



**FACTORS INFLUENCING THE TRANSITIONING OF  
INTERNATIONAL JOINT VENTURES TO WHOLLY  
OWNED SUBSIDIARIES IN MALAYSIA**

**BY**

**Dato' Hj Rais Hussin Hj Mohamed Ariff**

**A thesis submitted in fulfilment of the requirement for the  
degree of Doctor of Business Administration**

**Graduate School of Management  
Centre for Strategic Continuing Education and Training  
International Islamic University Malaysia**

**AUGUST 2016**

## **ABSTRACT**

The main purpose of this study is to examine the factors influencing the transitioning of International Joint Ventures (IJV) to Wholly Owned Subsidiaries (WOS) in Malaysia. Specifically, it tries to identify the factors of differences between IJV partners that contribute to the level of conflict in IJV and conversion of IJVs into WOS. Among the IJV partner differences hypothesized by this study to be linked to the level of conflict are power imbalance, perceived cultural differences, objectives in entering IJV, business relatedness to IJV and different group of contributions. This study also attempts to determine whether the level of conflict in IJV mediates the relationship between these IJV partners' differences and IJV conversion into WOS. The Theory of Planned Behavior (TPB) forms one component of the conceptual framework of this research in a novel way. Namely, the behavioral intention or in the context of this study the intention to convert into WOS was used as a proxy of the actual conversion into WOS backed by the main postulate of the TPB. Among other theoretical underpinnings of the conceptual framework of this study are the Social Exchange Theory (SET) and the theory of Organization Learning (OL). The measurement instrument was adapted from the existing literature. A sample of 336 was obtained from the list of 1,041 IJVs that have registered with the Malaysian Investment Development Authority (MIDA) on the basis of simple random sampling. Analytical procedure was done via the full-fledged SEM modeling. The research finds that the hypothesized structural model that links IJV partners' differences to the conversion of IJV into WOS through the level of conflict as a mediator and also directly fits the data well. Identified mediating role of the level of conflict in the process of IJV conversion into WOS draws important implications for theory and practice.

## خلاصة البحث

الهدف الرئيس من هذه الدراسة هو دراسة العوامل المؤثرة في تحول الشركات المساهمة الدولية لشركات تابعة ومملوكة بالكامل في ماليزيا. وعلى وجه خصوص، فإنه يحاول البحث التعرف على عوامل الخلافات بين شركاء الشركات المساهمة الدولية التي تساهم في مستوى الصراع واختلال ميزان القوة، والاختلافات الثقافية المحسوسة، والهدف من دخول الشركات المساهمة الدولية ومشابهة الأعمال للشركات المساهمة الدولية ومجموعة مختلفة من المساهمات. كما تحاول هذه الدراسة تحديد ما إذا كان مستوى الصراع بين الشركات المساهمة الدولية قابلا لإصلاح اختلال علاقات الشركاء المساهمين الدوليين وبين تحويل الشركات المساهمة الدولية الى شركات تابعة. نظرية السلوك المخطط أحد مكونات الإطار المفاهيمي لهذه الدراسة بشكل رونقي. وعلى سبيل تعداد، وقد استخدم مبدأ القصد السلوكي أو في سياق هذه الدراسة القصد من التحويل إلى شركات تابعة مملوكة بالكامل كوكيل التحويل الفعلي إلى شركة تابعة مملوكة بالكامل بدعم من نفس معتقد رئيس: نظرية السلوك المخطط. ومن بين الأسس النظرية الأخرى من الإطار المفاهيمي لهذه الدراسة هي نظرية التبادل الاجتماعي ومفهوم التعلم المنظم. وكانت أداة الوزن معتمدة من الدراسات السابقة. وتم الحصول على عينة من 336 من قائمة 1041 من الشركات المساهمة الدولية المعترف بها من قبل الهيئة الماليزية لتنمية استثمارات على أساس العينة العشوائية البسيطة. وتمت الإجراءات التحليلية عن طريق النمذجة المعادلة الهيكلية المتكاملة ( full SEM fledge) وخلص البحث إلى أن النموذج الهيكلية المفترض الذي يوصل الشركاء المساهمين الدوليين الى تحويلهم الى شركات تابعة مملوكة بالكامل عن طريق مستوى اختلافات يمثل عامل التسوية بين الأطراف ومناسب جدا كذلك في البيانات. دور تسوية المحدد في مستوى الخلافات في اجراءات تحويل الشركات المساهمة الدولية الى شركات تابعة ينتج آثار ذا أهمية النظرية والتطبيق.

