

**PRIOR IJV EXPERIENCE AND ITS IMPACT ON PARTNER  
COMPATIBILITY, KNOWLEDGE TRANSFER AND TRUST:  
EVIDENCE FROM EMERGING MARKETS**

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**Abstract:** This research examines Greek firms participating in IJVs in South East Europe based on elements from the Resource Based View and Social Exchange Theory. It enhances the understanding of the role of prior IJV experience on the post-formation IJV dynamics. More specifically, our findings show a positive impact of the foreign partner's prior experience in the establishment and management of IJVs on partner compatibility as perceived by the foreign partner and on successful knowledge transfer to the IJV. However, the expected positive effect of the foreign partner's prior IJV experience on the level of trust the foreign partner has towards the local IJV partner is found to be statistically insignificant in the same national context.

**INTRODUCTION**

In response to the increasingly competitive global business environment the number of inter firm collaborations has increased substantially (Das, 2006). International Joint Ventures (IJVs), defined as (Chen et al., 2009, p. 1133) "*legally independent entities formed by two or*

*more parent firms from different countries that share equity investments and consequent returns*” are among the most common firm collaborative relationships. Although IJVs have been examined extensively in the international business literature for many years, researchers have recently indicated the need for further research on this topic (Beamish & Lupton, 2009; Bener & Glaister, 2010; Triki & Mayrhofer, 2016).

According to Makino et al. (2007, p. 1120) “*The influence of the initial conditions tends to dominate subsequent organizational structures and processes for a long time*”. This study focuses on such an initial condition, more specifically a partner characteristic, prior IJV experience. The aim is to enhance the understanding of the benefits of prior IJV experience on IJVs’ overall success. We focus on prior IJV experience for the following reasons. Firstly, previous research results have been inconsistent. For example, as noted in Child and Yan (2003) the impact of the partners’ IJV experience on IJV performance is not clear. According to Kale and Singh (2009), IJV experienced firms learn to more effectively manage their IJVs whereas firms with no such experience tend to allocate more resources into managing and controlling their IJVs, resulting to cost increases and, thus, lower IJV performance. Furthermore, recent literature indicates the importance of IJV management experience in performance evaluation (Larimo et al., 2016). Le Nguyen (2009) in his study on Finish firms with IJV participation has shown that the more experienced firms exercise less control over their IJVs and that their IJVs demonstrate better performance.

However, as Larimo and Le Nguyen (2015) state, other studies (Harrigan, 1988) did not find a direct impact of past IJV experience on IJV success, while Zollo et al. (2002) did not find a direct impact of general collaborative experience on alliance performance. Similarly, Larimo and Le Nguyen (2015) in their study of IJVs in the Baltic States did not find a clear

dependency between the firms' earlier IJV experience and their current IJV. Nippa et al. (2007) argue that other studies have shown that prior IJV experience has only limited impact on IJV performance (Luo & Park, 2004; Merchant, 2005). The results showed that the IJVs' performance was not clearly dependent on the parent firms' earlier experience in FDIs and IJVs before establishing the reviewed unit. Furthermore, Alcantara and Hoshino (2012, p. 141), note that "...*the positive relationship between experience and IJV performance depends largely on how experience was accumulated and may not always hold, due to the difficulty of learning from experience*". The above ambiguous results raise a question regarding the impact of the partners' IJV prior experience on IJV performance and overall operation and success. They reveal the need to further explore the impact of prior IJV experience on partner compatibility, knowledge transfer and trust, factors that enhance the IJV's overall performance. The fact that empirical knowledge on the above subjects in emerging countries is limited further supports the need for this research. Secondly, we examine the impact of prior IJV experience of Greek firms since it is important especially for the Small and Medium Enterprise (SME) sector. The sector in Greece is more important than in other EU economies (Balios et al., 2016). As noted by Lu and Beamish (2006), SMEs face more problems with their subsidiaries in foreign countries due to the fact that they are less experienced in the international markets compared to large firms.

In this study, we combine perspectives from Resource Based View (RBV) and the Social Exchange Theory (SET) as they provide a solid foundation to our research framework. Following the RBV, we examine internal to the firm factors they are regarded as being crucial for the creation of competitive advantage, since firms can not affect their continuously changing external environment (Wright et al., 2001). This study examines a specific relational factor, namely, prior IJV experience. Additionally, we focus on general IJV experience since,

according to Gupta and Misra (2000), it is recognized and valued by markets, contrary to experience in the same type of IJV activity.

This empirical research contributes in three distinct ways to IJV literature. Firstly, it investigates the impact of the foreign partner's prior IJV experience on i) partner compatibility, as perceived by the foreign partner ii) successful knowledge transfer to the IJV and iii) the level of trust the foreign partner has towards the local IJV partner. The results show a positive effect of prior IJV experience on successful knowledge transfer to the IJV and on partner compatibility as perceived by the foreign partner. However, contrary to what was expected, we did not find a statistically significant positive impact of prior IJV experience on the level of trust the foreign partner has towards the local IJV partner.

