

ACQUISITION OF MARKETING KNOWLEDGE IN THAI INTERNATIONAL JOINT VENTURE FIRMS

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Abstract

Foreign direct investment is a major contributor to the development of the Thai economy. Foreign investors are encouraged to form joint ventures with the Thai business community. It is a move initiated by the policy makers to benefit local firms through transfers of knowledge. This paper reports a preliminary analysis on 110 companies from whom data was collected through a structured mail questionnaire with regards to the extent the local Thai partners perceived they have acquired marketing knowledge from their joint venture partners. The findings show that there is a high incidence of transfer of seven dimensions of knowledge namely customer orientation, marketing strategy, product innovation, price activities, logistic activities, promotion activities, and foreign interaction. Thus we conclude that the benefits provided by joint venture firms in promoting the advancement of marketing skills among Thai employees has been encouraging.

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INTRODUCTION

Foreign Direct Investment (FDI) has been a major contributor to Thailand's economic development. With the need to accelerate economic growth and achieve a more dynamic and international competitiveness, FDI is increasingly perceived to be useful to Thailand. The FDI made possible not only accesses to larger volumes of capital resources and foreign exchange, but also technology, managerial expertise, marketing skills and marketing networks. This helps in the entry into export markets and upgrade local companies. In addition, FDI has played a crucial role in the employment of certain local firms and other sectors of economy since the 60s when industrialization began. It drew large numbers of young females into labor intensive operations and raised the female participation rate in the country's economy. Foreign firms were encouraged to provide work force training at all levels to supplement government efforts in providing education and training for industries.

Different investing countries seem to have different sectors of interest. The United States, Japan, and Taiwan have interest mainly in the manufacturing sector, but have interest in a diverse range of different industries. The United States has historically invested in the chemical and food industries, but have recently shifted to electrical appliances whereas Japan has concentrated in the machinery and transport equipment industries. Taiwan, on the other hand typically invested more in electrical appliances but shifted its focus to textiles in 1992. Hong Kong and Singapore invested mainly in non-industrial sectors including the finance sector and European countries' investment interests were rather diversified. For example, France invested mostly in oil exploration while the United Kingdom invested in the trade and industrial sectors especially in chemical and petroleum products.

FDI and Knowledge Transfer

There are numerous studies which have asserted the impact of FDI on the Thai economy. The studies of Sibunrung-Brimble (1999) showed that FDI had substantial impact on Thai export generation, employment generation, backward linkages, and technology transfer. The results also revealed the FDI's impact on exports in the 70's with the foreign owned and foreign joint venture firms contributing 25 percent of total manufactured exports with very high share in the total exports for electronic and machinery industries. For technology transfer, foreign firms invested more on training for high level than low level staff and generally employed on the job training for unskilled and semi-skilled workers (Kaosa-ard, 1991).

Wisarn and Bunluasak (1994) examined FDI-technology transfer from the foreign investors through subcontract arrangement. The result reveals that the scope and speed of technology transfer and absorption by subcontractors from buyers through the subcontract arrangement depend on the characteristics and strategies of both buyers and suppliers, characteristics of the technology involved, and the competitiveness in suppliers market. Foreign investors transfer moderate levels of technology to Thai entrepreneurs and workers. The Thai suppliers have only gained a basic level of understanding of all

three level of technology: product, quality control, and process. The level of technology absorbed by Thai supplier is also found to be moderate due to limitation in their absorptive capacity (Sibunruang-Brimble, 1988; Dahlman et al., 1990).

While it is acknowledged that foreign firms from Japan, America and Europe possess superior marketing knowledge (Fongsusan,1999; Prisana & Speece, 2000), little is known on the extent of knowledge acquired by the Thai business community especially in the area of marketing management. Therefore, this research is undertaken to determine to what extent has marketing knowledge been transferred from foreign partner to Thai partner in Thailand Joint Ventures.

METHODOLOGY

This study employed the survey method using a structured mail questionnaire. The survey questionnaire gathered information on the background of company and also on marketing knowledge acquired. The responses to forty two items measuring marketing knowledge acquisition were elicited on a 5-point scale ranging from 1= not at all to 5= large extent These items were adopted from Akaah and Riordan (1984) and with additional items on conducting marketing at international level from Lyles and Salk (1996), Si and Burton (1999).