## **APPROVAL PAGE**

The thesis of Dato' Hj Rais Hussin Hj Mohamed Ariff has been approved by the  
following:

---

Professor Dr Mohamad Sahari Nordin  
Supervisor

---

Professor Emeritus Dr Mohamed Sulaiman  
Supervisor

---

Professor Dr. AAhad M. Osman Gani  
Internal Examiner

---

Professor Dr. Abdi Omar Shuriye  
Chairman

## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Dato' Hj Rais Hussin Hj Mohamed Ariff

Signature .....

Date .....

**INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA**

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF  
FAIR USE OF UNPUBLISHED RESEARCH**

**FACTORS INFLUENCING THE TRANSITIONING OF  
INTERNATIONAL JOINT VENTURES TO WHOLLY OWNED  
SUBSIDIARIES IN MALAYSIA**

I declare that the copyright holders of this dissertation are jointly owned by the student and IIUM.

Copyright © 2016 Dato' Hj Rais Hussin Hj Mohamed Ariff and International Islamic University Malaysia. All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Dato' Hj Rais Hussin Hj Mohamed Ariff

.....  
Signature

.....  
Date

## ACKNOWLEDGEMENTS

First of all, all gratitude are due, as ever, to my father, Almarhum Hj Mohamed Ariff, and my mother, Hjh. Ummul Bahira, for all the sacrifices they made for my benefit and for giving me the sense of draconian discipline throughout my life. To my mother in law, Olga Peredaryenko, I must register my gratitude for her continuous prayers and gift of her daughter to me.

Although this thesis lists only one name as the writer, in reality the ideas it molds together were contributed and refined by many extraordinarily insightful and selfless scholars and teachers over space and time. The work begin when Professor Dr. Mohd Ismail Sayyed Ahmad took the risks of admitting my way into Graduate School of Management doctoral program in 2009.

My supreme thanks goes to my two eminent supervisors, **Professor Emeritus Dr. Mohamed Sulaiman** and **Professor Dr. Mohamad Sahari Nordin**, who helped throughout my doctoral research to keep my thinking sharp and my standards for evidence high, and to embed what I was learning within the streams of strong scholarship that had preceded what I was attempting to research. None of these professors needed to spend so much of their time guiding me as they did, and I will be forever grateful for what they taught me about the substance and process of research. A special mention is a must for **Professor Dr. AAhad Osman-Gani** whose leadership of GSM enabled many new highs, during his tenure as the Director.

I am similarly indebted to the many professors at IIUM Graduate School of Management that includes: Professor Dr. Nasim Shah Shirazi, Dr. Murali Raman, Dr. Saravanan Muthaiyah, Prof. Dr. Muhammad Arif Zakaullah, Prof. Dr. Lateef Krauss Abdullah, Prof. Dr. Rafikul Islam, Prof. Dr. Rozainun Haji Abdul Aziz, Prof. Dr. Ahamed Kameel, Prof Dato' Dr. Mohd Azmi Omar, Prof Dr Mansor Ibrahim, Dr. Nurmazilah Mahzan, Prof. Dr. Moussa Larbani, Prof Dr. Abdul Manap Said, Associate Prof Dr. Ismail Sheikh Ahmad and Assoc. Prof Dr. Tunku Badariah Tunku Ahmad. Without them I would have been nothing and my voyage of knowledge would not have started in firm footing.

I must register my heartfelt appreciation to **Datuk Azman Mahmud**, CEO of Malaysian Industrial Development Authority (MIDA) and his staffs for their kind facilitation to allow access to MIDA's database and further assistance in the process of securing the samples. It must be written that without their assistance, the data collection would have been simply insurmountable.

Role models are hard to come by but certainly I benefitted much from the tutelage of **Tan Sri Prof. Dr. Muhammad Kamal Hassan** who is my resident moral compass, navigating me through this voyage of life, knowledge and wisdom.