Secondly, it contributes by enhancing the understanding of the impact of prior experience in the establishment and management of IJVs in emerging markets and in a specific region. The importance of examining such markets, in addition to the developed ones, is noted by Li et al. (2007). Additionally, the impact of prior IJV experience on IJV performance is greater in developing economies and economies in transition than in developed ones (Child & Yan, 2003). Similarly to Li et al. (2007) and Triki and Mayrhofer (2016), and unlike most previous research (Meschi & Riccio, 2008; Demirbag et al., 2011), we focus on a region (S.E. Europe), and not on a single country. The focus on a single country has been identified as a limitation by Park (2010), in his study on Korean IJVs, since it does not allow for broader conclusions. Furthermore, Park et al. (2015) note that country specific characteristics do not allow for the generalization of research results, since particular locational factors will most likely be different among countries and time periods. In addition, Muthusamy and White (2005) identify as a limitation of their research, the fact that their study neglects the different national

environmental contexts. Similarly, Meier (2011) emphasizes the differences in IJVs between firms from developed countries and firms from developing countries and argues that alliances are embedded in a specific environment and context that affects knowledge management processes.

Thirdly, our paper contributes to the existing literature by providing empirical evidence regarding the impact of prior IJV experience in the cultural context of S.E. Europe. To the best of our knowledge no similar research has been conducted before in this region. Greek firms have established IJVs mostly in S.E. Europe countries (Cyprus, Bulgaria, Romania, Serbia, Albania, North Macedonia, Turkey, Georgia, and Ukraine) with which Greece has strong historical, cultural and economic ties. All of them, with the exception of Cyprus are classified as emerging markets, according to the IMF's World Economic Outlook (WEO) database (April 2019). Additionally, the physical proximity of these countries makes them a rational initial step on their internationalization efforts (Knoben & Oerlemans, 2006). The S.E. Europe region includes mostly emerging economies which, according to Yan (1998), are characterized by turbulent political, institutional and economic conditions.

It is regarded as a highly volatile area and the least integrated region of the European continent, with great historical, political variations (Getimis & Demetropoulou, 2007). Furthermore, the countries in the region are in a political, economic and social transition (Battaini-Dragoni, 2005). According to Luo (2007, p. 56), "*Although the underlying factors of environmental volatility may not necessarily be the same in various emerging economies, law unenforceability and information unverifiability, along with industry structural instability, are prevalent in most emerging markets*". In his study in an emerging market, Luo (2007) has shown that in environments characterized by high volatility, partners demonstrate

opportunistic behavior which has a negative impact on the IJVs overall performance. Finally, only Salavrakos and Stewart (2006) to date investigated international business issues, and more specifically partner selection criteria, in Greek IJVs while there is no research regarding prior IJV experience in Greek firms.

Fourthly, the findings shed light to the antecedents of partner compatibility which have been neglected by researchers (Wang et al., 2017). Furthermore, the results show that despite the difficulty of learning from past IJV experience (Alcantara & Hoshino, 2012) Greek firms appear capable of learning from their past IJV experience on how to become more compatible with their partners, and to more successfully transfer knowledge to their IJVs.

To summarize, the objective of this research is to answer the following research question: *“How does the foreign partner’s prior IJV experience impact partner compatibility, knowledge transfer and trust in their current IJV?”*. The remaining of the paper is organized as follows: Firstly, we present and discuss a brief literature review of partner compatibility, knowledge transfer, trust and prior IJV experience. A total of six research hypotheses are developed and the proposed theoretical model is shown graphically. In the following section, we describe the research methodology and our findings are presented. The paper concludes with the discussion of the results, the managerial implications, the limitations and some thoughts for further research.

## **THEORETICAL BACKGROUND AND HYPOTHESES FORMATION**

### **Partner Compatibility**

Partner compatibility provides the basis for cooperation, communication and effective signaling among the partner firms (Geringer, 1998). According to Bucklin and Sengupta

(1993), it implies the similarity of goals, objectives, business philosophy and corporate culture. Pansiri (2008) has found that partner compatibility was positively associated with the overall satisfaction from the alliance performance. Pham (2013) argues that partner incompatibility is accountable for the history of IJV failures in Asia. According to Mohr et al. (2016) partners are more likely to examine and evaluate their compatibility prior to the IJV establishment. Vaidya (2017) in his study of IJVs in India concludes that it is important for firms to examine their partners and select the most appropriate ones based on compatibility and cultural characteristics. Similarly, Barkema & Pennings (1996) argue that partners need to examine their organizational cultural compatibility prior to entering into IJV agreements. Kwon (2008) determines compatibility among partners in terms of organizational culture, structure and business practice, and concludes that a higher level of organizational cultural compatibility promotes knowledge and resource – sharing among partners. Wang et al. (2017) argue that in order to facilitate cross border knowledge transfer in collaborations, organizations must proceed with the required changes to eliminate incompatibilities. Furthermore, Rotsios et al. (2019) have shown that partner compatibility, increases successful knowledge transfer from the Greek partner to the IJV.

### Knowledge Transfer

The RBV posits that firms gain competitive advantage by accumulating resources that are rare, difficult to imitate and substitute (Lin & Wu, 2014). According to Mowery et al. (1996, p. 77), “*the resource based view describes the business enterprise as a collection of sticky and difficult to imitate resources*”.

