

The Application of Relational Marketing Orientation (RMO) to Explain IJV Performance in Thailand

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Abstract- International joint venture (IJV) is being a fashionable mode used by multinational enterprise (MNEs). In spite of successful strategic foreign entry mode, IJV keeps on high failure rate and the number of dissolution continues to increase up to twenty five percent in Thailand (Board of Thailand Investment, 2009). Inefficiency management of inter-partner relation among IJV parties is the prominent cause for the IJV failure. The foremost aim of this study is to empirically examine the direct and indirect effects of relationship marketing orientation (RMO) with IJV performance. Structure equation model (SEM) was applied to investigate these linkage relationships. The finding demonstrates that RMO has strongly positive direct effect on IJV performance. Additionally, RMO fully mediates the linkage between market orientation (MO) and IJV performance. Thus, RMO, as seen by long-term relationships (relational exchange), has been a vital factor contributing to the success of IJV in Thailand.

Keywords- Market Orientation (MO), Relationship Marketing Orientation (RMO), IJV Performance

I. INTRODUCTION

International joint venture (IJV) performance is defined as the situation when all partners of the IJVs enjoy synergy and strive for the IJV ultimate goal (Thuy & Quang, 2005). In spite of being a popular strategic foreign entry mode, IJV is also known for its high failure rate of thirty percent or above (Makino & Beamish, 1998), the same rate as in Thailand. This causes Thailand to face the similar fate (Julian & Cass, 2008; 2005; 2004, 2002). Evidently, up to twenty five percent of IJV failure rate was reported in Thailand (BOI, 2009). IJV continues to experience high dissolution and a number of unsatisfied cases has been raised for several reasons, including inefficiency of the relational management among IJV parties (Thuy & Quang, 2005). Thus, understanding the relational concept and IJV relationships management both in practical and theoretical terms are required (Wilson & Brennan, 2009). Hereby, the key purpose of this study is to investigate the relational factors that contribute to IJV performance by using relational exchange theory (Wilson & Brennan, 2009; Kwon, 2008; Thuy & Quang, 2005; Julian & O’Cass, 2004; Robson, Leonidou & Katsikeas, 2002; Lee & Beamish, 1995; Pearch, 2001).

II. 2. LITERATURE REVIEW

The importance of relationship management in IJV partnerships cannot be denied as evident by Vantage partners LLC of Cambridge (the United State) who stated, “Partnerships aren’t failing because of legal or financial issues, but because of the relationship between the companies” (Krasner, 2001). Inter-partner relations could be one of the major problems that causes IJV high failure rate due to the poor IJV performance (Robson et al., 2002). According to Doz (1996), relational factors and the partner’s behaviors are critical to the success of strategic alliances. In order to achieve successful partnership formation, understanding the nature of key relational factors (i.e. trust, commitment) is required by IJV managers (Samiee & Walters, 2003). However, the antecedent of IJV performance from relational perspective is limited and fragmented (Robson et al., 2002; Thuy & Quang, 2005). Thus, the predominant underpinning theory that could explain how these issues affect the IJV performance is the relational exchange theory (Macneil, 1987; 1980; Macualay, 1963). The interest of various researchers in relational exchange in IJV long-term relationships has been increased as summarized in the table below;

TABLE I. LITERATURE REVIEW OF RELATIONAL VARIABLES

Relational Variables	Author
Trust, commitment, cooperation, satisfaction	Wilson & Brennan, (2009)
Culture similarity, conflict management	Thuy & Quang, (2005)
Market Orientation	Julian & O’Cass, (2004)
Trust, conflict, satisfaction, cooperation	Robson, Leonidou & Katsikeas, (2002)
Inter-partner cooperation	Pearch, (2001)
Commitment	Lee & Beamish, (1995)