To my 'all-weather' friends: **Dato' Seri Dr Zambry Abdul Kadir**, Dato' Zahir Khalid, Dato' Samsudin Hashim, Jamari Mohtar, Rizal Fauzi Ahmad Ismail and Syed Yazrin Syed Taha who were there for me, with their support and encouragement to cross the finishing line.

My deepest gratitude is to my family – my wife Margarita Peredaryenko and our children Muhammad Kamal Hassan and Umme Safiyyah Bahira. With unhesitating faith and support they encouraged me to pursue my lifelong dream to complete a doctoral program, amidst all the demands of business and family life. Margarita, in particular, is the smartest person I have known, who gave me a new life as if, it is a rebirth that rejuvenated my will to live. She is truly a gift to mankind, and I consider the luckiest man on earth to be able to share this life with her. She completes me. I dedicate this work to her and our children.

# TABLE OF CONTENTS

Abstract .....	ii
Abstract in Arabic .....	iv
Approval Page.....	iv
Declaration .....	v
Copyright Page.....	vi
Acknowledgements .....	vii
List of Tables .....	xii
List of Figures .....	xiii
List of Abbreviations .....	xiv
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Introduction.....	1
1.2 Statement of the Problem.....	2
1.3 Research Gap .....	3
1.4 Research Objectives.....	5
1.5 Research Questions.....	6
1.6 Significance of the Study.....	7
1.7 Delimitation of the Study.....	8
1.8 A Brief Profile of Malaysia’s FDI.....	8
1.9 research Framework and Theoretical Foundation .....	11
1.10 Definition of Variables .....	18
1.11 Organisation of Chapters .....	19
1.12 Summary.....	20
<b>CHAPTER TWO: LITERATURE REVIEW .....</b>	<b>21</b>
2.1 Introduction.....	21
2.2 The East European .....	22
2.3 The Focus on Failure .....	25
2.4 Evolution and Internalization of IJV .....	26
2.5 Intended Versus Unintended Exit.....	28
2.6 Malaysian IJVs .....	29
2.7 Level of Conflict and Conversion to WOS.....	32
2.8 Differences between IJV Partners and the Level of Conflict .....	33
2.8.1 Power Imbalance and Level of Conflict .....	34
2.8.2 Perceived Cultural Differences and Level of Conflict.....	34
2.8.3 Objectives in Entering IJV and Level of Conflict.....	37
2.8.4 Business Relatedness and Level of Conflict .....	39
2.8.5 Different Group of Contribution and Level of Conflict.....	41
2.9 Differences between IJV Partners and WOS.....	42
2.9.1 Power Imbalance and WOS .....	42
2.9.2 Perceived Cultural Differences and WOS .....	43
2.9.3 Objectives in Entering IJV and WOS .....	44
2.9.4 Business Relatedness and WOS.....	44
2.9.5 Different Group of Contribution and WOS .....	45
2.10 Level of Conflict as Mediating Variable .....	45



2.11 Summary of the Hypotheses .....	47
<b>CHAPTER THREE: METHODS .....</b>	<b>49</b>
3.1 Introduction.....	49
3.2 Research Design .....	50
3.2.1 Hypothetico-Deductive Model.....	50
3.2.2 Quantitative Survey.....	52
3.3 The Variables.....	55
3.3.1 Independent Variables.....	55
3.3.1.1 Power Imbalance .....	55
3.3.1.2 Learning from the Foreign Partner .....	56
3.3.1.3 Conflict .....	56
3.3.1.4 Other Independent Variables .....	57
3.3.2 Dependent Variables .....	57
3.3.3 Reliability of Theoretical Constructs .....	60
3.4 Research Instrument: IJV Questionnaire .....	61
3.5 Population and Sample .....	64
3.6 Research Procedures .....	66
3.6.1 Pilot Test .....	67
3.6.2 Survey Administration and Data Collection .....	68
3.6.3 Analytical Procedures .....	69
3.6.3.1 Data Preparation Prior to Analysis .....	69
3.6.3.2 Preliminary Data Analysis.....	74
3.6.3.3 Structural Equation Modeling .....	76
3.7 Research Ethics.....	83
3.8 Summary.....	84
<b>CHAPTER FOUR: DATA ANALYSIS AND FINDINGS.....</b>	<b>86</b>
4.1 Introduction.....	86
4.2 Data Preparation .....	86
4.2.1 Missing Data .....	86
4.2.2 Outliers.....	87
4.3 Statistical Assumptions.....	88
4.3.1 Variability .....	88
4.3.2 Linearity .....	88
4.3.3 Multicollinearity.....	89
4.3.4 Homoscedasticity .....	90
4.3.5 Normality .....	91
4.4 Descriptive Statistics on Demographics .....	92
4.5 Construct Reliability.....	97
4.6 Assessment of the Structural Path Model.....	98
4.6.1 Model Identification.....	98
4.6.2 Goodness of Fit .....	99
4.6.3 Hypotheses Testing and Findings .....	103
4.6.3.1 Conflict and Intention to Convert to WOS.....	104
4.6.3.1 Differences between IJV Partners and Conflict .....	104
4.6.3.2 Differences between IJV Partners and Intention to Convert to WOS .....	104
4.6.3.3 Mediation by the Level of Conflict .....	105

