Universal Journal of Management 2(8): 156-160, 2014 http://www.hrpub.org
DOI: 10.13189/ujm.2014.020806

International Strategic Alliances: A Case Study of Korean Enterprises in Malaysian Market

Ahmad Bashawir Abdul Ghani[1] , Emil Mahyudin[2]

[1]College of Law, Government and International Studies, University Utara Malaysia
[2]University Padjajaran, Bandung, Indonesia
*Corresponding Author: bashawir@uum.edu.my

Abstract How can Korean multinational enterprise ensure control over their international strategic alliances operations in developing markets? Does control evolve? What are some of the implications of alternate control mechanisms? These are some of the question that the current study addresses within the context of Malaysian and the developed Korean multinational enterprise. In doing so, it replicates and refines previous researches conceptualization of international strategic alliances control and extends their framework to include partner firms. A qualitative, cross-case research methodology was employed to analyze the three dimensions of international strategic alliance control, namely the mechanisms through which control is exerted, the extent of control achieved by the partners and the focus of activities over which partners exercise control. Two in depth case studies were conducted with flourishing Malaysian and Korean strategic alliance partner firms in order to provide an in-depth understanding of how control operates within dissimilar business and cultural environments. The case study results indicated the use of multiple control mechanisms within the strategic alliances and provided detail as to how each mechanism exerted control. Further, the results illustrated the evolving nature of international strategic alliances control and identified two types of international strategic alliances namely Technology-based (Type 1) and Market knowledge, Distribution-based (Type 2) international strategic alliances. From the cross - case study results, it can be inferred that both Malaysian and Korean multinational enterprise operating within the scope of international strategic alliances need to employ control mechanisms that have a value adding future orientation in order to enhance mutual benefits.

Keywords International Strategic Alliances, Korean Multinational Enterprise, Cross-case Research Methodology

1. Introduction

Markets are becoming increasingly internationalized and more competitive, driving many companies to collaborate with other firms. International Strategic Alliances (ISAs) are a prominent form of these collaborative agreements whereby two or more companies share ownership of a newly created business entity (Culpan, 2009; Groot, Kenneth & Merchant, 2000). More ISAs were announced worldwide in the period 1987-2009 than in all previous years combined (Culpan, 2009; Parkhe, 1993). In addition, there has been a significant increase in the amount of Foreign Direct Investment (FDI) flowing into Korea since its economic liberalization in 1991 (Lal and West, 1997). In order to take advantage of Korea's rising consumer population and high economic growth rates, Malaysian firms have expanded their business operations into Korea (Lal & West, 1997). In addition, due to the Korean government's restrictions on FDI and the necessity to have a local partner to effectively market to the culturally dissimilar Korean market, ISAs have become the preferred entry mode (Lal & West, 1997). However, effective management of ISAs can pose difficulties because managers are faced with the challenge of monitoring operations with which they may have little familiarity (i.e markets, distributions systems, legal systems). On top of that, they must also cope with significant geographical separation and bridge cultural boundaries.

Consistent with the difficulty of managing ISAs, many ISAs encounter performance problems and approximately 60 per cent fail or disbanded resulting from poor monitoring and control practices (Dymsza, 1998; Bengi & Sibel, 2011). In order to identify and understand these control practices, this study examined how partners exercise control over their ISA relationships.

Most studies of international strategic alliances control have tended to emphasize single dimension of control and have not considered the dynamic nature of multiple dimensions of ISA control (Bengi & Sibel, 2011, Killing, 1983; Koza & Lewin, 2000; Ramaswamy *et. al,* 1998 and Wang 1998). For this reason, this study examined the interaction of multiple control mechanisms within the context of a developing and developed market. This was done in order to address the lack of research examining control within markets with distinctly different business and cultural environments. Furthermore, many researchers have highlighted the lack of research illustrating both sides of the dyadic ISA relationships, and therefore, have not considered the interaction of control between foreign and local partners (Chang & Beamish, 2004; Luo, Shenkar & Nyaw ,2001). Therefore, both partners in the ISA relationship participated in this study, allowing a dual perspective to be obtained. The purpose of the study was to identify the dynamic nature and interaction of ISA control between an emerging and developed country.

