FACTORS CONTRIBUTING TO THE PERFOPRMANCE OF MALAYSIAN INTERNATIONAL JOINT VENTURES ABROAD

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

FAKTOR-FAKTOR YANG MENYUMBANG KEPADA PRESTASI USAHASAMA ANTARABANGSA SYARIKAT MALAYSIA DI LUAR NEGARA

ABSTRAK

Usahasama antarabangsa adalah salah satu konsep pelaburan asing secara langsung yang popular dan merupakan elemen penting dalam perkembangan globalisasi syarikat multinasional. Kepentingan usahasama antarabangsa dalam persekitaran kompetitif global yang tinggi menjadi begitu nyata pada masa kini. Pembentukan usahasama ini dapat dilihat dalam semua industri terutama di kalangan syarikat Malaysia. Ini dapat dikenalpasti melalui pengeluaran dana pelaburan asing secara langsung dan jumlah pelaburan ekuiti di luar negara meningkat setiap tahun. Kajian empirik ini meneliti perhubungan di antara ciri-ciri kerjasama, hubungan kontrak, komunikasi, kawalan dan prestasi usahasama antarabangsa syarikat Malaysia berbilang dimensi dalam bentuk model bersepadu. Berdasarkan teori kos urusniaga, teori bersandarkan sumber dan hubungan antara-organisasi, kajian ini mengusulkan bahawa ciri-ciri kerjasama, hubungan kontrak, komunikasi, dan kawalan akan mempengaruhi prestasi usahasama antarabangsa syarikat Malaysia. Sebanyak 117 syarikat usahasama antarabangsa Malaysia dari pelbagai industri telah di kaji. Hasil regresi berbilang yang digunakan untuk menguji perhubungan langsung dan tidak langsung antara pembolehubah menunjukkan bahawa: 1) sifat saling bergantungan, komitmen dan skop kawalan dapat meramalkan prestasi kewangan usahasama antarabangsa syarikat Malaysia, 2) sifat saling bergantungan, hubungan kontrak, aliran maklumat, ciri ciri komunikasi, mekanisme kawalan dan skop kawalan dapat meramalkan kepuasan hati prestasi usahasama antarabangsa syarikat Malaysia, dan 3) dimensi persekitaran dinamik negara tuan rumah sebagai pembolehubah moderat sememangnya memoderatkan

perhubungan ciri ciri kerjasama, hubungan kontrak, komunikasi, kawalan dengan prestasi usahasama antarabangsa syarikat Malaysia.

Kajian ini menyumbang kepada bahan bertulis perniagaan antarabangsa, pengurusan strategik usahasama antarabangsa dan pelaburan asing secara langsung. Hasil kajian ini boleh dijadikan asas kepada para pengurus di Malaysia supaya peka terhadap faktor yang menyumbang kepada prestasi usahasama antarabangsa syarikat Malaysia di luar negara dan mempunyai implikasi pengurusan yang penting untuk para pengurus Malaysia terutama mereka yang terlibat dalam penggendalian pengurusan antarabangsa dan juga bakal bakal pelabur Malaysia yang mempunyai keinginan untuk memperkembangkan perniagaan mereka di luar negara.

FACTORS CONTRIBUTING TO THE PERFORMANCE OF MALAYSIAN INTERNATIONAL JOINT VENTURES ABROAD

ABSTRACT

International joint ventures (IJV) are one popular form of foreign direct investment (FDI) and an important part of the global expansion of multinational corporations. The importance of international joint ventures for competitiveness in today's highly competitive global environment is becoming very evident every day. A clear trend towards the formation of such ventures is observed in many industries especially among Malaysian companies. This trend can be observed too through the amount of Malaysian FDI outflows and the amounts of Malaysian equity investment in foreign countries which have increased every year. The present study is designed to examine empirically the underlying relationship between cooperation attributes, relational contract, communication, control and the multi-dimensional performance of international joint ventures (IJVs) within an integrated model. Based on the transaction cost theory, resource dependence theory and inter-organizational relations, this study hypothesizes that cooperation attributes, relational contract, communication and control would positively influence international joint venture performance. A total of 117 Malaysian international joint ventures from various industries were studied. Results of multiple regressions were used to test direct and indirect relationships among variables indicated that: 1) interdependence, commitment and scope of control predict financial performance; 2) interdependence, relational contract, information flow, communication attributes, control mechanism and scope of control predict satisfaction of international joint venture performance; and 3) environmental dynamism of host country, as a moderator, does moderate the relationship between cooperation attributes, relational contract, communication, control and international joint venture performance.

This study makes contributions to the international business, strategic management, international joint ventures and foreign direct investment literature. The findings can be a basis for Malaysian managers to be aware of the factors that contribute to the performance of Malaysian international joint venture abroad. The findings of this study too, have an important managerial implication for Malaysian managers as well as future investors abroad.

CHAPTER 1
INTRODUCTION

This chapter provides an overview of the background of study, discussion of the problem statement, the specific research objectives and research questions of the study, justification of research and the scope of study. Definition of key terms is provided at the end of the chapter.

