



COMMENTARY

Translating theoretical logics across borders: organizational characteristics, structural mechanisms and contextual factors in international alliances

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Abstract

In this essay, I critically review the 2006 *JIBS* Decade Award article by Lyles and Salk 'Knowledge acquisition from foreign parents in international joint ventures (IJVs): An empirical examination in the Hungarian context'. This article develops theoretical arguments and empirically tests a two-stage research question: (1) What are the organizational characteristics and structural mechanisms between IJV parents that influence knowledge acquisition from the foreign parent, and (2) what is the relationship between knowledge acquisition and performance in Hungarian IJVs? The most important contribution is the focus on both the antecedents and the consequences of knowledge acquisition in IJVs. I also discuss subsequent research that draws heavily on the conceptual or empirical findings of the 2006 *JIBS* Decade Award paper. I conclude by suggesting areas of future research in the field of knowledge transfer, organizational learning and international strategic alliances.

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Introduction

The goal of scientific research is to develop descriptive and/or causal *inferences* on the basis of observable empirical evidence: in the case of descriptive inference, scholars seek to learn about other unobservable facts; in the case of causal inference, scholars seek to determine relationships and factors driving them from the observed data (King *et al.*, 1994). A select few studies are able to develop both types of inference, an excellent illustration of which is Lyles and Salk's (1996) study of international joint ventures (IJVs) in Hungary in 1993. Their paper develops a new conceptual model drawing on existing logical arguments from theories of knowledge, organizational learning, and resource-based views to answer a two-stage question. First, what are the IJV organizational characteristics and structural mechanisms that are positively associated with IJV knowledge acquisition from their foreign partners? Second, what is the relationship between the acquisition of knowledge from foreign partners and IJV performance?

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Lyles and Salk's (1996) article contributes to internationalizing the literatures on organizational learning and dynamic capabilities, knowledge transfer and innovation, and negotiating and bargaining in international alliances. When this article was published, only a handful of studies had developed conceptual accounts of organizational learning in the context of IJV dynamics (e.g., Hamel 1991) or had examined the influence of parent characteristics on IJV outcomes (e.g., Geringer and Herbert, 1989; Yan and Gray, 1994; Ding, 1997; Yan, 1998). Hence one of Lyles and Salk's (1996) most innovative and ground-breaking contributions was the way they combined developing a conceptual logic of knowledge acquisition from foreign partners – and the consequent performance implications – with undertaking a rigorous empirical test of their proposed hypotheses.

Lyles and Salk (1996) build their theoretical arguments from Nonaka's (1994) paradigm of organizational knowledge as dynamic processes, and from Cohen and Levinthal's (1990) construct of absorptive capacity, to test the external validity of these theoretical logics in the context of IJVs. In this regard, they first demonstrate that, contrary to conventional wisdom and culturally egocentric views (e.g., Western), 'tacit, managerial knowledge acquisition has a greater positive impact on the assessment of IJV performance than technical knowledge acquisition' (p. 896). The premium that Lyles and Salk place on tacit knowledge and the social aspects and human dimension of knowledge acquisition challenges Nonaka's (1994) and Nonaka and Takeuchi's (1995) arguments regarding the need to constantly engage in a continuous dialog between tacit and explicit knowledge and the structural mechanisms of socialization and internalization. Instead, Lyles and Salk find that the transfer of tacit managerial knowledge from the foreign partner is critical in predicting IJV partner satisfaction. Implicitly, this finding brings to light the role of human resource management in supporting employee relations and the human side of the business venture as embedded in different institutional environments (Aquilera and Dencker, 2004).

Second, Lyles and Salk (1996) confirm empirically that the absorptive capacity of the IJV partners, in terms of flexibility, creativity and knowledge about employees, is strongly associated with both degree of knowledge acquisition from the foreign partner and different measures of IJV performance. Third, Lyles and Salk's (1996) study generated substantial

research on how the nature of the ownership structure among IJVs parents influences the degree of knowledge acquired by the local parent. In particular, the authors uncovered that two-parent shared management IJV structures (50–50 ownership) resulted in the highest level of knowledge acquisition from foreign parents, although this relationship was moderated by parent conflict and cultural misunderstanding, as well as having explicit IJV goals.