4.7 Summary.....	107
<b>CHAPTER FIVE: DISCUSSION, RECOMMENDATIONS AND CONCLUSIONS .....</b>	<b>108</b>
5.1 Introduction.....	108
5.2 Summary of the Findings .....	109
5.3 Discussion of the Findings .....	112
5.3.1 Conflict and Intention to Convert to WOS .....	112
5.3.2 Differences between IJV Partners and the Level of Conflict.....	112
5.3.3 Differences between IJV Partners and Intention to Convert to WOS .....	115
5.3.4 Mediation by the Level of Conflict.....	119
5.3.4.1 Intended versus Unintended Exit Revisited.....	120
5.4 Implications and Recommendations.....	123
5.4.1 Theoretical Implications .....	123
5.4.2 Practical Implications.....	126
5.4.3 Limitations .....	127
5.4.4 Directions for Future Research .....	129
5.5 Conclusion .....	130
<b>REFERENCES.....</b>	<b>133</b>
<b>APPENDICES .....</b>	<b>151</b>
Appendix 1.1 Two conflicting sides of Foreign Direct Investments (FDI).....	151
Appendix 1.2 Theoretical Foundation of IJV Exit Papers.....	154
Appendix 2.1 Summary of the Previous Research on IJVs' Control and Performance.....	156
Appendix 2.2 Chronological Overview of IJV Termination and Longevity Research .....	158
Appendix 2.3 An Overview of the Underlying Data Used in the Studies of IJV Exits: Termination, Longevity and Both.....	159
Appendix 3.1 Factor Analysis of Core Constructs by Steensma ET AL., 2008 .....	161
Appendix 3.2 HIJV Survey.....	162
Appendix 3.3 IJV Questionnaire .....	181
Appendix 3.4 Questionnaire Cover Letter.....	188
Appendix 4.1 Number of Missing Values Per Case .....	189
Appendix 4.2 Number of Missing Value per Variable.....	190
Appendix 4.3 Descriptive statistics for standardized Z-Scores .....	192
Appendix 4.4 Extreme values for Mahalanobis distances.....	193
Appendix 4.4 Descriptive statistics .....	194
Appendix 4.5 Visual summaries.....	195
Appendix 4.6 Bivariate scatterplots.....	197
Appendix 4.7 Pearson Product-Moment correlations.....	198
Appendix 4.8 Spearman's correlations.....	199
Appendix 4.9 Squared multiple correlations .....	200
Appendix 4.10 Homoscedasticity tests for metric variables .....	201
Appendix 4.11 Levene test statistics for non-metric variables.....	202

Appendix 4.12 Univariate Skewness and kurtosis .....	203
Appendix 4.13 Normal probability plots .....	204
Appendix 4.14 Histogram distributions.....	206
Appendix 4.15 Skewness and kurtosis statistics for residuals.....	207
Appendix 4.16 WOS Construct Reliability .....	208
Appendix 4.17 Model Diagnostic Statistics .....	209

