

# THE PROCESSION MODEL ON JOINT VENTURES OF SPECIAL ECONOMIC ZONE IN LAO PDR

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***Abstract:** This research study aims to study the following objectives: To develop the detailed procession model on joint ventures of special economic zone in Lao PDR, which will help local and foreign investors successfully operate in SEZs. In order to develop the model suitable for managing joint ventures, the research also aims to explore the motivation and rationales of local partner and foreign investor for forming a successful joint venture, to explore the method for partner selection that lead to successful joint ventures, to explore the approaches for joint venture control mechanism selection and management. In addition, to explore the approaches for managing joint ventures stability and performance that lead to satisfactory results.*

*The review of prior research studies in joint venture literature reveals that studies on JVs have become central in the literature on international business, the studies of JV formation has continued to increase steadily and popularity. Moreover, much research has been conducted to identify the process of partner selection and partner characteristic, explain JV control mechanism and conflict, and examine the various factors affecting joint venture performance.*

*The research is a qualitative research. For the data collection of qualitative study, an in-depth interview will be used with managers of joint ventures companies operate in SEZ, managers of joint venture parent companies, and managers and directors of SEZs. The data will be analyzed with qualitative analysis software.*

***Keywords:** The procession model, Joint ventures, Special economic zone, Lao PDR*

## 1. INTRODUCTION

The concept of special economic zones (SEZs), as a mode of economic developments by designating a specific area to attract domestic and foreign investment, using tax exemption and duty and tax reduction policy in order to promote infrastructure construction, producing for exportation, improving labor work, and transferring modern technology, has received more attention from the Lao government because

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it is one of the major directions and missions of the Seventh Five-year NSEDP to promoting industrialization and modernization (Ministry of Planning and Investment, 2011).

From investors' perspective, SEZs offer a liberalized business climate and lower taxes and tariffs. This encourages investments and creates a flourishing business community. Foreign investors cluster in SEZs can spread their know-how about technology and quality upgrading to domestic firms, which can then upgrade and become exporters (Romer, 1993; Johansson and Nilsson, 1997). Therefore, it's visibly that the development of special economic zone is important and necessary for promotion and attraction of investment. Many countries in the world have succeeded in developing special economic zone based on actual potential and conditions of their countries (Phommachith and Thanitbensith, 2016).

Although SEZ may provide many opportunities, potentials and incentives, choosing the right investment mode may be one of the critical success factors and the most difficult task for many investors. The Law on investment promotion has stipulated the investment in 3 forms. One of them is partnership (joint venture) (Ministry of Planning and Investment, 2009). Prior research studies from joint ventures (JV) literature claim that JV can provide benefits and competitive advantages for local partners (domestic investors) such as access to technology, capital and management know-how of foreign partners (Gijicì, Dimitrijevicì & Jovicì, 2015; Beamish, 1985; and Miller, Glen, Jaspersen & Karmokolias, 1997). Moreover, in global business, partnership or joint venture is one of the most common forms of strategic partnerships of companies. In the context of international joint ventures, Parkhe (1993a and 1996) and Cavusgil (1998) explain the fundamental aspects of joint ventures. The first aspect is the motivation behind joint venture formation (e.g., Harrigan, 1985). The second aspect is concerned with partner selection and partner characteristics. The third major aspect is concerned with control and conflict in international joint ventures. The last aspect improves our understanding the problem of joint venture stability and performance.

However, given the growth in the use of JVs and the accompanying academic interest in this area, it was found that there is little academic research has been conducted on JVs in South East Asia, that is, in the ASEAN Countries of Thailand, Singapore, The Philippines, Malaysia, Indonesia, Brunei, Vietnam, Laos, and Myanmar. Moreover, based on various literature reviews for JVs, it was found that various studies of joint ventures were examined in general investment climate, there are not many studies concerned with the investment of JVs in SEZ, especially for Cambodia, Laos, Myanmar and Vietnam (CLMV) countries. Moreover, the majority of studies in joint venture literature are examined JVs from multinational enterprise's (MNE) perspective. Few studies have investigated management of joint ventures from local partners' point of views.