1.1 Background of Study

Over the last two decades, the world economy has been dramatically transformed. The business environment is characterized by increasing complexity, uncertainty and discontinuity. The changing market conditions, intensified global competition and increasingly shorter product life cycle mean that firms have to re-examine the traditional method and strategies for doing business (Bartlett & Ghoshal, 1987). The increasing globalization has increased the competitive intensity facing business to generate more intense competition for investment opportunities worldwide not only for Malaysia but for other countries too. As such, Malaysian companies will need to identify and build upon niche products and services for specific markets. Among others, Malaysian industry must forge and intensify strategic integration with foreign affiliates, including joint ventures, mergers and acquisitions in designated high value added and high technology industrial activities and related services. These will provide a wider platform for Malaysian industries to generate greater inter-sectoral and intra-sectoral linkages as well as to integrate into regional and global networks of production. In coping with the increasing competitive and technological challenges of the globalization of world economies, international joint ventures represent an effective way of competing globally especially for small and medium size industries (Perlmutter & Heenan, 1986).

Since Malaysia aspires to be a fully developed country by 2020, the economic agenda of the country as set out in Vision 2020 is to establish a prosperous society, with an economy that is fully competitive, dynamic, robust, and resilient. To achieve this and in view of Malaysia's small market, the government has encouraged Malaysian companies to go abroad and become multinational enterprises. This effort is to increased international trade so that they will be able to achieve Vision 2020: a fully developed country by year 2020. This encouragement can be seen from the Bank Negara Malaysia Annual Report that the foreign direct investment (FDI) outflows from Malaysia Gross Overseas increased from US$ 0.7 billion in 1989 to US$1.4 billion in 2003 to US$1.9 billion in 2004 to US$ 7.4 billion in 2006.

While the total amount of Malaysia equity investment in foreign countries has also increased from US$1490 million in 1999 to US$2707 million for second quarters in 2007 (refer to Table 1.1). Malaysia spent quite an enormous amount of capital in their equity investment in foreign countries every year. The gross capital outflows for investments abroad ranged between 2% and 4% of Gross Domestic Product (GDP) during the period of 1999 to 2005.

Table 1.1
Total Amount of Malaysia Equity Investment in Foreign Countries (million)

Total/ Year	1999	2000	2001	2002	2003	2004	2005	2006	2007 2^{nd} Q
US$	1490	1240	1706	2203	1413	1398	2455	2323	2707
RM	*4933*	*4104*	*5648*	*7293*	*4678*	*4628*	*8126*	*7689*	*8960*

Source: Cash BOP Reporting System BNM.

The sizable increase reflects Malaysian companies' strategies in expanding their operations worldwide: 1) to enhance synergistic capabilities to their core operation in Malaysia, 2) to tap business opportunities abroad and in seeking new markets. In efforts to encourage Malaysian companies to seize business opportunities abroad and expand their market outreach or acquire new technologies, the Malaysian Industrial Development Authority (MIDA) has been entrusted to facilitate these ventures. These Malaysian companies are also encouraged to tap into the available incentives such as the Market Development Grant, Brand Promotion Grant and Services Export Fund, administered under the Malaysia External Trade Development Corporation (MARTRADE). Last year, 892 small and medium-scale enterprises obtained Market Development Grant amounting to US$4.53 million. Thirteen companies were approved US$6.47 million under the Brand Promotion grant, and fifty-six companies received US$3.78 million under the Services Export Fund (NST Business Times, 29 January 2008).

Due to the encouragement made by the government, the major countries where Malaysian companies have invested are in Thailand, Sudan, Indonesia, Mauritius, Vietnam, South Africa, Philippines and China. Among the Malaysian companies which have invested abroad are Eng Technology, Golden Hope, Guthrie, Petronas, Ramatex, Road Builder, Sime Darby, UMW, Pharmaniaga, Genting, OYL Industries, Metroplex Berhad, Lityan Holdings Berhad and YTL Corporation. For instance, TM Berhad (Telekom Malaysia Berhad) had its investment in 11 countries. Based on 2007 data from TMI (TM International Sendirian Berhad), there are several investments were made. Table 1.2 shows the details of TMI'S international investments. Most of the projects initiated were in the region and in collaboration with the dominant local partners, thereby establishing a strong regional presence. Most of the Malaysian companies are currently involved in a number of manufacturing, infrastructures, and services based operations in developing and developed countries. As reported by the World Investment Report (2005), Malaysia was the 25th largest source of FDI outflows in the world in 2004.

Table 1:2

TM International Investment Ventures

Company	Country/ Year of Incorporated	Type of Investment / Business Networks	Partners / Alliances / Ownership %
Societe Des Telecommunications De Guinée (Sotelgui s.a)	Republic of Guinea (December 1995)	Joint Venture (with local Government)	Strategic partnership: 40% - Government of Guinea to form Sotelgui s.a (national telecommunication operator); 60% - TM
Telkom SA Limited (TSA)	South Africa (May 1997)	Joint Venture (with foreign partners and Government of South Africa)	18% - Joint with US-based South Western Bell Corp via Thintana Communications LLC 70% - Government of SA 12% - TM
TM International (Bangladesh) Ltd (TIMB)	Bangladesh (October 1995)	Joint Venture	30% - AK Khan & Co Ltd (a leading Bangladesh business group) 70% - TM
Samart Corp Public company Limited (SAMART)	Thailand (June 1997)	Joint Venture	24.99% - TM
Telekom Networks Malawi Limited (TNM)	Malawi (January 1995)	Joint Venture	40% - Malawi Telecommunication Ltd 60% - TM
Mobile One Limited	Singapore (August 2005)	Joint Venture	29.79% - SunShare Investments Ltd 80% - TMI 20% - Khazanah

