CHAPTER ONE
INTRODUCTION

Introduction

Exports have been an important ingredient in the economic growth and development of most Southeast Asian countries, including Thailand. However, many manufacturing firms are now producing products that are in the mature stage of their life cycles. Demand for these types of products is not increasing in countries with developed economies. In addition, the regional economic downturn has depressed domestic demand, which has resulted in excess plant capacity for many manufacturing firms. This excess capacity has put pressure on many firms to seek out new export markets. How to best accomplish this, is the primary focus of this research.

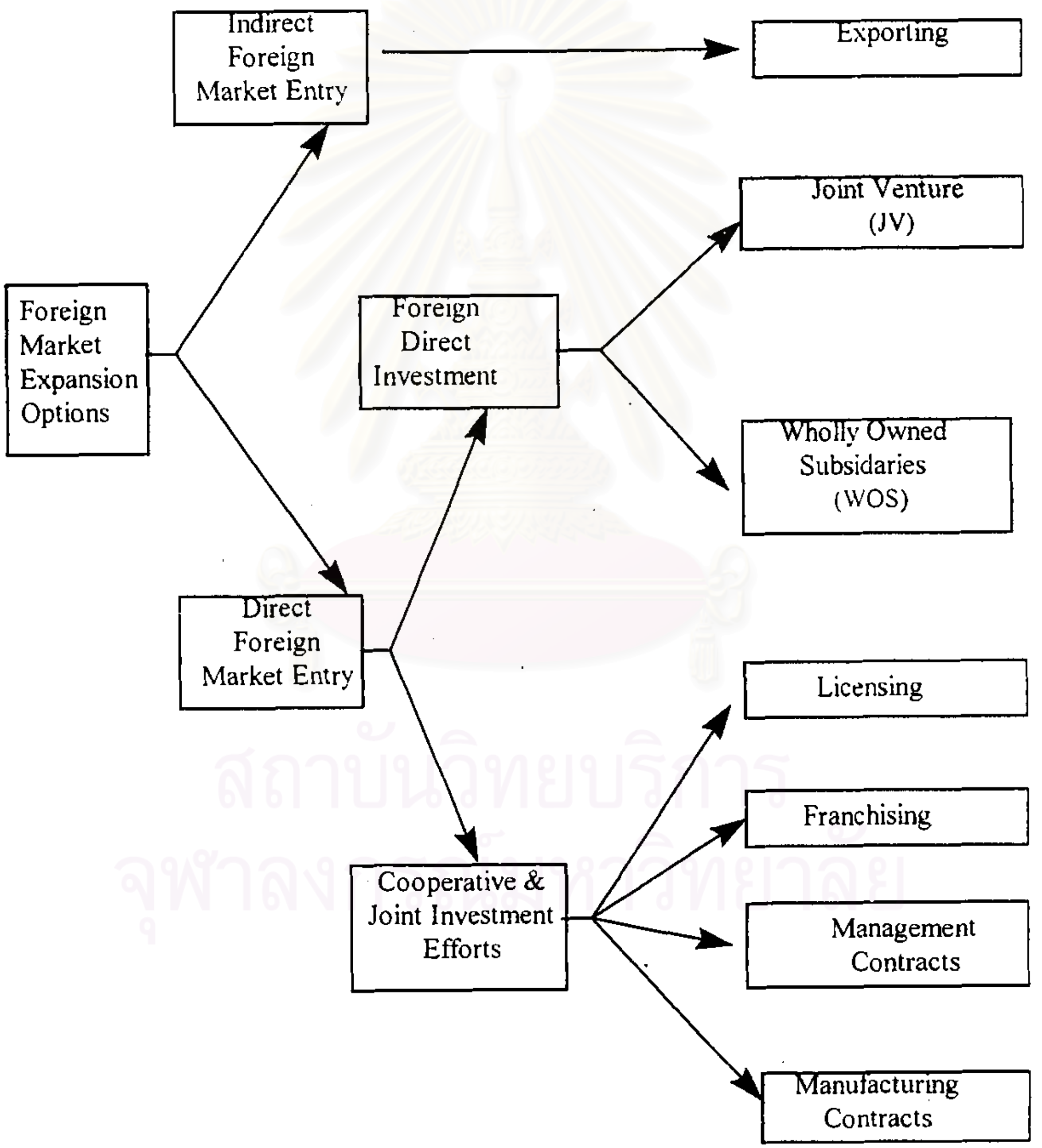
Expanding firm exports is not easy and there are several environmental factors that must also be considered when firms formulate exporting strategies. Thailand's economy is shifting from an agriculturally based to a more industrialized one. These include increased pressure to provide industrial employment opportunities. The economy is also becoming more internationalized, and a larger percentage of domestic industries are deregulated. This means that domestic firms will face competition in Thailand from foreign firms. The recent weakening of the currency has reduced labor costs vis-à-vis foreign competitors, but there are several other countries with much lower labor costs. However, low labor cost manufacturing of less sophisticated goods is unlikely to lead to high rates of export growth. Thus, both firm and governmental goals suggest that new export strategies be formulated and quickly implemented.