In sum, Lyles and Salk's (1996) conceptual model nicely integrates previous theoretical logics, and has become a benchmark example of how theory development and empirical testing can be tightly connected. Indeed, this is one of the main challenges that we face in the international business literature.

The innovativeness of Lyles and Salk' *JIBS* Decade Award winning article

There are multiple exceptional aspects of Lyles and Salk's (1996) article that make it worthy of the 2006 *JIBS* Decade Award. I shall enumerate a few of them. First, the authors, who draw substantially on the work of Nonaka (1994) and Nonaka and Takeuchi (1995) to build their conceptual model, put a lot of weight on bringing to light the dynamic side of knowledge acquisition from foreign partners, as well as on shedding important light on how to assess their hypotheses empirically.

Second, unlike most structural research on strategic alliances, in Lyles and Salk's study top managers are conceptualized as active *agents* of change, with a core set of beliefs, as opposed to being agents acting within strong constraints in a decision-making black box. IJVs' local managers are seen as active participants in the knowledge-acquisition processes through sharing their experiences and prior learning, evaluating new knowledge, and assessing how this process fits into the existing knowledge structure (Lyles and Schwenk, 1992). The role of managers in shaping the organizational knowledge structure is particularly important for small or mid-size local IJV partners.

Third, the article demonstrates that national cultural differences are not always a source of conflict or uncertainty in cross-national ventures. Several scholars have shown how different national cultures can lead to more learning, such as in the case of cross-border M&As (Morosini *et al.*, 1998) or organizational learning (Fiol and Lyles, 1985). An interesting finding from Lyles and Salk (1996) is

that, under some circumstances, parental conflict might be a positive process mechanism for organizational learning, because conflict is likely to lead to the need for more interaction and communication between the parents, and ultimately more effective knowledge acquisition. Sirmon and Lane (2004) argue, along these same lines, that it is necessary to better ground the source of conflict in international alliance performance, and suggest three possible sources of partners' differences: national, organizational and professional.

Fourth, a key methodological innovation in the study of organizational learning and IJVs is the three lenses capturing different dimensions of the performance construct developed in Lyles and Salk (1996). These three measures encompass the classic economic and business criteria such as market share or profitability, the accumulation of know-how and acquired competencies, and overall satisfaction with the alliance in terms of effort and expected outcomes. Finally, as argued by Meyer (2007), one of the strengths of Lyles and Salk's award-winning article is the Hungarian context in which the theories are tested, as this context provides a unique societal quasi-experiment.

Like any research study, there are several research limitations to Lyles and Salk's (1996) article, many of which are explicitly recognized by the authors, such as the self-reported nature of their measures, as well as others that they have been amended in subsequent research. But, also, even significant contributions to advancing knowledge are not exempt from limitations, as I discuss below. First, one of the assumptions that Lyles and Salk (1996) make is to 'consider learning and knowledge acquisition to be closely linked' (p. 878). However, the relationship between organizational learning and knowledge acquisition is slightly blurred throughout the article. This might be due in part to the developing nature of the organizational learning field at the time this article was written. Nowadays it is fairly well established that knowledge transfer is part of organizational learning, whereas not all organizational learning entails knowledge transfer. For example, organizational learning scholars argue that the complete cycle of organizational learning includes sub-processes of creating, retaining and transferring knowledge (Argote, 1999; Argote and Ingram, 2000). Knowledge transfer thus may lead to organizational learning, but knowledge creation is another way of learning. In addition, organizational learning scholars agree in that transferred knowledge needs

to be retained in organizational memory for it to be learning: that is, knowledge acquisition is only a necessary condition for organizational learning to take place.

Second, the main focus of Lyles and Salk (1996) is on what organizational mechanisms facilitate the transfer of foreign partner knowledge to the IJV, and mostly to the local partner. In this regard, it seems as though the authors miss some of the overall IJV learning processes and dynamics. The knowledge transfer of interest goes in only one direction, with little discussion of the reciprocity, or what the foreign partners are getting out of their inter-organizational relationships. Knowledge transfer in strategic alliances is usually considered a two-way street, where there is give and take, and at least some degree – even if not balanced – of mutual learning. There is some effort to construct their design as a dyadic relationship, as opposed to just one directional causal mechanism from the foreign partners to the local partner in the IJV. For example, some of Lyles and Salk's hypotheses, such as the division of labor between IJV parents (H3a), cultural and conflict between IJV parents (H5), and the ownership structure of the IJV (H6), refer to the strategic relationship between partners as opposed to how the foreign partner influences the local one. Yet there is room to pay closer attention to the characteristics of the local IJV parent, because in most strategic alliances they have a significant say in the sustainability of the overall venture. That is, even though local parents are not the 'buyers', they substantially influence the dynamics and bargaining power of the relationship.

