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# Joint venture conflict: the case of Thai international joint ventures

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## **JOINT VENTURE CONFLICT: THE CASE OF THAI INTERNATIONAL**

### **JOINT VENTURES**

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#### **ABSTRACT**

International Joint Ventures (IJVs) have become an important means of market entry for many firms, particularly those seeking entry into Asia (Lin and Germain, 1999). As such, it is important to understand what causes some IJVs to fail and others to succeed. This study examines the relationship between partners' needs, commitment, control and conflict between the IJV partners in a developing country of South East Asia. The findings revealed that IJV inter-party conflict was significantly influenced by all three variables, namely, partners' needs, commitment and control thereby providing support for previous research in a different national setting.

**Key words:** International Joint Ventures, Thailand, Conflict, Partners Needs, Commitment, Control

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## **JOINT VENTURE CONFLICT: THE CASE OF THAI INTERNATIONAL JOINT VENTURES**

### **INTRODUCTION**

Broadly viewed, the IJV phenomenon is becoming increasingly popular as a mode of market entry and expansion. In recent years an increasing number of global corporations have become involved in IJVs at home and overseas. The composition of firms adopting it covers many sectors, industries, and product groups (Anderson, 1990; Beamish and Delios, 1997; Vanhonacker and Pan, 1997). As such, given the increased use of the IJV as a market entry mode it is important to understand what causes some IJVs to fail and others to succeed. One of the most common reasons given in the IJV literature for IJV failure is conflict between parent/partner firms (Fey and Beamish, 2000).

Although the literature on International Joint Ventures (IJVs) is already sizeable and steadily growing, there is a paucity of studies on critical issues relating to IJVs in the South East Asian economies. 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 (Geringer and Hebert, 1991). The focus on Asia is important, as there is considerable impetus by business and governments to develop links with Asian business. The objective of this study is to identify the significant antecedents of IJV inter-party conflict in a developing country of South East Asia to see if the antecedents of IJV inter-party conflict that were identified were consistent

with the findings of previous studies conducted in a developed country context (Fey and Beamish, 2000).

From the IJV experiences of foreign-based corporations (i.e. corporations whose headquarters are in Japan, U.S., Australia, Europe, and a number of developing countries) with Thai based companies, firstly, the study examines factors impacting IJV inter-party conflict. Finally, it proceeds to evaluate the relative significance of those factors in predicting inter-party conflict between the IJV partners. Thailand was selected as the South East Asian Country market to be investigated because of the availability of a large and reliable sampling frame provided by the Thai Board of Investment, a conducive foreign direct investment (FDI) climate in which the IJV mode of FDI was likely to proliferate and its importance as a future production platform for growth oriented domestic firms (Julian and O’Cass, 2002).

Given the growth in the use of IJV’s and the accompanying academic interest in this area, one wonders why with the exception of Makino and Beamish (1998) and **colleagues** why little academic research has been conducted on IJVs in South East Asia. That is, in the ASEAN Countries of Thailand, Singapore, The Philippines, Malaysia, Indonesia, Brunei, Vietnam, Laos and Myanmar. IJV’s in South East Asia are an important dimension of contemporary business, and arguably, the factors influencing IJV performance and other outcome variables in this economic region of the world may be different due to cultural, economic or sectoral reasons. Therefore, understanding the factors impacting IJV inter-party conflict, an important outcome variable of IJVs, in Thailand will be critical to the long-term future success of those

firms in IJV relationships in Thailand and for those firms contemplating IJV relationships in the future.

## LITERATURE REVIEW

In IJV research scholars have suggested that the amount of conflict inversely affects performance (Ding, 1997; Julian, 2005). Some IJV scholars have provided empirical support (Ding, 1997; Hebert, 1994). Hebert (1994) found a significant inverse relationship between conflict and performance when studying Canadian IJVs. Other IJV scholars have also provided anecdotal evidence relating performance to IJV conflict as part of larger studies. As such, there is substantial evidence to suggest that a significant inverse relationship exists between the level of conflict and IJV performance.

It is interesting to note, however, that a small amount of conflict may be healthy for the joint venture since it may force management to evaluate their decisions more carefully. Assael (1969) is a proponent of the potential benefits of a small amount of conflict as a result of his study of conflict between General Motors and its dealers. Assael (1969) showed that a small amount of conflict can be constructive. Further, Cosier and Dalton (1990) suggest that a small amount of structured conflict enhances effectiveness of strategic decision-making. Thus, a small amount of conflict may be useful for a joint venture. For example, managers may find after some thought that the other party's plan is superior, or they may simply benefit from refining their plan in the process of thinking more carefully through their plan's logic.