Data Collection

As total of 202 questionnaires were distributed to the respondents listed in the Thailand Board of Investment Directory & Index 2001 and BOI database. The respondents are those firms that operate in Southern Thailand only. Four weeks after the survey questionnaires were mailed, the first follow up letter was sent to those who had not responded. The second letter was mailed at the end of the fourth week. In addition, the respondents were also contacted through telephone seeking participation in this study. The data collection spanned the period from July (2002) to mid January (2003). A total of 116 survey questionnaires were returned, six were discarded due to incomplete responses. Thus a total of 110 were useful for analysis. A response rate of 54.45% was achieved although the respondents were top manager.

THE SURVEY FINDINGS

Profile of Respondents

The profile of the Thailand Joint Venture firms (TJVs) is presented in Table 1. The sample involved 41% small, 40% medium, and 19% large sized firms. The small firms were those having 100 employees or less and assets less than 50 million baht. The firms were considered medium if they have from 101 to 500 employees and assets between 50-499.99 million baht. The firms with more than 500 employees were assumed to be large and have assets more than 500 million baht. The majority (57%) of the responding

firms were relatively new (less than 5 years) which started from 1996 to 2000, 30% were 5-10 years and only 14 companies (13%) existed for more than 10 years.

The majority (58%) of the respondents had equity held by the foreign partners less than 50% compared to the average percentage of equity held by the Thais to be greater than 50%. Approximately 60% of the companies originated from Asian countries (Malaysia, China, Taiwan, Hong Kong), followed by the West (15%), Japan (11%), and the Middle East (11%). From the TJVs almost 50% engaged in agriculture and agricultural products such as rubber and frozen seafood, 20% in services and infrastructures, and 15% in light industry. About 54.5% of the TJVs were consumer good producers, while the remaining are industrial good producers.

Table 1: Background Information of the Respondents (N=110)

Demographic Variables	Categories	Total (N)	Percentage (%)
Length of operation	Less than 5 years	63	57.3
	5-10 years	33	30.0
	More than 10 years	14	12.7
Assets	Less than 100 million baht	45	40.9
	100-499.99 million baht	50	45.5
	More than 500 million baht	15	19.6
Number of employees	50<=Small	45	40.9
	100< Medium <500	44	40.0
	500 <=Large	21	19.1
Export	Non exporter	39	35.5
	Less than 50%	14	12.7
	More than 50%	57	51.9
Country of origin	Japan	13	11.8
	NIEs (e.i. Taiwan, Hong Kong)	33	30.0
	Western (e.i. U.S.A, U.K)	17	15.5
	Asian (e.i. China, Malaysia)	34	30.9
	Others	13	11.8
Foreign equity	Less than 50%	64	58.2
	More than 50%	46	41.8
Industry categories	Agriculture and agricultural product	53	48.2
	Mineral and ceramics	6	5.5
	Light industries and textiles	16	14.5
	Metal products and machinery	5	4.5
	Electric and electronic products	3	2.7
	Chemical, paper, and plastic	5	4.5
	Service and infrastructure	22	20.0
Industry sector	Consumer goods producers	60	54.5
	Industrial goods producers	50	45.5

Acquisition of Marketing Knowledge

Factor Analysis on Marketing Knowledge

A factor analysis with varimax rotation was done to validate whether the respondents perceived the transfer of marketing knowledge construct to be unidimensional or multi-dimensional. The results showed a eight factor solution with eigenvalues greater than 1.0 and the total variance explained was 74.65% of the total variance. KMO measure of sampling adequacy was 0.854 indicating sufficient intercorrelations while the Bartlett's Test of Sphericity was significant ($\chi^2=4197.889$, $p < 0.01$). The criteria used by Igarria et al. (1995) to identify and interpret factors were: each item should load 0.50 or greater on one factor and 0.35 or lower on the other factor. Factor number six was dropped due to high cross loadings and also a mixture of items from 2 factors already extracted. The remaining seven factors were renamed promotion activities, price activities, logistic activities, market strategy, foreign interaction and customer orientation. Table 2 shows that result of the factor analysis.