A similar analogy is discussed in the role of the target firms in mergers and acquisitions (M&As). Graebner and Eisenhardt (2004) and Aguilera *et al.* (2006) have looked at the role of the target firm in M&As, and at the nature of the acquirer–target dyadic relationship in the later study, to determine the outcomes of M&As. Lyles and Salk are aware of this limitation in their research design as they uncover some preliminary unexpected findings regarding the local parent in their sample of IJVs. Specifically, they suggest that the relative power of the local parent (in terms of ownership control) seems to influence their inclination to seek knowledge from the foreign partner. However, there is some oversight of what the local partner brings to the alliance, such as knowledge about the local market, the local customer needs, and local government regulation, all of which can be critical to IJV performance.



Third, Lyles and Salk's (1996) proposed empirical test is incomplete. That is, although the authors analyze the relationship between different IJV characteristics (both organizational and structural) and knowledge acquisition as well as the relationship between knowledge acquisition and performance, they do not test the main effect – that is, the relationship between IJV characteristics and IJV performance.

Lastly, as the authors acknowledge, there are various methodological difficulties in their study. For example, the operationalization of 'conflict and misunderstanding' is questionable, given the young age of the sample IJVs, as well as the bias captures in the responding sample. In addition, their definition of ownership categories is too broad (e.g., one would expect to find important differences depending on whether the dominant parent is local or foreign in terms of knowledge acquired and overall IJV performance). As a result, it is necessary to consider different ownership and control structures to generalize findings of Lyles and Salk's (1996) research about the relationship between ownership and knowledge acquisition. Perhaps more importantly, their measurement of performance is subjective. The authors argue that perceptual measures of firm performance have a positive relationship with objective ones, and therefore subjective evaluation captures IJV performance fairly well. However, there might be a discrepancy between perceptual and objective performance such as ROA, market share and sales growth. In effect, according to neo-institutional theorists, both superficial learning and 'real' learning lead to a positive evaluation of firm performance. For example, Staw and Epstein (2000) show that the adoption of popular management techniques gains in external reputation, not in leading to an increase in economic corporate performance. Even if subjective performance is measured by asking the respondents to rate their IJV's performance, it is at least necessary to let respondents evaluate the performance achieved relative to industry performance.

Test of theoretical endurance

Despite the limitations of Lyles and Salk's (1996) study, ultimately, the truest test of the importance of their research is whether it stands the test of time, and whether it spurs research in a number of different areas. In terms of this study, the answer to both questions is resoundingly positive. International business (IB) research tends to pay a great

deal of attention, as it should, to the environmental context (e.g., Aguilera and Jackson, 2003; Aguilera and Dencker, 2004; Meyer and Peng, 2005; Meyer, 2007), and to how different constructs get translated and interpreted across these diverse contexts as well as their changing nature over time. Notwithstanding this critical dimension in IB research, one of the most significant contributions that we can make to social science research is to develop externally valid theoretical logics – that is, ones that are consistently verifiable across different environments. The ultimate test, as Stinchcombe (1968) puts it, is whether a theoretical argument will have the *capacity to invent explanations*.

Bacharach (1989), drawing on Popper's (1959) insights, suggests two broad criteria for evaluating the usefulness of theoretical contributions: *falsifiability* and *utility*. *Falsifiability* refers to whether a given theoretical framework can be empirically tested and potentially refuted, and *utility* refers to the usefulness of a theoretical framework in terms of its explanatory as well as its predictive power. We can evaluate Lyles and Salk's (1996) theoretical contribution using these two criteria not only by assessing the article in itself, as I have done up to this point, but also by fast-forwarding into two types of relevance test. First, it is important to note that the authors continued their data collection and empirical testing beyond their analysis of the 1993 data collection efforts used in Lyles and Salk (1996). These substantive and reiterated extensions of their data allowed them to expand their surveys, improve some of the methodological issues in their empirical testing, draw comparisons over time, and generally assess the internal and external validity of their 1996 theoretical arguments and findings. I discuss five of these follow-up studies below. Second, it is also important to assess to what degree different dimensions of Lyles and Salk's conceptual model and findings have been useful to scholars in developing complementary or alternative theoretical logics, or to what extent they are applicable to different empirical settings. I discuss each of these in turn.