Scholars (Ding, 1997) have also recognized that conflict must be dealt with since it is inherent in relationships. Inter-organizational relationships like IJVs result in conflicting desires of parent firms for cooperation and autonomy. Parent firms form IJVs because they see benefits in cooperating with their IJV's other parent. However, at the same time, IJV parent firms do not want to lose too much autonomy. As a result, in inter-organizational relationships like IJVs, some level of conflict is likely since organizations normally strive to maintain their autonomy even in relationships where they desire cooperation (Fey and Beamish, 2000).

Pondy (1967) provided probably the most widely accepted model of conflict. His work integrated views on the subject of intra-organizational conflict. Other scholars have argued that it is applicable to inter-organizational conflict as well (Fey and Beamish, 2000). Pondy's (1967) model of conflict viewed conflict as consisting of five stages: latent, perceived, affective, manifest, and aftermath.

Like most of the past IJV conflict literature (Fey and Beamish, 2000; Johnson *et al.*, 2001), this study focuses on manifest conflict, that is, the action dimension of conflict (Fey and Beamish, 2000) characterized by overt conflictual behaviour when two or more parties express disagreement. In IJVs, manifest conflict occurs when parent firms argue about what the IJV should do as a result of their differing goals. Conflict among parties involved in an inter-organizational relationship tends to cause frustration and unpleasantness which results in dissatisfaction (Anderson, 1990). Since managers, like most people, wish their jobs to be enjoyable, this frustration, unpleasantness, and dissatisfaction is likely to contribute to managers losing interest in, or in extreme cases even terminating, their IJVs.

Also, conflict between parties involved in an IJV requires more parent firm management time. This in turn requires, from the parent firms' point of view, the IJV to make a higher return (or perform better in some way) to justify the continuation of the IJV. Of course, conflict between parties involved in an IJV also limits IJV success by preventing the IJV from being able to accomplish much by blocking decision-making. Such circumstances may also limit an IJV's ability to respond to environmental changes and, thus, to be successful (Hebert, 1994). Conflict may also result in the unwillingness of parent firms to contribute resources that the IJV needs to achieve its goals. Holding back such needed resources would obviously adversely affect IJV survival and success. In conclusion, the existence of conflict requires managers to spend valuable time and effort in resolving or managing the conflict, preventing this time from being spent in more productive ways.

Many different causes of conflict in IJVs have been suggested in the IJV-specific literature. For example, the need for scarce resources possessed by one parent has been shown to make the other parent more careful as to how it acts and thus results in reduced conflict (Hebert, 1994). Further, much IJV literature has discussed the fact that conflict often results from the IJV's desire to be more autonomous from its parents depending on the need parent firms feel to control the IJV (Fey, 1995; Gray and Yan, 1997). In addition, problems resulting from differences in parent goals have been frequently discussed in the IJV literature (Ding, 1997). Finally, the fact that perceptual differences often result in conflict has been much discussed in the IJV literature dealing with cultural differences (Johnson *et al.*, 2001; Lane and Beamish, 1990).

The Fey and Beamish (2000) study provided evidence for the importance of monitoring and trying to minimize inter-party IJV conflict to ensure IJV survival. Other IJV scholars (e.g., Hebert, 1994; Lee and Beamish, 1995) have also demonstrated the importance of trying to minimise inter-party IJV conflict for IJV success. Furthermore, Schaan and Beamish (1988) previously observed that lack of conflict was one of the measures of success used by IJV General Managers. Ding (1997) and Johnson *et al.* (2001) also suggest that the problems and failures in IJVs are due to conflict between the partners. As such, inter-party conflict in IJVs is an important outcome variable of IJV activity to monitor in and of itself and worth investigating further (Fey and Beamish, 2000).

Inter-party conflict in IJVs is an important outcome variable to monitor because conflict erodes trust and cooperation in the relationship. Without trust, the potential for opportunism, shirking of obligations in the relationship or failure to deliver on promises, greatly increases. As conflict escalates and partners' feelings of retained hostility dominate the relationship, opportunistic behaviour becomes standard operating procedure and the likelihood of termination of the IJV is further enhanced (Fey and Beamish, 2000). Moreover, even with adequate economic performance, empirical evidence suggests that conflict between the partners reduces satisfaction in the inter-organisational relationship (Julian, 2005). Transaction cost theory also suggests that relationships, where conflict is evident between the parties, are economically less efficient. In addition, conflict management and the need to safeguard assets sap resources that might otherwise make the operation more efficient. Therefore, greater conflict between the IJV partners creates both social and economic



costs for the IJV relationship. These social and economic costs can contribute to the termination of the IJV.

