on the impact of internal motives to transfer knowledge (such as benefits expected by management) on the success of knowledge transfer. Following the RBV, specific factors internal to the firm are being examined because they are considered to be more important for the creation of competitive advantage, since most firms cannot affect the external environment (Wright et al., 2001). Furthermore, although it can be argued that large multinational companies might affect their external environment, this is not the case for Greek firms, due to their relatively small size and limited international exposure and experience (Balios et al., 2016; Lu and Beamish, 2006).

This empirical research contributes in four distinct ways to IJV and knowledge transfer literature. First, by showing a positive impact of the level of trust the foreign partner has towards the local IJV partner on a) successful knowledge transfer to the IJV and b) expected benefits from knowledge transfer to the IJV. Second, by showing a positive impact of the degree of partner compatibility on a) successful knowledge transfer to the IJV and b) the level of trust the foreign partner has towards the local IJV partner.

A third contribution this study makes to the literature is the investigation of the role trust and partner compatibility play in successful knowledge transfer from the foreign partner to the IJV in new national environments. According to Park et al. (2015), the distinctive characteristics of each country do not allow for generalization of research results because the location specific conditions and other parameters may differ among countries and time periods. In addition, Muthusamy and White (2005) identify as a research limitation the fact that they neglect the different national environmental

contexts. Similarly, Meier (2011) argues that alliances are embedded in a specific environment and context that affects knowledge management processes. Furthermore, the results of Idris and Seng Tey (2011), concerning knowledge transfer in Malaysian IJVs, and Farrell et al. (2011), concerning the impact of commitment to Malaysian IJVs' goals on learning success by foreign partners, contradict the findings of similar research. The fact that the results from two empirical studies on Malaysian IJVs, carried out at the same time period, are different from mainstream research findings provides support to the argument that the uniqueness of a country's characteristics could affect the impact of different factors on knowledge transfer to IJVs. Our research examines the impacts described earlier by studying IJVs that Greek firms have formed in South East (S.E.) Europe. Due to the size of the local market and the almost 9-year deep economic crisis, it has become of critical importance for Greek companies to expand to international markets in order to secure their survival. Their expansion to the S.E. Europe region, due to its proximity to Greece, is a logical first step and a very promising alternative to gain international exposure (Knoben and Oerlemans, 2006). Many Greek companies have formed IJVs in S.E. Europe in a totally different environment with many cultural, historical, political and economic particularities. According to Getimis and Demetropoulou (2007, p. 296) "*However, the fact remains that the SEE(urope) constitutes today the most volatile and least integrated area of the continent. Different historical traditions, varying political cultures, diverging development paths, unresolved minority issues and incomplete state building processes ... create a complex and multi-tier reality ...*". In addition, Battaini-Dragoni (2005, p.16) state that "*... the Balkan countries once more are in a state of political, economic, social and procedural transition, dealing with new political frameworks and developing market economies*". Therefore, the results of this research constitute a contribution to the literature, since there is no similar research for the S.E. Europe region.

Furthermore, our research further contributes by enhancing the understanding of knowledge transfer from the foreign partner to IJVs in emerging markets. The importance of examining such markets is noted by Li et al. (2007). In addition, as Triki and Mayrhofer (2016) point out, international business research on IJVs in the Southern and Eastern Mediterranean region has been minimal, unlike other areas of the world, such as Asia or Latin America. Similarly to Li et al. (2007) and Triki and

Mayrhofer (2016), and unlike most previous research (Demirbag et al., 2011), we focus on S.E. Europe and not on a single country, a region that includes mostly emerging markets that have been under-researched. Meier (2011) also emphasizes the differences in IJVs between firms from developed and developing countries. Finally, to date there is no research on knowledge transfer in Greek IJVs.

## **Theoretical background and hypotheses formation**

### *Knowledge Transfer*

The RBV has made important contributions to the field of International Business among others (Barney et al., 2001). Pansiri (2008, p. 103) states that the RBV “identifies an organization as a collection of unique resources and capabilities that provides the basis for its strategy and is the primary source of its returns”. Wright et al. (2001) note that the RBV has shifted attention from the firms’ external factors to internal ones as sources of sustainable competitive advantage. Firms gain competitive advantage throughout the resources and capabilities they control and knowledge, an internal factor, is one of the most important ones (Barney, 1991; Pollitte et al., 2015). Similarly, the management and development of a) these difficult-to-replicate resources and b) their distinctive capabilities, provide firms with a competitive advantage (Khan et al., 2015). Furthermore, according to the RBV intangible assets, such as the firm’s knowledge, are considered to be strategic assets since they cannot be imitated or acquired, contrary to the tangible ones (Meso and Smith, 2000).