## LIST OF TABLES

<u>Table No.</u>	<u>Page No.</u>
Table 3.1 Formulas for the Summative Scores	73
Table 3.2 Approximate GOF Indices and Recommended Threshold Values	81
Table 4.1 Respondents' Profile	93
Table 4.2 IJVs' Profile	95
Table 4.3 Cross-table for the IJVs' Type of Company and Type of Industry	97
Table 4.4 Standardized Factor Loadings	101
Table 4.5 Research Questions with the Corresponding Hypotheses	102
Table 4.6 SEM Results for the Structural Paths	103
Table 4.7 Bootstrap Results: Standardized Indirect Effects	105
Table 4.8 Indirect Paths' Effect Size	106
Table 4.9 Direct, Indirect and Total Effects of Exogenous Variables on WOS	107
Table 5.1 Summary of the Findings	111

## LIST OF FIGURES

<u>Figure No.</u>	<u>Page No.</u>
Figure 1.1 Conceptual Research Framework	12
Figure 1.2 Tuckman on Group Dynamics	16
Figure 1.3 Complete Version of Tuckman's Hypothesis	17
Figure 2.1 A Flow Chart of the Areas of Focus of Past IJV Studies	26
Figure 2.2 Research Framework and Hypotheses	48
Figure 3.1 Hypothetico-Deductive Method	54
Figure 4.1 Proposed model specification	98
Figure 4.2 Hypothesized structural model	100

## LIST OF ABBREVIATIONS

ECER	Eastern Corridor Economic Region
ETP	Economic Transformation Plan
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
IJV	International Joint Venture
IRDA	Iskandar Regional Development Authority
MIDA	Malaysian Industrial Development Authority
MITI	Ministry of International Trade and Industry
MNC	Multi-National Corporation
NCER	Northern Corridor Economic Region
OECD	Organization for Economic Cooperation and Development
OL	Organizational Learning
SCORE	Sarawak Corridor of Renewable Energy
SDC	Sabah Development Corridor
SET	Social Exchange Theory
TC	Theory of Contingency
TPB	Theory of Planned Behavior
TRA	Theory of Reasoned Action
WOS	Wholly Owned Subsidiary
UNCTAD	United Nations Conference for Trade and Development

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

The way forward for companies to evolve into world-class status is to create new products and services or increase their existing market share or by entering new and foreign markets or by doing all. This has been the case in the past and more so, in the present context of a highly globalized and interconnected world.

Entering new and foreign markets has taken greater importance with the phenomenal rise in mass manufacturing and the need for large-scale exports of the newly created products and services. This would require companies to seek the placement of their research and development efforts or other sophisticated and complex facilities or processes in countries that are well known to have a comparative advantage in this high-end area, and channel their lower value-added activities to foreign contract manufacturers, giving rise to a phenomenon known as fragmented production chain which now happens with regular speed especially in the electronics industry. Hence, the preponderance of electronic firms in cross-border joint ventures. (Organization for Economic Co-operation and Development, 2012).

There are two major routes to increase global market share – companies can either become multi-national corporations (MNCs) with “tentacles” reaching all part of the world or they enter into joint venture agreements with foreign partners. Together with foreign direct investment (FDI), these international joint ventures (IJVs) form the bulk of foreign entry in a modern economy. Many MNCs now prefer IJVs as a strategic option to diversify risks, gain new markets, acquire new technology and achieve competitive advantages.

Be that as it may, IJVs are not the only platform used for accessing the resources of other companies. Other platforms used include licensing, branding, contracting, and other non-equity strategic partnership. According to Brouthers (2002), IJVs were the preferred choice because they have the tendency of outperforming wholly owned subsidiaries (WOSs), especially in overseas economies where uncertainty and instability are the norm. This is due to the many advantages that a domestic partner could bring to the partnership (Brouthers, 2002).

## **1.2 STATEMENT OF THE PROBLEM**

IJV requires a lot of commitment. It also brings post governance problems. A survey on 37 IJVs found that 36% of JVs performed unsatisfactorily (Killing, 1983). Hence, the salient feature of the majority of extensive research work done on IJVs is its primary focus on IJV failures (Steensma, Barden<sup>1</sup>, Dhanaraj, Lyles & Tihanyi, 2008; Nemeth & Nippa, 2013; Nippa & Beechler, 2013). But IJVs, in reality, have the same chance of failure as wholly owned subsidiaries (WOS) since both face the same usual risk of doing business and the disadvantage of being new when they begin their operations. In fact, most dissolutions of IJVs occur not through closing shop for good but through one partner selling their stakes in the venture to the only other partner (Hennart, Kim & Zeng, 1998). In other words, the joint venture becomes a WOS of one of its parent firms by “internalizing” the joint venture. In this sense the IJV does not necessary fail. Rather it transforms itself into another form, which denotes a change of ownership.