Continue

Mobile Telecommunications Company of Esfahan (MTCE)	Iran (December 2005)	Joint Venture	Agreement between TMI and TRI to transfer MTCE equity from TRI to TMI
Multinet Pakistan (Pvt) Limited (Multinet)	Pakistan (February 2005)	Joint venture	78% - TMI 22% - Local investors
Spice Communications Private Limited	India (March 2006)	Joint venture	49% - TMI 51% - Mcorp Global

Source: TM International 2006

The outward direct investments by the Malaysian companies were undertaken mainly via acquisition of equity stakes and joint venture with foreign partners abroad including investment in Greenfield projects. The bulk of these investment flows (about 70%) were for equity investment and real estate acquisition (Bank Negara Malaysia Report, 2006).

Hence, the means to help and accelerate the country's economic growth is by going abroad and becoming multinational enterprise (MNEs) by forming international joint ventures (IJVs). The move to invest abroad by Malaysian firms has been driven by a variety of reasons including: 1) securing market access, 2) gaining access to raw materials, strategic assets, brands and technology , 3) decentralized of operations to diversify risks and improve returns, 4) increased competition and lower growth from the domestic market, 5) prospects of higher growth, especially in less developed markets like China, Indonesia and India, and 6) liberalization of the foreign exchange rules, allowing for greater levels of funds to be invested abroad. The emergence of the new low-cost economies has provided the options for companies with labor-dependency to restructure and realign corporate operations on a global scale to remain competitive. While Malaysia continues to encourage and attract FDI into the country, the government is playing an active role to facilitate companies' initiatives to venture abroad. The Malaysian government too, has embarked on several collaborative measures with other governments to expand and deepen economic and industrial cooperation via bilateral arrangement and negotiations for Free Trade Arrangements. Over the years, the scope of Malaysia's investment abroad has broadened from just the oil and gas explorations and extractions and oil palm plantations to other industries, including telecommunications, banking and finance, infrastructure and property development, manufacturing, power generation and retail-related industries. Most of the investments were not only channeled to the more developed economies such as the industrialized countries (34%) and Asian NIEs (18%) but to developing economies like the ASEAN and African regions and other selected countries in other parts of Asia (China, India, Sri Lanka, Pakistan and some West Asian countries. The investments to the developing economies registered the highest growth rate (25%) with its share of total investment rising significantly from 13% in 1999 to 31% in 2005 (Bank Negara Malaysia Report, 2006).

Just like Malaysia, forming international joint ventures are often the preferred entry mode used by multinationals from the Asian region. Empirical evidence show that the amount of international joint ventures formed increases at a rapid speed, especially in the emerging markets. For example, data shows that the number of joint ventures in Central and Eastern Europe increased from 165 in 1988 to 25,845 in 1991. In East Asia foreign investors created about 54,000 equity joint ventures in 1993 and 27,858 in 1994, accounting for 52% of total FDI in 1994 (Buchel, Prange, Probst & Ruling, 1998).

Thus, international joint venture has become an important means to rationalize operations, to overcome potential difficulties and to help firms regain and maintain their competitive position in international markets (Ohmae, 1989). Besides penetrating foreign markets to reach economic developing countries, international joint ventures yield advantages that other cooperative structures cannot offer. They are: 1) taking advantage of economies of scale and diversifying risk, 2) overcoming entry barriers to new markets, 3) pooling complementary knowledge, 4) allaying nationalistic reactions when entering a foreign market, 5) as a means to reduce the costs that may arise through R & D, production, and marketing, 6) as a process to develop complementary products (Contractor & Lorange, 1988).

In spite of the increase in international joint venture activity in recent years, it has been estimated that between 30% and 70% of international joint ventures are reported to suffer from performance problems leading to costly failure (Bleeke & Ernst, 1993; Deloitte, Hoskins & Sells International, 1989; Fedor & Werther, 1995; Harrigan, 1988; Killing, 1983; Kogut, 1988; Kok & Wilderman, 1999; Park & Ungson, 1997).

According to the literature, dissatisfaction with the relationship and joint venture performance failure has been fuelled by a range of factors, such as conflict, poor perceived performance and inflexibility (Geringer & Hebert, 1991; Parkhe, 1993), poor communications, opportunism, incompatible objectives (Gugler & Dunning, 1993), control and ownership arrangements (Beamish, 1985; Kogut, 1988), culture differences between joint venture partners (Cartwright & Cooper, 1993; Harrigan, 1985). Therefore, it is not surprising that managers and academics have a limited understanding of international joint venture management. Park and Russo (1996) maintain that there is a lack of research on why the performance of international joint venture fails. They advocate more research to be done to clarify the basis of joint venture performance failure. Efforts are being made to understand the ingredients for successful international joint venture performance; the findings are far from conclusive (Park & Russo, 1996). Many of the problems in managing joint ventures and its performance stem from a lack of attention to relationship issues (Glaister & Buckley, 1999; Ring & Van de Ven, 1994). An understanding of the factors associated with joint venture performance will help managers develop more effective international partnerships in the future.