Table 2: Results of the factor analysis with varimax rotation

	1	2	3	4	5	6	7	8
Promotion Activities								
Selection and scheduling of advertising media	.893	.088	.103	.000	-.054	-.000	.067	.028
Formulation of compensation program	.888	.124	.105	.043	.136	-.021	.013	-.057
Evaluation of advertising effectiveness	.886	.085	.062	.091	-.022	.124	.196	.125
Development of advertising message	.885	.083	.013	.013	-.085	.074	.109	.214
Determination the major types of promotion	.868	.160	.076	.098	.149	-.020	-.013	-.015
Recruitment and training of salespersons	.867	.061	.125	.102	.178	.064	.016	-.172
Setting of promotional objective	.843	.077	.068	.088	.035	.107	.114	.081
Planing and implementation of sales promotion	.766	.039	.179	.093	.110	.080	-.020	-.172
Establishment of distribution center **	.552	.099	.399	.181	.124	.409	.013	-.088
Analysis of possible locations **	.510	.126	.465	.216	-.022	.319	.133	.143
Price activities								
Actual setting price	.001	.840	.214	.159	.067	-.015	.088	.122
Formation of policies and methods for	.089	.821	.154	.176	.207	-.012	.092	.197
Establishment of conditions and terms of sales	.232	.732	.114	.264	.174	.024	-.047	.026
Determination of discount for the buyers	.256	.706	.083	.057	.199	.279	.105	-.125
Analysis of competitor's price	.112	.698	.146	.154	.114	.237	.035	.135
Logistic Activities								
Formulation and implementation proced	.202	.199	.782	.150	.085	.260	-.063	-.010
Analysis of transportation methods	.177	.153	.771	.020	.148	-.010	.324	.064
Minimization of total distribution cost	.197	.209	.763	.201	.130	.078	.184	.052
Implementation of inventory control**	.084	.082	.702	.047	.048	.425	.178	-.061
Evaluation of various types of distribut.. **	.098	.405	.527	.039	.372	.383	.120	-.010
Product Innovation								
Modification of existing products	.157	.202	.822	.822	.057	.193	.118	.172
Development of new product	.233	.193	.138	.800	.168	.053	.193	.125
Elimination of unsatisfied product	.149	.229	.120	.758	.184	.152	.169	.079
Commitment improvement and innovation	.027	.151	.120	.715	.264	.202	.184	.182

Market Strategy								
Formulate marketing planing process	.095	.271	.214	.103	.790	-.010	.200	.087
Build customer focus	.103	.214	.051	.256	.765	.278	.087	.051
Measure and manage customer expec..**	.038	.313	.039	.376	.575	.172	.071	.346
Control and evaluation of marketing ac..**	.264	.049	.157	.178	.560	.403	.170	.275
Positioning of company product **	.057	.233	.317	.408	.500	-.032	.134	.347
DROPPED								
<i>Import and export procedure</i>	-.081	.061	.243	.115	.072	.713	.055	.081
<i>Design and implementation of effec</i>	.192	.058	.224	.206	.204	.682	.013	.088
<i>Preparation of product warranties</i>	.297	.333	.198	.076	.043	.510	.313	.155
<i>Formation of brand names and brand...*</i>	.431	.333	-.043	.198	.189	.465	.381	.044
<i>Planning of product packages *</i>	.322	.415	.082	.306	.130	.453	.218	-.076
Foreign Interaction								
Foreign business culture	.183	.045	.180	.352	.118	-.050	.760	-.003
Negotiation style	.085	.184	.243	.173	.334	.147	.738	.010
Foreign communication skills	.085	.033	.183	.158	.035	.235	.737	.265
Customer orientation								
Manage for profitability	-.168	.152	-.011	.356	.099	.060	.103	.643
Target customer precisely	.002	.286	.125	.325	.347	.059	.065	.604
Reliability	0.96	0.88	0.85	0.90	.080	-	0.82	0.63
Eigenvalue	15.69	5.32	2.74	2.26	1.53	-	1.30	1.08
Percentage Variance Explained	37.36	12.66	6.52	5.38	3.66	-	3.10	2.57

Note: * Low or items loading significantly on another factor

** Cross loading between the factor deleted at cutting point is 0.35

The Extent of Transfer of Marketing Knowledge

Table 3 displays the mean and standard deviation of the extent of transfer of marketing knowledge from foreign partner to Thai local partner among the responding firms. The mean score for transfer of marketing knowledge ranges from 2.39 to 3.90. Knowledge on developing marketing strategy (3.90) received the highest incidence of transfer. This is followed by knowledge in managing price activities (3.73), foreign interaction (3.62), product innovation (3.55), and customer orientation (3.51), logistic activities (3.41), and promotion activities (2.39). Overall the results of the analysis shows that the extent of transfer of marketing knowledge in TJV firms is high. With the exception of promotion activities (2.39), the respondents reflected a high level of transfer of marketing knowledge.