2. Literature Review

ISA control is defined as the process by which one entity influences, to varying degrees, the behaviour and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms (Luo *et al* 2001; Ouchi, 1997). Many researchers have proposed mechanisms through which control can be exerted (Blogett, 1992; Brandt, 1990; Ramaswamy *et al* 1998; Wang *et al* 1998). These include majority ownership (Killing, 1983; Stopford & Wells, 1972 & West 1959), reporting requirements (Wang *et al* 1998), managerial representation (Geringer & Trayne ,1990; Rafi ,1978), technological dominance (Calantone & Zhao, 2001; Friedman & Beguin,1971; Inkpen, 1995), to execute official ISA contract (Geringer & Trayne, 1990), the composition of board of directors (BOD) (Chatterjee and Gray,1995; Schaan and Beamish, 1998) and multiple informal mechanisms (Mjoen& Tallman, 1997; Sohn,1993). In essence, each of these control mechanisms has been argued to influence the ISA partner behaviours through processes or procedure requirements, the assignments of responsibilities, and legal accountabilities (Geringer & Herbert, 1989). Fundamentally, these mechanisms either promote or prevent the international strategic alliances from engaging in certain activities as highlighted by Schaan (1983). Yet, despite a large number of studies examining the relationships between ownership and control, alternate control mechanisms have received minimal attention particularly in the context of developing country Malaysia and developed market Korea.

Geringer & Hebert (1989) second dimension of control refers to the extent or tightness of control exercised over an ISA. A recent study by Luo *et al* (2001) re-examined this concept and suggested that the extent of control could be overall (i.e, designed to monitor the entire range of ISA activities or specific i.e emphasizing selective control in key areas (Dang, 1977; Killing, 1982, Tomlinson, 1970). This notion of specific control has led many academics to encompass a focus of control into their conceptualisation of ISA control (Groot *et al*, 2000). This focus of control suggests that firms tend to seek control over specific strategically important issues rather than the whole ISA. In a study by Groot *et. al* (2000) all partners monitored their ISAs overall performance but the partners seemed to be particularly active in monitoring ISA activities in areas where they believed they had superior knowledge and capabilities. Over time Groot *et al* (2000) found partners shifted their control foci which was supported by Koza and Lewin (2000) who found that as the ISA evolved, the focus of the control efforts changed.

It is this balance between the three dynamics of control that has been suggested is the key to ISA success (Groot *et al.* 2000). However, in the case of emerging, uncertain and turbulent markets, this can be especially difficult. When ISAs involve partner firms from both developed and emerging markets, the nature of the relationship is different as opposed to ISAs between developed countries (Beamish, 1985; Fagre & Wells, 1982 and Killing, 1983, Das & Kumar, 2009). Quite often the foreign partner seeks local knowledge, marketing expertise and distribution facilities and know how whilst providing the local partner with capital investment or access to some intangible assets, such as technology, management skill or brand name (Groot *et al* ,2000). In such ISAs this has implications for control. It is also worth noting that over time a partner's contributions and hence, the control exercised changes in accordance with organizational learning (Chatterjee & Gray, 1995). Finally, any external change, such as economic downturn, political upheaval, cultural sensitivities or regulatory changes can all moderate the ISAs performance. Furthermore, the external environment regulates the control dimensions employed For instance, in India strict regulations minimize a foreign investor's ability to exert control through majority ownership.