Even though there has been a large amount of research in international joint venture performance, most studies have tended to focus on the motives behind joint venture formation, partner selection and the characteristics of the resulting cooperation (Bleeke & Ernst, 1993; Blodgett, 1991; Contractor & Lorange, 1988; Glaister & Buckley, 1996; Gulati, 1995; Harrigan, 1988; Hennart, 1988; Kogut, 1988; Parkhe, 1993; Varadarajan & Cunningham, 1995; Vyas, Shelburne & Rogers, 1995). Studies focusing on international joint venture performance are, still growing (Anderson, 1990; Glaister & Buckley, 1999; Parkhe, 1993). What studies that have been undertaken have focused on various factors that may have an impact on joint venture performance, including ownership, structure and control – performance relationship (Luo & Chen, 1997).

Though there are many factors that may contribute to the success or failure of international joint ventures performance, there is a growing volume of literature on inter-organizational relationship that strongly supports the notion that joint venture performance can be understood more fully by the examination of behavioral characteristics (Aulakh, Kotabe & Sahay, 1996; Cullen, Johnson & Sakano, 2000; Mohr & Spekman, 1994; Monckza, Peterson, Handfield & Ragatz, 1998; Parkhe, 1993; Ring & Van de Ven, 1992; 1994; Saxton, 1997). A number of researchers have focused on behavioral characteristics emphasizing the relationship attributes between the partners as an explanation for the success of joint venture performance (Aulakh, Kotabe & Sahay, 1996; Chen & Boggs, 1998; Cyr, 1997; Gundlach, Achrol & Mentzer, 1995; Inkpen & Li, 1999; Morgan & Hunt, 1994; Ring & Van de Ven, 1994; Sarkar, Echambadi, Cavusgil & Evirgen, 1997). However, a more systematic empirical research is necessary as there are many unanswered questions regarding the impact of these characteristics on the success of such relationships with regards to international joint venture performance (Glaister & Buckley, 1998; Ring &Van de Ven, 1994; Saxton, 1997; Smith, Carroll, & Ashford, 1995; Varadarajan & Cunningham, 1995). The process of control has been considered as a crucial organization process for joint venture performance (Geringer & Hebert, 1989). Past studies have been conducted on control through ownership and bargaining power (Blodgett, 1991; Killing, 1983; Mjoen & Tallman, 1997; Root, 1988; Yan & Gray, 1994). However, the majority of studies on joint venture control has had limited perspective of the control concept. There is little empirical research available concerning control as a determinant of joint venture performance (Ding, 1997; Geringer & Hebert, 1989; Mjoen & Tallman, 1997; Yan & Gray, 1994). Researchers have also emphasized the structural characteristics and joint venture performance (Parkhe, 1993). However, little empirical research has been done to examine the structural determinants of international joint venture performance/success (Olson & Singsuwan, 1997). Furthermore, the behavioral and control characteristics of joint venture identified have been examined in various organizational contexts. There is no published study that has empirically examined their joint effects on the success of international joint venture performance.

The present study seeks to enhance understanding of the factors that influence the international joint venture performance. Empirical investigation is carried out to investigate how cooperation attributes, relational contract, communication and control influence international joint venture performance. The effect of environmental dimensions as a moderator between the cooperation attributes, relational contract, communication, and control on international joint venture performance is investigated.

1.2 Problem Statement

Malaysia aspires to be a fully developed country by year 2020. Thus, the economic agenda of the country is then to establish a prosperous society, with an economy that is fully competitive, dynamic, robust, and resilient. To achieve this aspiration, the government has encouraged Malaysian companies to go abroad and become multinational enterprises. How? This can be facilitated through strategic alliances and partnerships with foreign affiliates, mergers, acquisitions, consolidations, strategic partnerships and joint ventures. This is one of the 11 strategic thrust identified in the Ninth Malaysia Plan (2006 -2020). With the encouragement made by the government it is high time to have some documentation to see how Malaysian companies that have already established businesses overseas performed. This is because Malaysia has spent quite an enormous amount for its FDI outflow investment and equity investment in foreign countries every year.

There are many factors to be considered in enhancing the performance of international joint venture within international partnership. There are many studies that have been carried out on joint ventures in the West and also some Asian countries. But the focus on Malaysia is nil.

In the west, joint ventures performance has received a great deal of attention from researchers over the last few years. This is primarily because of their importance as a strategic alternative in global competition (Harrigan, 1985). However, despite their increased popularity and strategic importance, international joint ventures have a high record of failure in terms of the strategic objectives of their parent firms. Many of these problems are found to be related to the unique managerial requirements of such ventures. The complexity of the venture is caused by the presence of two/more parent organizations, usually of different cultures, who may be competitors as well as collaborators (Barkema & Vermeulen, 1997). It is obvious that to gain a competitive advantage by using international joint ventures, parent firms need to identify the contributing factors that will be able to strengthen the venture performance/success.