Hence, the problem is that there are not many studies on IJVs that see this transformation as a non-failure. The stance of seeing it as a non-failure vis-à-vis failure will provide useful insights for practitioners and policymakers in determining whether the transition and eventual transformation of IJVs to WOS is something desirable and



provides a basis for an evaluation of whether the transformation to WOS or retaining its current form is called for. Policies that will assist directly or indirectly in this evaluation is thus a step in the right direction and these are what the current study hopes to contribute.

### **1.3 RESEARCH GAP**

When relatively mature IJVs later evolve to WOSs, the pertinent question to be asked is what factors contribute to their transformation to a WOS, not so much on why the IJVs concerned had failed. This is an important, relevant and interesting question, particularly in the context of the present global business climate, because many MNCs which formed pioneering IJVs in transitional economies are restructuring them to indicate the strategicness of their move (Luo, 2007).

Unfortunately, there is a dearth of profound researches (Inkpen & Currall, 2004), in this area, particularly with regard to the evolution of the IJVs to WOS and which parents – domestic or foreign – will internalize the transitioning IJVs. Data on this area are quite scarce. Some researchers approach the issue in the context of possible differences between the IJV partners (Steensma et al, 2008, Nguyen 2009b). However, the existence of differences alone does not necessarily lead to the conversion of IJV to WOS. The process of conversion from IJV to WOS may not be that simple.

But a beginning in this area was made with a research on the evolution and internalization of IJVs with regards to Hungary, a transitioning economy (Steensma et al, 2008). It investigated the crucial circumstances that drove IJVs to be internalized by one of the parents. Specifically, the study went deeper and explored further on the crucial question of which of the two parent companies internalizes the JV in an event of its conversion into WOS. The foreign parent can purchase the share of the domestic

parent firm to operate in the host country as a foreign-based WOS, or the domestic partner can achieve the same by buying out the stake of the foreign partner and becomes a sole, full owner of the IJV.

Foreign companies set up IJVs in Malaysia because of political stability, economic growth, relatively lower cost of labor and resources and the encouragement and incentives provided by the government (Sulaiman, Kechik & Wafa, 1999). That is the bedrock of the start of many IJVs in Malaysia through government-induced incentives in encouraging foreign direct investments (FDIs).

In emerging economies that rely on FDIs such as Malaysia, it is imperative to understand the factors that goad IJVs to dissolve or be incorporated by one of its parent companies. Who control the IJV has political, economic and social ramification, as it provides insight into the adaptive measures the IJV managers might take to improve on their IJV as it evolves (Yan & Zeng, 1999). Moreover, adopting the adaptive measures at the wrong time or conditions can have an adverse effect on the overall worth of the parent partner (Kogut, 1991; Reuer & Miller, 1997).

Most studies on IJVs used the social exchange theory (SET) to get a better understanding and perspective of relational dynamics in analyzing IJV behaviors whether in terms of control, conflict or power imbalance. The present study is no exception but in one important aspect, it tries to fill the research gap by using the theory of planned behavior (TPB) to analyze and understand the issues surrounding the transition and evolution of IJVs to WOS in terms of behavioral intentions. The TPB specifies that the three immediate antecedents and strong influencers of any behavioral intention, which are personal attitudes, social norms towards the behavior and perceived behavioral control that one holds.

