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Exploring the motives and determinants of innovation performance of Malaysian offshore international joint ventures

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Abstract

Purpose – The existing literature indicates that in developing countries, much remains to be done in terms of improving understanding of international joint venture (IJV) issues such as the motives for firms to pursue IJVs and the factors which affect their performance. In view of this, the present paper seeks to identify the motives of Malaysian firms for engaging in offshore IJVs, and analyze the interplay among four key variables – motive, strategic fit, knowledge transfer and innovation performance – from the perspective of Malaysian IJVs.

Design/methodology/approach – Based on a literature review, theoretical linkages among the variables and relevant hypotheses were developed; then subsequently tested using bootstrap analysis. A total of 234 questionnaires were sent to managers of Malaysian IJVs abroad and 74 usable responses were returned, yielding a response rate of 31.62 percent.

Findings – The results suggest that Malaysian firms pursue IJVs abroad mainly to expedite profit generation and market penetration, while acquiring knowledge is considered only as a secondary motive. At the same time the results affirm that knowledge transfer mediates the effect of strategic fit on the innovative capacity of the IJVs. This implies that although knowledge transfer is very important to IJV innovation performance, that importance is seriously underestimated by Malaysian businesses.

Research limitations/implications – The study highlights the need to incorporate moderating factors in the future when examining the effect of motive and strategic fit on innovation. Results of the reliability tests also question the generalizability of existing strategic fit and knowledge transfer scales in a Malaysian setting.

Practical implications – The findings provide lessons for foreign businesses by improving understanding of what Malaysian businesses seek most in an IJV, which in turn will help foster better strategic fit between partners. For Malaysian firms and policy makers, the study should serve as a reminder that knowledge transfer is very important in improving innovativeness and deserves greater attention and commitment.

Originality/value – Research on IJV suggests interesting differences between firms from developed and developing nations. The current paper helps to enrich the literature on IJVs, particularly from the perspective of knowledge and learning orientation in developing nations.

Keywords Motive, Strategic fit, Malaysia, Knowledge transfer, Innovation, Malaysian international joint ventures, Joint ventures, Developing countries

Paper type Research paper
Introduction
The strategic importance of international joint ventures (IJVs) has been much discussed in previous studies. Engaging in IJVs can help firms to expand geographical market participation, create economies of scale and critical mass, reduce risks, and learn new skills and technologies (Buckley and Casson, 1996; Beamish and Lupton, 2009; Griffith et al., 1998; Luo and Park, 2004). Traditionally, because developing countries often impose foreign ownership restrictions, entering and developing a presence in the Asia-Pacific region requires international firms to set up joint ventures with local partners, especially when the prime motive of the operation is to capture the opportunities of local markets (Mohr and Puck, 2005; Lasserre, 1999). Furthermore, by combining the resources and competencies of two or more companies, the partners in an IJV can achieve objectives that cannot be achieved on their own. Engaging in IJVs has thus become a good strategy for firms to ensure survival and increase competitiveness in the global arena.

The abovementioned studies are significant for the following reasons:

- They have shed light on the primary motives for firms to pursue IJVs and this understanding is important because it enables potential partners to evaluate their compatibility before entering the contract.
- They reveal that the performance of IJVs remains one of the least understood aspects of strategic alliances.

Firms have learned that the performance of their IJVs often does not meet their expectations (Mohr and Puck, 2005; Geringer and Hebert, 1991). In addition, the instability rate for IJVs is relatively high (ranging from 28.8 percent to 70) and many IJVs end up being dissolved or sold off (Yan and Zeng, 1999; Meschi and Riccio, 2008; Kogut, 1989). Consequently, IJV performance has attracted considerable research attention because ultimately any strategy has to be evaluated in terms of its success.

Since it is quite common for IJVs to be formed between firms with different organizational and cultural characteristics, researchers have particularly been interested in the concept of strategic fit, i.e. the congruence of goals and characteristics between the partners, and its effect on performance. Some research suggests that strategic fit affects the capacity of partners to share and transfer knowledge among them (Griffith and Myers, 2004; Murray et al., 2009). As knowledge is a key requirement in innovation (Darr and Kurtzberg, 2000; Kotabe et al., 2007; Weidenfeld et al., 2010), knowledge sharing/transfer appears to be the link between strategic fit and innovation performance. Additionally, motive too has been proposed to have an effect on performance since it determines the choice of strategies which will then either improve or hamper organizational performance (Eisner et al., 2009; Rahman and Korn, 2009).