The importance of international joint venture leads one to expect that international joint venture would be a rich source of research. There is some relatively recent literature on joint ventures performance (Barden, Steensma & Lyles, 2005; Beamish & Kachra, 2004; Craig & O’Cass, 2004; Lassere, 1999; Millington &

Bayliss, 1995; Pangarkar & Lee, 2001; Sim & Ali, 1998). A few studies address the integrated problems of the international joint venture performance. Past studies of joint ventures have often considered cooperative strategies only from the perspective of firms that are expanding their domain nationally (Beamish, 1985).

Despite the growing importance of joint ventures from newly industrialized countries (NICs) and developing countries, little research has been reported on their performance (Tallman & Shenkar, 1990). Until recently, most studies of joint ventures performance have focused on joint ventures from developed countries in other developed countries or in developing countries. Findings from the work on joint ventures performance from developed countries have not been verified on the experiences of developing countries or NICs' joint ventures. Therefore, failing in providing complete managerial understanding of the joint ventures performance.

Moreover, in the context of Malaysia, a fully developed country-to-be in year 2020, there are a few studies being reported on international joint venture performance in Malaysia (Abdul, 1984; Ainuddin, 2000; Ibrahim, Sulaiman, & Awang Kechik, 1999; Lyles, Sulaiman, Barden & Awang Kechik, 1999; Sulaiman, Awang Kechik & Wafa, 1999). There are no past studies being published for the performance of Malaysian international joint venture abroad. Abdul (1984) studied on the relationship of the parent partners abroad and the consequences for the joint company's policies and performance. The underlying theme was whether the contribution made by the foreign firms to the development of joint enterprises was being maximized by the public corporation. Ainuddin (2000) exploit the use of the resource-based view of the firm to explain the performance of international joint ventures operating in Malaysia. Her study examined the extent to which the attributes of four international joint venture resources (valuable, rare, imperfectly imitable and non-substitutable) affect international joint venture performance. Lyles, Sulaiman, Barden and Awang Kechik (1999) investigate the international joint venture performance in Malaysia based upon the characteristics and factors that facilitate or inhibit knowledge acquisition. They examined the relationship between the capacity to learn, articulated goals, foreign parent, trust, and international joint venture performance. Ibrahim, Sulaiman and Awang Kechik (1999) investigate the strategic characteristics of high performing international joint ventures between Malaysian investors/manufacturers and foreign firms/manufacturers in Malaysia. The focus was on the international joint venture characteristics (influence in decision-making, magnitude of problems, adaptation/flexibility, support from the foreign parent and demographic factors) to identify high performing international joint ventures. On the other hand, Sulaiman, Awang Kechik and Wafa (1999) investigate the factors contributing to the performance and problems faced by international joint ventures in Malaysia. The emphasis was on the relationships of international joint venture performance to the autonomy of international joint venture, the level of knowledge/technology transfer, adaptiveness and flexibility, the assistance received from the parents, decision-making influence from the parent firm and the magnitude of problems faced by the international joint venture.

It may appear that there are numerous studies conducted on international joint venture performance in developed countries but there is dearth need to promote a closer examination of the relationship between behavioral variables, organizational variables and international joint venture performance.

There is no research been done on the performance of Malaysian international joint venture abroad. It is high time to do so since Malaysia has spent quite an enormous amount of equity investments and FDI outflows abroad. This is because Malaysian government is encouraging its companies to go abroad and become competitive and at par with other companies overseas.

The cross-sectional data used in this study will test the entire set on hypothesized relationships at once. We hope that this study will provide a more comprehensive test whether the data are consistent with the theoretical rationale underlying the hypotheses. Besides examining the relationships between behavioral characteristics (cooperation attributes, communication), organizational characteristics (relational contract, control) and international joint venture performance, the interaction effects of cooperation attributes, relational contract, communication and control as predictors on international joint venture performance is also examined. The possible moderating effect of environmental dimensions is also tested. Thus, the study examines: 1) the relationships between cooperation attributes, relational contract, communication and control as predictors of international joint venture performance, and 2) the moderating effect of environmental dimensions on the relationship between predictor variables and international joint venture performance.

1.3 Objectives of the Study

The present study focuses on cooperation attributes, relational contract communication and control as predictors of international joint venture performance. There is a lack of empirical research that investigates the relationship of these four variables in a single set of study. Thus, the objectives of the study are:

1. To investigate the influence of cooperation attributes on the performance of Malaysian international joint ventures abroad.
2. To investigate the influence of relational contract on the performance of Malaysian international joint ventures abroad.
3. To investigate the influence of communication on the performance of Malaysian international joint ventures abroad.
4. To investigate the influence of control on the performance of Malaysian international joint ventures abroad.
5. To examine the role of environmental dimensions as moderator in the relationship between the contribution factors (cooperation attributes, relational contract, communication and control) and performance of Malaysian international joint ventures abroad.

1.4 Research Questions

In doing this study, the researcher seeks evidence bearing the following research questions:

1. Does each of the dimensions of cooperation attributes contribute to the performance of Malaysian international joint ventures abroad?
2. Does each of the dimensions of relational contract contribute to the performance of Malaysian international joint ventures abroad?
3. Does each of the dimensions of communication contribute to the performance of Malaysian international joint ventures abroad?
4. Does each of the dimensions of control contribute to the performance of Malaysian international joint ventures abroad?
5. Does each of the environmental dimensions moderate the relationships between the contribution factors (cooperation attributes, relational contract, communication and control) and performance of Malaysian international joint ventures abroad?