Due to the lack of research in this area for Lao PDR, it is difficult to understand the benefits of investment modes particularly for joint venture, what is the most

common investment form, especially for investing in SEZ for both local and foreign investment. Therefore, this study aims to explore the investment form, particularly joint ventures partnerships by focusing on management approach for successful joint ventures. This study will base on the case and lesson learned from successfully joint ventures who operate in similar SEZ environment such as SEZs in CLMV countries, especially Vietnam, where political regime and investment climate are similar to Laos. Thus, the purpose of this study is to explore the details of procession model on joint ventures which will help local and foreign investors successfully operate in SEZs. Particularly, motivation of forming joint ventures, partner selection, control and conflict in JVs, and joint venture stability and performance of successful JVs' managers, and JVs' local and foreign partners in SEZs of CLMV countries.

This study has four main research objectives; they are:

1. To explore the motivation and rationales of local partner and foreign investor for forming a successful joint venture of SEZ in Lao PDR
2. To explore the method for partner selection that lead to successful joint ventures of SEZ in Lao PDR
3. To explore the approaches for joint venture control mechanism selection and management on joint venture of SEZ in Lao PDR
4. To explore the approaches for managing joint ventures stability and performance that lead to satisfactory results

To achieve the above mentioned objectives, therefore, the central research question for this study is "What is the procession model and its element on joint ventures that lead to successful joint venture of special economic zone?" The specific research questions are:

1. What are the motivation and rationales of local partner and foreign investor for forming a successful joint venture of SEZ in Lao PDR?
2. What are the methods for partner selection that lead to successful joint ventures of SEZ in Lao PDR?
3. What are approaches for joint venture control mechanism selection and management on joint venture of SEZ in Lao PDR?
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## **2. LITERATURE REVIEW**

The literature review will explore the knowledge of motivation for joint venture, partner selection and partner characteristics control and conflict, and joint venture stability and performance for making empirical evident for the research model.

### **2.1. Joint Venture Formation Motivation**

The JV formation motives can be categorized in four main types which are (1) market development and power, (2) partner synergies, (3) production efficiency, and (4) legitimacy (Contractor & Lorange, 1988; Glaister, 1996; Glaister & Buckley, 1996; Porter & Fuller, 1986; Boateng and Glaister, 2003)

The first category, market development and power, is often found in small- and medium-sized enterprises, which often lack international experience, may choose to enter JVs for the purpose of facilitating their international expansion (Contractor & Lorange, 1988). Another reason for business to entering JVs is because of the government suasion or legislation of the host country. Moreover, JVs may also influence who a firm competes with and the basis of competition (Porter & Fuller, 1986). Furthermore, Product diversification through an JV is a strategic choice for acquiring knowledge from foreign firms (Faijoun, 1998) and can help preempt market opportunities while reducing various barriers, uncertainties, and disturbances.

The second motivation, partner synergies, is that JVs are considered as risk sharing platform where neither partner bears the full risk and cost of the venture activity (Morris & Hergert, 1987; Porter & Fuller, 1986).

The third motive, production efficiency, is that JV may reduce average unit cost by pooling together each partner's capability and resources in order to achieve the benefits of large scale production. At the same time, production could be transferred to the lower cost location thereby further lowering sourcing costs.

The last motivation is the activeness of legitimacy offered by JVs. There are five legitimacies. They are the rights to operate in a specific market (i.e., market legitimacy), the perceived worthiness as an attractive IJV partner (i.e., relational legitimacy), the image of behaving in a socially acceptable manner (i.e., social legitimacy), the worthiness of its business activities in the eyes of corporate insiders (i.e., investment legitimacy), the mechanism for market entry or organizational learning (e.g., alliance legitimacy).