This discussion now reviews the literature surrounding some of the key antecedents of IJV inter-party conflict. The key antecedents being reviewed include partners' needs, commitment and control (Fey and Beamish, 2000; Lee and Beamish, 1995). As far as partners' needs are concerned, previous studies have shown that JVs are created for different reasons in developed and developing countries. For example, in a study on JVs from developed countries, Killing (1983) found that the major reasons for setting up a JV were the need for the other partner's skills, needs of the other partners' attributes or assets, and government pressure or legislation. The Fey (1995) study on IJVs in Russia identified that the Russian Government had little option but to open up their market to JVs because an infusion of capital was needed, as was access to technology, foreign equipment and managerial expertise. Forming an IJV with Russian firms was attractive for the foreign partners as well, since forming a JV in Russia meant the possibility of access to one of the worlds' largest closed economies. Many foreign firms commenced IJVs in Russia to establish a presence there in order to be well positioned for access to the Russian market as the economy changed. Russia also possessed vast natural resources that were in high demand as well as a well-educated labour force that was very attractive to many international firms (Fey, 1995).

As such, there are many reasons for establishing JVs in developed countries and in developing countries with the needs of the partners, whether they be private or state-owned enterprises, varying depending on whether they are from a developed country

or from a developing country. Firms establishing joint ventures typically need partners for a variety of potential contributions. Several researchers have examined the impact of partner needs in JV relationships. For example, Lee and Beamish (1995) demonstrated a pattern that managers in high-performing ventures looked to their local partners for greater contributions than did managers in low-performing ventures. Scholars (e.g., Parkhe, 1991) have also argued that JVs are more likely to succeed when the partners possess complementary missions, resource capabilities, managerial capabilities, and other attributes that create a strategic fit in which the bargaining power of the JV partner firms is evenly matched. Partners' needs to be engaged in a particular IJV are stabilising to the relationship, whilst a wide variety of asymmetries can be destabilising to the IJV relationship. Partners' asymmetries can occur in relation to the size of their assets, national origin and experience in using the JV structure. Significant asymmetries among the JV partners can also be stabilizing to the JV relationship (survival and duration) because partners each need what the other can supply. Thus, JV partners will stay together as long as they need each other and their venture remains successful.

Other scholars have also provided support for this process by identifying that the foreign corporation and the local partner in an IJV that fails may have significant differences in their objectives and goals with respect to the business depending upon the size and type of companies involved; their particular business, industry, and products; and their international and other experience. For example, a foreign corporation may desire to enter into a viable and expanding manufacturing operation through a JV that will yield a target rate of return on investment in the medium to long term. Therefore, it strives to reinvest a substantial portion of earnings in the

venture in order to expand the operation and increase its return over this time horizon. The local partner, on the other hand, enters into the JV to earn an immediate rate of return on its investment. Therefore, it strives for a maximum pay-out of dividends. The situation, of course, can be the reverse. The foreign corporation may have the goal of a quick payback on its investment of capital, technology, and management - for example, three to five years. The local partner may strive to develop a growing, profitable manufacturing business yielding satisfactory profits over the medium to long term. These divergent business objectives and goals over significantly different time frames can lead to significant IJV inter-party conflict and the termination of the IJV (Dymsza, 1988). As such, the following hypothesis is offered for testing:

**H1: As the partners needs for resources or assistance from each other increases, the level of IJV inter-party conflict is also likely to increase.**

One of several constructs found to be relevant to JV relationships is commitment. Several researchers (Cullen *et al.*, 1995; Fey, 1995; Julian, 2005) have emphasised the significant role of commitment in JV relationships. Julian (2005) 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 foreign partner's willingness to do something: being prepared to commit senior management personnel and to find special skills required by the venture in the foreign parent firm; being prepared to regularly visit, offer assistance and furnish additional equity or loan capital when required. Lee (1989) also found in his work on JVs from Korea that mutual confidence and close business relationships between local partners and Korean investors significantly increased the level of satisfaction that Korean management felt about their IJVs. Fey (1995) also noted the importance of long-term

commitment to IJV success in his study of the key success factors for Russian-Foreign joint ventures.