Simply, relational exchange is the core part of relationships marketing (RM); briefly defined as all marketing activities implemented for establishing, developing, and sustaining successful relational exchanges (Morgan & Hunt, 1994). RM not only identifies relational activities with ultimate customers but also other partners of the firm (Morgan & Hunt, 1994). Furthermore, the definition of RM is very much related to RMO (Yau, McFetridge, Chow, Lee, Sin & Tse, 2000). Several definitions of RM given by Gronroos, (1990), Sheth, (1994), Morgan & Hunt, (1994) tend to emphasize on enhancing relationship between partners. In this study, RMO is identified into a series of stakeholders of the two parties in terms of relational contracting, working partnerships, symbiotic marketing, strategic alliance, and internal marketing as suggested by this quotation; “RM is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met” (Gronroos, 1990). In IJV sector, the linkage between RMO and IJV performance is still lacking and has not been done before. This study measures RMO under the composite dimension defined by Yau et al, (2000) known as ‘bonding’, ‘empathy’, ‘reciprocity’ and ‘trust’ which was originally proposed by Callaghan et al, (1995).

A. Relationship Marketing Orientation (RMO) and IJV Performance

RMO is defined as the maintenance of relationship among parties of exchange, through the possession of the desire to be mutually empathic, reciprocal, trusting and to form bonds (Callaghan et al, 1995). From the limited studies reviewed, the finding on the direct relationship between RMO and business performance has consistently shown positive and significant linkage (Sin et al., 2005; Yau et al., 2000). Thus, the first hypothesis can be stated as:

H1: RMO is positively related to IJV performance

B. Market Orientation (MO) and IJV Performance

MO is defined into three behavioral components: customer orientation, competitor orientation, inter-functional coordination and two decision criteria: long-term focus and profitability (Narver & Slater, 1990). Previous research has found positive and significant

impact of MO and IJV performance (O’Cass & Ngo, 2007; Farrell et al., 2008; Li et al., 2006; Farrell & Oczkowski, 2002; Julian & O’Cass, 2002, 2004; Sin et al., 2005). It would be interesting to examine the positive relationship between this linkage MO→IJV performance. Hence, the hypothesis can be stated as follows:

H2: MO is related positively to IJV performance.

C. Market Orientation (MO) and Relationship Marketing Orientation (RMO)

RMO has been examined mostly in non-IJV settings, but none has established a direct MO-RMO linkage (Yau et al., 2000). Furthermore, past studies have examined the effects of MO on trust and commitment separately, rather than a holistic view of RMO. For instance, MO has been hypothesized to affect commitment but the linkage was not supported (Castro, Armario & Rio, 2005). For this reason, the necessity to establish this linkage empirically in the present study is justified. Thus, the following hypothesis is formulated:

H3: MO is related positively to RMO

D. RMO as a Mediator (MO, RMO and IJV Performance)

Racela, Chaikittisilpa, & Thoumrungroje (2007) investigated cooperation, dependence and relationship distance as the mediators between MO and performance of exporters in Thailand. However, only direct relationships were established and the mediating effects were not tested. Relatively, Wilson and Brennan (2009) confirmed through the qualitative analysis method the significance of commitment, trust and cooperation for IJV performance. Through this suggestion, we hypothesize the following:

H4: RMO mediates the relationship between MO and IJV performance.

III. METHODOLOGY

The study consisted of 835 IJV companies selected by using the systematic random sampling and the population list of 2,443 IJV companies obtained from two directories (Thailand manufacturing Directory, 2007 & Foreign Company Directory, 2008). The returns of 366 were obtained representing 43% response rate. After data screening, 341 cases were input into SPSS for further analysis.