3. Research Method

Exploratory oriented research goals dictated the use of rigorous case studies over more structured approaches of inquiry (Punch, 1998; Eisenhardt, 1989; Parkhe, 1993; Yin 1984). To further strengthen the resultant theory, it was decided to conduct multiple comparative case analyses international strategic alliances between Malaysia and Korea due to their recent ubiquitous phenomenon (25% p .a growth rate of Malaysian - Korean ISAs) (Martrade, 2009). Furthermore, due to their dominance in Korea as well as Malaysia, ISAs were sought over alternative entry modes. Two companies were sought case study analysis to provide the depth required and an aggregated cross case comparison (Crantee & Miller, 1999). A total of 19 interviews were conducted with the ISA's Malaysian partner firms Chief Executive officers (CEO), the Korean partner firms (CEO) and the ISAs General Manager (ISA GM). (Case study 1) KIA MOTORS produce automobile in Korea. The ISAs was formed in order to tap into the expanding Malaysian consumer population. The Korean partner firm contributed the manufacturing expertise and management know-how, whilst the Malaysian partner contributed the distribution and marketing skills to the partnership. The ISA was 50/50 owned by both partners. Case study 2 was HYUNDAI, which operates in high techs lighting and power industry in

Korea. The Malaysian power industry restricts the amount of FDI allowed (Korean partner only allowed to own 24% of the ISA). Therefore, the ISA is majority owned by the Malaysian partner firm (i.e 76%). The Korean partner's contribution stems from its vast resources in research and development in the upstream activities (Porter, 1986) whilst the Malaysian partner designs and produces a semi-processed product, which is sold to the alliance for completion, marketing and distribution in the downstream activities (Porter, 1986).

4. Research Findings

Board of Directors Majority and Technical Dependency

A formal instrument of control found in both case studies was the ISAs Board of Directors (BOD). In both ISA's, partners confirmed the legal requirement in Malaysia to hold a board meeting every two months. Both ISAs indicated that this legal requirement ensured that the board was well informed and participated in the strategic direction for the ISA. However, the Korean partner (KIA Malaysia) in the KIA ISA possessed a controlling majority of one on the BOD. A majority on the BODs is deliberated in the literature as an important source of decision making control (Chatterjee and Gray 1995; Schaan and Beamish, 1998). However, the results of the KIA Korean case study indicated that this was not important in their ISA. KIA Korea was able to overrule the board's decision, even though they were a minority group on the ISA's BOD. The importance of the technology in the KIA ISA gave the Korean partner (KIA Korea) a powerful overriding control mechanism. As a result, even though the Malaysian partner firm possessed a majority in ownership (76%), managerial and marketing control, the ability to staff the ISA with local Malaysian employees, the Korean partner possessed overall control because they contributed the essential technological innovation and product development. This was described by the Malaysian partner firm CEO: "No matter what I do: majority equity, management control, board control - I am at their mercy". (Mr Suandi, KIA Malaysia, 20th August, 2010, page 35).

Therefore, it can be inferred from this case studies that the dependency situation suppressed alternate forms of control, such as, the ISA's BOD, the position of the ISA General Manager, and hindered the informal relationship between the two partners; 'If I could start over, I would be sure to have the technology, so not to be pushed around'. (Mr Suandi, KIA Malaysia, 31 August, 2010, pg 35).

Management Representation / Informal Relationship

The results of this cross case analysis suggest that the appointment of the ISA General Manager and Marketing Manager hinges upon the focus of the ISA. The appointment of staff reflected the need to have management that had in depth knowledge of the local market conditions, cultural and consumer behaviors. Thus in both cases, the ISA General Manager and Marketing Manager were representatives from the Malaysian partner firms. Again, this has implication for bargaining power. Market knowledge and established distribution systems cannot be deemed as a control mechanism for Malaysian firms, whereas for foreign partner marketers, this is a limitation of capability. Therefore foreign partners need to ensure that they are continually adding value to the ISA to ensure their worth to the partnership. However, the role of the ISA General Manager and Marketing Manager was not seen as a threat by the Korean partner in the Hyundai ISA. Due to the positive informal relationship that existed within the Hyundai case, the marketing skills of the Malaysian partner firm (Hyundai Malaysia) were seen as a competitive advantage for the ISA and not as a threat: We (Hyundai Korea) don't have a lot of control because we are unaware of the Malaysian market place. I don't need to pretend to know everything about their religion or customers or more importantly how to market our products to them. Therefore, he really has control because he knows the market and in our industry, that's what is all about' (Kim Soo Hyun, Hyundai Korea, 2010, page 12).