Knowledge comprises one of the most important elements of the RBV as it difficult to substitute or duplicate (Fang et al., 2013). The concept of knowledge transfer is relatively new

(Bresman et al., 2010). Simonin (2017, p. 20) argues “*that collaborations are learning laboratories*” in which learning opportunities, including knowledge transfer exist in different levels. He identifies “missed learning opportunities”, as one of the twelve most common mistakes of firm collaborations. Easterby-Smith et al. (2008, p. 677) define knowledge transfer as “*an event through which one organization learns from the experience of another*”. Empirical evidence shows that companies capable of transferring knowledge effectively have a greater chance to succeed than the less effective ones (Argote, 1999). In addition, knowledge transfer success is viewed as significant for the IJVs’ overall performance (Inkpen & Beamish, 1997; Park et al., 2015; Cheng et al., 2016). Overall, as Aaron et al. (2017) note, there is evidence that organizations that are effective in managing and transferring their knowledge are more innovative and have better performance than the less effective ones.

### Trust

The SET underlines that transactions might potentially generate high-quality relationships which as they develop through time, they can result to “*trusting, loyal and mutual commitments*” (Cropanzano & Mitchell, 2005, p. 875). Initially the SET has been proposed for relationships at the individual level, however it has been extended to involve interfirm agreements such as IJVs (Das & Teng, 2002; Ali & Larimo, 2016). Furthermore, Nahapiet and Ghoshal (1998, p. 243) define social capital as “*the sum of the actual and potential resources, embedded within, available through and derived from the network of relationships, possessed by an individual or social unit*”. Trust is regarded as a key element of the relational dimension of social capital which enhances the motivation to engage in knowledge exchange and teamwork (Stensaker & Gooderham, 2016).

According to Blau (1964), mutual benefits including knowledge transfer, are very important

aspects of social exchanges. Through reciprocal knowledge transfer in IJVs, all partners potentially benefit from the knowledge acquired and created. As a result, these relationships are valued more compared to the ones without mutual exchanges (Linton, 2000). Furthermore, each partner's willingness and motivation to transfer knowledge will be affected by its "obligations" and "expectations" from the relationship (Coleman, 1990).

As trust is a complex subject area, numerous definitions have been proposed in the literature, each focusing on particular aspects of a relationship. Parkhe (1998) describes trust as a complex integration of the psychological, sociological and economic dimensions into an irreducible whole experience. Sklavounos et al. (2018, p. 205) define trust as "*a firm's willingness to depend on its international strategic alliance (ISA) partner based on the positive expectations of the partner's reliability, fairness and goodwill*". The view of Jiang et al. (2011, p. 1150) that "*trust is commonly defined as the confidence in the other party that entails, among various aspects, a willingness to be vulnerable toward others despite an uncertainty regarding their motives, intentions, and prospective actions*" is adopted in this paper. Partner trust increases cooperation, lowers the cost of coordination, reduces conflicts, facilitates investment in relationship-specific assets and successful knowledge transfer, and contributes to the development of a shared social identity (Nielsen & Nielsen, 2009). Rotsios et al. (2019) showed that a trustful relationship leads to lower IJV operational costs and, hence, higher overall expected returns and non-monetary benefits from knowledge transfer. Also, Colquitt and Rodell (2011) stated that trust is considered the foundation for exchange relationships and the catalyst for long-term collaboration.

#### Prior Experience in the Establishment and Management of IJVs

Collaborative know how is an element with important impact on the relational dimension of SET. Prior cooperative relationships with other companies enhance a partner's capability for cooperation (Lyles, 1988). According to Hoang and Rothaermel (2005), the most common forms of past firm experience are the general alliance and the partner specific alliance experience. This research focuses in the general IJV experience and not in the experience with a specific partner. In line with previous research (Lyles, 1998; Simonin, 1999a), we examine the past experience of the "transferors" and not of the "knowledge receivers".

According to Kale and Singh (2009) through time firms learn how to more efficiently operate their IJVs by internalizing knowledge gained from previous joint ventures and develop a competence on joint venture management (Mascarenhas & Koza, 2008), that enables them to identify and more effectively cooperate with their partners. According to Inkpen (1997) over time firms develop the skills to more effectively transfer knowledge. Furthermore, past experience in managing similar IJVs was found to decrease disagreement on perceived fairness (Luo, 2009).

Prior participation in IJVs includes the experience of selecting appropriate partners, investing in relation – specific assets, sharing information and knowledge among partners, and the establishment of a mechanism for managing operations and conflict resolutions (Hunoldt & Bausch, 2009). Moreover, due to the mixed corporate and national cultures within IJVs, additional knowledge and managerial competencies are required, some of which can result from previous experience (Child & Yan, 2003). As Lei and Slocum (1992) note, the partners' non-experience in IJVs might be responsible for their IJVs failure.

Van Oudenhoven and Van Der Zee (2002) argue that international experience allows firms to

address more effectively cultural differences among partners. In addition, Le Nguyen's (2009) research shows that the more IJV experienced partners are, the better the performance of the IJV. Similarly, Child and Yan (2003), in their study of Chinese IJVs, found a positive relationship between previous IJV experience and IJV performance.