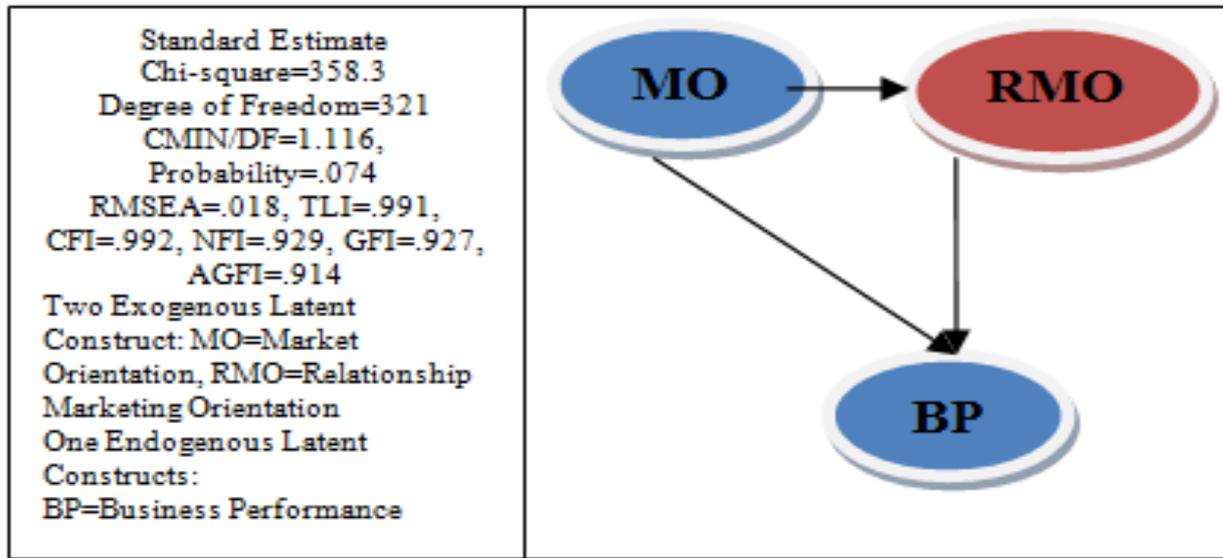


Figure 1. Competing Model of Relationship Marketing Theory

IV. RESULT & DISCUSSION

The demographic profile of the IJV industries, mainly 33 percent, comes from manufacturing. Nearly half of the total respondents came from Japanese companies. The equity ownership was ranged between 26-50 percent, the majority amount owned by 38.4 percent. The overall indicator shows the competing model of the relationship marketing theory (figure 1) in order to achieve goodness of fit (GOF) indices (refers to Table 1).

TABLE I. COMPETING MODEL OF RELATIONSHIP MARKETING THEORY (GOODNESS OF FIT INDICES)

Measures	Fit Indices	Threshold Values
Absolute Fit Level		
RMSEA	0.018	Less than 0.08
GFI	0.927	0.90 and Above
P-Value	0.074	P-Value \geq 0.05
Incremental Fit Level		
AGFI	0.914	0.90 and Above
CFI	0.992	0.90 and Above
TLI	0.991	0.90 and Above
NFI	0.929	0.90 and Above
Parsimonious Fit Level		
CMIN/df	1.116	Less than 2.0
SMC(R ²)	0.65	Bigger better

Hair et al., (2006)

The results of this study demonstrated the positively significant relationship between market orientation (MO) ($\beta=0.227$, $p=0.000$), relationship marketing orientation (RMO) ($\beta=0.772$, $p=0.000$) and IJV performance. Thus, H1 and H2 were asserted. The linkages between MO and RMO were significantly and positively related ($\beta=0.452$, $p=0.000$); thus, H3 was asserted. The mediating effect of RMO on the relationship between market orientation and IJV performance was supported ($\beta=0.390$, $p=0.000$) through H4 in the competing model of the relationship marketing theory. These findings have been supported by the relationship marketing theory and previous studies such as the linkage between MO and IJV (Farrell et al, 2008: 2002; Julian & O’Cass, 2004: 2002). However, RMO has been examined mainly in non-IJV settings, but none has established a direct MO-RMO linkage (Yau et al., 2000). This could be one of the new contributions in the IJV setting. Furthermore, RMO as a mediator between MO and IJV performance has not been tested before in the IJV setting, while only direct relationships were established in an individual dimension through the qualitative analysis method (Wilson & Brennan, 2009). The finding of the study confirms the mediating effect of RMO between MO and IJV performance. Thus, RMO as a mediator could be a new contributor to the IJV sector. In conclusion, this study confirms two direct antecedents of IJV performance, namely MO and RMO. RMO is a full mediator between the relationship of MO and IJV performance.

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