Extensions of the Hungarian data set and constructs

In 1996 the authors went back to the field (Hungary) and collected follow-up data on 135 of the manufacturing IJVs involving a partnership between a local Hungarian firm and a firm from the West that had already participated in the 1993 survey on which this 2006 *JIBS* Decade Award

winning paper is based. I discuss two studies that resulted from this follow-up data collection. First, Steensma and Lyles (2000, pp: 833–842) examine the determinants of IJV survival, drawing on social exchange and knowledge-based perspectives, analyzing four latent constructs to survival:

- the imbalance in management and ownership control between the parent firms;
- the level of technical and managerial support from the foreign parent to the IJV;
- the level of conflict between the parents; and
- overall learning by the IJV.

One of their main results is to show that an imbalance in the observable pattern of managerial decision-making power between the IJV partners leads to parental conflict and ultimately a higher likelihood of IJV survival, relative to an imbalance in the ownership (asset) contractual imbalance between partners. This is a refinement of the previous finding in Lyles and Salk (1996).

Moreover, Steensma and Lyles' (2000) model incorporates some of the constructs from Lyles and Salk (1996), such as ownership structure, technical and managerial foreign partner support, and parent conflict. However, unfortunately, their article does not explicitly discuss what the authors learned from (their) previous research. In fact, if one looks closely at the results, Steensma and Lyles (2000) might even contradict some of the findings from Lyles and Salk (1996). For example, Steensma and Lyles (2000, p: 847) conclude that '[Managerial] techniques from the Western world may be ill fitted for transitional contexts and thus not appreciated by local partners.' They attribute this finding to the legacy of years of socialism and centrally planned economy, as well as to Marxists' higher estimation for technical expertise than for managerial expertise. It seems that this particular finding should have been discussed in light of local IJV partner knowledge acquisition (which in Steensma and Lyles (2000) they refer to as knowledge learning) and the ultimate dependent variable, IJV performance (which would include survival). This is particularly important, because one of the key findings in Lyles and Salk (1996) is that managerial know-how transfers are equally important as, if not more important than, technical know-how knowledge transfers from the foreign IJV partner. Finally, Steensma and Lyles (2000) did not systematically compare the 2 year periods in this study, although this issue was addressed in subsequent research.

A second study based on the 1993 and 1996 Hungarian IJV data collection was conducted by Lane *et al.* (2001). They explicitly built on Lyles and Salk's (1996) conceptual model and findings. In effect, the entire study is motivated by three key limitations in Lyles and Salk (1996): low average age of the IJVs, cross-sectional data, and neglect of the context in which knowledge is applied. To address these conceptual and empirical limitations, Lane *et al.* (2001) developed a more refined and comprehensive conceptual model in which they argue that an organization's absorptive capacity is determined by three main constructs, following Cohen and Levinthal (1990):

- ability to understand external knowledge;
- ability to assimilate external knowledge; and
- ability to apply external knowledge, instead of simply equating absorptive capacity with ability to assimilate external knowledge, as was done in Lyles and Salk (1996).

These authors advance research by comparing IJV learning processes 3 years after the IJVs were surveyed in 1993 (1996). In young IJVs, knowledge and skills disparities are greatest between the foreign and local IJV partners. Lane *et al.* (2001, p: 1152) find that whereas in the 1993 data, which included relatively new IJVs, management support was a key variable in the mediating effect of knowledge acquisition from a foreign partner, this was no longer the case when the IJVs became more mature (3 more years down the road, 1996). Moreover, the authors systematically compare the absorptive capacity construct used in Lyles and Salk (1996), namely ability to assimilate knowledge, with 1993 data to the 1996 surveyed data, and find that local IJVs partners rely on different learning processes to acquire knowledge from the foreign IJV partner in these two time periods. In sum, Lane *et al.* (2001) is an important follow-up to Lyles and Salk (1996), mostly because they draw a systematic comparison over time of IJV learning in 1993 and 1996, from which they conclude that the main difference in these two time periods, 3 years apart, 'is an increase in the learning of the more tacit forms of knowledge' (p: 1157), from which they suggest that foreign partners can best contribute to the IJV if foreign parents initially focus on assisting learning and then, when the IJV becomes more mature, shift the focus to assisting in applying the learned external knowledge.