#### **1.4 RESEARCH OBJECTIVES**

This research intends to extend the application of SET and TPB to IJV research. By doing so, it is hoped that combined insights of these two theories will enhance the understanding of the factors that cause IJVs to transit and later evolve to WOS. This research is also an attempt to extend the beginning made by Steensma, et al. (2008) in exploring the evolution and internalization of IJVs to WOS in Hungary to the Malaysian context. This is a maiden attempt to analyze the phenomenon of IJVs in Malaysia transiting and eventually transforming themselves to WOS. The aim is to re-emphasize the depth and significance of the topic to the field and to attract the attention it deserves in the business and academic circles. It summarizes the factors, which are believed to facilitate and engender the conversion from IJVs to WOS in Malaysia. Specifically, the current study tries to identify the factors that contribute to the conflict and conversion of IJVs to WOS. Two other distinct objectives of the research are to identify the relationship between factors and the extent of conflict in playing a role in the conversion of IJVs to WOS, and to determine the role of conflict in the relationship between the factors and conversion to WOS. The study attempts to delve into this in greater detail in a refined way. The study will also test the relevant hypothesis regarding the difference that could engender the transitioning from IJV to WOS in Malaysia. The factors that have some implications on the prospects and challenges of shared ownership that are within the control of IJV managers will be the focus of this research.

Hence, the major objectives of this research are:

- 1- To identify the factors that contribute to conflict and conversion of IJVs to WOS in Malaysia;
- 2- To determine the relationship between these factors and the extent of conflict in playing a role in the conversion of IJVs to WOS in Malaysia;

- 3- To ascertain the mediating role of the level of conflict in IJV in the relationship between the factors and conversion of IJV into WOS in Malaysia;

## **1.5 RESEARCH QUESTIONS**

Given the research objectives in 1.4, the followings are the research questions:

1. Does conflict influence the transitioning and eventual evolution of an IJV to a WOS?
2. In Malaysia, what are the other factors that lead to conflict?
3. What are the relationships between these factors and intention to convert to a WOS?
4. Does conflict play a mediating role between these factors and the intention to convert to WOS?

The question of which parent takes control of an IJV after its conversion to WOS is an important one because as mentioned in section 1.3, the degree of control by the foreign and domestic parents has important ramifications for the economy of Malaysia. The pioneering Hungarian study by Steensma et al (2008) had identified two factors – power imbalance and the transfer of knowledge to IJV by its foreign parent – working with conflict in a mediating role to result in a conversion of IJV to WOS. But the study did not make an attempt to ascertain which factor is the more critical in contributing to the change of status to WOS. The present study will attempt to do this in the Malaysian context.

Since the focus of past studies has relied mainly on power imbalance, conflict and knowledge from the parent company to the IJV in explaining the unstable nature of IJVs, a complete appreciation of IJV evolution to WOS requires observing the

interactions among these three variables. These previous studies postulated that level of conflict, power imbalance and learning in IJV to interact in such a way as to create unstable conditions that ultimately leads to its internalization by one of its parents (Steensma et al., 2008).

## **1.6 SIGNIFICANCE OF THE STUDY**

The value of this study should not be underestimated, as it is very relevant to the current economic reality in Malaysia. Malaysia has big development plans. It is one of the few countries in the world that has made the business of attracting FDI to both a fine art and science. The lynchpin of this effort to attract FDI is a transformational new economic model with its Economic Transformation Program (ETP) at its core that is envisioned to make Malaysia a developed and high-income nation. Under the ETP conceived in 2006, five specially created economic corridors were established, and these economic corridors are actively seeking the entry of FDIs into Malaysia.

The findings of this study will go a long way in putting a proper perspective on the efforts to attract FDIs in terms of whether that FDIs initially begins life as an IJV or WOS and later evolves to WOS or IJV respectively. Whichever way it turns out, Malaysia will gain benefits in terms of higher employment and transfer of knowledge. Apart from this, the study in itself tries to value-add previous researches by expanding and improving them. Moreover, the application of knowledge in the areas of TPB, SET and Organizational Learning (OL) will provide valuable insights to practitioners of IJV and policymakers, not to mention a form of inducement for further research.

## **1.7 DELIMITATION OF THE STUDY**

The use of cross-sectional design in this study as opposed to a longitudinal one may be a limiting factor of this study. This is due to the fact that the time period granted for the completion of the research does not permit the use of longitudinal data, which covers three to five years, as in the case of the Hungarian study. But this limitation will be greatly remedied when the question on intention to form WOS will be included in the survey questionnaire.