1.5 Scope of Study

This study concentrates on the performance of Malaysian international joint ventures (IJVs) abroad in relation to cooperation attributes, relational contract, communication and control. The focus is on Malaysian companies listed with the Malaysian Bourse. These companies are from various industries and have international joint ventures formed in a foreign country. In developing countries, international joint ventures are the dominant form of business organization for multinational enterprises (MNEs) and are more common in developed countries (Beamish & Banks, 1987; Harrigan, 1985). Joint ventures can be categorized into two basic types: non-equity joint ventures (NEJVs) and equity joint ventures (EJVs)

(Hennart, 1988). Non-equity joint ventures are agreement between partners to cooperate in some way, but do not involve the creation of new firms (Contractor & Lorange, 1988). In contrast, Killing (1983) views EJVs as “traditional joint ventures”, which are created when two or more partners join forces to establish a newly incorporated company in which each has an equity position, thereby each expects a proportional share of dividend as compensation and representation on the board of directors. This conforms to Harrigan’s (1988) analytical concept of a joint venture where she studies joint ventures as ’separate entities with two or more active businesses as partners’ where the emphasis is on the ‘child’, that is, ‘the entity created by partners for a specific activity. Thus, EJVs involve two or more legally distinct organizations (the parents), each of which invests in the venture and actively participate in the decision-making activities of the jointly owned entity (Geringer, 1991). An equity joint venture, within an international context, is one in which a foreign firm (MNE) has an equity stake in a new legal entity which it establishes with its partner(s), which may be domiciles in the host country or overseas. The equity stake represents an element of ownership and control, although the two are not synonymous (Schaan, 1983). Control over a joint venture can also be exerted through contractual arrangements such as royalty agreements, patent rights, component supply, and buyback agreements (Contractor, 1985). Joint ventures can take many forms and can be used for many different purposes (Harrigan, 1985). In simple terms, from the perspective of MNEs, an equity joint venture can be 50-50 ownership, majority ownership or minority ownership. Therefore, the domain of this study comprises of equity joint ventures (EJVs).

1.6 Justification of the Study

A review of the literature identifies numerous influences on joint venture outcomes: parent firm-related, industry-related, managerial and parent-country related factors all have an impact on joint venture performance. Firm-related factors found to have an impact on joint venture performance were relative in size, extent of linkages and relatedness and resource complementarities. The management of a joint venture influences its performance. Managerial factors, such as control, operational autonomy and cooperation were key variables in joint venture performance. Key industry-related factors relevant to a developing country were technology level and market orientation. Cultural differences too have an impact on joint venture performance.

There are several reasons for the interest in international joint venture performance. Traditionally, joint ventures have been used as a means of tackling the problems of lack of capital and reducing foreign domination in sectors considered strategic by the host developing countries (Afriyie, 1988). Many developing countries continue to use joint ventures as a vehicle to gain local control over key economic sectors while utilizing foreign capital to develop these sectors. Porter and Fuller (1986) and Glaister and Buckley (1996) highlight joint ventures as a strategic option in response to changing market conditions. Other studies such as Dyer and Singh (1998), Harrigan (1988), Osland (1994) suggest that joint ventures are a primary means to obtain and sustain competitive advantage in the global market.

Miller, Jasperson, and Karmokolias (1996) reported that government restrictions and foreign partner's contribution to finance the joint venture are the primary reasons for advanced country firms and firms from developing countries to invest through a joint venture respectively. Studies by Friedman and Kalamanoff (1961), Goldenberg (1989), Kent (1991) and Selassie (1995) highlight the rationale for joint venture formation as the fulfillment of the needs and objectives of the parties involved, which otherwise would have been impossible to achieve with other business alternative.

Porter and Fuller (1986) identified joint ventures as a mechanism through which companies could hedge risk. By collaborating with a firm in a different geographical market and/or different product market, losses in one market maybe offset by gains in others, reducing the risk of the partner firm's overall portfolio of investment. Davidson (1982) argues that the firms having lower market knowledge tend to reduce strategic risk by entering these markets through JV rather than wholly owned modes. A cooperative venture is also seen as a means of reducing cost because costs are shared, thus reducing the financial investment necessary to undertake a given business venture by any individual firm. By reducing financial investment, the downside risk of the losses in the event of business failure is reduced.

Economies of scale are concerned with the average cost of production in relation to the productive capacity of a plant. For example, if the productive capacity of a plant were increased, economies of scale would exist if the average cost of production fell. A joint venture can reduce average unit cost by pooling together each partner's capability and resources in order to achieve the benefits of large-scale production. Furthermore, where both partners in different locations and with unequal costs make components, production could be transferred to the lower cost location thereby further lowering sourcing costs.