At the same time, there is evidence suggesting that contextual factors such as cultural values and government policies have led to different findings about IJVs in non-western settings (Johnson et al., 2001; Julian and O’Cass, 2002; Malairaja and Zawdie, 2004; Rahman, 2008; Tsang, 2002). For instance, Rahman (2008) proposes that in China, since IJV-formation is often motivated by guanxi (relationship) and not necessarily by competency, the performance of the resulting venture may be negatively affected by culture. Malairaja and Zawdie (2004) contend that for knowledge transfer to have a positive effect on innovation, partners from developing countries must devise
learning strategies which focus on challenging existing knowledge instead of sustaining it, as is the current practice. Tsang (2002) discovers the existence of “learning myopia” among Asian IJV partners which refers to knowledge acquired not as a result of deliberate and careful planning, but merely through operational and routine activities. All these have contributed to the realization that relationships among motive, strategic fit, knowledge transfer and innovation performance are very complex issues in an IJV, more so from the perspective of developing countries.

Bearing in mind these issues, the current study was carried out with two objectives:

1. to identify the motives of Malaysian firms for engaging in offshore IJVs; and
2. to analyze the interplay among four key variables introduced above – motive, strategic fit, knowledge transfer and innovation performance – from the perspective of Malaysian IJVs abroad.

Based on a literature review, the constructs of the study were defined and operationalized and theoretical linkages discussed. Since research in innovation is just gaining momentum in the country, the study took an exploratory view of the construct and investigated various types of innovation activities. Hypotheses were then developed and subsequently tested using bootstrap analysis. Results of the analysis enabled the development of a model more appropriate for the Malaysian context. These findings will have implications not only to local policy-makers and businesses, but also to international firms seeking to enhance collaborations with Malaysian firms.

Literature review and hypothesis development

Motives for engaging in IJVs

Previous research (Boateng and Glaister, 2003; Fahy et al., 1998; Whitelock and Yang, 2007; Zineldin and Dodourova, 2005) shows that in general firms engage in IJVs for the purpose of developing marketing strategies, improving efficiency and acquiring knowledge. For the first category, benefits include the ability to enter the market faster, increase product diversification, gain more competitive advantages, deter new market entry, and overcome trade barriers. At the same time, efficiency can be improved by exploring global synergies with other firms to achieve economies of scale, spread financial risk, reduce inventory, and minimize production costs. Finally, IJVs also help firms to acquire faster access to knowledge about running a business in foreign markets particularly knowledge of technology and management as well as the local economy, politics, culture, and demographics.

A study in Malaysia by Yacob (2007) examines the motivations for IJVs formed between Western MNCs and government-linked companies in Malaysia. The study finds that Western businesses pursue IJVs with Malaysian firms locally mainly to improve efficiency by sharing resources and supply-chains, and spreading financial risks. Additional motives include the need to establish a local identity and conform to local government policies. Although knowledge transfer or acquisition is not explicitly quoted, it may be implicit in some of the stated motives such as establishing a local identity which requires knowledge of the local cultures and demographics. Alternatively, it is also possible that Western firms genuinely do not view their local partner as a reliable source of knowledge – especially that pertaining to technology and management – due to the latter’s limited experience and performance in business. Muthaly et al. (1999) find that foreign firms establish IJVs in Malaysia to
acquire knowledge about the local environment and to conform to local government policies. Interestingly, foreign firms perceive their Malaysian partners to put low emphasis on R&D, and consider this as a positive factor in setting up IJVs with local firms since it reduces the pressure on them to transfer knowledge.

The theoretical linkages between motive and performance have been discussed in more recent studies on IJVs. Research shows that IJV formation motives such as risk-sharing and networking affect factors such willingness to share knowledge and the cost of R&D, which in turn affect the level of innovation in the resulting venture (Eisner et al., 2009). In particular the relationship between motive and innovation performance is suggested to be via the path of knowledge sharing. Furthermore, since alliances are formed to pursue strategies, the purpose or motive of an alliance formation should be in line with the strategies to facilitate implementation (Rahman and Korn, 2009). This argument does not only suggest the importance of finding a fit between motive and strategy, but also points to a possible relationship between motive and performance through strategy implementation.