The Fey (1995) study indicated that it is beneficial to IJV success for both parents to be involved in the JV for the long term. It makes the JV easier to manage if one parent has more involvement than the other, but it is important that all parents make a real long-term commitment to the JV. Having parents that are committed to the JV for the long term decreases the risk of shirking and increases the likelihood of mutual forbearance (Fey, 1995; Madhok, 1995). However, the opposite also applies in that a lack of partner/parent commitment increases the risk of shirking and decreases the likelihood of mutual forbearance resulting in IJV inter-party conflict. As such, the following hypothesis is offered for testing:

**H2: As the level of commitment by the partners to the IJV decreases, the level of conflict between the partners is likely to increase.**

The effect of control in JV relationships has remained one of the controversial factors determining JV outcomes. While domination of one parent in the overall management of the JV was found most effective in some studies (Phatak and Chowdhury, 1991), shared management control was found effective in other studies (Blodgett, 1992). Similarly, greater autonomy of the JV over operating decisions was expected to contribute to better outcomes (Anderson, 1990) but the empirical findings seem to be tentative. Cooperation seems to be a core condition for success of a cooperative venture (Phatak and Chowdhury, 1991), but its relative impact on JV outcomes in a broader multivariate model has received limited attention in the past.

Foreign corporations control the management of joint venture affiliates in many different ways. They obtain authority to appoint the chief executive and key managers; they establish the managerial and control processes and have the right to veto major decisions. For example, major conflicts can erupt between partners in IJVs with respect to the purchase of raw materials, intermediates, and components of the affiliate from the foreign partner and issues of transfer pricing. Some foreign corporations strive to have the JV affiliate purchase intermediate goods or components from it on the grounds that it assures required quality standards and meets delivery requirements and competitive alternative sources are not readily available. Local partners, on the other hand, want to explore alternative sources in order to obtain the materials from the lowest-cost supplier. The local partner may believe that the foreign partner is charging excessive prices and aims to earn additional income from selling the necessary materials to the affiliate. If the foreign partner aggressively presses for continued sales of these materials to the affiliate, despite the fact that the local partner finds alternative suppliers at a lower cost, serious conflicts could arise between the partners of the IJV, which can disrupt their relationship and contribute to the termination of the venture (Blodgett, 1991).

The reverse could also occur when the foreign corporation wants to repatriate much of the profits earned by the IJV back to its home country. The local partner, on the other hand, may want to retain most of the profits earned by the IJV in the IJV for reasons of capital expansion and investment. If the foreign corporation insists on repatriating most of the IJV's earnings back to its home country leaving the IJV cash-poor, serious conflicts could arise between the partners leading to the ultimate demise of the venture. Therefore, the impact of control by one partner over the other partners in the

IJV organisation could be significant. As such, the following hypothesis is offered for testing:

**H3: As the level of control exerted by one partner over the IJV's inputs and/or outputs increases, the level of IJV inter-party conflict is expected to increase.**

## RESEARCH DESIGN

This study was based on the development and administration of a self-administered mail survey. The questionnaire was finalised after a pre test by personal interviews in 10 IJVs located in Thailand. The final questionnaire contained a list of statements relating to the factors influencing IJV inter-party conflict and a list of measures of IJV inter-party conflict. To ensure valid and reliable measures, questionnaire development followed several steps. First, the relevant literature was reviewed to identify existing measures of the constructs. Second, to ensure content validity, several IJV experts reviewed the questionnaire and provided input for revision. Third, the questionnaire and covering letter were translated into Thai and then back-translated into English following the procedures outlined by Douglas and Craig (1983). The use of only two languages reduced the potential for errors resulting from multiple translations of the questionnaire. Minimising the diversity of languages also helped insure construct equivalence and data comparability (Johnson *et al.*, 2001). During these stages, the potential influence of Thai cultural tendencies on questionnaire responses was addressed. Fourth, the Thai and English versions of the questionnaire were pre-tested by personal interviews with the Managing Directors of 10 IJVs located in Thailand. In the pre-test, the measures performed consistently suggesting only minor refinement for the final version of the questionnaire. A major emphasis in all steps was on

ensuring that the constructs being investigated were culturally equivalent and not bound to any particular culture (Johnson *et al.*, 2001).

To reach the most knowledgeable key informants, the questionnaire was directed to the Managing Director of the IJV entity. From the results of the pre-test, it was expected that the Managing Director as Chief Executive Officer (CEO) would be the person most knowledgeable about IJV inter-party conflict. In this study CEOs were used as the key informants. CEOs have been used as key informants in similar research on innovation-based competitive strategy (Li and Calantone, 1998). Although some researchers have advocated the use of multiple informants (Hogarth and Makridakis, 1981), others have found that CEOs provide data that is as reliable and valid as multiple informants (Zahra and Covin, 1993). Data on strategy gathered from middle and lower managers have been argued to have questionable validity because these managers typically do not have access to information about how the total system operates (Snow and Hrebiniak, 1980). CEOs possess the most comprehensive knowledge of the characteristics of the organization, its strategy and inter-organizational relationships (Weerawardena *et al.*, 2006).