Grant (1996, p. 120) argues that the main focus of firms is to integrate the “*specialist knowledge resident in individuals into goods and services*”. Knowledge constitutes an important factor in the firm’s attempt to preserve its valuable culture, to learn, to solve problems and to create competitive advantage (Liao et al., 2010). Research on knowledge transfer has started in the 1970s, as Li et al. (2014) note, and since it has been investigated extensively by researchers. According to Argote et al. (2000), “*Knowledge transfer in organizations is the process by which one unit (e.g., individual, group, department, division) is affected by the experience of another*”. Li et al. (2014, p. 280) define knowledge transfer as “*the process that knowledge is transferred from knowledge sources to knowledge recipients in a specific context, and then the recipients internalize and apply the knowledge in practice to obtain*

*competitive advantage*”. Furthermore they state that its main purpose is to promote organizational development. Moreover, Grant (1996) identifies the process of knowledge transfer as one of the resources that contribute to competitive advantage. Similarly, Barroso Martínez et al. (2016) note that numerous firms’ success can be based on their ability to transfer the knowledge embodied in organizations and people which will provide the basis for the organizations’ competitive advantages. In addition, Barney et al. (2001) state that recent research from an RBV perspective suggests that new and small firms might have developed or acquired and therefore possess knowledge that enables their early internationalization.

However, knowledge transfer is a complicated process that cannot be easily achieved (Easterby-Smith et al., 2008). As Krylova et al. (2016, p. 1049) state, it is “*an ongoing process made up of opportunities and challenges not necessarily predictable at the start*”. Firms both in the manufacturing and the service sectors that have the ability to transfer knowledge perform better than the less able ones (Argote and Ingram, 2000). Park et al. (2015) argue that although there are numerous challenges and motives for IJV formation, previous studies have shown that effective knowledge transfer is crucial for the survival and performance of alliances (Lane et al., 2001; Lyles and Salk, 1996; Pak et al., 2009; Suseno and Ratten, 2007). The antecedents of successful knowledge transfer have been classified in three broad categories, namely, knowledge, organizational and network characteristics (Van Wijk et al., 2008). However, due to its complexity, Easterby-Smith et al. (2008) argue that it is an interesting subject for further theoretical investigation.

### *Impact of Trust*

Social Exchange Theory was initially developed by Homans (1958), Thibaut and Kelley (1959) and Blau (1964) and it was further advanced by Gulati (1995), Parkhe (1998a; 1998b), Das and Teng (2002) and Globerman and Nielsen (2007). According to SET, people get involved in social exchange because of lack of resources, prompting actors to engage one another to obtain valuable inputs (Levine and White, 1961). Although the origins of SET are at the individual level, the theory has been extended to the level of inter-firm alliances including IJVs (Ali and Larimo, 2016; Das and Teng, 2002; Gulati, 1995; Lin and Wang, 2008). SET and empirical studies driven by it (Inkpen and Currall, 1997; Nielsen and Nielsen, 2009; Silva et al., 2012)

suggest that IJV partners should develop trust with each other to manage IJV relationships. An additional factor that enhances the foreign partner's level of trust towards the local market is the existence of reputable local social and transnational diaspora actors, some of which could be potential local partners. Their presence reduces the foreign partner's uncertainty and risk perception concerning the establishment of an IJV in the local market (Rana and Elo, 2017).

For the purposes of this study, the view of Doney et al. (1998, p. 604) is adopted, according to which trust is defined *“as a willingness to rely on another party and to take action in circumstances where such action makes one vulnerable to the other party”*. This definition incorporates the concept of risk as a prerequisite for trust and it includes both the belief and behavioral components of trust. Moreover, Zaheer and Harris (2006, p.170) define trust at the interorganizational level as *“the extent to which members of one organization hold a collective trust orientation toward another organization”*. According to Cropanzano and Mitchell (2005), trust is among the most promising relational constructs and appears to facilitate exchanges between individuals and organizations. Trust is considered as an important element of the relational dimension of social capital which enhances the motivation to engage in knowledge exchange and teamwork (Stensaker and Gooderham, 2016). Trust assists knowledge transfer since it increases the partners' willingness to help each other to understand external knowledge (Lane et al., 2001). Nielsen and Nielsen (2009, p. 1039) argue that *“trust is a particularly important aspect of relational quality in alliances because it facilitates social interaction, increases transparency, and reduces transaction costs and uncertainty”*.

