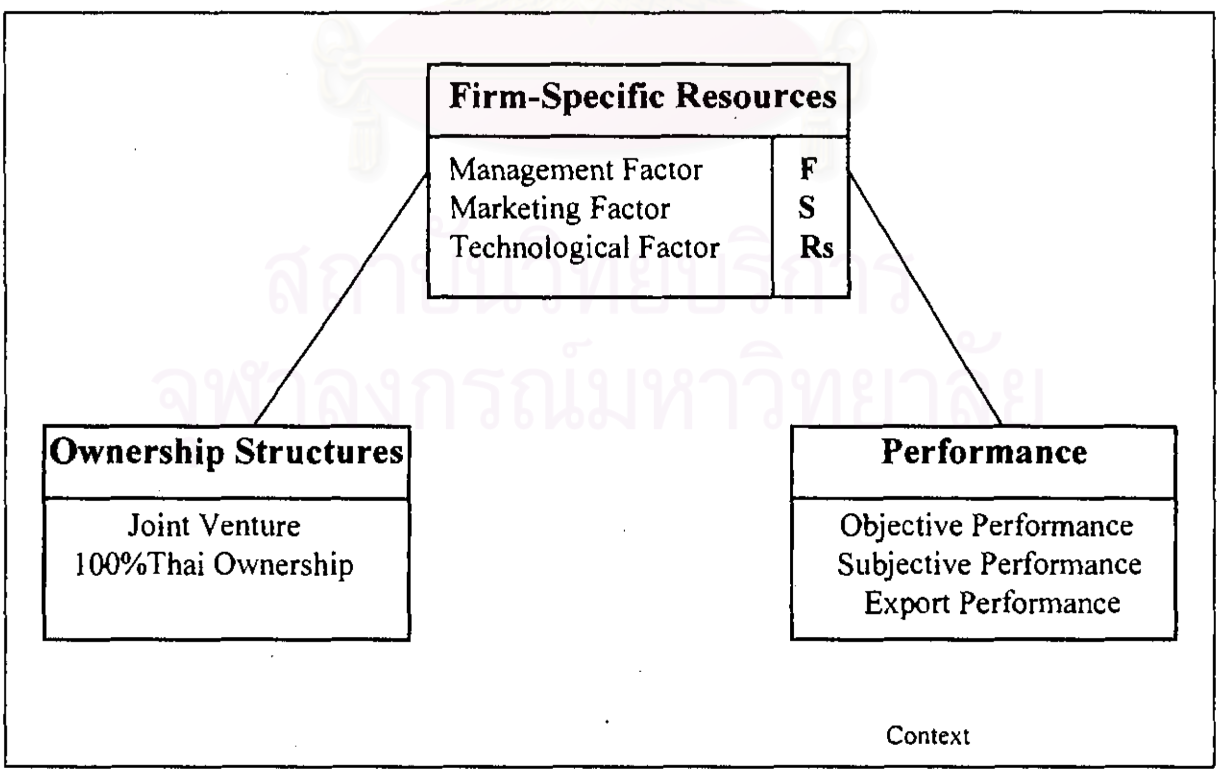
CHAPTER THREE
MODEL AND PROPOSITIONS

The focus of this dissertation is to understand the performance differences between the joint venture and fully Thai owned firms, intervened by the Firm-Specific Resources (FSRs). In particular, this study is based on the belief that there is a link among ownership structures, FSRs, and firm performance. In this chapter, research questions will be raised and specific hypotheses will be developed.

Research Model

In order to determine the proper model for this study, related literature reviews are needed. These related literature reviews, in Chapter Two, are the resource-based view of the firm, joint venture and export performance. Figure 3.1 depicts the research model of the resource-based view of the impact of firm-specific resources on firm performance under different ownership structures.

Figure 3.1: The Impact of Firm-Specific Resource Factors on Firm Performance under Different Ownership Structures



Industry Type, Firm Size, Environmental Factors, Year of Operation

Ownership Structures

The ownership structures can be either joint venture (JV) or non-joint venture (NJV). Joint venture is a private contract or contractual cooperation. The term "joint venture" often involves the creation of a separate firm, whose stock is shared by two or more organizations. Each partner expects a proportionate share of dividends as compensation and each actively participates in decision making activities (Contractor and Lorange, 1988; Geringer, 1988).