Equity

The findings within this study repudiated the validity of previous studies' use of ownership as a proxy for management control in ISAs. It can be inferred from these case studies that equity is only a minor factor in the ISAs overall governance. For example, in the case of the KIA Malaysia ISA, ownership was skewed heavily in favour of the Malaysian partner firm (76 per cent). However, equity did not play a major role in determining which partner possessed the marketing and managerial control. The majority equity possessed by the Malaysian partner firm (KIA Malaysia) played a secondary role to the dominant positioned placed on the technology supplied by the minority Korean partner firm (Kia Korea).

Extent and Focus of Control

Example of "strategically important issues" facing the alliances included initial access of the markets, overcoming cultural difficulties, and further expansion into the expanding Malaysian market. These issues impacted upon the amount of control exercised by the partners, the foci of each partner's control efforts and the control mechanisms exerted. It was inferred from the cross case results that there was a continual feedback loop operating between the strategic issues facing the ISA partner ability and resources, and the control dimensions employed. It can be suggested that once the strategic objectives were formed between the ISA partners, the exercise of control adapted and changed accordingly in order to maximise the likelihood of achieving these strategic objectives; "Initially, we had a very "hands on" approach because we [Hyundai Malaysia] could offer a lot to the ISA in term of legal, marketing and financial set up systems. We wanted to ensure that everything was run tightly from the beginning, so we were much stricter with the information and input we had in all areas of the ISA (Dr Ali, Hyundai Malaysia).

External Environment

Numerous regulatory, political and cultural elements were found to inhibit on the ISA's operations. Restriction on the level of foreign investment limited the appropriation of profits by the Korean partner in the Kia Korea case. However, the cultural impediment was concluded to be major hurdle faced by the ISA. The KIA case study provides a good example of such cultural impediments whereby in one incident the Korean partner is visiting the ISA's manufacturing plant in Malaysia. All of sudden the lights went off. All production immediately stopped so the General Manager said: "The electrician will attend to that, so he shouted and a big chief electrician turned up and said: Oh yes, begging your pardon, I will be attending to this immediately and disappears. Five minutes later, no power. Ten minutes later, no power. Quarter of an hour later still no power. So the chairman said: This is not good enough. So he walked into the plant where electricity is supplied, a little generator stands in the corner and there sits the Chief Electrician in lotus position in front of the door because in front of the door is a table. We said to him: Aren't you going to fix the generator? And he said: Begging your pardon sir, but can you not see there is a table standing in front of the door and I cannot be assessing it. So we said in not very polite terms: well, shift the bloody thing. And he said: Begging your pardon, but I'm the chief electrician, I am not furniture removalist". It was not his job scope to do that. So we got somebody else to shift the table and seconds later we had power. Make somebody understand that. A bit of a problem! (Park Ji Yoon, Kia Korea, 7th August, 2010).

