

# **INTERNATIONAL JOINT VENTURE (IJV) MARKETING PERFORMANCE IN THAILAND**

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## **Abstract**

This paper identifies the factors influencing International Joint Venture (IJV) marketing performance in a sample of Thai-Foreign IJVs. The primary data for this study were collected from a mail questionnaire survey of 161 Thai-Foreign IJVs in Thailand. To identify the factors influencing the marketing performance of IJVs in Thailand an exploratory factor analysis and a multiple regression analysis were conducted. The factors having a significant influence on IJV marketing performance were identified as market characteristics, commitment and marketing orientation.

## **Introduction**

Research into International Joint Ventures (IJVs) has been a significant research area in international business since the early 80’s (Anderson, 1990). However, there is a paucity of studies on issues relating to the growth of IJVs in the Southeast Asian economies. These issues relate to the determinants of IJV marketing performance (Ganitsky, Rangan and Watzke, 1991). Broadly defined an IJV is an equity sharing arrangement between two companies (one local, one foreign) that pool their resources, share risks and operational control to operate an independent business unit on a continuous basis to attain strategic objectives (Kogut, 1988).

The significance of conducting research into IJVs in the Southeast Asian economies is that in many of the countries of Southeast Asia the IJV is often the only form of market entry available to foreign firms wishing to participate in these markets (Higginbottom, 1980). Furthermore, many firms are wishing to participate in the markets of Southeast Asia because of their high economic growth rates. Therefore, understanding the determinants of IJV marketing performance in this region of the world is a critical ingredient for success. The study reported here was conducted in Thailand because of its centrality to all Southeast Asian economies, its strong economic growth and its growth in foreign direct investment (FDI).

## **Literature Review**

Since the early 1980’s, research on IJVs has been considerable (Anderson, 1990). However, limited empirical research has been conducted on the marketing performance of IJVs. Most studies on marketing performance are applied to indirect/direct export firms (Cavusgil and Zou, 1994). With the globalisation of markets and increasing domestic competition, foreign markets have become increasingly

viable and natural opportunities for growth-oriented domestic firms. Considering the growth in IJVs as a form of market entry (Gomes-Casseres, 1988) it is therefore, of practical, as well as of theoretical importance, to address the issue of “*What are the factors that contribute to the success or failure of IJVs?*” There have been a number of factors that have been identified in previous studies as having a significant influence on performance. Some of these key factors are discussed below.

**Market Characteristics:** Some of the principal market characteristics that influence the marketing performance of a venture in a foreign market include:- the policies of host country governments (Blodgett, 1991); technology transfer (Beamish, 1984); and the availability of suitable distribution channels (Jacque, 1986). In the context of developing countries, the policies of host country governments (Blodgett, 1991) have been identified as significant influencers of IJV performance. Changes in the power, roles, and policies of host country governments were found to be the most crucial of all the uncontrollable forces affecting the future success of IJVs. Access to modern and updated technology is widely recognised as the principal reason why local firms in developing countries enter into JV arrangements with foreign corporations from developed countries (Beamish, 1984). Failure to deliver this technology could cause conflict between the partners and the ultimate demise of the venture. There is also empirical evidence that supports the positive relationship between marketing performance and access to suitable distribution channels (Jacque, 1986). As a result the following hypothesis has been formulated for testing.

**H1: IJV marketing performance in Thailand is negatively influenced by:**

- a. **Inaccessibility to suitable distribution channels**
- b. **Shortage of Capital resources**
- c. **Shortage of raw materials**
- d. **A lack of knowledge of local business practices**
- e. **Intensity of price competition**
- f. **Inadequate transference of up-to-date technology**
- g. **Host country government intervention**

**Conflict:** Research indicates, nearly without exception, that conflict has severe negative repercussions in IJVs (Beamish, 1984). Conflict erodes satisfaction, reduces morale and causes dysfunctional relationships. As conflict escalates and partners’ feelings of retained hostility (Kaufman and Stern, 1988) dominate the relationship, opportunistic behaviour becomes standard operating procedure and the likelihood of poor IJV performance is further enhanced. Therefore, it is expected that conflict between the IJV partners will have a negative influence on the marketing performance of the IJV resulting in the following hypothesis:

**H2: IJV marketing performance in Thailand is negatively influenced by conflict between the partners.**

**Commitment:** One of several constructs found to be relevant to JV performance is commitment. Several researchers (Beamish, 1984; Cullen, Johnson, and Sakano, 1995; Schaan, 1983) have emphasised the role of commitment to JV success. Beamish (1988) found a strong correlation between commitment and performance in JVs, noting that most of the commitment characteristics in the high-performing ventures were related to the Multinational Enterprise’s (MNE’s) willingness to do something:

adapt products; increase employment of nationals, visit and offer assistance and/or supply special skills. Therefore, commitment of the IJV partners is a critical factor for IJV success. Resulting in the following hypothesis.

**H3: IJV marketing performance in Thailand is positively influenced by commitment of the partners.**

**Product Characteristics:** There is empirical evidence to support the relationship between specific product characteristics and marketing performance when applied to an export venture (Cavusgil, and Zou 1994). However, there appears to be very little empirical evidence to support the relationship between marketing performance and specific product characteristics when applied to an IJV. The particular theoretical perspective adopted here is that the relationship between specific product characteristics and marketing performance could be applied to any form of market entry strategy, including an IJV. Therefore, specific product characteristics can have a significant influence on the marketing performance of a specific venture in an international market. As a result the following hypothesis is offered for testing:

**H4: IJV marketing performance in Thailand is negatively influenced by:**

- a. Level of product/service adaptation required for the local market.**
- b. Level of promotion adaptation required for the local market.**
- c. Lack of familiarity by consumers to the IJV's products and services.**
- d. Age of the products/services.**

**Firm-Specific Characteristics:** A firm's capabilities and constraints profoundly influence its choice of marketing strategy and its ability to execute the chosen strategy. The key assets and skills of a firm constitute its sources of sustainable competitive advantage. Possession of such assets and skills enables an international marketer to identify the idiosyncrasies in foreign markets, develop appropriate marketing strategies and execute them effectively. Therefore, firm-specific characteristics effect marketing performance (Cavusgil and Zou, 1994). Hence, the following hypothesis has been formulated.

**H5: IJV marketing performance in Thailand is positively influenced by:**

- a. The unit value of the IJV's products/services.**
- b. The differentiation advantage the firm enjoys through its products/services.**
- c. Using Customer expectations to measure performance.**

**Marketing Orientation:** The degree of marketing orientation enjoyed by a firm is a proven determinant of business performance success (Ahmed and Krohn, 1994). Focusing on immediate and long-term consumer commitment is the obvious manifestation of an organisation imbued with marketing orientation. Greater consumer satisfaction, eventual competitive advantage over competitors and the resultant increase in profits are the likely results of an organisation whose employees have been thoroughly trained in marketing orientation (Ahmed and Krohn, 1994). Therefore, marketing orientation is likely to be a significant factor influencing organisational performance resulting in the following hypothesis:

**H6: IJV marketing performance in Thailand is positively influenced by the marketing orientation of senior management.**

## Methodology

This study investigates the marketing performance of foreign corporations in IJV relationships with Thai companies in Thailand. The IJVs studied came from a wide cross-section of industries. The list of companies making up the sample was obtained from the Thai Board of Investment (BOI, 1996).

Following an extensive review of literature, a wide range of variables that could influence the marketing performance of IJVs were identified and included in a preliminary questionnaire. The questionnaire was finalised after a pretest. The final questionnaire contained a list of statements relating to the factors influencing the marketing performance of IJVs in Thailand. IJV marketing performance was determined by asking the respondents to identify their level of satisfaction with the marketing performance of their IJV on a seven-point Likert Scale with being 1 being extremely dissatisfied and 7 being extremely satisfied. The questionnaire in English and Thai translation with a covering letter and instructions was mailed to a sample of 831 IJVs selected at random from the list of IJVs provided by the Thai Board of Investment (BOI, 1996). After a follow up with a second round mailing 161 useable questionnaires were returned accounting for an effective response rate of 19.38 percent and considered to be adequate (Groves, 1990).