In addition to the above mentioned motives, several studies suggest that, the motives of joint ventures may be different depending on various factors of host country, foreign investor and local partners. Therefore, understanding the motives behind JVs formulation help the researcher to comprehend the partner selection strategy of JV companies.

### **2.2. Joint Venture Partner Selection**

The most important objective for partner selection is to find the suitable partner (Blodgett, 1991; Brown, Rugman, & Verbeke, 1989; Harrigan, 1988; Parkhe, 1993b). Child and Faulkner (1998: 87) emphasize on how important of partner selection as "the choice of a partner is key to the ultimate success of a joint enterprise." Geringer (1988; 1991) developed simple typology which perhaps is the most significant contribution to the JV

partner selection criteria literature so far. The criteria are task-related criteria and partner-related criteria. Task-related criteria are skills and resources that are complementary to those of the multinational enterprises (MNE) and necessary for venture success. In addition to partner selection criteria, Shaughnessy's (1995) study focuses on the contract negotiation aspect of partner selection. The agreement negotiation aspect of joint venture had been highlighted in Miller et al., (1997) research. Miller et al., (1997) study indicate two major issues during the negotiation process, which are the equity structure among partners, and the problem of control mechanism of a joint venture seem to be the most difficult and time consuming tasks. However, the findings show the mixed opinion of joint venture managers toward the critical of agreement. Moreover, the research finding show that there is no relationship between the length of time spent to complete agreement and the satisfaction of joint venture operation.

### **2.3. Joint Venture Control and Conflict**

The major problem in joint venture operation is how to manage the firm from two company. Most of the management issues in joint venture stem from one cause, which is there is more than one parenting company to follow. The desire for control is one of the most important problems about international joint venture management (Killing 1983; or Park, 1993). Conflicts and the management of conflicts are influenced by the partner's national and corporate culture. Differences between two foreign partners can create Type I or II diversities (Parkhe 1996). Type I diversity improves joint venture effectiveness (e.g., reciprocal strengths or complementary resources), while Type II diversity hinders joint venture effectiveness and performance (Parkhe 1991).

According to Killing (1982) study, the control mechanism or management control can be categorized into three main categories. The first management style is the dominant parent enterprise. The dominant parent means joint ventures are mainly managed by one parent and all decisions such as operating and strategic decisions of venture company are made by the dominant parent. In the second management control, shared management ventures, both parents manage the enterprise together. This is different from the first style where functional managers are selected by both partner companies. The third control mechanism is the independent ventures. This style allows the venture companies manage like their owned business which are free of interference from either parent. Based on Killing (1982) study, there is a strong indication that the shared management ventures are more difficult to operate than dominant parent ventures since the failure rate of shared management ventures is higher. However, the shared management ventures are not consistently used for high risk businesses. Therefore, executives from both partners should understand when to employ different control styles in different situations in order to avoid conflict that may lead to performance deterioration of joint ventures.

In JV literature, scholars have suggested that the amount of conflict inversely affects performance (Killing, 1983; Harrigan, 1985; Ding, 1997; Julian, 2005). Some JV researchers have provided empirical support (Ding, 1997; Hebert, 1994). Among them, Hebert (1994)

found a significant inverse relationship between conflict and performance when studying Canadian IJVs. As such, there is substantial evidence to suggest that a significant inverse relationship exists between the level of conflict and IJV performance. Kogut (1988) stated that conflict was found to be a key factor behind joint venture failures and instability in the research domain. Furthermore, the conflict aspect of joint ventures has been investigated by many researchers. Fey & Beamish (2000) categorized the potential causes of conflict in international joint venture and identified four major categories of conflict sources as cultural differences between the partners may lead to perceptual incongruencies, the desire for control and autonomy may lead to conflict situations, the needs of parent companies may generate conflicts within a joint venture, and the differences in goals may also create conflicts.