5. Conclusions

Based on the case study results it was possible to identify two distinct types of ISAs. Type 1-Technology based ISAs, and Type 2- Distribution and market knowledge based ISAs. Type 1 ISA, KIA was characterized by tensions and conflicts, a focus on R&D and product innovation, commitment based on mutual achievement of objectives and technical dominance as the main control mechanism. Type 2 ISA, HYUNDAI was characterized by a commitment based on loyalty and accommodation, transparency or information and positive relational dynamics which played a major role in the control of the international strategic alliances. Two inferences can be drawn from these results. Ironically, the ISA with less tension (Type 2, HYUNDAI) can be seen as more at risk than the Type 1 ISA (KIA ISA) in not sustaining the venture relationship long term. The explanation for this goes back to the very essence of why companies form ISA relationships. As described in the literature review, ISAs serve multiple purposes. However, in order for ISAs to operate long term, the very nature of the ISA must continue to grow. In KIA case, this is technology and the technology continues to develop at a pace that allows both partners to feel that new knowledge is driving the venture presently and for the foreseeable future. Evidence for this is seen in their continual focus on research and development and both partners indication of their commitment to a long term relationship. Based on the results of the cross case analysis, it can be inferred that ISA's based on technology (Type 1) as opposed to distribution and market knowledge (Type 2), are able to withstand greater levels of tension and potential conflict due to the constant value being added to the ISA by the innovative nature of the ISA. However, in the HYUNDAI ISA, market knowledge and distribution are the main driving forces behind the ISAs lifecycle. This had been demonstrated in the literature to have a finite lifespan. The literature suggests that unless value can be continually added in Type 2 ISAs, the purpose of the ISAs may be undermined. Thus, despite type two ISAs apparent ease of operation, closeness, transparency and loyalty, the nature of the relationship infers that it is more at risk of sustaining long term survival.

REFERENCES

[1] Anderson, E, 1990. Two firms, one frontier: On assessing strategic alliance performance, *Sloan Management Review,* 31, pp.19-30.

[2] Beamish, P.W, 1985. The characteristics of strategic alliances in developed and developing countries, *Columbia Journal of World Business*, 20(3), pp. 13-19.

[3] Bengi, E., & Sibel, Y., 2011. Foreign Equity Configurations in an Emerging Country: Implications for Performance, *European Management Journal*, Vol. 29, No. 2, pp. 117-128.

[4] Blodgett, L.L., 1992. Factors in the instability of international strategic alliances: An event history analysis, *Strategic Management Journal,* 13(6), pp. 475-481.

[5] Brandt, S.A., 1990. Perspectives in joint ventures with The Japanese in The United States. *SAM Advance Management Journal*, Winter, pp. 34-36.

[6] Calantone, R.J & Zhao, Y.S., 2001.Joint ventures in China: A comparative study of Japanese ,Korean and US partners. Journal of International Marketing, 9(1).Chicago.

[7] Chang, C & Beamish, P.W., 2004. Split Management Control and International Joint Ventures Performance. Journal of International Business Studies, Vol. 35, No. 3, pp. 201-215.

[8] Chatterjee, K, & Gray, B 1995. International Joint Ventures: Economic and organizational perspectives. Dordrecht, Boston: Kluwer Academic Publisher.

[9] Crabtree, B.F & Miller ,W.L,1999. Doing Qualitative research. Newbury Park: Sage Publications

[10] Culpan, R, 2009. "A fresh look at strategic alliances: research issues and future directions", *International Journal of Strategic Business Alliances*, Vol. 1, No. 1, pp. 4-23.

[11] Dang, T., 1997. Ownership, control and performance of the multinational corporation: A study of U.S .wholly owned subsidiaries and joint ventures in the Philippines and Taiwan. Unpublished doctoral dissertation,University of California,L os Angeles

[12] Das, T.K. & Kumar, R. (2009), "Interpartner Harmony in Strategic Alliances: Managing Commitment and Forbearance', *International Journal of Strategic Business Alliances*, Vol. 1, No. 1, pp. 24-52.

[13] Dymsza, W.A, 1998. Successes and failures of Joint Ventures in developing countries: Lessons from Experience. In Contractor,F.J & Lorange, P(Eds), Cooperative strategies in International Business. Lexington, MA:Lexington Books, pp.403-424

[14] Eisenhardt,K.M, 1989. Bulding theories from case study research. Academy of Management Review,14 ,pp.532-550

[15] Fagre,N& Wells,L,1982. Bargaining power of multinationals and host governments. Journal of International Business Studies, Fall, pp. 265-273

[16] Friedman,W.G& Beguin,J.P,1971,Joint International Business Ventures in Developing countries,New York:Colu mbia Univeristy Press.