The most basic issue in JV evaluation is the question of whose perception to accept. Parents have their own objectives in creating JVs, and obviously to evaluate a JV against their objectives is relevant. But it is not the only basis for evaluating venture outcomes. Anderson (1990) argued JVs should be evaluated primarily as stand alone entities seeking to maximise their own performance, not the parents'. This perspective frees the venture from parent politics and parochial viewpoints. Further, encouraging the venture to stand-alone promotes harmony among the parents. Most JVs face a

steep climb to begin with, as their high rates of dissolution show (Makino and Beamish, 1998). Giving the JV the opportunity to find its own way increases the chances of survival and prosperity. Additionally, giving the JV autonomy facilitates learning and innovation, which are primary reasons to enter a venture.

In this study, the interest was to obtain the most accurate perception and evaluation of IJV inter-party conflict as the principal objective of the study was to identify the significant antecedents of IJV inter-party conflict. Therefore, this study adopted Anderson's (1990) viewpoint and sought only the CEO of the IJV entity's perception of IJV inter-party conflict as it is the position taken in this study that the IJV should be evaluated as a stand alone entity in order to identify the most objective perception of IJV inter-party conflict. The CEO was selected as the key informant of the IJV entity as CEOs possess the most comprehensive knowledge of the characteristics of the organization, its strategy and inter-organizational relationships (Weerawardena *et al.*, 2006).

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. The IJVs studied came from a wide cross-section of industries, including agriculture, mining, light industries, metal working, electronic, chemical, and services. The list of companies making up the sample was obtained from the Thai Board of Investment. After a follow up with a second round mailing 161 questionnaires were returned accounting for an effective response rate of 19.38 percent and considered to be adequate (Groves, 1990). A response rate of 19.38 percent compares favourably with the response rates of



McDougall *et al* (1994) with 11 percent; Zairi and Sinclair (1995) with 13 percent; and Koch and McGrath (1996) with 6.5 percent. Similar response rates had also been achieved in the international marketing literature (Kaynak and Kuan, 1993; Li and Ogunmokun, 2000).

Given that an adequate response rate was achieved the next procedure was to check for non-response bias. An 'extrapolation procedure' technique was used to assess non-response bias. This assumes that the groupings of actual respondents by an identified criterion are similar to the 'theoretical' non-respondents (Armstrong and Overton, 1977). Frequencies and independent *t*-tests were used to determine whether significant differences existed between the sample of 161 Thai-Foreign IJVs and the target population of 831 Thai-Foreign IJVs based on the classification criterion of equity participation of the principal foreign partner. With the exception of the equity participation grouping of "between 50% and 59%" no significant difference was identified between the sample and the target population for this classification variable. Frequencies and independent *t*-tests were also used to determine whether significant differences existed between the sample of 161 Thai-Foreign IJVs and the target population of 831 Thai-Foreign IJVs based on the industry classification of the responding firm. Again, no significant difference was identified between the sample and the target population for this classification variable. Finally, frequencies and independent *t*-tests were also used to determine whether significant differences existed between the sample and the target population based on whether the responding firm was classified as an early or late respondent and no significant differences were identified in the responses between late and early respondents. Therefore, as no evidence has been found that the sample and target population are significantly

different then the sample can be considered sufficient to draw conclusions about Thai-Foreign IJVs for the issues under study.

The following **Likert Scales** were developed to explore those variables that appear to have an influence on IJV inter-party conflict.

**Partners' Needs:** Statements were included in the questionnaire to measure specific partners' needs. These included the supply of capital resources and raw materials to develop the Thai market effectively drawn from Beamish and Banks (1987). The availability of distribution channels (Jacque, 1986). The knowledge of Thai business practices by at least one of the foreign partners and the transference of much needed new technology **was** drawn from Blodgett (1991).

**Commitment:** Commitment was measured via items adapted from Lee and Beamish (1995). These items measured the commitment to the IJV by the foreign parent and the IJV partners' capital and resource contributions. The items also measured the specific human resource contributions by the IJV partners.

**Control:** Control was measured via statements adapted from Julian (2005) tapping the control by one partner over the other partners in the IJV organisation. These statements measured the effect of transferring a large proportion of the IJV's outputs to a parent company and the sourcing of much of the input needs of the IJV from a parent company.

**Conflict:** Conflict was measured via statements that tapped the extent of manifest conflict between the IJV partners was evident and were adapted from Habib (1987). They assessed the conflict between the partners over the roles and functions performed by each of the partners, such as the staffing policies for the IJV, and the terms and conditions of the IJV contract.