IIJV performance
Scholars have proposed various measures of IJV performance. Some use subjective measures such as perceived satisfaction of partners (Lasserre, 1999; Lin and Wang, 2008; Selekler-Goksen and Uysal-Tezolmez, 2007). Others prefer more objective ones such as market share (Acquaah, 2009; Ainuddin et al., 2007; Li, 2003; Mohr and Puck, 2005) or traditional financial indicators (Chiao et al., 2009; Luo, 2002). Yet others have employed the survival-termination dichotomy as a proxy for performance, based on the assumption that terminated alliances are less successful (Meschi and Riccio, 2008). Lately, innovation has become increasingly prominent in studies on firm performance. Superior innovation provides firms with opportunities to grow faster, better and smarter than their competitors (Freitas, 2008; Prajogo et al., 2004; Saenz et al., 2009). Since innovation often involves greater financial investment and R&D capacity, many firms collaborate and share resources with different types of partners to improve their firm’s rate and quality of innovations (Tsai and Hsieh, 2009). Thus using innovation as a measure of performance appears to be a significant contribution to studies on IJVs.

In terms of constructs, research has generally defined innovation as novelties or improvements in multiple dimensions of business (Johanessen et al., 2001) particularly product, service, market, process, supply and general administration. Some studies have used more specific measures of innovation such as speed of introduction to the marketplace (Kessler et al., 2007) or number of patents (Shane, 1993). In exploratory research, however, scholars typically examine a combination of innovations such as improvements in product quality, usage of new technologies and raw materials, development of new market segments, organizational restructuring, et cetera. Wang and Ahmed’s (2004) factor analysis has produced 20 items measuring various types of innovation which are in line with the purpose of the current study. These measures of innovation include products, services and market development, as well as new processes and management approaches.

Strategic fit, knowledge transfer and innovation performance
Strategic fit refers to the congruence between numerous sets of organizational profile or objective belonging to partners of a particular JV (Griffith and Myers, 2004; Yan and
Duan, 2003). The said organizational profile includes dimensions such as previous experience in the host country, previous experience with similar projects, adequacy of management skills, technical skills and human resources, and quality of relationship with the client (Ozorhon et al., 2008). Strategic fit means that partners place equal importance on the same dimensions and seek compatible goals or outcomes. The strategic fit paradigm asserts that when firms are congruent in their profiles and objectives, their strategies will interact in a dynamic process to produce a positive performance and successful IJV operations, including innovation activities (Murray and Kotabe, 2005; Ozorhon et al., 2008). Lukas et al. (2001) argue that when partners have low strategic fit, they will be at odds in terms of devising and implementing strategies particularly those involving information processing and resource allocation. As a result of this poor coordination among partners, IJV performance will suffer. Other studies, as discussed below, suggest that the effect of strategic fit on innovation is mediated by knowledge transfer.

In an earlier part of the paper, the notion of knowledge transfer was introduced as one of the motives for engaging in IJVs. Knowledge transfer may be generally defined as the sharing of existing knowledge among partners of a JV; it facilitates the acquisition of new capabilities through mutual learning processes (Mowery et al., 1996). According to Eisner et al. (2009), benefits of inter-firm knowledge transfer include risk-sharing and networking. While risk-sharing refers to the lower fixed costs incurred in R&D, networking provides the avenue for value-adding collaborations. For current purposes, the construct is operationalized based on Molina et al. (2007), i.e. the extent to which a firm has learned or acquired new and important information, critical capacity and ability from their JV partners in relation to marketing, operations, finance, administration, human resources, and R&D. The definition is appropriate for studies of a more exploratory nature as it enables the examination of all basic functions of a business venture.

Griffith and Myers (2004) posit that to facilitate knowledge exchange or transfer between partners, firms must invest sufficient resources on developing the necessary knowledge systems. However, since resources are limited, firms will tend to prioritize partners which have matching or fitting profiles and goals. Also, since profile/goal congruence between partners leads to greater cooperativeness and better working relations, it tends to encourage inter-firms knowledge sharing (Samaddar et al., 2006). Thus, IJVs that co-align a higher level of strategic fit between the partners will have more effective and reciprocal knowledge transfer (Murray et al., 2009; Darr and Kurtzberg, 2000). In other words:

\[ H1. \text{ Strategic fit directly and positively affects knowledge transfer.} \]

Knowledge generally facilitates innovation since it provides businesses with a genuine understanding of market dynamics (Weidenfeld et al., 2010). The transfer of knowledge between partners is considered desirable as it enables the development of new capabilities which may not be possible for a single partner operating on its own (Geppert and Clark, 2003; Park et al., 2009; Zhang et al., 2010). Guan et al. (2006) argue that innovation activities cannot be boosted substantially merely through the acquisition of key equipment and apparatus from abroad. Instead, firms should also develop their technological absorptive capacity and transformative capacity, and
foster technology transfer and communications among trading partners to enhance its innovativeness.