IJV formation is based on the acknowledgement that each partner possesses useful knowledge, experience and capabilities. Moreover, trust establishes a basis of intimacy, predictability and reliability, which leads partners to be more open and receptive to knowledge transfer (Dyer and Hatch, 2006). Inkpen (2000) argues that a major obstacle to inter-firm knowledge transfer is the potential leakage of valuable knowledge. Furthermore, trust enables greater cooperation between knowledge source and recipient by creating the mutual understanding that partners will consider the interests of the other (Lane et al., 2001). Muthusamy and White (2005) tested the relationship between trust and knowledge transfer in U.S. firms with domestic as well

as international partners and found this relationship to be positive. However, Van Wijk et al. (2008) note that, although there is empirical evidence that trust enhances the transfer of knowledge, other studies (Lane et al., 2001; Yli-Renko et al., 2001) have shown that trust might hinder the exchange of information among partners. Van Wijk et al. (2008) conclude that the consistency of this relationship is not yet certain. Furthermore, Calhoun and Harnowo (2015) state that little attention has been given to the relationship between trust and successful knowledge transfer. The latter, therefore, indicate that there is need to further investigate the impact of the level of trust the foreign partner has towards the local IJV partner on successful knowledge transfer to the IJV. Hence, it is argued that:

*H1.* The greater the level of trust the foreign partner has towards the local IJV partner, the more successful knowledge transfer to the IJV will be.

For the purposes of this research, the expected benefits from knowledge transfer for the parent firm were determined by a four item grouped variable, adopted from Ambos and Ambos (2009). The relevant data were obtained from the answers to the questions “*In what degree your firm has benefited from IJV participation by acquiring a) distribution expertise, b) information on competitors, c) marketing expertise and d) information on local customers?*”. To the best of our knowledge, the impact of the level of trust on expected benefits from knowledge transfer for the parent firm has never been empirically examined, motivating us to investigate it. It is logical to expect that this impact is positive since the existence of a higher level of trust among IJV partners implies better relations and lower costs of knowledge transfer. The latter reduce the operational costs of the venture and increase the overall expected returns and non monetary benefits of knowledge transfer for the partners. Hence, it is proposed that:

*H2.* The greater the level of trust the foreign partner has towards the local IJV partner, the higher the benefits the foreign partner expects from the knowledge transfer to the IJV.

#### *Impact of Partner Compatibility*



Various researchers have examined compatibility based on different partner characteristics and attributes. For example, Shu et al. (2017) measured partner compatibility in terms of their organizational cultures, managerial and operating styles as they examine partner collaboration in IJVs. According to Harrigan (1985), in the context of IJVs there are three distinct categories of partner compatibility, namely strategic, cultural and functional. Meschi (1997) argues that although partner cultural compatibility can exist at either a national or organizational level, partner compatibility at an organizational level has a greater impact on organizational behavior. Pothukuchi et al. (2002, p. 258), found that “*the presumed negative effect of partner dissimilarity on IJV performance originates more from differences in organizational culture than from differences in national culture*”. In addition, according to Simonin (1999), organizational culture appears to be more durable than national culture. Therefore, we focus on organizational than on national culture.

Furthermore, Pansiri (2008, p. 103) states that compatibility includes “*broad historical, philosophical, and strategic grounds, values and principles, and hopes for the future (Kanter, 1994), cultural and organisational issues (Shamdasani and Seth, 1995)*”. In addition, Shamdasani and Sheth (1995, p. 11) define strategic compatibility as “*the extent to which an alliance partner has complementary goals and shares similar orientations that facilitate coordination of alliance activities and execution of alliance strategies*”. Furthermore, Shamdasani and Sheth (1995) found that partner compatibility has a strong positive impact on alliance success, while, according to Hagen (2002), compatibility is considered as a very important factor for alliance success. In addition, Sarkar et al. (2001) note that there is theoretical and empirical support behind the idea that organizational compatibility has a positive effect on alliance performance. Without partner compatibility alliances will most likely fail because of conflicts over managerial issues and corporate cultures (Kwon, 2008). According to Pothukuchi et al. (2002), when there are differences in practices among organizations in IJVs, they will most likely result to misunderstandings and interaction issues.