## Results

**Table 1 - Summary of Exploratory Factor Analysis and Multiple Regression Analysis**

Factor Name	Cronbach's Alpha	Pct of Variation	Cum Pct of Variation	Sig T
FACTOR 1 Market Characteristics	.82	19.2	19.2	.01
FACTOR 2 Conflict	.87	14.2	33.4	ns
FACTOR 3 Commitment	.82	7.8	41.2	.05
FACTOR 4 Product Characteristics	.70	5.1	46.3	ns
FACTOR 5 Firm-Specific Characteristics	.61	4.0	50.3	ns
FACTOR 6 Marketing Orientation	.62	3.9	54.2	.05

**$R^2 = 0.144$      $F = 8.800$ ,     $sig < .001$**

An exploratory factor analysis was conducted on the independent statements designed to identify the salient factors influencing IJV marketing performance. The results indicated that the six factors explained 54.2 percent of respondent variation on issues about IJV marketing performance (see Table 1). All items loaded onto their correct factors and no cross-loadings above .2 were identified. To test the hypotheses a multiple regression analysis was then conducted to examine the effect of “market characteristics”, “conflict”, “commitment”, “product characteristics”, “firm-specific characteristics” and “marketing orientation” on IJV marketing performance. Table 1 indicated that the six factors “market characteristics”, “conflict”, “commitment”, “product characteristics”, “firm-specific characteristics” and “marketing orientation” together explained 14.4 percent of the variation in the IJV marketing performance of the Thai IJVs that were studied indicating that the model had modest predictive ability. The results also show only three factors - market characteristics (t-value  $-2.999$ ,  $p < .01$ ), commitment (t-value  $2.329$ ,  $p < .05$ ), and marketing orientation (t-value  $2.336$ ,  $p < .05$ ) as having a significant influence on the marketing performance of IJVs in Thailand. Overall the results indicate that H1, H3 and H6 were supported where we found that, the marketing performance of IJVs in Thailand were negatively influenced by market characteristics and positively influenced by commitment of the partners and the marketing orientation of senior management.

### **Discussion and Implications**

Whilst it is important for the management of any company to be aware of these factors when contemplating an IJV of any magnitude in a developing country caution should be exercised when drawing conclusions from the results that have been generated. This is due to the cross sectional nature of the data and the modest predictive ability of the model. Whilst market characteristics, commitment of the partners and the marketing orientation of senior management were significant predictors of IJV marketing performance in the Thai-foreign IJVs that were studied they still only accounted for 14.4 percent of the variation in IJV marketing performance. This could indicate that there were other variables present that would account for a larger percentage of the variation in IJV marketing performance. A logical extension of the analysis would be to see if IJV marketing performance varied on an industry by industry basis or if IJV marketing performance differed according to the country of origin of the principal foreign partner. A further extension of the study would be to see if the factor structures and results generated in this study were consistent for IJV marketing performance in other Southeast Asian countries so that a conclusion could be drawn on the key predictors of IJV marketing performance for that particular region. We have already seen in different studies that have been conducted elsewhere that certain factors influence IJV performance differently in different countries. For example, Fey (1996) identified commitment of the partners as a significant predictor of IJV performance in Russia whereas in a study conducted by Lee and Beamish (1995) on the factors influencing the performance of Korean joint ventures they found that commitment had no relationship with performance.

The results generated in this study are significant in that the findings make both exploratory and confirmatory contributions to the IJV literature. It identifies a few factors that have remained, at least empirically, mostly obscure e.g., market characteristics and marketing orientation. As far as market characteristics were concerned, this study clearly indicated that it is important for managers of IJVs to be

aware of the market characteristics of a foreign market that can influence a firm's marketing performance. For example, the availability of capital resources, raw materials and distribution channels, the transfer of up-to-date technology, knowledge of local business practices and knowledge of industry competition. In relation to marketing orientation, the study findings have shown that marketing orientation must be with reference to senior management's knowledge of its customers.

Finally, new evidence has been produced confirming the salience of previously identified factors e.g., commitment. This study has shown that joint venture partners must make commitments of: providing key senior management people, supplying special skills, visiting and offering assistance, furnishing additional equity or loan capital when needed, and, general commitment to the foreign market for IJV marketing performance success.

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