According to the economies of scale theory, the cost of replicating knowledge tends to be lower than the cost of discovering the original knowledge. Where there is high strategic fit, partners can combine existing knowledge to create new knowledge which is then applied in a related or slightly different area of business, thus creating knowledge scope advantages (Nielson, 2010). Montgomery et al. (1998) find that the knowledge being transferred is the basis of a firm’s competitive advantage and that the speed of knowledge transfer is the basis of the firm’s first-mover advantage in the host country. The greater the value of the knowledge being transferred and the faster the speed of knowledge transfer, the more likely it is that the JVs will attain higher innovation performance (Saenz et al., 2009). Hence, knowledge transfer appears to enhance the innovation capability of firms. These arguments lead to the second hypothesis:

H2. Knowledge transfer mediates the effect of strategic fit on innovation performance.

Research methodology
The study involved Malaysian firms that have engaged in IJVs abroad. The population of the study was generated from a list of companies provided by the Kuala Lumpur Stock Exchange. In line with previous research on the performance of IJVs, a firm is considered as a parent of the IJV and included in this study if it has more than 5 percent and less than 95 percent equity ownership in the investment (Hennart et al., 1998). Based on this criterion, the population comprised 234 public-listed companies that have engaged in IJVs abroad.

The questionnaire consisted of five parts which measured basic firm characteristics, motives for entering IJVs, strategic fit, knowledge transfer and innovation performance. The scale for motives was adapted from Whitelock and Yang (2007) and consisted 13 close-ended and one open-ended items, representing knowledge transfer or acquisition, efficiency improvements and market development strategies. Items measuring the independent, mediating and dependent variables were also adapted from previous studies, and shown in Table I. The scales employed seven-point Likert scores ranging from 1 as the lowest to 7 as the highest. A questionnaire was sent out to a top executive in each of the 234 firms listed above who had been involved in the management of IJVs abroad. After two reminders 74 usable questionnaires were returned, thus yielding a response rate of 31.62 percent. Data were then analyzed using the Statistical Package for Social Sciences.

A brief description of the 74 IJVs involved is given here. In terms of duration, 31 (41.9 percent) of the total respondents had been operating for up to five years and 43 (58.1 percent) for more than five years. A total of 58 (78.3 percent) of them were located in Asia, six (8.1 percent) in North America, six (8.1 percent) in Europe, three (4.1 percent) in Australia, and only one (1.4 percent) in Africa. Almost three-quarters were in manufacturing, and the remaining in services. Finally, on revenue, 34 (45.9 percent) were earning more than USD7 million per annum, another 34 (45.9 percent) from USD3 up to 7 million, while the rest (8.2 percent) earned less than USD3 million.

Table II summarizes the factor loadings, variances explained and Cronbach’s alpha for strategic fit, knowledge transfer and innovation performance. The variance
<table>
<thead>
<tr>
<th>Variable</th>
<th>Items</th>
<th>Sources</th>
</tr>
</thead>
</table>
| Independent: strategic fit| Similarity of partners in terms of goals is important to the success of the JV  
Similarity of partners in terms of previous experience in the host country is important to the success of the JV  
Similarity of partners in terms of similar industry experience is important to the success of the JV  
Similarity of partners in terms of management skills is important to the success of the JV  
Similarity of partners in terms of technical skills is important to the success of the JV  
Similarity of partners in terms of human resources is important to the success of the JV | Ozorhon et al. (2008)          |
| Mediating: knowledge transfer | Your firm has learned or acquired new or important information from JV partners related to:  
Marketing/Operations/Finance/Administration/  
Human Resources/Research and Development  
Your firm has learned or acquired some new or important critical capacity or ability from JV partners related to:  
Marketing/Operations/Finance/Administration/  
Human Resources/Research and Development  
This relationship has helped your company to improve the abilities or capacities already possessed in:  
Marketing/Operations/Finance/Administration/  
Human Resources/Research and Development | Molina et al. (2007)            |
| Dependent: innovation performance | In new product and service introductions, our company is often first-to-market  
Our new products and services are often perceived as very novel by customers  
In comparison with our competitors, our company is faster in bringing new products or services into the market  
In comparison with our competitors, our company has a lower success rate in new products and services launch  
We are constantly improving our business processes  
Our company changes production methods at a great speed in comparison with our competitors  
During the past three years, our company has developed many new management approaches  
When we cannot solve a problem using conventional methods, we improvise on new methods  
Our recent new products and services are only minor changes from our previous products and services | Wang and Ahmed (2004)          |