Additional studies were conducted with a follow-up data set collected in Hungary in 2001. First,



Dhanaraj *et al.* (2004) examined how relational embeddedness – conceptualized as tie strength, trust, and shared values and systems between the foreign parent and the IJV – affects different types of knowledge transfer (tacit and explicit knowledge) for IJVs of different ages (young and mature IJVs), and how the characteristics of knowledge transfer in turn influence IJV performance. Some of the findings in this paper confirm Lyles and Salk's (1996) results, such as the negative relationship between tacit knowledge transfer and IJV performance, and advance others, such as the direct relationship between tacit and explicit knowledge and the importance of trust in tacit knowledge transfers.

Second, Steensma *et al.* (2005) use the Lyles and Salk (1996) 1993 IJV Hungarian data in conjunction with a second round of Hungarian data collected in 2001 to show that institutional and economic factors stemming from changes characteristic of the different stages of in a transitional economy (in this case over a decade) determine IJV parents' role in the success of the IJV. For example, these authors find that the market value provided by the foreign IJV partner generally shrank as the host country transitioned from a centrally planned economy to a free market economy, although foreign parent resources had a stronger impact on learning in the later phase of the transition. In other words, Steensma *et al.* (2005, p: 229) make a huge step forward in the field of IJVs involving one parent from a transition economy country and the effects over time when they are able to conclude that 'the efficacy of foreign parent resources changes as an economy evolves, being more critical to market performance in the early phase and increasingly vital for learning in the late phase'.

Finally, Barden *et al.* (2005) explore the parent control issue raised in Lyles and Salk (1996). They draw on an organizational-justice-based contingency approach to examine how the parental control structure of IJVs influences their contribution of proprietary resources and their ability to monitor operations effectively. Using Vietnamese IJV data collected in 1998, they expand our knowledge of inter-organizational conflict between IJVs parents, one of the constructs in Lyles and Salk (1996), by concluding that 'the norms of fairness about the way power should be distributed play a key mediating role between IJV control and structure and inter-parent conflict' (p: 169).

Applicability of Lyles and Salk's (1996) constructs to other studies

Lyles and Salk's (1996) paper has made a contribution to the field, as shown by the 70 citations in peer-reviewed management journals between July 1997 and October 2006, as recorded in the Social Science Citation Index (SSCI) portion of ISI's Web of Science. What these studies show is, as Weick (1995) succinctly puts it, that good theory explains, predicts and delights. These citations are in articles published in the top management and international business journals such as *Journal of International Business*, *Academy of Management Review*, and *Strategic Management Journal*, and fall into four conceptual dimensions that explicitly build on their work. First, seven studies draw on Lyles and Salk's (1996) operationalization of the concept of absorptive capacity as a predictor to determine knowledge acquisition from foreign parents in IJVs. An example of this body of work is Minbaeva *et al.*'s (2003) study, which takes the concept of absorptive capacity as a starting point to explore, on the one hand, the types of organizational mechanism that increase absorptive capacity – emphasizing both employees' motivation and employees' ability – and the level of knowledge transfer and, on the other hand, the relationship between MNC subsidiary human resource management practices and the level of absorptive capacity.