As noted earlier, research has shown that partner compatibility is an important concept for IJVs because it positively affects their performance (Sarkar et al., 2001). Furthermore, partner compatibility concerning organizational culture, facilitates knowledge acquisition in IJVs (Park et al., 2009). We examine the relationship between prior experience in the establishment and management of IJVs and partner compatibility. Wang et al. (2017, p. 1589), note that *"Although prior studies emphasize the importance of compatibility on knowledge transfer, they ignore the antecedent of compatibility"*. Therefore, there is a need to further investigate the impact of prior experience in IJV establishment and management on partner compatibility, since they both affect IJV performance. The relationship between prior IJV experience and partner compatibility, to the best of our knowledge, has never been tested before.

Based on the above, it is reasonable to argue that when partners have previous experience in IJV establishment and management, there will be fewer differences in their organizational culture, strategic goals and business perceptions. As a result, it is expected that IJV partners will be more compatible, since prior international business experience will most likely enhance the global character of their culture and way of doing business, leading to more compatible ways of a) organizational culture, b) business practices, c) strategic goals and d) philosophy of doing business. The methodology adopted was previously used by Nohria and Ghoshal (1994), Tsai and Ghoshal (1998), Simonin (1999) and Li et al. (2007). Firms with prior IJV experience gradually adjust their culture, goals, business practices and perceptions,

in order to operate more efficiently in the global environment. Therefore, it is anticipated that when firms entering into an IJV agreement have past experience in the formation and management of IJVs, the outcome will be milder differences in partners' organizational culture, strategic goals and business practices and perceptions, leading to higher compatibility among them. Thus, it is hypothesized that:

Hypothesis 1a: Foreign partner's prior experience in the establishment of IJVs positively affects the degree of partner compatibility as perceived by the foreign partner.

Hypothesis 1b: Foreign partner's prior experience in the management of IJVs positively affects the degree of partner compatibility as perceived by the foreign partner.

Rabbiosi and Santangelo (2013) argue that units with greater experience are able to better codify and transfer their knowledge, (Kogut & Zander, 1993) than the less experienced ones. In addition, firms that learn from their participation in previous alliances are more "capable" of managing knowledge (Simonin, 1997). Additionally, Simonin (1999b) found that when partners have low collaborative experience, differences in national cultures lead to knowledge ambiguity which in turn constrains learning. However, Pak and Park (2004) found that firms with past collaborative experience with Korean firms are more skeptical about transferring knowledge to their partners. Similarly, Inkpen's (1995) results did not confirm that the firm's prior IJV experience enhances learning from the partner.

Based on the above, we posit that prior IJV experience will facilitate knowledge transfer from partner firms to their IJVs. Firms with IJV experience have already established appropriate

communication channels and mechanisms and can transfer their experience and knowledge to their IJVs more effectively. Thus, “IJV experienced” firms have a better chance to successfully transfer their knowledge to the IJV compared to less experienced ones.

Additionally, the concept of knowledge transfer in our research is broad in scope, including all knowledge, skills and capabilities required for the IJV’s successful operation. As noted by Vaara et al. (2012), similar approaches have been used by Bresman et al. (1999) and Haspenlagh and Jeminon (1991). Furthermore, in line with Bresman et al. (2010), we define successful knowledge transfer as greater accumulation of knowledge in the IJV. The success of the knowledge transferred is assessed for general knowledge (both tacit and explicit), since as noted by Lei et al. (1997) many times the separation of the two types is not possible as they are embedded in the firm’s culture and processes. To the best of our knowledge, the impact of prior experience in IJV establishment and management on successful knowledge transfer to IJVs has not been tested before. Hence, we test the following hypotheses:

Hypothesis 2a: Foreign partner’s prior experience in the establishment of IJVs positively affects successful knowledge transfer to the IJV.

Hypothesis 2b: Foreign partner’s prior experience in the management of IJVs positively affects successful knowledge transfer to the IJV.

Trust plays an important role on successful knowledge transfer to the IJVs. Relationships characterized by trust enhance the partners’ willingness to share experiences and information (Park et al., 2008). In a trusting environment the flow of knowledge transfer is expected to be more efficient. Furthermore, prior IJV experience increases the partners’ ability for successful collaborations, since firms become more capable of dealing with complex inter-organizational

relationships (Lyles, 1988). Thus, it is important to determine the relationship between the constructs of prior IJV experience and trust, since both contribute to successful knowledge transfer and, consequently, to better IJV performance.

Moreover, research has shown that trust may increase the likelihood of accurately predicting partner behavior, thus reducing the potential for conflict and associated operational costs. For instance, Simonin (2002) found collaborative know-how to be negatively related to suspicion of partner opportunistic behavior, contributing to the development of trust. Furthermore, Nielsen and Nielsen (2009, p. 1037) state that “*accumulated experience and collaborative management processes are conducive to overcome mistrust, attenuating opportunism, and facilitating cooperation in general*”. They argue that collaborative know-how helps to avoid potential crises in alliance relationships as firms establish routines for negotiations with partners, for conflict resolution and for managing alliance relationships (Nielsen and Nielsen, 2009), which are expected to improve the level of trust among partners.