According to SET, IJVs are formed to acquire resources needed to strengthen international competitiveness. Partner compatibility facilitates the transfer of individual partner strengths, such as knowledge and resources, to the IJV (Walters et

al., 1994). Kwon (2008) suggests that compatibility among firms is determined, among others, by organizational culture, business practices and organizational structure. Simonin (1999) showed that differences in organizational culture among IJV partners hinder their communications, leading to the reasonable conclusion that cultural incompatibility also hinders knowledge transfer. Nielsen (2007) used a multidimensional construct, including a) national, b) organizational and c) communicative (professional) culture, to measure cultural distance and found that cultural differences have a marginal negative impact on learning, implying that cultural incompatibility has a weak negative effect on knowledge transfer. These research results on the impact of different aspects of partner compatibility on knowledge transfer motivated us to explore its effect on successful knowledge transfer to the IJV, building on the findings that partner compatibility positively affects successful knowledge transfer to the IJV.

Furthermore, in order to capture the impact of partner compatibility, we adopted a methodology similar to the ones used by Nohria and Ghoshal (1994), Tsai and Ghoshal (1998), Simonin (1999) and Li et al. (2007) to measure concepts such as normative integration, shared values, organizational distance and shared vision, to develop a four item construct to measure the foreign partner's perception of compatibility with the local partner. Participants were asked to determine the level of compatibility among partners in terms of their a) organizational culture, b) business practices, c) strategic goals and d) philosophy of doing business. This is the first time that such a composite construct is used to test a wide range of partner compatibility aspects. Thus, it is argued that:

*H3.* The greater the degree of partner compatibility as perceived by the foreign partner, the more successful knowledge transfer to the IJV will be.

Saxton (1997) states that organizational similarities among IJV partners facilitate trust development. Fey and Beamish (2000) argue that a higher level of organizational cultural compatibility increases partners' understanding and, thereby, reduces conflicts among them. Luo (2001) showed that goal congruity helps reduce uncertainty about the other party's behavior and leads to personal attachment in IJVs in China, thereby increasing trust. Thuy and Quang (2005) also note that having

common goals and objectives is important for creating and sustaining trust among partners in IJVs in Vietnam. Moreover, Sarkar et al. (2001) show a positive relationship between a) cultural and operational compatibility, which they define as the extent of congruence in the partners' procedural capabilities and b) mutual trust. Based on these findings, it is logical to expect that the higher the level of partner compatibility in IJVs as perceived by the foreign partner, the higher the level of foreign partner's trust towards the local one. Thus, expanding the work of Sarkar et al. (2001), it is proposed that:

*H4.* The greater the degree of partner compatibility as perceived by the foreign partner, the higher the level of trust the foreign partner has towards the local IJV partner.

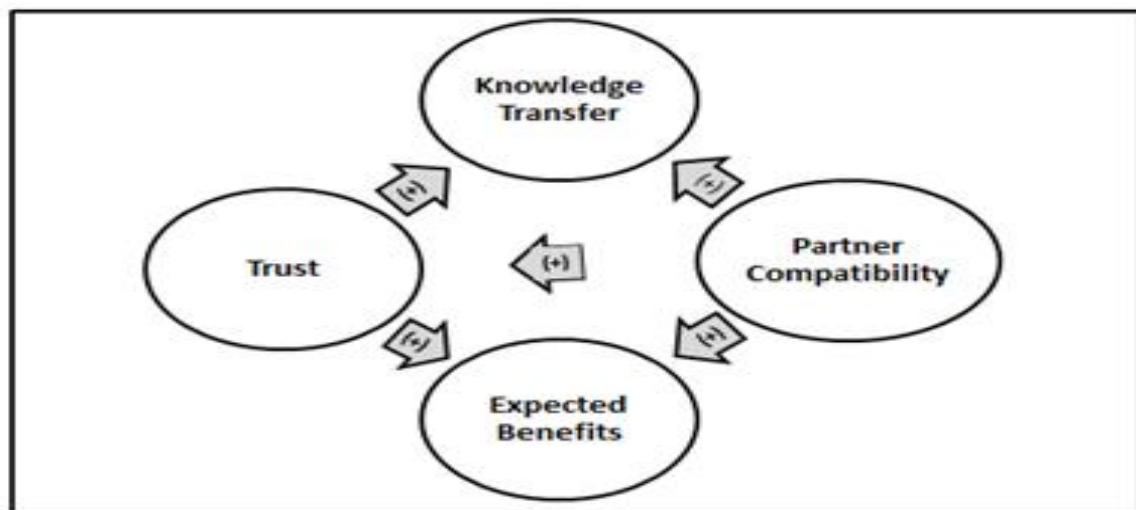
Chen and Glaister (2006) argue that partner incompatibility will eventually lead to alliance failure. Hsieh et al. (2010, p. 291) note that "*achieving compatibility among partners improves transaction efficiency through reducing costs associated with managing the IJV*". In addition, Park et al. (2009) showed that compatible organizational culture among partners is positively associated with the acquisition of marketing knowledge by foreign partners in Korea. As the improvement of transaction efficiency and the acquisition of new knowledge are essential benefits for the firm, it is reasonable to expect that partner compatibility leads to higher expected benefits from IJV participation. Furthermore, Kogut (1988) defined goal compatibility as the extent to which partners can simultaneously accomplish their strategic objectives regarding the IJV direction and development and showed that ongoing compatibility of partners' objectives is a significant and positive predictor of IJV performance. Similarly, Boateng and Glaister (2002) found a positive relationship between goal compatibility and IJV effectiveness. Their findings reasonably lead us to anticipate a positive impact of partner compatibility on IJV performance and, thus, the extent of expected benefits. However, Dhanaraj et al. (2004) showed that knowledge transferred from the foreign partner positively affects IJV performance, meaning that effective knowledge transfer is one of the factors that contribute to better IJV performance and, therefore, to higher expected benefits. Thus, since the direct impact of partner compatibility on expected benefits from knowledge transfer has never been