Intention to form WOS will be used as a proxy to measure the transition and evolution of IJVs to WOS. Also, the literature on IJV exit (e.g. Nemeth & Nippa, 2013) has pointed out to the need to make a distinction between an intended vis-à-vis unintended exits. This will be elaborated in greater detail in Chapter Two in the context of discussion on whether an IJV exit must necessarily denote a failure on the part of the IJV.

Although the ideal population is all the IJVs incorporated in Malaysia, given the scope and time limitation of this study, the population under study for this research will be all the IJVs registered with Malaysian Industrial Development Authority (MIDA). From the list of MIDA, a simple random sampling procedure has been used to select the IJVs. All endeavors were made to increase the response rate. The unit of analysis of this study is IJV, which is consistent with the literature findings on the determinant of the conversion (intention as the proxy) from IJV to WOS.

## **1.8 A BRIEF PROFILE OF MALAYSIA'S FDI**

FDI is one way of investments from overseas entering a country. The other way is via foreign portfolio investment (FPI). Collectively they are known as private investments or private capital flows. When foreign investors spend their monies directly in the

productive assets of a country, it creates FDI. But when investors spend their monies by buying financial assets such as stocks and bonds of entities in other jurisdiction, this is called FPI. An important thing to note is that FDI is not synonymous to an IJV because it can also take the form of WOS of the foreign firms.

FDI plays an important role in raising the income of a nation in a sustainable manner. Its benefits include accessibility to new markets, and the transfer of new technology and management skills. Unlike external borrowing in which repayments must be made regardless of profit or loss, outflows in FDI are settled out of profits. This is why since the 1970s, all governments have accorded high priority in attracting FDI, which was the reason for the dazzling economic growth rates of East and Southeast Asia (e.g. Japan, South Korea, China, Taiwan, Singapore, Hong Kong, Malaysia, Thailand, Indonesia and Vietnam) then. These inflows of FDI have resulted in high employment opportunities, contributed to raising incomes, upgraded technology, improved marketing and branding, and the adoption of a more sophisticated management.

The 2013 figures released by Malaysia's Ministry of International Trade and Industry (MITI) and Malaysian Investment Development Authority (MIDA) showed the country achieving its highest-ever FDI in 2013 at RM38.8 billion – a 24% increase over 2012. This is higher than the previous record – a 3.9% increase of RM37.3 billion in 2011. This is no mean feat when compared to the FDIs of developing nations and Southeast Asia attained during the same period – 6.2% and 2.4% respectively, as reported by the United Nations Conference for Trade and Development. Globally, the increase was 11% (UNCTAD, 2013).

The figure for private investments is a total record of RM161.1 billion – a 14.9% increase from the RM140.2 billion recorded in 2012, and surpassing the annual average target of RM148 billion under the 10th Malaysia Plan. In 2013, UNCTAD rated

Malaysia as the 16th best investment destination, the same level as France and Canada. This was an improvement on its 19th position in 2012. The UN agency also ranked Malaysia 11th out of the top 20 economies with the highest FDI rates of return – 17% in 2011. (UNCTAD, 2013)

At the institutional level, FDI has also its peculiar effect on bilateral relations between a country and its neighbors or trading partners. Appendix 1.1 highlights two cases of how an asymmetry in trading positions between Malaysia and China leads to a race for attracting the outbound Chinese investment. The two conflicting sides of FDI involving Malaysia-China and Malaysia-Singapore are attached as Appendix 1.1. And all these would definitely have an impact on IJVs in Malaysia transitioning and evolving to WOSs.

The need to attract FDI is not limited to only developing or transitional economies. In today's interconnected and interdependent world economic order, the need for FDI to boost the economic growth of a country is a universal reality such that among the job descriptions of a modern Head of State or Government is to be a savvy master salesman with good sales pitches that will attract foreign investors to pour their money in his or her country. Even an economic superpower like the USA needs FDI to boost its sagging economy; hence the jet setting travel of President Barack Obama to India and the capitals of the Association of Southeast Asian Nation (ASEAN) member countries in the last few years.

Hence, an understanding of the dynamics of IJVs and their conversion to WOS is crucial to the success of the efforts to attract FDI in Malaysia in general and its ETP program, in particular. The findings of this study will help in understanding the enabling structures and useful framework for IJVs conversion to WOS in Malaysia. The research will also contribute to the body of empirical evidence for application of this study in