### DATA ANALYSIS

The data were initially analysed using principal components analysis to assess the psychometric properties of the instrument assessing partners' needs, commitment, control and IJV inter-party conflict. The primary concern was interpretability of the factors. All items loaded appropriately and no cross-loadings above .2 were identified with only factor loadings of above .5 being accepted. Each scale was reviewed using factor analysis to establish that they were unidimensional (see Table 1). The final reliabilities for all scales were greater than .80 with the exception of control that had an alpha reliability of .67, however, a reliability of .6 and above is acceptable for a two-item scale (Anderson and Coughlan, 1987). The initial analysis revealed acceptable psychometric properties and the measures were judged adequate to examine the hypothesised relationships.

**Table 1 - Summary of Exploratory Factor Analysis (n = 161)**

Variable	Alpha	Dominant Statement	Factor Loadings
Partners' Needs	0.82	Inaccessibility to suitable distribution channels.	0.73
		No access to an adequate supply of capital resources.	0.71
		No access to an adequate supply of raw materials.	0.70
		Lack of knowledge of Thai business practices.	0.65
Conflict	0.87	Inadequate transference of up-to-date technology.	0.58
		Disagreements over the terms of the IJV contract.	0.88
		Disagreements over trying to change the IJV contract.	0.86
		Disagreements over the hiring policies for the IJV.	0.78
		Disagreements over the roles for each IJV partner.	0.75
Commitment	0.82	IJV arrangement considered unfair because of certain contractual provisions.	0.73
		IJV parents were willing to commit key senior management people.	0.80
		The foreign parents were willing to find special skills required by the venture.	0.79
		The foreign parents were willing to regularly visit the IJV and offer assistance.	0.78
		The parents were willing to furnish additional equity or loan capital when needed.	0.76
Control	0.67	The foreign parents were committed to the IJV.	0.54
		There was transference of a large proportion of the IJV's outputs to a parent company.	0.67
		There was sourcing of much of the input needs of the IJV from a parent company.	0.53

To test the hypotheses a multiple regression analysis was undertaken to examine the effect of “partners’ needs”, “commitment” and “control” on “IJV inter-party conflict” in the Thai IJVs **with the year the IJV was formed as a control variable in the regression equation because the majority of IJVs in the sample were formed between 1986 and 1995.** Table 2 indicates that the three factors “partners’ needs”, “commitment” and “control” together explained **24.8** percent of the variation in IJV inter-party conflict in the Thai IJVs, with an F statistic of **11.852** which is significant

at  $p < .001$  indicating that the independent variables **using the year the IJV was formed as a control variable** do help explain the variation in IJV inter-party conflict in the Thai IJVs. The results also show that all three variables – **partners' needs** (t-value 2.43,  $p < .05$ ), **commitment** (t-value -2.46,  $p < .05$ ) and **control** (t-value 2.91,  $p < .01$ ) had a significant effect on IJV inter-party conflict in the Thai IJVs. **Additionally, a stepwise regression analysis was also conducted to ensure that if one or more variables were eliminated e.g., commitment the signs and significance of the remaining variables would remain stable and they did. There were no variables that if eliminated from the equation lead to substantive changes in the results for the model as a whole, or for other variables.** Overall the results indicate that H1, H2 and H3 were supported, where it was found that, IJV inter-party conflict was significantly positively influenced by partners' needs and control and significantly negatively influenced by a lack of commitment by the IJV partners.

**Table 2 – Multiple Regression Analysis with IJV inter-party conflict as a dependent variable**

Variable	Coefficient	T-Statistic	Sig T
Partners' Needs	.224	2.43	.05
Commitment	-.209	-2.46	.05
Control	.270	2.91	.01

**$R^2 = 0.248$        $n = 161$**

**$F = 11.852,$        $sig < .001$**

## DISCUSSION

The three variables contributing significantly to the variation in IJV inter-party conflict in the Thai IJVs were partners' needs, commitment and control. The three variables together accounted for 24.8 percent of the variation in the level of inter-party conflict experienced by the IJV partners.

It is important for the management of any firm to be aware of these variables when contemplating an IJV of any magnitude in a developing country of South East Asia. As far as partners' needs were concerned, the study's findings have quite clearly demonstrated the types of contributions that **can** be made by each JV partner firm to satisfy the other JV partners needs. For example, the foreign JV partner firm **can** provide firm-specific knowledge regarding technology and access to capital resources whilst the local JV partner firm **can** provide location-specific knowledge regarding host-country markets, marketing infrastructure and local business practices. From the sharing of knowledge and the pooling of resources through the JV organisation form the foreign JV partner firm is able to reduce the uncertainty associated with market entry at a lower long-term average cost than through traditional hierarchical and market approaches leading ultimately to higher satisfaction with IJV outcomes and a reduction in IJV inter-party conflict.