Joint ventures, production partnerships, and licensing agreements may be formed in order to pool the complementary technologies of the partners. Several alliances in the pharmaceutical and biotechnology fields, for instance, are built on this rationale. Each partner contributes a missing piece. Pooling and utilizing partner resources through joint venturing not only lead to superior product but may also create financial and operating synergies by sharing complementary resources between partners through internal development (Buckley & Casson, 1988; Luo, 2002). Contractor and Lorange (1988) suggest that joint venture agreements can also be a form of vertical quasi-integration, with each partner contributing one or more different elements in the production and distribution chains. The inputs of the partners are in this case, complementary, not similar. In general, it is important to consider joint venture as vehicles to bring together complementary skills and talents, which cover different aspects of the knowledge needed in high technology industries.

Porter and Fuller (1986) pointed out that strategic alliances could influence with whom a firm competes. Potential (or existing) competition can be co-opted by performing a joint venture with the competitor or by entering into a network of cross-licensing agreements. Therefore, a strategic alliance may be used as a defensive strategy. On the other hand, a joint venture may be made in a more offensive vein, for example, a company could link up with a rival in order to put pressure on the profit and market share of a common competitor (Contractor & Lorange, 1988).

One of the oldest and still common rationales for studying joint venture performance is that they enable foreign firms to overcome government-mandated investment barriers. In many instances, host government policy makes joint venture formation the most convenient way to a market (Contractor & Lorange, 1988). In some countries, investment regulations require a link with a local firm. In many cases, the regulations have called on foreign companies to limit participation to minority status. Until recently, India and Nigeria, for example, required foreign firms to be minority partners in a joint venture if they were to invest at all (Miller, Jasperson & Karmokolias, 1996).

For medium or small-sized companies lacking international experience, initial overseas expansion is often likely to be a joint venture (Contractor & Lorange, 1988). Contractor and Lorange (1988) argue that, in general, it is expensive, difficult, and time-consuming business to build up a global organization and a competitive presence. Joint venture offer significant time savings in this respect. Even though one might consider building up one's market position independently, this may simply take too long to be viable. Again, though acquisitions abroad might be another alternative for international expansion, it can often be hard to find good acquisition candidates at realistic price levels – many of the "good deals" may be gone. All of these considerations add to the attractiveness of the joint venture approach.

Cooperation between partners had a significant impact on joint venture performance (Sim & Ali, 1998). Pearce (2001) too, supported that cooperation attributes linked positively to performance. Cooperation is the essence of a joint venture relationship, which builds a spirit of cooperation and trust to achieve business goals that cannot be achieved by working alone. Opportunistic behavior by one party can ruin joint venture harmony and create disagreement and conflicts (Habib, 1987). This finding also provides support to Madhok's (1995) call for greater attention to relationship centered and trust-based approaches to joint venture study. Cooperative behaviors are integrative, problem solving or value creating. In joint ventures specifically, parents aim to build successful partnerships by demonstrating mutual trust and commitment to the relationship (Beamish, 1988; Geringer, 1988). Mutual trust, the mechanism of cooperation (Buckley & Casson, 1988) creates the expectation that partners will act in a cooperative and non-exploitive ways. Joint venture partners establish trust by reputation building (Buckley & Casson, 1988), cooperative problem solving and restraint in using power (Heide & Miner, 1992). Parents build their reputations through working together and jointly consulting when making major venture decisions, despite differences in their joint venture power. Joint ventures are based on parent responsibilities to contribute sufficient financial, human, and knowledge resources (Harrigan, 1986; Turpin, 1993). Parents show commitment to a venture by reliably contributing sufficient financial and management resources and holding a long term, flexible orientation towards its management (Harrigan, 1988). This study examines the relationship between cooperation attributes and international joint venture performance.

Luo (2002) revealed that contract governance exerts positive influence on international joint venture performance. This finding supported that contract governance is an important mechanism nurturing cooperation, attenuating opportunism and stimulating efficiency. Cannon, Achrol and Gundlach (2000) provide support that contractual agreements enhance international joint venture performance when transactional uncertainty is high. This study examines the relationship between relational contract and international joint venture performance.

Communication is an important factor for a healthy relationship to develop. It plays an important role in realizing mutual benefits in cooperative relationships by allowing exchange of necessary information and reducing misunderstanding (Anderson & Narus, 1990; Dwyer, Schurr & Oh, 1987). Crosby, Evans and Cowles (1990) noted that mutual disclosure is a factor enhancing relationship quality. Heide and Miner (1992) have found that norm of information exchange has a significant effect in the relationships between OEM manufacturers and their component suppliers. Communication among partners is one of the factors leading to success of alliances performance and development of good relations (Badaracco, 1991). It has been suggested that communication will result in increased commitment of the partners (Anderson & Weitz, 1992; Spekman, 1988).

This study examines whether communication between partners (timely, adequate, credible, accurate, complete) improve the performance of international joint venture. For instance, a study conduct by Zeybek, O'Brien and Griffith (2003) indicate that the more frequent and more formalized communication strategies employed by an international joint venture partner, the greater the international joint venture partners reported the international joint venture performance.

Control plays an important role in the capacity of a firm to achieve its goal. It is a key issue in international cooperative arrangements (strategic alliance, joint ventures). In prior literature, control of the joint venture has been suggested as a critical factor that determines performance. Yan and Gray (1994), for example, presented a model where the bargaining power of the partners is the main determinant of control, and control is positively related to performance. Lin, Yuan and Seeto (1997) view control as a function of the motivation and contributions of the partners and affects the performance of the joint venture. Despite the presumed relationship between control and performance, empirical research on this result has produced conflicting result. This study examines whether control influence international joint venture performance.