The question facing many of these firms is identifying the best way to increase sales in a foreign country. An examination of the literature suggests a number of market entry options. These are:

1. exporting
2. establishing joint venture (JV)
3. open a wholly owned subsidiary (WOS)
4. enter into a licensing arrangement
5. franchising
6. using manufacturing representatives
7. using one's product manufactured by another firm in another country.

Figure 1.1 provides a visual depiction of these options, in terms of the options related to mode of entry and type of investment. The two shaded boxes, exporting and equity joint venture, will be the options examined in this research.

Figure 1.1: Options for Mode of Entry and Investment Type



Three areas will be theoretically and empirically investigated in this research. These are the performance of firms, the ownership structures made by these firms, and the ability of the resource-based view of the firm to adequately explain both firms' ownership structures and firm performance.

Research Question

This research will examine an impact of firm-specific resources on firm performance under different ownership structures (Joint Venture VS 100% Thai Ownership). In other words, different ownership structures affect firm-specific resources differently; in turn, these firm-specific resource factors affect firm performance differently. Therefore, research question is "Are performance differences between joint venture and fully Thai owned firms intervened (mediated) by firm-specific resource factors?"

Research Rationale

The relationship between firm's ownership structures and their resource capabilities is seen as extremely important because the resource-based view of the firm suggests that this relationship is positively related to firm performance.

This study will expand existing research by testing the resource-based view of the firm in the context of a newly developed economy. It will also provide a comprehensive empirical test of a resource-based view of the firm in a strategic context. The research model developed looks at ownership structures, firm's resources and performance, which adds several important factors to existing resource-based models.

Governments in developing economies also have a special interest in performance, especially the exporting success of firms. Thus, the results of this research should also help government agencies formulate effective policies to assist firms in enhancing their export performance and know the level of country firm-specific resources.

Research Context

Several contextual situations could affect the main relationships in hypotheses in the research. The context that a research question is examined is extremely important. This is because a relationship may be valid under one set of conditions, but not another. Thus this research will be only studied in the context of industry types, firm sizes and environment factors, such as Board of Investment (BOI) privileges, removal of generalized system of preferences (GSP) benefits, trade barriers, and years of operation.

Criteria for Industry Selection

The two selected industries are agro-based and light industries. They are important to Thailand because Thailand used to have better competitive advantages in both food and garment & textile industries than other many countries. Furthermore, both the Ministry of Commerce and Ministry of Industry support these two industries in term of export promotion and technology and R&D respectively.

These two industries are also sufficient in sizes, with respect to both the number of firms choosing joint venture or non-joint venture and export revenues, to serve as useful bases to examine current questions of interest.

Joint ventures are the most common form of foreign direct investment, used by Thai firms. For instance, 64% of the electronics and automobile firms are engaged in joint ventures.[1] Joint ventures and 100% Thai ownership represent the majority of application submitted and approved for promotion certificates issues from the Board of Investment (BOI) during 1995-1997.

This is why firms that choose joint venture will be contrasted with those who do not in this research. In addition, manufacturing firms will provide the sample, because they are more typical of Thai firms seeking to export. Even though many agents who export are non-manufacturer, for example, buying agents, liaison offices, and trading firms, this study will pay attention only to manufacturing firms that export.

Both industries have been in the top ten in term of total export sales and shares in Thailand since 1994[2]. The current's first twenty export items include computer and peripherals, garments, electronic circuits and components, automobile and parts, rice, canned seafood, frozen shrimps, electrical appliances, jewelry and ornaments, rubber, plastic and plastic products, footwares, and etc.