Furthermore, the finding that partners' needs **were** significantly related to IJV inter-party conflict was consistent with the result of interviews conducted by Fey and Beamish (2000) with 40 IJV General Managers in their study of Russian JVs. Also, this finding coincides with those from JVs from developed countries in less developed

countries, where greater need between partners resulted in greater satisfaction with venture outcomes (Lee and Beamish, 1995). In this study, inaccessibility to suitable distribution channels, inadequate access to capital resources and raw materials, a lack of knowledge of Thai business practices and inadequate transference of up-to-date technology resulted in increased levels of inter-party conflict between the IJV partners.

As far as commitment was concerned, this study **suggests** that joint venture partners **should** 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 local Thai market. The management of a company **should** be committed to the foreign market they are entering and to their IJV partner for IJV success. The findings in this study indicate that there was a significant negative relationship between commitment and IJV inter-party conflict. This suggests that JV partners didn't provide key senior management people; didn't supply special skills; didn't visit and offer assistance; didn't furnish additional equity or loan capital when needed; and, didn't make a general commitment to the local Thai market. This lack of commitment by either the foreign JV partner(s) and/or the local partner increased the level of inter-party conflict between the JV partners causing the negative relationship between commitment and IJV inter-party conflict. These findings support findings in the IJV literature generally, that the construct of commitment is especially relevant for IJV outcomes.

Finally, as far as control was concerned, the effect of control on JV outcomes has remained one of the controversial factors when evaluating the IJV. While domination

of one parent in the overall management of the JV was found most effective in some studies (Phatak and Chowdhury, 1991), shared management control was found effective in other studies (Blodgett, 1992). Similarly, greater autonomy of the JV over operating decisions was expected to contribute positively to IJV outcomes (Anderson, 1990) but the empirical findings seem to be tentative. Cooperation seems to be a core condition for success of a cooperative venture (Phatak and Chowdhury, 1991), but its relative impact on IJV outcomes in a broader multivariate model has received limited attention in the past.

The findings in this study suggest that control by one partner over the other partners in the IJV relationship where transfer pricing must be agreed upon between the partners have more scope for conflict than IJVs where that additional complication is not present. At this stage, it is important to identify that the sample of IJVs included in this study consisted almost entirely of firms engaged in the manufacturing, processing and extraction industries. Therefore, the findings and conclusions developed from this study can only be applied to firms engaged in the manufacturing, processing, and extraction industries. Firms engaged in IJVs in different industries, other than those specified here, may experience different outcomes with the variables and relationships specified here.

This study suggests that it is important for the successful operation of the IJV to minimise the transference of a large proportion of the IJV's output to a parent company and to minimise the sourcing of much of the IJV's input needs from a parent company in order to reduce the likelihood of IJV inter-party conflict. Companies intending to enter into an IJV arrangement should take the time to allow the IJV to



operate as a stand-alone entity instead of using it as a means of generating additional revenue from out-of-date products, or as a subsidiary to generate greater profits for head office, or as a subsidiary to generate greater profits for any of its partners, or solely as a production platform for export to third country markets.

Major conflicts can erupt between partners in IJVs with respect to purchases of materials, intermediates and components. Some foreign corporations strive to have the IJV affiliate purchase intermediate goods or components from it on the grounds that it assures required quality standards and competitive alternative sources are not readily available. Local partners, on the other hand, want to explore alternative sources in order to obtain the materials from lowest-cost suppliers internationally or domestically. They may believe that the foreign corporation is charging excessive prices and aims to earn additional income from selling the intermediaries to the affiliate. If the foreign corporation presses aggressively for continued sales of these intermediates to the affiliate, despite the fact that the local partner finds other suppliers at competitive or lower prices, serious conflicts could arise between the partners to the venture, which can disrupt the relationship (Dymsza, 1988).

The reverse could also occur when the foreign corporation wants to repatriate much of the profits earned by the IJV back to its home country. The local partner, on the other hand, may want to retain most of the profits earned by the IJV in the IJV for reasons of capital expansion and investment. If the foreign corporation insists on repatriating most of the IJV's earnings back to its home country leaving the IJV cash-poor this could not only negatively affect the performance of the IJV but worse, serious conflicts could arise between the partners leading to the ultimate demise of the

venture (Dymsza, 1988). These findings support the findings of Blodgett (1992) where it was concluded that shared management control produced better JV outcomes as shared management control is likely to prevent the circumstances described earlier from occurring.