Most of the studies on international joint venture performance were in western culture (Beamish, 1984; Contractor, Ding, 1997; Herbert & Beamish, 1997; Inkpen & Currall, 1997; Kundu & Hsui, 2003; Lyles & Salk, 1996; Lin & Chen, 2002; Millington & Bayliss, 1995; Mohr & Spekman, 1994; Pearce, 2001; Saxton, 1997; Yan & Gray, 1994).

Studies of international joint venture performance in Malaysia have been very few (Abdul, 1984; Ainuddin, 2000; Awang Kechik, 1998; Ibrahim, Sulaiman & Awang Kechik. 1999; Sulaiman, Awang Kechik & Wafa, 1999; Lyles, Sulaiman, Barden & Awang Kechik, 1999). The study of Malaysian international joint venture performance operating abroad is none. Hence, this particular study is taken with the aim of adding to the theoretical body of knowledge on the performance of Malaysian international joint venture operating abroad. This study hopes to make significant contributions to the theory and practice in the area of international joint ventures because most of the previous studies have focused on the performance of international joint venture from developed countries. In this case, the study focused on the performance of international joint venture from a developing country that is Malaysia. There are not many studies being done especially on the performance of Malaysian international joint ventures abroad. This study incorporates the integration of many constructs when compared to past research, which focus to one or two constructs. This study will be to document the total number of Malaysian international joint ventures abroad together with their practices in managing the international joint venture, their experiences and the performance of the international joint venture. The focus of this study is on behavioral attributes and organizational characteristics on international joint venture performance. Past studies concentrate on one construct only. In this study, it is the integration of various relational attributes: cooperation attributes relational contract, communication, and control on international joint venture performance.

This study hopes to provide insights on the influence of the factors upon the performance of the joint venture. Managers who are managing or intending to manage a joint venture or an inter-firm relationship in the future would be able to understand the impact of the factors on joint venture performance. For example, improving the level of trust between an organization and their partners will lead the partner to believe their alliance is effective and enhance the international joint venture performance. Although there have been numerous study on international joint venture performance, no known studies have examined the combined linkage and interaction of cooperation attributes, relational contract, communication, control and environmental dimensions with international joint venture performance. This study seeks to examine this relationship.

1.7 Definition of Key Terms

Definition and descriptions of terminologies used in the study are presented below.

Communication refers to as the formal and informal sharing of meaningful and timely information between firms (Anderson & Narus, 1990).

Control refers to the process through which a parent company assures that the way joint venture is managed conforms to its own interest (Beamish & Schaan, 1988).

Cooperation refers to coordination effected by mutual forbearance (Buckley & Casson, 1988).

Foreign Parent refers to the MNE is the Malaysian parent firm in the host country.

Host Country refers to the country where the firm's IJV is located or will be located, employed to manage the operation (Daniels & Radebaugh, 1998). *International Joint Ventures* refers to a separate legal organizational entity representing the partial holding of two/more parents, in which the headquarters of at least one is located outside the country of operation of the joint venture. The entity is subject to the joint venture of its parent firms, each of which is economically and legally independent of the other (Shenkar & Zeira, 1990).

Malaysian Parent refers to the MNE / firm originating from Malaysia.

*Multinational Corporation (*MNC) is a firm that has an integrated global philosophy encompassing both domestic and overseas operations (Daniels & Radebaugh, 1998).

Multinational Enterprise (MNE) refers to any enterprise that carries out transaction in or between two sovereign entities, operating under a system of decision-making that permits influence over resources and capabilities, where these transactions are subject to influence by external factors to the home country environment of the enterprise (Daniels & Radebaugh, 1998).

Relational Contract is a legally bound, institutional framework in which each party's rights, duties, and responsibilities are codified and the goals and policies and strategies underlying the anticipated international joint venture specified (Luo, 2002).

1.8 Summary and Organization of Chapters

The present study seeks to enhance understanding of the contribution factors (cooperation attributes, relational contract, communication, control) that influence an international joint venture performance. The influence of environmental dimensions (dynamism, complexity and hostility) as a moderator on the relationship is examined.

Chapter 2 highlights the literature relevant to international joint venture performance, cooperation attributes, relational contract, communication, control and environment. The role of transaction cost theory, strategic behavior theory, inter-organizational relations theory and resource dependence theory and a compelling theoretical framework for the hypothesized model will be presented.

Chapter 3 presents a conceptual model for [cooperation attributes, relational contract, communication, control]-international joint venture performance relationship by drawing from strategic behavior theory, transaction cost theory, inter-organizational relations and resource dependence theory. This conceptual model is moderated by the environmental dimensions of the host country. Based on this model, a set of hypotheses is formulated.

Chapter 4 looks at the methodology used in conducting the study. A description of the research approach is described. These include the population, the sample, administration of the questionnaire, the measures and scaling methods used, and statistical methods of analyses.

Chapter 5 brings to the analyses and results of the study. Lastly, chapter 6 looks at the discussions on the results, limitations, implications, future research and conclusion.