In addition, Kale et al. (2000) showed that firms experienced in alliances may benefit from establishing open communication channels, joint problem-solving mechanisms and a mutual concern for benefits for all partners, which will most likely result to closer collaboration and mutual trust. Parent firms with earlier experience in IJVs often have good knowledge of how to manage them in order to achieve IJV goals without imposing heavy financial controls on the venture that may increase transaction costs and hinder trust development with local partners (Larimo et al., 2016). Furthermore, Elango and Chen (2012) mention that firms with greater joint venture experience are more capable of managing their IJVs and of minimizing their partner’s opportunistic behavior, without having the majority of ownership in their IJVs. According to Johnson et al. (2001, p. 38), “*A history of IJV experience suggests that parent*

*firms feel secure in committing resources to IJVs and more comfortable with the role of participation in IJVs*". Firms that are uncertain about their potential partners, monitor and evaluate them more closely (Jung et al., 2010). However, Ali and Larimo (2016), in their study of Nordic firms with IJVs in Asia, Europe and the US, did not find a significant impact of IJV experience on perceived opportunism.

Gulati (1995) has shown a positive relationship between prior IJV experience and level of trust. However, partners with negative previous IJV experiences will be more careful entering into new IJVs and their approach towards them, including trust, will be more cautious (Tsamenyi et al., 2013). Le Nguyen's (2009) research on Finish IJVs, has showed that the more IJV experienced partners are, the more they trust their IJV, since they exercise less control on them. Therefore, it is logical to expect that IJV experienced firms will develop capabilities to effectively manage conflicts with their partners, resulting to higher level of trust among them and, thus, in lower IJV management costs. In addition, it is anticipated that IJV experience will foster the development of an open and honest relationship among partners resulting to higher levels of trust. Hence, we propose that:

Hypothesis 3a: Foreign partner's prior experience in the establishment of IJVs positively affects the level of trust the foreign partner has towards the local IJV partner.

Hypothesis 3b: Foreign partner's prior experience in the management of IJVs positively affects the level of trust the foreign partner has towards the local IJV partner.

The above Hypotheses and the sign of the expected impact are shown in Figure 1.

("Figure 1 goes about here")

## **RESEARCH METHODS**

### Sample and Data Collection

Greek enterprises with current IJVs in S.E. Europe are targeted for this research. To the best of our knowledge, this is the first research conducted in Greek firms with IJV participation in S.E. Europe countries, which studies the relationship among prior experience in the establishment and management of IJVs with partner compatibility, knowledge transfer and trust. Furthermore, there is evidence that a number of Greek entrepreneurs consider prior IJV experience, an internal factor, as being crucial to the IJV's establishment and overall successful performance (Rotsios et al., 2014). As the Greek firms' resources allocated to the IJVs are of greater importance compared to the local partners' ones, for the IJVs overall performance, this study focuses on the Greek executives' perception on the impact of prior IJV experience.

We use primary data that allow for generalization of the results, contrary to the common practice of using secondary data in international business research, due to the difficulty of obtaining sufficient primary data (Beamish & Lupton, 2009, 2016). The research questionnaire was developed adopting questions from past research.

The questionnaire was sent to five experienced senior managers in order to test its clarity and structure. The appropriate modifications and improvements were made based on their detailed feedback and comments (Churchill, 1979). The nature and complexity of the questionnaire were such that respondents had to hold senior managerial positions in their companies, in

order for the researchers to receive meaningful responses. A total of 392 Greek firms with foreign direct investment (FDI) activities were identified from the ICAP group (<http://www.icap.gr>) database which is one of the largest business services groups in S.E. Europe. However, it was not specified in the data base which firms participated in IJVs and which ones had other forms of FDI. As this information was not publicly available, a challenge identified by Pansiri (2008) as well, led to the decision to send the questionnaire to all firms with FDI activities.

Therefore, the number of Greek firms which participate in IJVs is expected to be much lower than 392. The questionnaire was sent to senior managers of all companies. Furthermore, a cover letter explained the purpose of the research and requested their response only if their company had an ongoing participation and experience in IJV establishment and management, and that their responses should be based on the time of the survey.

The collection of the questionnaires proved to be a challenging and time-consuming task, as it is very difficult to gather information in this area of research (Mayrhofer, 2002). Due to the challenges of conducting primary research through questionnaires in Greece, we had numerous personal contacts with senior executives. Firms were reminded about the research with telephone calls and e-mails. A total of 50 valid questionnaires were collected out of the 392 sent to firms, a 12.7% response rate which according to Hambrick et al. (1993) is regarded as being representative for mail surveys addressed to firms' senior management teams.

### Measures and Statistical Methods

Hypotheses 1a and 1b examine the impact of prior experience in the establishment and the

management of IJVs on the degree of partner compatibility as perceived by the foreign partner. Hypotheses 2a and 2b test the impact of prior experience in the establishment and management of IJVs on successful knowledge transfer and 3a and 3b test the impact of prior experience in the establishment and the management of IJVs on the level of trust the foreign partner has towards the local IJV partner. The U statistic (Mann-Whitney test), the nonparametric equivalent of independent samples t-test, was used since the assumption of normality of the data given as test variables could not be verified. The test was used to identify statistically significant differences between the degree of partner compatibility as perceived by the foreign partner, the level of success of knowledge transfer to the IJV and the level of trust the foreign partner has towards the local IJV partner, in firms with and without prior experience in the establishment and management of IJVs.