The difference between joint venture exporting firms and non-joint venture exporting firms also needs to be clarified at this stage. Joint venture exporting firms are the firms that consists of 2 or more parties (parents) who join together for specific reasons, such as to utilize existing local distribution channel, to transfer technology. Furthermore, at least one parent has its headquarters outside the venture's country of operation (Geringer and Herbert, 1989). Joint venture exporting firms include only Thai-foreign joint venture firms in this study. Foreign-foreign joint venture firms are excluded because they are few firms in the population that this research needs. Another reason is that this research will compare fully Thai owned firms and Thai-foreign joint venture firms to see whether the joint venture with foreign does really have better performance than fully Thai owned firms.

Non-joint venture firms are local Thai firms that have 100 % Thai ownership or fully Thai owned firms. Non-joint venture firms are also one of the two groups that represents the majority of application submitted and approved for promotion certificates issues from the Board of Investment (BOI) during 1995-1997. Non-joint venture firms usually have management staffs that are composed only of Thai nationals.

Joint ventures also represent the majority of application submitted and approved for promotion certificates issues from the Board of Investment (BOI) during 1995-1997. This is the reason why these two ownership structures are chosen in order to serve the purpose in the study.

Scholars agree that a firm chooses joint venture because the firm needs specific resources. Joint venture serves as a way to bridge through pooling resources of two or more firms. Pfeffer and Nowak (1976) argued that the need for resources is only one possible cause of joint ventures. Therefore, this implies the linkage between firm-specific resources and ownership structures of choosing joint venture and 100% Thai ownership.

Firm-Specific Resources (FSRs)

There are various types of resources, such as physical resources, human resources, technological resources, organizational resources, financial resources and reputation (Barney, 1991; Tallman and Fladmoe-Lindquist, 1994; Hofer and Schendel, 1978). These resources can be either tangible or intangible. In the resource-based review section, it indicates that firm-specific resources that are valuable to the firm generate the competitive advantage. It will later contribute to superior performance. This implies the linkage between firm-specific resources and performance.

In this research, only intangible resources are considered because this is the first attempt to measure these types of firm-specific resources. These firm-specific resources, used in this research, are marketing, management or technology. Each firm may have these three resources, but each one can have various combinations among them. For example, a company can have high management and marketing resources, but low technological resource. Another firm may have these three resources low.

Resources are as the basis for profitability and the sources of a firm's capabilities. They include both assets and capabilities, but only capabilities are either difficult to measure or identify. Because capabilities constitute a firm-specific advantage, the firm will not wish to see that these capabilities disseminate. In addition, because capabilities are often ill-codified and difficult to transmit across organizational boundaries, it is subject to hazards of transmission and inappropriate pricing (Calvet, 1981).

By internalizing proprietary resources, advantages can often be derived and a firm can keep them within its corporate system rather than passing them on to competitors or suppliers as if they are public goods (Murray, Kotabe, and Wildt, 1995). This will make the firm earn the full economic rent of its proprietary knowledge rather than receiving less by relying on imperfect market mechanisms (Rugman, 1981; Dunning, 1977; Buckley and Casson, 1976).

Assets are inputs into the production process. Creating capabilities is not simply a matter of assembling a team of assets. Capabilities are the ability to transfer these assets into valuable products and services. Capabilities are internal bundle resources which embrace a way of doing things, ability to change, accept changes, react to changes, or ability to create value added to the firm, as well as talented skills, experiences building, process of learning, or combination of process and accumulation process. This implies that capabilities are the main source of its competitive advantage.

Firms learn how to seek and retain their capabilities. These capabilities then become their knowledge base, or what McKelvey (1983) calls "comps" and Polanyi (1967) calls "tacit knowledge". Kim and Hwang (1992) classify two types of know-how. First, firm-specific know-how refers to knowledge that is proprietary, such as that embodied in one's reputation or brand name. Second, tacit know-how involves non-codifiable knowledge not embodied in physical items such as capital goods and equipment. Rather it is information that must be obtained, typically via consulting or through advisory services (Teece, 1977).