Table 1. Items measuring strategic fit, knowledge transfer, and innovation performance
explained and Cronbach’s alpha for strategic fit were 56.54 percent and 0.766 respectively, after deleting three items. For knowledge transfer, the variance explained was 75.67 percent and Cronbach’s alpha was 0.971 after deleting one item. When all the 20 items of innovation performance were entered into exploratory factor analysis, three factors were identified. A total of 11 items cross-loaded onto more than one component and thus were deleted; the remaining nine items each loaded onto a single component and were retained for subsequent analysis. For current purposes, the three factors that emerged were called market innovation, behavioral innovation and strategic innovation. The variance explained for market innovation, behavioral innovation and strategic innovation were 26.57 percent, 21.40 percent, and 21.15 percent respectively, while the corresponding Cronbach’s alpha were 0.953, 0.892, and 0.892 respectively.

To identify the most important motives for engaging in IJVs, mean scores for the 13 associated items were compared; thus the importance of each motive could be ranked. The direct effect of strategic fit on knowledge transfer was examined through correlation analysis while a bootstrap method (with \( n = 1,000 \) bootstrap resamples) was used to assess the indirect effect of strategic fit on innovation performance (see Preacher and Hayes, 2008). In other words, bootstrapping was used in the current study to determine the mediating effect of knowledge transfer on the relationship between strategic fit and innovation performance.

Bootstrapping is a nonparametric resampling procedure that generates an empirical approximation of the sampling distribution of a statistic from the available data. More
<table>
<thead>
<tr>
<th>Variable</th>
<th>Factor and item (item label)</th>
<th>Factor loading</th>
<th>Variance explained (%)</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic fit (SFT)</td>
<td>Similarity of partners in terms of previous experience in the host country is important to the success of the JV (SF2)</td>
<td>0.831</td>
<td>56.54</td>
<td>0.766</td>
</tr>
<tr>
<td></td>
<td>Similarity of partners in terms of management skills is important to the success of the JV (SF4)</td>
<td>0.819</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Similarity of partners in terms of technical skills is important to the success of the JV (SF5)</td>
<td>0.774</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge transfer (KTT)</td>
<td>Learn or acquired capacity or ability from JV partners related to marketing, operation, finance, administration, human resource, and R&amp;D (KT2)</td>
<td>0.946</td>
<td>75.67</td>
<td>0.971</td>
</tr>
<tr>
<td></td>
<td>Improve capabilities and abilities of marketing, operation, finance, administration, human resource, and R&amp;D (KT3)</td>
<td>0.954</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation performance</td>
<td>Factor 1 market innovation performance (MIT)@ New products and services in our company often take us up against new competitors. (IP10)</td>
<td>0.883</td>
<td>26.57</td>
<td>0.953</td>
</tr>
<tr>
<td></td>
<td>In comparison with our competitors, our products’ most recent marketing programme is revolutionary in the market. (IP11)</td>
<td>0.909</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>In new product and service introductions, our company is often at the cutting edge of technology. (IP12)</td>
<td>0.875</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Factor 2 behavioural innovation performance (BIT): In our company, we tolerate individuals who do things in a different way. (IP18)</td>
<td>0.866</td>
<td>21.40</td>
<td>0.892</td>
</tr>
<tr>
<td></td>
<td>We are willing to try new ways of doing things and seek unusual, novel solutions. (IP19)</td>
<td>0.874</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>We encourage people to think and behave in original and novel ways. (IP20)</td>
<td>0.926</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Factor 3 strategic innovation performance (SIT): Our firm’s R&amp;D or product development resources are not adequate to handle the development need of new products and services. (IP13)</td>
<td>0.910</td>
<td>21.15</td>
<td>0.892</td>
</tr>
<tr>
<td></td>
<td>Key executives of the firm are willing to take risks to seize and explore risky growth opportunity. (IP14)</td>
<td>0.910</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>When we see new ways of doing things, we are last at adopting them. (IP16)</td>
<td>0.838</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table II. Results of reliability test and exploratory factor analysis
specifically, the bootstrapping sampling distributions of indirect effects are empirically generated by taking a sample (with replacement) of size \( n \) from the full data set and calculating the indirect effects in the resamples. This way, point estimates and 95 percent confidence intervals are predicted for indirect effects. As a stringent test of our hypotheses, we considered point estimates of indirect effects significant in the case zero are not contained in all confidence intervals.