## CONCLUSION

A successful JV provides for complementary contribution of resources by the major parties involved. The contribution by the foreign JV partner firm depends on the industry in which it is involved, its product lines and its business orientation. In many manufacturing operations, the major contributions of the foreign JV partner firm and the needs of the local JV partner firm include the foreign JV partner firm's technology, technical product knowledge, patents, expertise, technical training and management development. Although some foreign JV partner firms are not necessarily export-oriented or prefer to export from their home country or wholly-owned subsidiaries, some of them do make available their global marketing network to expand exports (Lee and Beamish, 1995). The local JV partner firm in a manufacturing IJV commonly contributes some combination of capital, management, knowledge of the country environment and the market and contacts with the government, financial institutions, local suppliers and labour unions. This is what most foreign JV partner firms enter into IJV arrangements in developing countries to gain access to. These contributions from the local JV partner firm to the foreign JV partner firm are not insignificant to say the least.

A more successful JV creates synergies through the partners pooling their resources, capabilities and strengths. These synergies are likely to lead to a manufacturing operation in which the outcome is greater than the sum of the individual partners' contributions. By combining the modern production processes, the product know-how, technical training, management development and the management systems of a foreign MNC with the local JV partners capital, management, existing plant, marketing expertise, and knowledge of the local market environment, the JV results in a more efficient and productive enterprise than the participants could achieve on their own. The synergies occur through the partners working closely together, reinforcing each other's strengths, the **cross-pollination** of ideas concerning the management of the JV, responding to competition and developing the business potential of the JV in the local market environment (Dymsza, 1988).

Furthermore, JVs can provide a suitable means of entry into a manufacturing operation in a developing country for a smaller or medium-sized international company, with limited capital and international managerial experience, but no great breadth in such management. At the same time, it limits the exposure to risk by such an international company. The local partner in such a JV provides a combination of local financing, an existing plant and facilities, most of the management, its marketing expertise, and relationships with the government, financial institutions, and other groups. The manufacturing technology, the product know-how, technical training, and business expertise contributed by the international firm lead to a more efficient manufacturing and marketing operation, introducing new products and/or improving existing products. As such, partners' needs, contributions and commitment to the

venture provided by both the local and foreign JV partner firms that are complementary result in a more successful venture.

The present study has extended the literature on IJV inter-party conflict in several areas. First, the constructs developed here can serve as a foundation for further research into IJV inter-party conflict. Second, the study has contributed to a more comprehensive understanding of the antecedents of IJV inter-party conflict. Partners' needs, commitment and control have been identified as the key antecedents of IJV inter-party conflict for the Thai IJVs. Finally, the study provides empirical support for the Fey and Beamish (2000) study in a different national setting. The Fey and Beamish (2000) study identified commitment, partners' needs and the extent of control as those constructs most frequently mentioned as causes of IJV conflict in their study of Russian IJVs. Whilst the measures for each of the variables were somewhat different to the Fey and Beamish (2000) study the significance of all three variables, namely, commitment, partners' needs and the extent of control, as predictors of IJV inter-party conflict were certainly highlighted in this study thereby supporting the findings of the Fey and Beamish (2000) study. The significance of the findings in this study should not be underestimated and can be further highlighted when considered in light of the Fey and Beamish (2000) study findings where they concluded that IJV inter-party conflict and IJV performance were highly correlated. As such, given this high correlation, it is reasonable to conclude that IJV inter-party conflict is an important outcome variable of IJV activity to monitor in and of itself to ensure satisfactory IJV outcomes.

## LIMITATIONS

Some limitations of this study should be noted. The model was tested using cross-sectional data. The results from this investigation should be considered in this light. Longitudinal research is encouraged to examine the effect of partners' needs, commitment and control on IJV inter-party conflict over time.

As in every research study investigating model interrelationships, model specification is a primary concern. The process of selecting the variables and specifying their interrelationships is grounded on current theory, prior empirical findings, and stated purpose of the study. Model misspecification is still possible, especially due to the omission of other antecedents of IJV inter-party conflict. From a methodological perspective, a potential concern might be that all measures are self-reported. Future research could utilize multiple means by which to measure the variables in order to reduce common method variance. Efforts have been made in this study to minimize the problem by pre-testing the instrument and selecting measures that minimize item overlap. While utmost care was taken with the translation of the instrument, questionnaire items still might not be interpreted uniformly by all individuals. Finally, the sample size was smaller than desired and future research should replicate the study with a larger sample.

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