empirically tested before, it is proposed that higher partner compatibility, which positively affects IJV performance, leads the foreign partner to expect higher benefits from knowledge transfer to the IJV.

*H5.* The greater the degree of partner compatibility as perceived by the foreign partner, the higher the benefits the foreign partner expects from the knowledge transfer to the IJV.

The proposed theoretical model and the signs of the expected impacts are depicted in Fig. 1.

**Figure 1.** Theoretical model of factors affecting knowledge transfer in IJVs and their impacts



## Research methods

### *Sample and Data Collection*

In this research, the target population is Greek enterprises which have formed IJVs in S.E. Europe (Cyprus, Bulgaria, Romania, Serbia, Albania, FYROM, Turkey, Georgia, and Ukraine) countries with which Greece has strong historical, cultural and economic ties. There are indications that a number of Greek firms possess more valuable knowledge and knowhow compared to their partners in S.E. Europe (Rotsios

et al., 2014). Thus, successful knowledge transfer to the IJV is considered a precondition for their effective operation, satisfactory performance and longevity (Rotsios et al., 2014). Due to the significance of the Greek firms' knowledge for their IJVs, it was decided to investigate the Greek executives' perceptions on the above issues.

We developed a questionnaire by adopting questions from similar research papers. After personal communication with them, the questionnaire was sent to five top executives with significant experience in the establishment and management of IJVs, in order to test its clarity and structure. Based on their detailed feedback, through in depth discussions and written communication, the appropriate modifications were made (Churchill, 1979). The nature and complexity of the questionnaire were such that respondents had to hold senior managerial positions in their companies, in order to provide meaningful responses. In most cases, respondents were the ones that had direct involvement with the IJV formation. A total of 392 Greek firms with foreign direct investment (FDI) activities were identified from the ICAP group (<http://www.icap.gr>) database. However, it was not specified in the database which firms participated in IJVs and which ones had other forms of FDI. Therefore, the Greek firms with IJV participation are expected to be much less than 392. The questionnaire was sent to senior managers of all companies and a cover letter explained the research purpose, requesting their response only if their company had ongoing participation and experience in IJV establishment and management. In cases where firms participated in more than one IJV, respondents were asked to provide answers concerning the one in which the greatest knowledge transfer from their firm to the IJV took place. Additionally, respondents were asked to provide their answers based on the time of the survey.

A total of 50 usable questionnaires were collected, 12.7% of the total mailed, a response rate regarded as typical in mail surveys targeted at senior management members (Hambrick et al., 1993). In fact, the actual response rate is much higher than 12.7%, given that an unknown number of the 392 firms who received the questionnaire had not formed IJVs before. High level Greek executives, with extensive experience in international business and participation in IJVs, estimate them to be about 200. Therefore, approximately 25% of the total population was surveyed.

### *Measures and Statistical Methods*

To test whether the sample data are normally distributed, the Kolmogorov-Smirnov and Shapiro-Wilk tests were used. The results of the Kolmogorov-Smirnov test indicate that the variables of knowledge transfer, level of trust among partners, expected benefits from knowledge transfer and partner compatibility are not normally distributed. Additionally, the Shapiro-Wilk normality test showed that, with the exception of expected benefits, all variables are not normally distributed. As a result, non parametric statistics were used to test the hypotheses.