There are several advantages of using bootstrapping to test mediating effects, including:

- the commonly used method recommended by Baron and Kenny (1986) for testing mediation had low statistical powers (MacKinnon et al., 2002);
- although Sobel Test provides a more powerful analysis of mediation, it poses problems with standard errors associated with the significance test of indirect effects (MacKinnon et al., 2002);
- according to Shrout and Bolger (2002), bootstrapping methods can obtain a better statistical power, especially when sample sizes are not large; and
- bootstrapping allows multiple mediators to be entered into the model simultaneously to test whether an overall indirect effect exists (Preacher and Hayes, 2008).

Results

Motives for engaging in IJVs

Table III shows the overall list of motives for Malaysian firms to engage in IJVs abroad. The top three motives were to generate profit (mean = 3.405), enter the market faster (mean = 2.122), and explore global synergies with other firms (mean = 1.716). Motives involving knowledge acquisition/transfer are considered to have secondary, and even least importance, ranging from market knowledge (mean = 1.027) and technological knowledge (mean = 0.824) to cultural/political/economic knowledge (mean = 0.392) and finally management knowledge (mean = 0.135).

<table>
<thead>
<tr>
<th>Strategic motivation</th>
<th>Rank</th>
<th>Mean score</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>To generate profit</td>
<td>1</td>
<td>3.405</td>
<td>1.965</td>
</tr>
<tr>
<td>To enter the market faster</td>
<td>2</td>
<td>2.122</td>
<td>2.007</td>
</tr>
<tr>
<td>To explore global synergies with other firms</td>
<td>3</td>
<td>1.716</td>
<td>1.764</td>
</tr>
<tr>
<td>To spread financial risk</td>
<td>4</td>
<td>1.635</td>
<td>1.643</td>
</tr>
<tr>
<td>To benefit from low labor cost</td>
<td>5</td>
<td>1.068</td>
<td>1.582</td>
</tr>
<tr>
<td>To acquire local market knowledge</td>
<td>6</td>
<td>1.027</td>
<td>1.480</td>
</tr>
<tr>
<td>To overcome trade barriers</td>
<td>7</td>
<td>0.959</td>
<td>1.747</td>
</tr>
<tr>
<td>To acquire technological knowledge</td>
<td>8</td>
<td>0.824</td>
<td>1.475</td>
</tr>
<tr>
<td>To reduce investment exposure</td>
<td>9</td>
<td>0.703</td>
<td>1.190</td>
</tr>
<tr>
<td>To deter competitive market entry</td>
<td>10</td>
<td>0.649</td>
<td>1.254</td>
</tr>
<tr>
<td>To acquire knowledge of the local economy, politics and culture</td>
<td>11</td>
<td>0.392</td>
<td>1.004</td>
</tr>
<tr>
<td>To avoid political risk or uncertainties</td>
<td>12</td>
<td>0.365</td>
<td>0.900</td>
</tr>
<tr>
<td>To acquire management knowledge</td>
<td>13</td>
<td>0.135</td>
<td>0.478</td>
</tr>
<tr>
<td>Others</td>
<td>14</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Table III. Overall motives for engaging in IJV abroad
Correlation
To establish the relationships between the model variables in this study, a Pearson Product-Moment Correlation analysis was performed. Table IV presents a summary of the results. As shown in the table, strategic fit positively and significantly correlated with knowledge transfer ($r = 0.284$), market innovation ($r = 0.373$), and strategic innovation ($r = 0.267$), but not with behavioral innovation. Knowledge transfer too has a positive and significant relationship with market innovation ($r = 0.327$) and strategic innovation ($r = 0.935$) but not with behavioral innovation. The strength of the relationship between knowledge transfer and strategic innovation is worth noting and emphasizes the role of knowledge in innovation activities. The mean values of all three types of innovation, i.e. below 6.000 indicate low levels of innovation among the firms surveyed.