## **RESULTS**

### 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. Over 60% of them have prior experience in the establishment and management of IJVs. Hypotheses 1, 2 and 3 examine the effect of prior experience in the establishment and management of IJVs on a) the degree of compatibility among partners as perceived by the foreign partner defined in terms of business practices, organizational culture, strategic goals and philosophy of doing business), b) successful knowledge transfer to the IJV, and c) the level of trust the foreign partner has towards the local IJV partner. Tables 1, 2 and 3 present the mean ranks (mr) produced by the corresponding Mann-Whitney U tests since the samples are heterogeneous regarding the number of firms that have prior experience in IJV establishment and management.

The data support H1a that prior IJV establishment experience positively affects the level of compatibility among partners as perceived by the foreign partner, i.e. compatibility among partners with prior IJV establishment experience is higher than compatibility among the ones without such experience ( $mr=27.17$  versus  $mr=15.52$ ). In addition, the impact of firms' prior experience in IJV establishment is statistically significant for  $\alpha=1\%$  ( $p=0.002$ ). Similarly, the data support H1b that the foreign partner's prior IJV management experience positively affects the level of compatibility among partners as perceived by the foreign partner, i.e. foreign partners with experience in the management of IJVs show a greater level of compatibility with their local partners compared with the ones without such experience ( $mr=25.00$  versus  $mr=18.00$ ). In addition, the impact of firms' prior experience in IJV management is statistically significant for  $\alpha=5\%$  ( $p=0.039$ ).

("Table 1 goes about here")

Testing of H2a confirms that the foreign partner's prior IJV establishment experience positively affects knowledge transfer success to the IJV, i.e. knowledge transfer is more successful when foreign partners have prior IJV establishment experience than when they lack such experience ( $mr=26.17$  versus  $mr=16.15$ ). Additionally, the impact of firms' prior experience in IJV establishment is statistically significant for  $\alpha=1\%$  ( $p=0.003$ ). Moreover, the data support H2b that prior IJV management experience positively affects knowledge transfer success among partners, i.e. knowledge transfer is more successful among partners with prior IJV management experience than among partners without such experience ( $mr=25.00$  versus  $mr=18.00$ ). In addition, the impact of firms' prior experience in IJV management is statistically significant for  $\alpha=10\%$  ( $p=0.085$ ).

("Table 2 goes about here")

Finally, the data show that the impact of foreign partner's prior IJV establishment experience on the level of trust the foreign partner has towards the local IJV partner (H3a) is not statistically significant for  $\alpha=5\%$  ( $p=0.119$ ), although foreign partners with prior IJV establishment experience trust more their local partners, than the ones without such experience ( $mr=23.27$  versus  $mr=17.96$ ). Similarly, the data show that the impact of prior IJV management experience on the level of trust the foreign partner has towards the local IJV partner (H3b) is not statistically significant for  $\alpha=5\%$  ( $p=0.107$ ), although partners with experience in the management of IJVs show a greater level of trust compared with the ones without such experience ( $mr=23.57$  versus  $mr=17.20$ ).

("Table 3 goes about here")

## **DISCUSSION**

The results support H1a and H1b and reveal that the foreign partner's prior experience in IJV establishment and management positively affects the degree of compatibility among partners as perceived by the foreign partner. To the best of our knowledge this impact on partner compatibility has not been tested before. Presumably, through international business experience, partners gain a more "global" perspective, redefine strategic goals, develop broader organizational cultures, improve their intercultural communication skills and incorporate contemporary and innovative business practices, thus gradually adjusting their culture, business practices and perceptions in order to operate more efficiently in today's global environment. As a result, they become more capable of selecting and collaborating with local partners with whom they have a high degree of compatibility (Vaidya, 2017).

To the best of our knowledge, this is the first time the impact of prior experience in IJV establishment and management on knowledge transfer to the IJV is examined. Our findings expand on the results of Park (2011) and Simonin (1997). They provide support for the argument that the foreign partner's past experience in IJV establishment and management will positively affect successful knowledge transfer from that partner to the IJV (H2a and H2b). Our findings reveal the importance of prior experience in IJV establishment and management on knowledge transfer and show that the more experienced firms are, the more successfully they will manage and transfer their knowledge to the IJV. The above results show that despite the difficulty of learning from past IJV experience (Alcantara & Hoshino, 2012), Greek firms appear capable to learn from their past experience in IJV establishment and management. As a result of the accumulated IJV experience, they seem more competent to gradually adjust in order to collaborate more effectively with their local partners and they become more effective in managing the knowledge transfer processes.

However, contrary to our expectations, H3a and H3b proposing that the foreign partner's prior experience in the establishment and management of IJVs positively impacts the level of trust the foreign partner has towards the local IJV partner was not found to be statistically significant. This result is in accordance with the general perception that prior international experience is positively associated with the development of trust among partners (Kale et al., 2000; Nielsen & Nielsen, 2009), although it is not statistically significant. It appears that even experienced firms are reluctant to trust their foreign partners. Child and Yan (2003) showed that prior IJV experience has a positive impact on the financial results of IJVs. Furthermore, it is logical to expect that experienced firms, among others, develop conflict resolution techniques that enable them to efficiently manage their relationship with their partners and as

a result achieve better IJV outcomes. Therefore, it was anticipated that IJV experience will enhance the firms' ability to understand, to adopt to local conditions and, as a consequence, to trust more their local partner.