Furthermore, these capabilities are essentially based on human intellect (Horaguchi and Toyne, 1990). Hobday (1994) indicates that know-how constitutes a firm-specific advantage. Chang (1995) indicates that know-how is an intangible resource that generates monopolistic advantages and at the same time creates needs for internalization because it is an information-intensive asset. Technological, management and marketing know-how constitute the basis of the competitive advantage of MNCs (Casson, 1982; Dunning, 1983). Murray, Kotabe, and Wildt (1995) explain that proprietary knowledge are technological know-how, management know-how and marketing know-how possessed by a firm. This indicates that these firm-specific resource factors are valuable to the firm.

Like technological know-how, marketing know-how or management know-how is an intangible firm-specific resource. Technological know-how is needed to develop new products and improve the efficiency of production (Hobday, 1994). It is difficult to price for sale through the market mechanism. Moreover, as it is frequently embedded in the operations of the firms, marketing know-how relating to product quality and brand identity may be difficult to separate out for sale through licensing without running the risk of dissemination of other property marketing know-how (Hill and Kim, 1988). Also, the firm that possesses management know-how can create new market or expand firm's activities. Furthermore, managerial resources allow firms to be proactive in enhancing both their product lines and spatial domain of their activities (Komiya, 1972). The firm which succeeds in these actions gains a dominant share of the market and will be perceived as the dominant firm (Horaguchi and Toyne, 1990).

It can be theorized that the firm-specific advantages of many consumer goods and service for MNEs are based upon marketing resources. Marketing skills are needed by firms to capture the added value associated with packaging, distribution, brand awareness and after-sales service (Hobday, 1994). Marketing know-how enables a firm to establish a strong brand identity, which helps communicate a quality image (Hill and Kim, 1988). By reducing buyer uncertainty a brand identity enables the firm to capture more customers (Casson, 1982).

The primary task of a resource-based approach to strategy formulation is maximizing rents over time by exploiting resources through capabilities. This view asserts that firm-specific resources, the main source of competitive advantages and differentiation, can provide much stronger predictors of performance than industry characteristics (Rumelt, 1991; Cool and Schendel, 1988). If a firm has rent yielding valuable resources, it will want to exploit these resources on its own. This implies non-joint venture (NJV). Conversely, if a firm does not have all the required resources, it will choose joint venture (JV) instead. Hence, the impact of ownership structures on firm performance, influenced by the firm-specific resources will be tested by using management, marketing or technology resource factors to measure the level of firm-specific resources for each firm.

Performance

There are widely different measures of performance and a vast and eclectic array of predictors. On one hand, company performance can be measured by financial performance in three ways: return on equity, return on assets and sales growth (Hamilton and Shergill, 1993). Performance in financial respect, however, has been richly used in the measurement (Tomlinson 1970; Lecraw 1984). On the other hand, non-financial performance, such as subjective or perceptual measurement can also be measured (Dess and Robinson, 1984). Despite a great number of prior efforts to measure performance, in relation to various issues, no consensus on the appropriate definition and measure of the concept has yet emerged (Geringer and Herbert, 1991).

Financial measurements evaluate only one dimension of performance (Anderson, 1990). Only subjective measurement is not well accepted when measuring firm performance. Therefore, export performance is also included to measure performance in this research.

The empirical literature review on joint venture has not shown a joint venture performance measurement very well because the motives of joint venture vary substantially. Joint venture may be viewed as unsuccessful despite good financial results or continued stability (Geringer and Herbert, 1991) and same types of performance measurements may not be valid for measuring all joint venture performance. However, this study wants to assess relative success of different joint venture firms even though there are different purposes for joint venture. It can say that some joint ventures are more successful than others. In order to get these valid success measurements and measure joint venture in these specific samples of firms on export performance, one way is to select well defined samples which are manufacturing firms that emphasizes export. By doing this, surveying all joint venture firms with different purposes are not necessary. Therefore, the problem of different motives in joint venture will be minimized.

In addition, varieties of dimensions have been used to evaluate export performance (Bijmolt and Zwart, 1994; Samiee and Walters, 1990; Madsen, 1989; Aaby and Slater, 1989; Axinn, 1988; Wortzel and Wortzel, 1988; Bilkey, 1985; Cooper and Kleinschmidt, 1985; Brezzo and Perkal, 1983; Czinkota and Johnston, 1983; Reid, 1983; Wortzel and Wortzel, 1981; Kirplani and MacIntosh, 1980). Many studies differentiate the characteristics of the exporter or non-exporter (Gottko and McMahon, 1988; Burton and Schlegelmilch, 1987; Christensen et. al., 1987; Malekzadeh and Nahavandi, 1985; Yaprak, 1985; Cavusgil and Nevin, 1981). The most commonly used dimensions are rate of growth in export sales or percentage of total sales accounted for by exports (Kirplani and MacIntosh, 1980).