**Table 1.** Kolmogorov-Smirnov and Shapiro-Wilk normality tests

	<b>Kolmogorov-Smirnov</b>	<b>Shapiro-Wilk</b>
<b>Variable</b>	<b>p-value</b>	<b>p-value</b>
Knowledge transfer	0.000	0.000
Foreign partner's level of trust	0.000	0.000
Expected benefits from knowledge transfer	0.044	0.053
Foreign partner's perceived compatibility	0.007	0.035

The Spearman's rho coefficient was used to test H1, which examines the impact of the level of trust the foreign partner has towards the local IJV partner on the success of knowledge transfer to the IJV. The level of trust the foreign partner has towards the local IJV partner was determined by the question "*How would you characterize the level of trust among IJV partners?*" and responses were recorded on a 5-point Likert scale. The success of knowledge transfer was determined from the answers to the question "*In your opinion, how successful was knowledge transfer from your firm to the IJV?*" and responses were also recorded on a 5-point Likert scale. Applying the methodology used by Ambos and Ambos (2009), expected benefits from knowledge transfer are measured by a four item grouped variable. Cronbach's Alpha for the four item grouped variable was 0.728, which is considered satisfactory (Santos, 1999). Hence, for testing H2, which examines the impact of the level of trust the foreign

partner has towards the local IJV partner on expected benefits from knowledge transfer to the IJV, it is appropriate to use the newly defined grouped variable of expected benefits from knowledge transfer by calculating the corresponding Spearman's rho coefficient.

Hypotheses 3, 4 and 5 were tested using the same statistical techniques. The degree of partner compatibility, as perceived by the foreign partner, was determined by four items. Respondents were asked to evaluate the degree of compatibility between them and their IJV partner regarding business practices, organizational culture, strategic objectives and the philosophy of doing business. The grouping of the four items, adopted from Li et al. (2007), yielded a high and very satisfactory Cronbach's Alpha value (0.850). Therefore, the correlation of the degree of partner compatibility, as perceived by the foreign partner, and the level of knowledge transfer success (H3), the expected benefits from knowledge transfer (H4) and the level of trust the foreign partner has towards the local IJV partner (H5), was investigated using the Spearman's rho coefficient.

## **Results**

### *Descriptive Statistics*

The majority of the parent firms in the sample (65.9%) operate in the manufacturing sector with the remaining 34.1% in the services sector. The annual turnover for 73% of the responding firms is over 10 million euros, for 10.8% between 5 and 10 million euros, for 10.8% 1 to 5 million euros and for 5.4% of them less than 1 million euros.

### *Hypotheses Testing Results*

The empirical testing is based on quantitative statistical analysis of 50 questionnaires. The unit of analysis is the Greek firm that participates in IJVs in S.E. Europe. The analysis of Hypothesis 1 shows that the Spearman correlation coefficient is statistically significant for  $\alpha=1\%$  ( $p=0.007$ ) and has a positive value ( $\rho=0.418$ ). Thus, it is concluded that, as the level of trust the foreign partner has towards the local IJV partner increases, so does the success of knowledge transfer to the IJV. Testing Hypothesis 2 results in a Spearman correlation coefficient which is statistically significant for  $\alpha=10\%$  ( $p=0.093$ ) and has a positive value ( $\rho=0.269$ ). Therefore, it is

verified that higher level of trust from the foreign partner towards the local IJV partner results in greater expected benefits for the parent firm from the knowledge transferred to the IJV. Table 2 depicts the results for Hypotheses 1 and 2.

**Table 2.** Correlation of the degree of trust the foreign partner has towards the local IJV partner and i) the success of knowledge transfer and ii) the expected benefits from knowledge transfer to the IJV

	<b>Success of knowledge transfer</b>	<b>Expected benefits from knowledge transfer</b>
<b>Level of trust</b>	0.418*** (0.007)	0.269* (0.093)

\* The correlation is statistically significant for a =10%.

\*\*\* The correlation is statistically significant for a =1%.