[17] Geringer,J.M & Trayne ,C.A ,1990.Human resource management and International Joint venture control : a parent company perspective [special issue].Management Internation al Review,pp 103-120

[18] Geringer ,J.M & Herbert, L,1989 .Control and performance of international joint ventures,Journal of International business studies.20(2),pp235-254

[19] Geringer J.M & Herbert,L 1991.Measuring Performance of International Joint Ventures .Journal of international Business Studies22(2),p,249-263

[20] Groot, T.L.C, M, Kenneth, A, & Merchant, K.A ,2000. Control and performance of international joint ventures. Accounting Organizations and Society,25(6),pp579-607

[21] Inkpen, A.C 1995.The management of International Joint Ventures: An organisational learning perspective, London Routlege

[22] Killing, P, 1982. How to make a global joint venture work .Harvard Business Review,60,3, pp. 120-127

[23] Killiing, P, 1983. Strategies for joint venture success. New York: Praeger

[24] Koza,M.P & Lewin,J.G, 2000. Managing partner and strategic alliances: Raising the odds of success, European Management Journal 18.2 pp.146-151

[25] Lal,,B & West ,L 1997 .Joint ventures in India : Structuring and managing for success

[26] Hong Kong : The Economist Intelligence Unit

[27] Luo, Y, Shenkar, O & Nyaw, M. K, 2001. A dual parent perspective on control and performance in international joint ventures: Lessons from a developing economy: Journal of International Business Studies. 32(1) pp. 41:59

[28] Matrade, 2009. Economy, Trade and Industry: Top 10 Trade Statistics: Malaysia External trade Development Corporation, available at http://www.martrade.gov.my (accessed on Octover 2009).

[29] Mjoen, H, & Tallman,S, 1997. Control and performance in International Joint Ventures. Organization Science 8(3), pp 257-274

[30] Ouchi,W.G,1977.The relationship between organizational structure and organizational control

[31] Administrative Science Quarterly,22,pp 92-112

[32] Parkhe,A,1993,Messy Research Methodological Prediposition ns,and Theory Development in International Joint Ventures. Academy of Management Review,18(2).pp

[33] Development in International Joint Ventures. Academy of Management Review,18(2),pp 227-268

[34] Rafii,F 1978 ,Joint ventures and transfer of technology to Iran :The impact of foreign control

[35] Unpublished doctoral dissertation Harvard University

[36] Ramaswamy ,K,Gomes ,L,&Veligath ,R,1998,The performance correlates ownership control :A study of U.S and European MNE joint ventures in India. International Business Review.7pp 423-441

[37] Schaan, J.L 1983. Parent control and joint venture success: The case of Mexico

[38] Unpublished doctoral dissertation: University of Western Ontario

[39] Schaan,J.L & Beamish ,P.W 1988 .Joint venture general managers in LDC. In Contractor ,F.&Lorange ,P,eds, Cooperative strategies in international Business,pp,279-99 Toronto :Lexington

[40] Sohn,J.H.D,1993 .Social knowledge as a control system .A proposition and evidence from the japanese FDI behaviour .Journal of International business Studies ,second Quarter Stopford ,J.M &Wells,L.T 1972. Managing the multinational enterprise, New York: Basic Books.

[41] Tomlinson.J.W.C 1970 the joint venture process in international business: India and Pakistan ,Cambridge ,Mass :MIT press

[42] Wang,P Wee,H,C &Koh P,H ,1988 ,Control mechanisms ,K ey personnel appointment ,control and performance of Sino -Singaporean joint ventures. International Business Review . 7(4).pp 351-375

[43] West,M.W 1959 ,Thinking ahead:The jointly owned subsidiary,Harvard Business Review ,July -August :31-32

[44] Yin ,R.K 1989 Case study research design :Design and method .Beverly hills C,A Sage

[45] Yin.R,K 1994 Case study Research :Design and methods(2nd ed).Thousand Oaks.CA:Sage

[46] Young ,I 1994 .Asia /pacific joint ventures: risks and rewards. Chemical Week,15,March edition