In the past, there are various studies on export performance. At present, researcher starts exploring the characteristics that affect the performance of JV firms. There is no such research to link these two aspects. This is the first study to investigate the differences between joint venture exporting or 100% Thai ownership exporting firms and their level or degree of firm-specific resources on export performance.

Linkage between Ownership Structures, Firm-Specific Resources and Performance

Currently, there is no theoretical perspective explaining this phenomenon in the parsimonious way. In this study, the resource-based view of the firm is utilized to help explain firm performance differences of the two types of the firms -- joint venture or fully Thai owned firms.

The resource-based view of the firm states that a firm's internal processes create a bundle of valuable resources which can become the means of creating and sustaining a competitive advantage (Bates and Flynn, 1995). This bundle of valuable resources is firm-specific resources and only these resources are valuable to the firm.

This research develops a theoretical model that is based on the resource-based view of the firm and links this to ownership structures and export performance. Exporting generally can be explained by the Supply - Demand classical international trade theory that emphasizes on the country specific advantage. This research is explained by the resource-based view of the firm that stresses in the firm-specific resources. If a firm has these specific resources, the firm can create competitive advantage over other and this advantage will lead to superior performance.

In spite of much conceptual work, the resource-based view has rarely been operationalized or tested (Miller and Shamsie, 1995). This study will integrate the resource-based view in its analysis. The resource-based view of the firm has offered important new insights into a corporate strategy (Peteraf, 1993; Barney, 1991). However, there has been only limited empirical research linked to the resource-based view of the firm (Farjoun, 1994), bringing about a weak connection among performance, ownership structures, and the resource-based view. As a consequence, this study attempts to narrow or bridge the gap among them.

Therefore, in this study, the firm-specific resources and ownership structures of two types of firms -- joint venture and fully Thai owned firms are linked together by the resources-based view approach. The firm-specific resource factors are a mediator variable that intervenes a relationship between ownership structures and firm performance.

If there is a significant correlation between ownership structures and firm performance and, furthermore, if there is a significant correlation between firm-specific resources and firm performance and a nonsignificant correlation between ownership structures and firm performance, the firm-specific resource factors are the mediator variable between ownership structures and firm performance. In other words, firm-specific resource factors are affected by ownership structures and then exert its influence on the firm performance. Firm-Specific Resources mediates the relationship between ownership structures and firm performance.

Hypotheses

The hypotheses in this regard can be stated in a simple way as follows: Other things being equal,

H_1: There is no difference in objective performance between joint venture and fully Thai owned firms due to the presence of management resource factors.

H_2: There is no difference in subjective performance between joint venture and fully Thai owned firms due to the presence of management resource factors.

H_3: There is no difference in export performance between joint venture and fully Thai owned firms due to the presence of management resource factors.

H_4: There is no difference in objective performance between joint venture and fully Thai owned firms due to the presence of marketing resource factors.

H_5: There is no difference in subjective performance between joint venture and fully Thai owned firms due to the presence of marketing resource factors.

H_6: There is no difference in export performance between joint venture and fully Thai owned firms due to the presence of marketing resource factors.

H_7: There is no difference in objective performance between joint venture and fully Thai owned firms due to the presence of technological resource factors

H_8: There is no difference in subjective performance between joint venture and fully Thai owned firms due to the presence of technological resource factors.

H_9: There is no difference in export performance between joint venture and fully Thai owned firms due to the presence of technological resource factors.

From the hypotheses above, the research will identify what management, marketing or technological resources factors are associated with firm performance, examine the knowledge-based resources, which are scarce or hard to imitate, and find out how these resources would contribute to various measures of performance. More importantly, this research will investigate whether firm-specific resource factors mediate the relationship between ownership structures and firm performance. The following chapter will discuss statistical procedures used to test the hypotheses that are stated in this chapter. Also, next chapter will explain the operationalization of the items, variables and the research design.