Next, Hypothesis 3 states that the degree of partner compatibility as perceived by the foreign partner positively affects successful knowledge transfer to the IJV and it is confirmed for a=1% ( $\rho=0.407$ ,  $p=0.008$ ). Similar are the correlation analysis results on the degree of partner compatibility as perceived by the foreign partner and the level of trust the foreign partner has towards the local IJV partner for a=1% ( $p=0.003$ ). The Spearman correlation coefficient ( $\rho=0.452$ ) indicates a positive impact of the degree of partner compatibility as perceived by the foreign partner on the level of trust the foreign partner has towards the local IJV partner. Hence, Hypothesis 4 is also supported. On the contrary, the Spearman correlation coefficient ( $\rho=0.158$ ) between the degree of partner compatibility as perceived by the foreign partner and expected benefits from knowledge transfer to the IJV is not statistically significant ( $p=0.331$ ). Thus, Hypothesis 5 is not confirmed. The results for Hypotheses 3, 4 and 5 are shown in Table 3.

**Table 3.** Correlation of the degree of partner compatibility as perceived by the foreign partner and the i) success of knowledge transfer, ii) expected benefits from knowledge transfer and iii) level of trust the foreign partner has towards the



local IJV partner.

	<b>Success of knowledge transfer</b>	<b>Expected benefits</b>	<b>Level of trust</b>
<b>Degree of compatibility</b>	0.407*** (0.008)	0.158 (0.331)	0.452*** (0.003)

\*\*\* The correlation is statistically significant for  $\alpha=1\%$ .

### **Discussion**

The statistical analysis indicates that H1 and H2 are confirmed. The results for H1 confirm that the greater the level of trust the foreign partner has towards the local IJV partner, the more successful knowledge transfer will be, providing further support to the findings of other studies (Dyer and Hatch, 2006; Muthusamy and White, 2005; Park et al., 2008) which also find a positive impact of trust on successful knowledge transfer. The findings for H2 verify that the greater the level of trust the foreign partner has towards the local IJV partner, the higher the expected benefits from knowledge transfer to the IJV will be. This effect has never been empirically tested before. Our results strengthen the general belief in the literature that trust plays an important role in IJVs and support the idea that when firms feel they can trust their partners, they work harder and more efficiently in order to transfer knowledge to their IJVs and, thus, they expect greater benefits from this process.

H3 and H4 are also confirmed by the statistical analysis. The results for H3 confirm that the greater the degree of partner compatibility as perceived by the foreign partner, the more successful knowledge transfer will be. This hypothesis has never been tested before. The findings contribute to the debate and add support to previous research results (Kwon, 2008; Walters et al., 1994) showing a positive impact of specific aspects of partner compatibility on successful knowledge transfer. The findings also support H4 that the greater the degree of partner compatibility as perceived by the foreign partner, the higher the level of trust the foreign partner has towards the local IJV partner. The results build on the work of Sarkar et al. (2001), indicating that compatible partners tend to understand better each other and as a result a feeling of

mutual trust will prevail. The understanding of the partners' cultures, organizational behaviors and processes leads to the development of trust among IJV partners. As far as we know, this effect has never been empirically tested before. To summarize, H3 and H4 verify that the degree of partner compatibility as perceived by the foreign partner positively affects knowledge transfer and the level of trust the foreign partner has towards the local IJV partner. Compatibility facilitates knowledge transfer from the partners to their IJVs and enhances the development of trust from the foreign towards the local IJV partner.

However, contrary to expectations, H5 was not found statistically significant, although the estimated Spearman's rho coefficient was positive. It was expected that the higher the compatibility as perceived by the foreign partner, the greater the positive impact on expected benefits from knowledge transfer would be. Nevertheless, the analysis failed to provide support for a clear and significant positive impact. This could be explained by the particular characteristics of the S.E. Europe environment in which most Greek IJVs operate. In many cases, the formation of an IJV with local partners was the only way to enter these markets, although often Greek firms did not consider the probability of a positive outcome as being high, due to the environment's dynamic character and political, legal and cultural complexities. As a result, some Greek firms appear not to be optimistic regarding their expected benefits from IJV participation. Anecdotal evidence shows that, even when there is a high level of compatibility with their partners, they do not anticipate significant returns from knowledge transfer to IJVs. The latter could also be the result of their past negative experiences from operating in these countries and their exposure to local conditions and realities. Another explanation of H5 not being accepted could be that, since many Greek firms do not have a long history and tradition in strategic international collaborations, they still remain skeptical about the possible positive outcomes of knowledge transfer to IJVs. Therefore, there is a need for further research to investigate the impact of perceived partner compatibility on expected benefits from knowledge transfer to IJVs.