However, this relationship was not found to be statistically significant in our research. An explanation could be that trust among partners will most likely facilitate knowledge and know how transfer to their IJVs and consequently to the local partner, which may result to the development of a competitive advantage for the local firm (Kogut & Zander, 1992, 1993). It could be that some Greek firms fear that foreign partners might take advantage of their trust. Such an opportunistic behavior by the foreign partners could have negative consequences for the Greek partner (e.g. loss of bargaining power, IJV control, etc.). Another possible explanation could be that in certain cases trust is affected by environmental factors, such as unstable political and economic relationships among partners' home countries, which might influence the Greek firms' level of trust towards their local partners. As noted by researchers (Battaini-Dragoni, 2005; Getimis & Demetropoulou, 2007), the region investigated in this research, namely S.E. Europe, remains volatile and in transition. Furthermore, Ertug et al. (2013) showed in their study of IJVs in Asia, that the "home country" effect has a significant impact on the foreign partner's perceived trust for the local partner. Due to stereotypes, the economic environment of the countries in which many Greek IJVs operate, might not be regarded as the ideal place to conduct business. As a result Greek firms may be hesitant to show trust to their partners. Finally, as noted by Hsieh et al. (2010), it is important for partners to understand the context in which their IJVs operate. Greek firms might be reluctant to trust their local partners if they perceive that local environmental conditions or pressures from local stakeholders might influence local partners and lead them to opportunistic behavior.

### Managerial Implications

The results of this research have many practical implications for executives and managers of firms who seek to expand to international markets through IJV formation. Additionally, the findings offer valuable practical input to practitioners involved with IJVs. Regarding partner compatibility, our results indicate that it is higher when foreign partners have prior IJV establishment experience than when they do not. Thus, firms should involve in the IJV related processes and activities individuals with prior IJV experience if they consider it to be important to the IJVs' overall performance. Additionally, firms should enter into IJV agreements with partners that are compatible to the greatest extent possible in terms of organizational culture, business practices, strategic goals and philosophy of doing business. Moreover, they should allocate resources in order to develop and enhance compatibility with their partners.

Furthermore, our results show that knowledge transfer to the IJV is more successful when foreign partners have experience in IJV establishment and management than when they do not have such experience. Managers, need to recognize that prior IJV experience in the establishment and management of IJVs has a positive impact on the success of knowledge transfer from the foreign partners to the IJV. The process of knowledge transfer to the IJV is rather complicated; however, it is regarded as crucial for the overall IJV performance. Thus, firms should involve in the knowledge transfer process individuals with prior IJV related experience in order to enhance successful knowledge transfer from the foreign partner to the IJV. Furthermore, the foreign partners' senior management team should commit the required resources, support and facilitate their executives' efforts to successfully transfer knowledge to the IJV.

Moreover, it is important for practitioners to understand that if their firms plan to enter into IJV arrangements they should either involve employees with prior experience in IJVs or seek for professionals with such skills and know-how in the job market. The firms' internationalization process requires experience in addition to specific knowhow as it is rather complicated. Experienced firms are more capable to select appropriate partners, to better design and plan their IJV establishment, to identify future challenges, to deal with conflicts and to manage their collaborating relationships more efficiently, resulting to the development of trust among partners and, thus, lowering IJV management costs.

Finally, this study focuses on IJVs operating mostly in emerging economies which, as Yan (1998) notes, are often characterized by turbulent political, institutional and economic conditions. Furthermore, the region is characterized by volatility in addition to cultural and historical differences (Battaini-Dragoni, 2005; Getimis & Demetropoulou, 2007). Thus, it is logical to anticipate that IJVs operating in such environments face much greater chances of failure, compared to the ones operating in developed countries. The above further increase the practical value of this research as it focuses on "higher risk" IJVs which, due to the greater chances of failure, require closer examination than the "lower risk" ones.

#### Limitations and Directions for Future Research

This study has a number of limitations, the first being the relatively small population of Greek IJVs, estimated to be less than 200. Regardless of their small number, IJVs played an important role in the first stages of the internationalization of Greek enterprises and are expected to have an even greater one in the future, as Greek firms seek to internationalize their activities. Second, it focuses on the Greek partners' perception. However, as Chen et al.

(2014) argue, this one-sided investigation might lead to possible bias. Third, as Kumar et al. (1993) point out, the single respondent per firm procedure, used in this study, is less rigorous than the multiple respondents per firm methodology. In addition, the investigation of the foreign partners' perception on the issues analyzed in this research would provide a more holistic view. However, access to respondents from all partners is needed and substantial resources are required to apply this methodology (Geringer & Hebert, 1991; Hsieh et al., 2010).