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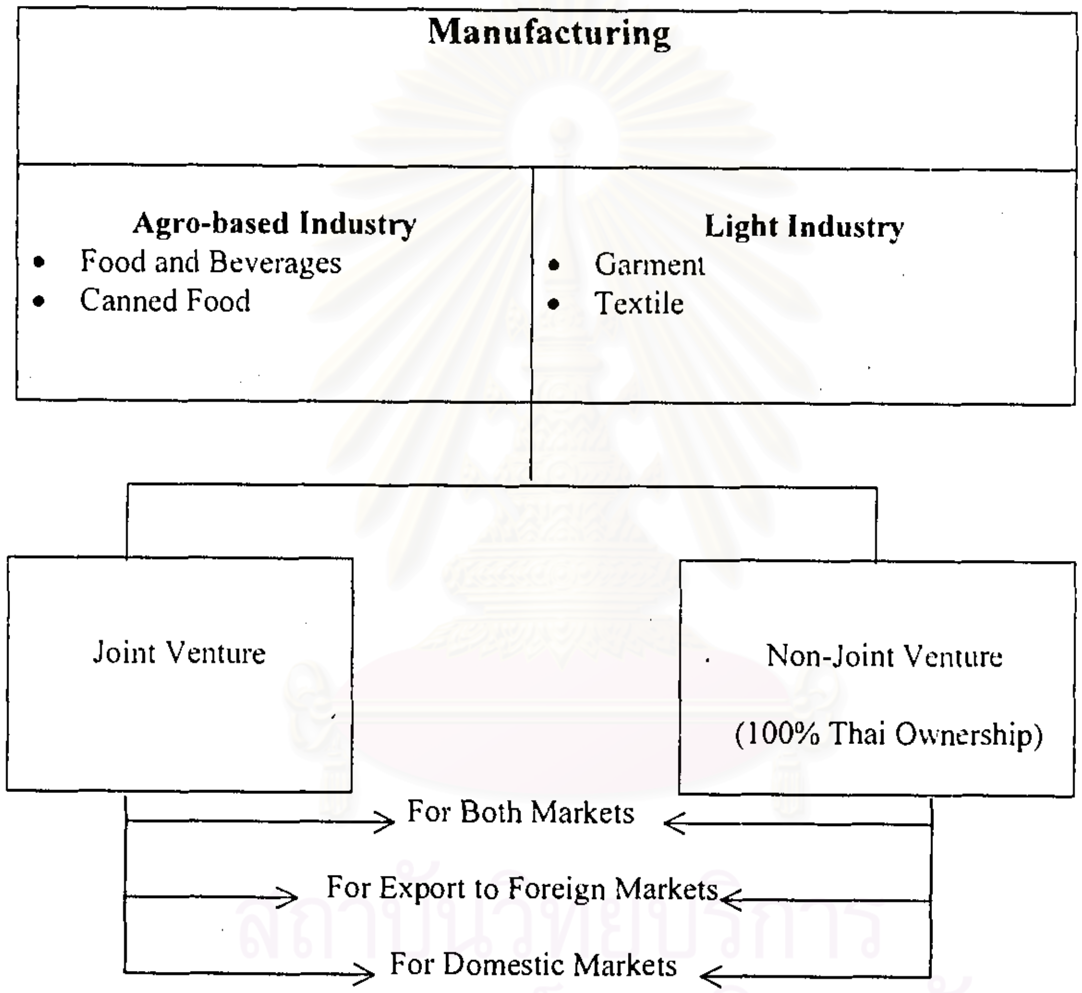
[1] Preutthipan, S., Hanvajanawong, S., Metharom, A., and Numsirikul, K., (1996), Empirical Investigation of Foreign Investment Environment in Thailand, Bangkok: Thammasat University (Unpublished JDBA manuscript).

[2] Statistical Report from Business Economic Department, Ministry of Commerce (1997)

These two industries are also acknowledged and supported by the government's Seventh National Economic and Social Development Plan (7th NESDP).

The resource-based view was also initially formulated in a manufacturing context, which makes this type of firm appropriate for theory extension. Figure 1.2 provides a visual presentation of the contrast that will be examined.

Figure 1.2: Contrasts to be Examined in Research



Industry Profile

Two industries chosen are agro-based and light industry. The agro-based industry includes food processing, such as canned fruits/vegetables, canned fruit juices/vegetable juices, canned seafood, chilled/frozen fruits/vegetables, chilled/frozen meats, chilled/frozen poultry, chilled/frozen seafood, dried/dehydrated fruits, dried/dehydrated vegetables, dried meats, dried seafood and beverages. Another industry which is light industry includes garment and textile industry, such as batik garment, bed linens, bedspreads, blankets and quilt, blouses, fabrics, silk or cotton products, towel, textiles, underwear, home textile products, and yarns (See details in Appendix 1).

Current Problems Encountered in Food Processing

Production costs increase. For example, in frozen shrimps and prawns, a price of raw material for producing shrimp feeding food increases. In canned fish, labor costs, transportation costs of overseas raw material, a shortage of raw material such as tuna fish are high when compared to competitor's countries.