A second large set of studies (28) fall into the dimension of international strategic alliances, mostly IJVs: some emphasize the nature of the context where the IJV takes place, whereas others focus mostly on developing further the constructs of knowledge transfer and inter-organizational learning. For example, Zhao *et al.* (2005) examine how the dual network perspective (sources and recipients) in the IJV relationship influences inter-organizational transfer and the diffusion of capabilities in the Chinese automotive industry, and Simonin (2004) analyzes international strategic alliances, but is much more interested in the processes of knowledge transfer and what he calls learning capacity. Inkpen and Pien (2006) study alliance knowledge transfer using a case study of the China–Singapore Suzhou Industrial Park (SIP), an alliance involving the Chinese and Singaporean governments, their agencies, and various private sector organizations, with the objective to extend existing knowledge in the alliance learning area and to provide a deeper understanding of some process-oriented aspects of alliance learning performance. Consistent with Lyles and Salk (1996), they

find that tacit knowledge was particularly difficult to transfer, and that issues involving collaborative interactions between the partners both facilitated and impeded knowledge transfer.

Simonin's (1999) article also builds nicely on Lyles and Salk (1996) by investigating the role played by the 'causally ambiguous' nature of knowledge in the process of knowledge transfer between strategic alliance partners. Based on a cross-sectional sample of 147 multinationals and a structural equation methodology, Simonin empirically investigates the simultaneous effects of knowledge ambiguity and its antecedents – tacitness, asset specificity, prior experience, complexity, partner protectiveness, cultural distance, and organizational distance – on technological knowledge transfer. In contrast to past research, which generally assumed a direct relation between these explanatory variables and transfer outcomes, his findings highlight the critical role played by knowledge ambiguity as a full mediator of tacitness, prior experience, complexity, cultural distance, and organizational distance on knowledge transfer. These significant effects are further found to be moderated by the firm's level of collaborative know-how, learning capacity, and the duration of the alliance. Other studies within the international alliance category build on Lyles and Salk's (1996) constructs of knowledge acquisition from foreign partners with an emphasis on the context. For example, Tsang's (2002) study of Singapore and Hong Kong IJVs set up in China tests whether the local partner acquires foreign knowledge via two channels: learning-by-doing or learning myopia.

Lyles and Salk's (1996) ability to internationalize existing research on strategic alliances and knowledge transfer also passes the utility test, or in other words the need to be applicable to other contexts. Their paper is cited in 26 studies in the SSCI that discuss knowledge transfer and inter-organizational learning. For example, Yan and Child (2002) study partners' strategic objectives, learning and ability to influence decision-making in Sino-British joint ventures; Uhlenbruck *et al.* (2003) look at the relationship between organizational learning and strategic restructuring (e.g., downsizing) of former state-owned firms in the transition economies of Central and Eastern Europe; Norman (2004) researches knowledge acquisition by the focal firm, knowledge loss to the partner, and alliance overall satisfaction in high-technology alliances; and

Muthusamy and White (2005) take a social exchange perspective to show that reciprocal commitment, trust and mutual influence between alliance partners are positively associated with learning and knowledge transfer.

Finally, in the fourth dimension of the studies citing Lyles and Salk (1996) is research that builds on the environmental context of an emerging or transition economy such as the Hungarian context. These 19 studies focus on a wide range of dependent variables, but mostly emphasize how the institutional and economic context becomes an important factor in determining different sorts of managerial and business outcome, whether it is broadly speaking (e.g., Makino *et al.*, 2004), in Central and Eastern Europe (Filatotchev *et al.*, 2003; Meyer and Peng, 2005), in other emerging countries such as Croatia (Cui *et al.*, 2006), Estonia (Sinani and Meyer 2004), Kazakhstan (Griffith *et al.*, 2001), or China (e.g., Luo and Peng, 1999; Zhao *et al.*, 2005).

Conclusion

Lyles and Salk's (1996) article makes a significant contribution to the existing literature on organizational learning and international alliances, mostly because their logical argument is able to transcend context and bridge the intellectual paths between theory, empirical testing and managerial applicability. Future research in knowledge transfer across borders should look more explicitly at how different levels of analysis, such as individual, organizational, structural and contextual, interact with each other in a multi-level fashion. Also, as suggested by Salk and Simonin (2003), it has become increasingly important to extend our conceptual tools to other types of inter-organizational collaborative learning and knowledge acquisition – nonprofit and for profit–nonprofit collaborations, public sector alliances, etc. Finally, as information asymmetries become less costly to reduce in a globalized world, I should like to encourage scholars to revisit the issue of partner selection, contingent on the type of knowledge that is sought (Deng and Aguilera 2006), the duration of the partnership, as well as the influence of the institutional environment.

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