The impact of the foreign partner's prior IJV experience on the development of trust among partners should be further investigated, as hypotheses (H3a and H3b) were not confirmed. This impact is not as clear as anticipated. More specifically, the fact that the hypothesized positive effect of prior IJV experience on the level of trust the foreign partner has towards the local IJV partner was not confirmed is intriguing and the issue trust in IJVs should be further investigated especially in the SE Europe context due to its unique social, political and economic attributes. This finding is in accordance with the results of Ali and Larimo (2016) who did not find a significant relationship between IJV experience and perceived opportunism. A possible explanation might be the environment in which the IJVs surveyed operate, as our study focused solely on an internal to the firm characteristic, namely prior IJV experience. In the future, the "home county" effect should be investigated, as prior studies have shown its significant effect on the foreign partner's perceived trust for the partner from the country where the IJV operates (Ertug et al., 2013). Research on the external environment will further enhance the understanding of the complex issue of IJV establishment and management.

## **CONCLUSION**

Our research combines components from the RBV and the SET in order to enhance the understanding of prior IJV experience on partner's affiliations and IJV overall success. It enhances our understanding of the benefits arising from the firms' prior IJV experience for their current IJV. Previous research on the impact of the partners' past IJV experience on IJV success, have produced contradictory results. Our results reveal the positive impact of previous IJV experience on partner compatibility as perceived by the foreign partner and shed light to the antecedents of partner compatibility which have been neglected by researchers (Wang et al., 2017). Secondly, our research adds a new finding to the relevant debate, namely that prior experience in the establishment and management of IJVs will positively affect successful knowledge transfer to the IJV, which is regarded as a crucial factor for IJV performance (Inkpen & Beamish, 1997; Cheng et al., 2016). However, we did not find the expected positive impact of the foreign partner's prior experience in the establishment and management of IJVs on trust the foreign partner has towards the local IJV partner was not found to be statistically significant. Additional research is required to unveil the impact of prior IJV experience on partner relationships and on the IJVs' overall successful outcomes.

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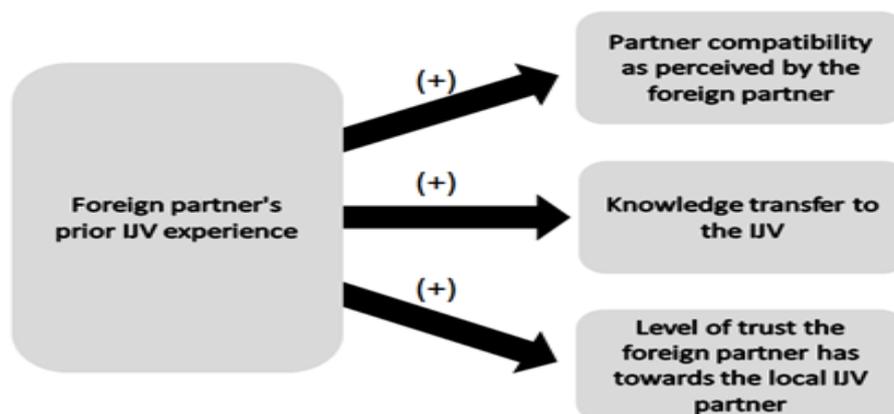
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## APPENDIX

**Figure 1:** Theoretical model of the impact of prior IJV experience on partner compatibility, knowledge transfer to the IJV and the level of trust.



**Table 1:** Mean ranks and Mann-Whitney U test of the degree of compatibility as perceived by the foreign partner based on the existence of prior experience in the establishment and management of an IJV.

	Prior experience in the establishment of an IJV		Mann-Whitney U	Z	p-value
	No	Yes			
Degree of compatibility	15.52	27.17	72.500	-3.126	0.002
	Prior experience in management of an IJV		Mann-Whitney U	Z	p-value
	No	Yes			
Degree of compatibility	18.00	25.00	105.000	-2.064	0.039

**Table 2:** Mean ranks and Mann-Whitney U test of the degree of knowledge transfer success, based on the existence of prior experience in the establishment and management of an IJV.

<b>Prior experience in the establishment of an IJV</b>					
	<b>No</b>	<b>Yes</b>	<b>Mann-Whitney U</b>	<b>Z</b>	<b>p-value</b>
<b>Level of success of knowledge transfer</b>	16.15	26.17	87.500	-2.922	0.003
<b>Prior experience in management of an IJV</b>					
	<b>No</b>	<b>Yes</b>	<b>Mann-Whitney U</b>	<b>Z</b>	<b>p-value</b>
<b>Level of success of knowledge transfer</b>	17.86	23.82	121.000	-1.724	0.085

**Table 3:** Mean ranks and Mann-Whitney U test of the degree of trust based on the existence of prior experience in the establishment and management of an IJV.

<b>Prior experience in the establishment of an IJV</b>					
	<b>No</b>	<b>Yes</b>	<b>Mann-Whitney U</b>	<b>Z</b>	<b>p-value</b>
<b>Level of trust</b>	17.96	23.27	131.000	-1.588	0.119
<b>Prior experience in management of an IJV</b>					
	<b>No</b>	<b>Yes</b>	<b>Mann-Whitney U</b>	<b>Z</b>	<b>p-value</b>
<b>Level of trust</b>	17.20	23.57	125.000	-1.613	0.107