Moreover, a lack of the quality breeding, intensified quality checking in poultry products, high labor and transportation costs, a lack of modern technology, removal of GSP benefits, trade barriers, such as import tariffs, strict import regulations or discriminatory rules, and export quota for overseas markets exacerbate this industry.

Therefore, with country's wealth of natural ingredients in this agro-industry, modern technology, skilled labor and expanding to new overseas markets are still needed for Thailand These can be done by improving management, marketing and technological resources in the industry. These upgrading capabilities and resources can minimize costs altogether along with increased production efficiency and make Thailand more competitive in global markets.

Current Problems Encountered in Garment and Textile

Due to financial crisis in Thailand at present, there are not enough capital or cash flow to be invested in this industry in order to upgrade know-how. Technology for most Thai company in this industry is outdated. Most machine and equipment are quite old and average ages are more than 10 years. This results in increased production costs as compared to other countries, such as China or Indonesia where cheaper labor is provided. Furthermore, to restrict Thai garment and textile in foreign markets, many countries have increased various constraints in trading, such as limiting quota for Thai manufacture exporting by blaming Thailand for using child labor and creating more environmental problems, or setting more rules in quality checking.

Companies seeking to increase their exports are desperately short of local staffs with sharp marketing and negotiating skills and fluency in foreign languages. Among the latest export producers to experience the problem are garment manufacturers, who say the shortage of marketers knowledgeable about their industry is a major barrier to increasing sales. Competition in the international market was more intense than ever before, with buyers basing their decisions not only on potential suppliers' prices and quality, but also on speed of delivery. Manufacturers can no longer sit and wait for orders. Now they have to deliver the products promptly. Also, qualified personnel for the job are still needed.

The garment and textile industries are facing a downward trend as major global retailers are cutting retail prices substantially because of an oversupply in the world market. Efficiency improvement by cutting production costs in factories is a way for manufacturers to maintain margins with growing pressure from retailers to cut prices. Besides the cost reduction required, supply chain strategy will help meet customer demand for lower prices and quick delivery.

The textile industry will face fierce competition when the World Trade Organization lifts import quotas by 2005 with trade liberalization, countries will also find it difficult to export because of more restrictions such as trade barriers and high tariffs raised by importing countries to protect domestic markets.

The US and EU, major importing countries, will ban or suspend imports coming from countries that produce without environmental protection policies and child labor problems. Moreover, they are expanding production within their communities and geographical regions such as the Northern American Free Trade Agreement, which groups the US, Canada, Mexico; and Eastern Europe.

Therefore, modern technology that helps reducing production costs. Also, skilled management and marketing are needed in this light industry. Moreover, creating quality product's brand names, and stepping up into the medium and high end ready to wear fashion sectors also require upgrading management, marketing and technological resources in order to add value to products in this textile and garment industry for Thailand. These improved factors can help Thailand being competitive in the foreign markets. Moreover, increasing efficiency, reduction of production costs, focusing on value-added products and developing marketing plans are necessary to strengthen competitiveness and help to compete in the global markets.

Outline of Dissertation

Chapter one includes the introduction, research question, research rational, research context, criteria for industry selection, industry profile for both agro-based and light industry, and the current problems encountered in both industries.

Chapter Two contains literature review of the relevant literature related to types of business arrangements, and a resource-based view of the firm. First, the literature on the resource-based view is examined in order to understand that firm's resources, both tangible and intangible, are as the basis for profitability. There are three essential issues related to this resource-based view of the firm as follows: 1). how resources are accumulated; 2). what kinds of resources are accumulated, and 3). how resources and capability interact in order to build competitive advantages for firms. Furthermore, how and why firms perform successfully can be explained by this resource-based view.

This literature review in Chapter Two is used as the basis for the model developed in Chapter Three. Definitions of joint venture (JV), non-joint venture (NJV) and resources are defined. The research model presented links the resource dependency of the firm to the mode it chooses for expanding foreign sales and classifies three types of firm-specific resources that are management, marketing and technology. A series of hypotheses is developed and presented in this chapter, which exploit the main links in the model.

Method is discussed in Chapter Four. Research samples are described, data collection is discussed, and both variables and items used are justified. The statistical analysis for testing the various hypotheses is outlined. The model in Chapter Three shows that the firm-specific resource factors mediate the relationship between ownership structures and firm performance. Therefore, mediator regression will be an appropriate tool used in this study. Then, the discussion and results of the statistical analysis will be presented in the next chapter.

Chapter Five discusses the results in terms of their broader implications for performance. Chapter Six, the final chapter, summarizes the research, presents conclusions, explores implications for practicing managers, and explores avenues for future research.