#### *Managerial Implications*

The results of this research have many significant and practical managerial implications for firms who seek to expand internationally through IJVs as well as for

existing IJV partner firms. Because IJVs face several challenges critical for IJV success, management teams involved in negotiations to establish an IJV need to be aware that partner compatibility has a positive impact on successful knowledge transfer from the partners to the IJV, since successful knowledge transfer is one of these challenges. Practitioners should devote sufficient attention, effort and resources to keep partner compatibility at an appropriate level. Managers should even encourage and assist employees to apply relevant business practices and acquire knowledge and competencies that build and strengthen compatibility. Partner firms with compatible organizational cultures will more likely encounter less misunderstandings and misinterpretations in management communications, thus reducing conflicts and improving collaboration. Therefore, as the results of our study show, IJV practitioners should strive to form partnerships with firms that are compatible in firm-specific characteristics such as organizational culture, business practices, strategic goals and philosophy of doing business, thus increasing the chances of IJV stability, continuity and longevity.

Furthermore, our findings suggest that IJV partners need to be determined to build a strong feeling of mutual trust among them. During the IJV establishment phase, executives should put great effort and sufficient time into selecting appropriate partners with whom they believe that there is a high probability that a trustful relationship can be created and maintained. For the development, continuity and longevity of a business partnership characterized by trust, managers should act with high integrity. They should also be sincere about any critical issues that might arise in relation to their expectations from and responsibilities to the IJV and should not make any commitments that they cannot fulfill. Managers of each partner firm should feel comfortable to count on their counterparts in the other partner firm(s) to do the right thing and behave fairly and impartially towards their IJV partners. Furthermore, higher levels of trust result in improved relations and lower knowledge transfer costs which, in turn, imply higher expected benefits. More specifically, a trustful relationship leads to lower IJV operational costs and, hence, higher overall expected returns and non monetary benefits from knowledge transfer. The results of our research show that expected benefits include the acquisition of a) distribution expertise, b) information on competitors, c) marketing expertise, and d) information on local customers. Hence, executives should allocate resources, effort and time in

developing and maintaining a trusting relationship with their partners in order to achieve better IJV performance and, thus, better benefits for partner firms.

#### *Limitations and Directions for Future Research*

This research has some limitations. First, it is the relatively small population of Greek IJVs, estimated to be less than 200. This study uses data from 50 of them. Regardless of their relatively small number, IJVs played an important role in the first stages of Greek enterprises' internationalization and are expected to play an even greater one in the future. Second, this paper focuses on the Greek partners' perception and investigates only the knowledge senders' point of view. The rationale behind this decision was that, since Greek firms possessed the knowhow and technology, in most cases knowledge was transferred from the Greek firm to the IJV because it was regarded as important for the IJV's successful operation. Thus, the transfer of the Greek partners' knowledge to the IJV was considered to be more significant for the IJV's overall performance. However, as Chen et al. (2014) argue, this one-sided investigation might lead to possible bias. Finally, as Kumar et al. (1993) point out, the single respondent per firm procedure used is less rigorous than the multiple respondents per firm methodology.

Furthermore, these limitations reveal opportunities for further research. Future studies should examine the foreign partners' perception on the issues analyzed in this research, in order to get a holistic insight. However, as Hsieh et al. (2010, p. 301) state, the examination of both local and foreign partners view "*requires a high level of access to respondents and could be very challenging*". Geringer and Hebert (1991) also argue that the examination of both partners' perceptions requires substantial resources.

Additionally, Hypothesis 5 that was not confirmed reveals the need for further research in order to develop a deeper understanding of the impact of perceived partner compatibility on expected benefits from knowledge transfer, since the link between them is not as clear as anticipated. The degree of perceived partner compatibility prior and after the IJV formation and its impact on partner behavior and relations should be further examined. Finally, Park et al. (2008) argue that issues related to knowledge transfer should be studied in different national environments.

## Conclusion

This research has aimed to examine the impact of trust, expected benefits from knowledge transfer and partner compatibility on knowledge transfer to IJVs in S.E. Europe. Additionally, it investigates the impact of these factors since they contribute to the development of a favorable environment for knowledge transfer. This study provides insights that contribute towards the enhancement of our understanding of the importance of trust, partner compatibility and expected benefits from knowledge transfer for IJV establishment and management and, therefore, for IJV success. Finally, this research highlights the value of combining elements from the RBV and SET in order to develop a better understanding of knowledge transfer and IJV partnerships. Further longitudinal studies are needed to shed more light into the dynamic process of knowledge transfer and IJV partnerships, since other variables also influence them.

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