#### **2.4. Joint Venture Stability and Performance**

The evaluation of joint venture stability is not uniform in the literature. One perspective considers both a shift in joint venture control and venture termination as evidence of instability. A narrower view uses venture termination as the sole indicator of instability. However, a joint venture cannot be considered unstable simply because its lifespan is short. Ventures may also be terminated as a matter of policy when there is a change in parent ownership or management. Sometimes terminations are planned and anticipated by the parties involved. Moreover, Gomes-Casseres (1987) noted that joint venture instability is not always resulting in a dissatisfaction.

The concept of joint venture stability is still confusing to many business managers and scholars. Many people seem to mix the concepts of joint venture longevity to joint venture stability. Joint venture longevity or duration has often been employed as a measure of international joint venture performance (Inkpen&Birkenshaw, 1994). Beamish & Inkpen (1995), however, suggest that joint venture managers should not equate the longevity of a joint venture with joint venture success.

In international joint venture literature, the measure for traditional performance measures are often found to be inadequate. The number of potential performance measures and also the number of independent, explanatory variables is higher in international joint ventures than in any other business entity (Geringer& Hebert, 1989 and 1991, Inkpen&Birkenshaw, 1994, Osland & Cavusgil, 1996). However, there number of potential indicators used for joint venture performance measure. There are objective performance measures include financial indicators (such as return-on-investment), market share and market share growth data, and joint venture survival, longevity, or duration. However, there are many criticized due to their narrowness. Perceived satisfaction with the joint venture itself is widely applied as a performance indicator (Inkpen&Birkenshaw, 1994). The uses of partner's goal achievement as a performance measure in joint ventures was analyzed by Hatfield et al., (1998). Perceived fulfillment of strategic needs by the joint venture, relative joint venture profitability (for instance, compared to industry averages), or perceptions on joint venture

performance were simultaneously employed in the literature as performance measures. Application of reliable, perception-based performance measures is recommended in order to overcome the difficulties with traditional, “objective” types of measures (Parkhe, 1996).

### 3. RESEARCH QUESTIONS

For developing the procession model on joint ventures of special economic zone in Lao PDR, the researcher aims to answer these specific research questions:

1. What are the motivation and rationales of local partner and foreign investor for forming a successful joint venture of SEZ in Lao PDR?
2. What are the methods for partner selection that lead to successful joint ventures of SEZ in Lao PDR?
3. What are approaches for joint venture control mechanism selection and management on joint venture of SEZ in Lao PDR?
4. What are approaches for managing joint ventures stability and performance that lead to satisfactory results?

### 4. RESEARCH METHODOLOGY

Literature reviewed with respect to motivation, partner selection and partner characteristics control and conflict, and stability and performance of joint ventures in special economic zone in Lao PDR will use the qualitative research approach. Qualitative research aims to analyze the non-numeric data in order to describe and understand the concepts. Focus on the details of the key information and explain the phenomenon of knowledge and understanding about motivation, partner selection and partner characteristics control and conflict, and stability and performance of joint ventures. The research design, using an in-depth interview to collect data from a

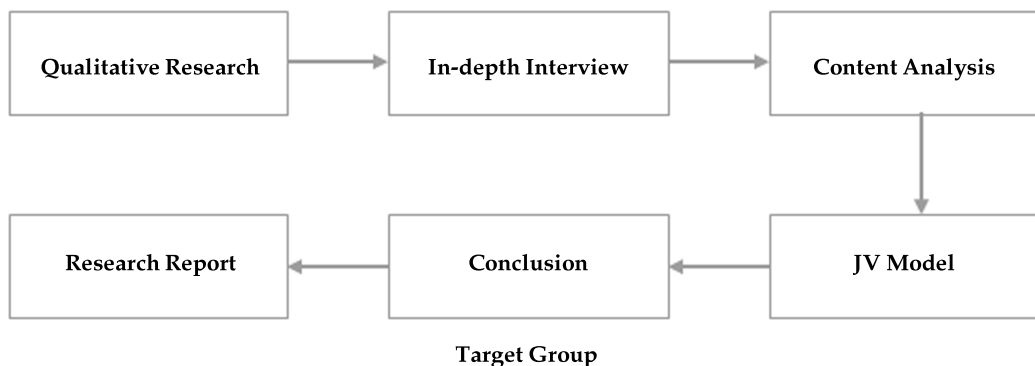


Figure 1: Qualitative method research process

sample, to explore the motivation, partner selection and partner characteristics control and conflict, and stability and performance of joint ventures in special economic zone in Lao PDR. After that, a content analysis of the interview responses will take place using the qualitative analysis software such as ATLAS or NVivo 9. The qualitative approach can be created as follows:

The participants included managers of joint ventures companies operate in SEZ, managers of joint venture parent companies, and managers and directors of SEZs.

## 5. SAMPLE

This research will employ purposive selection and theoretical sampling to select and limit research participants to those managers of joint ventures companies operate in SEZ, managers of joint venture parent companies, and managers and directors of SEZs who are most likely to have experience in joint ventures and who can contribute to the development of new knowledge.

## 6. CONCEPTUAL FRAME WORK

Review of the literature on joint venture motivation, partner selection and partner characteristics control and conflict, and stability and performance, can be created as the conceptual framework to guide this research as follows.

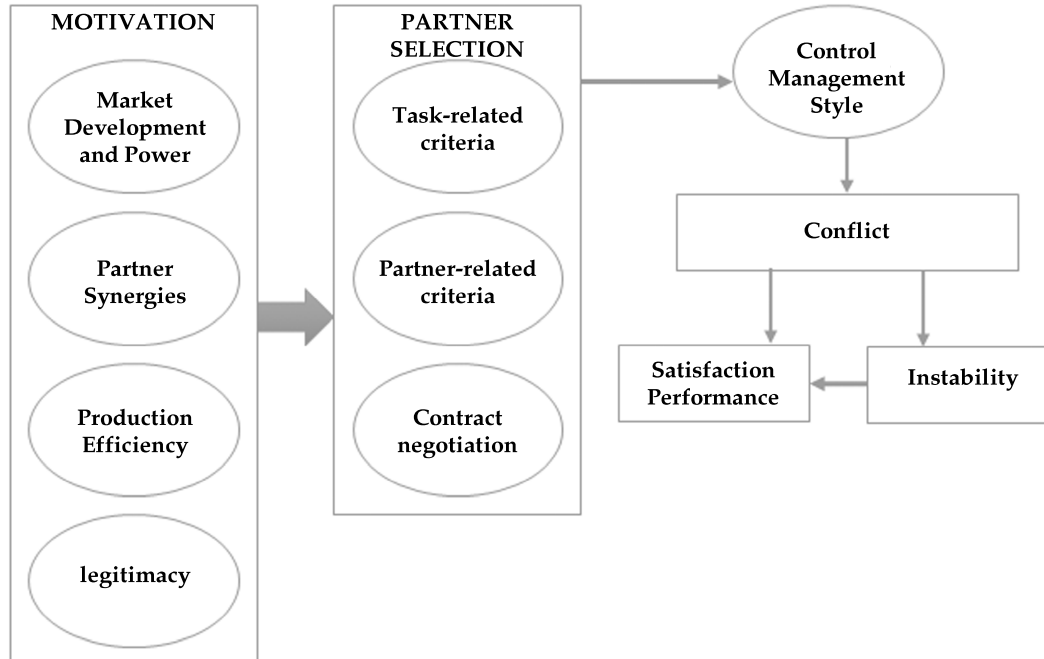


Figure 2: Conceptual Framework



## 7. CONCLUSION

A thorough review of the joint venture (JV) literature revealed that the material is quite vast, yet the cumulative knowledge about this organizational form is disjointed. Middle range theories pertaining to the establishment and management of JVs have yet to emerge, and definitive answers to many important questions remain a mystery. Therefore, to ensure the success of investment in SEZs especially within Laos setting, there is crucial to explore the details of procession model on joint ventures which will help local and foreign investors successfully operate in SEZs.

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