Table 3: Extent of Transfer of Marketing Knowledge

Marketing Knowledge Acquired	Mean	Standard deviation	Rank
Marketing Strategy	3.90	0.81	1
Price Activities	3.73	0.80	2
Foreign Interaction	3.62	0.87	3
Production Innovation	3.55	0.97	4
Customer Orientation	3.51	0.76	5
Logistic Activities	3.41	0.91	6
Promotion Activities	2.39	1.11	7

Scale 1= not at all to 5= large extent

DISCUSSION AND CONCLUSION

Foreign firms entry into Thailand is often motivated by the availability of resources which are obtainable at a lower cost compared to their home country. However as opportunities to exploit the domestic market potentials are abound, the landscape of FDIs has changed somewhat. Market seeking FDIs are encouraged as well. The formation of joint venture firms between the local and foreign partners is encouraged by the policy-makers. It is anticipated that the outcome of this policy is the transfer of knowledge which will be beneficial to both parties.

The extent of transfer of each dimension of marketing knowledge, overall, enjoys a fairly high level of incidence of transfer performance. The activities related to the formulation of marketing strategy has been highly rated. The involvement of the local partners in this area of marketing is a welcome news. Foreign firms are often cited as having superior knowledge in planning and implementing market strategies. The willingness of the foreign partner to pass on the knowledge to the Thais is a positive indication that the skills of Thai employees will be enhanced.

The relatively high transfer of price activities is because pricing activities dominate marketing decisions. Normally local partners are involved in the production process and the foreign partners are involved in the access to distribution networks in foreign market. Thus, the opinion of both local partner and foreign partner are needed to ensure that the pricing decisions are in line with the demand in the market place.

The presence of foreign firms has boosted The Thai exports. Skills in handling export business are crucial for foreign market expansion. It is encouraging to find that the Thai partner ranked the knowledge on foreign interaction variable into a number three position.

The low emphasis of transfer knowledge on promotion activities as compared to the other dimensions of marketing knowledge is understandable. Most of the TJV's firms are involved in the production of semi-finished goods where promotional activities are least important. In the case of TJVs producing final consumer goods, the chances are that the servicing of foreign markets is often undertaken by their foreign partners.

In conclusion what we can say is that the benefits provided by joint venture firms in promoting the advancement of marketing skills among Thai employees has been encouraging.

Limitation and Future Research Recommendation.

This study employed a cross-sectional research design where the data were collected at a single point in time. This approach was adequate to gather a large amount of data within the limited time. Though this could provide several insights through a snap shot of the viewpoint, it did not address the continual process that occurred in the implementation of transfer of marketing knowledge and did not detect casual effects of variables. There could be a lag of knowledge accumulated from a foreign partner as well as the cumulative effects of new knowledge from the foreign partner may decrease over time. A longitudinal study would provide a clearer picture of how firms acquired marketing knowledge and how organizational context influences the transfer knowledge.

The questionnaires were directed to the CEO's as the key informant to view on the IJV activities. In this case self-report data might be included to perceptual or attitudinal biases, or even lack of information, which could reduce the reliability and validity of the data. People from different positions might view things differently. One of the possible solutions for future research is to use a multiple informant technique to gain a more rounded perspective. As the study is about transfer of marketing knowledge from one party to a JV to another, which partner is reporting becomes of crucial interest. It would be best if both partners (or representatives) reported separately and their responses could be compared.

This research was conducted in TJV firms in Southern Region only and they were inclined towards agriculture and agricultural product industries. Hence, the finding of this study might not be generalized to all Thailand Joint Venture programs as a whole. In addition, it might not be clear that the findings contained in these studies necessarily as a generalization to other industries. So further research should include IJ firms from other part of Thailand.

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