Hypothesis testing
H1 postulates that strategic fit has a positive direct effect on knowledge transfer. In the study, the hypothesis was tested using the above correlation analysis which indicated that the effect was of medium-low strength ($r = 0.284$) and significant at $p < 0.05$. Thus, H1 is supported.

H2 predicts that knowledge transfer mediates the effect of strategic fit on innovation performance. An exploratory factor analysis conducted earlier produced three dimensions of innovation performance. Thus, H2 was further examined by using three sub hypotheses, as follows:

- **H2a.** Knowledge transfer mediates the effect of strategic fit on market innovativeness.
- **H2b.** Knowledge transfer mediates the effect of strategic fit on strategic innovativeness.
- **H2c.** Knowledge transfer mediates the effect of strategic fit on behavioral innovativeness.

Results of bootstrapping to assess the above mediating effects are shown in Table V, where SFT = strategic fit, KTT = knowledge transfer, MIT = market innovation, SIT = strategic innovation, and BIT = behavioral innovation.

As shown in Table V, in relation to H2a, the mediating effect of knowledge transfer on the relationship between strategic fit and market innovativeness was statistically significant at $p < 0.05$ with 95 percent CI = 0.0076, 0.2459. H2a is therefore supported.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic fit</td>
<td>5.667</td>
<td>0.715</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge transfer</td>
<td>5.125</td>
<td>0.718</td>
<td>0.284 *</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market innovation</td>
<td>5.005</td>
<td>0.964</td>
<td>0.373 **</td>
<td>0.327 **</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic innovation</td>
<td>4.941</td>
<td>0.789</td>
<td>0.267 *</td>
<td>0.935 **</td>
<td>0.343 **</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Behavioral innovation</td>
<td>5.730</td>
<td>0.797</td>
<td>−0.075</td>
<td>0.102</td>
<td>0.378 **</td>
<td>0.054</td>
<td>1</td>
</tr>
</tbody>
</table>

**Notes:** n = 74; *correlation is significant at the 0.05 level (two-tailed); **correlation is significant at the 0.01 level (two-tailed)

**Table IV.** Results of correlation analysis
Table V. Summary of mediation results for innovation performance (1000 bootstrap samples)

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Mediating variable</th>
<th>Dependent variable</th>
<th>Effect of IV on M</th>
<th>Effect of M on DV</th>
<th>Direct effect</th>
<th>Indirect effect</th>
<th>Total effects</th>
<th>95 percent CI for mean indirect effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>(IV)</td>
<td>(M)</td>
<td>(DV)</td>
<td>(a)</td>
<td>(b)</td>
<td>(c')</td>
<td>(a × b)</td>
<td>(c)</td>
<td></td>
</tr>
<tr>
<td>1. SFT</td>
<td>KTT</td>
<td>MIT</td>
<td>0.2850</td>
<td>0.3224</td>
<td>0.4111</td>
<td>0.0919</td>
<td>0.5030</td>
<td>0.0076, 0.2459</td>
</tr>
<tr>
<td>2. SFT</td>
<td>KTT</td>
<td>SIT</td>
<td>0.2850</td>
<td>1.0266</td>
<td>0.0021</td>
<td>0.2926</td>
<td>0.2946</td>
<td>0.0703, 0.6236</td>
</tr>
<tr>
<td>3. SFT</td>
<td>KTT</td>
<td>BIT</td>
<td>0.2850</td>
<td>0.1484</td>
<td>−0.1256</td>
<td>0.0423</td>
<td>−0.0833</td>
<td>−0.0198, 0.2545</td>
</tr>
</tbody>
</table>
For $H_{2b}$, at $p < 0.005$, the mediating effect of knowledge transfer on the relationship between strategic fit and strategic innovativeness was statistically significant with 95 percent CI = 0.0703, 0.6236. Hence, there is also support for $H_{2b}$. However, for $H_{2c}$, the mediating effect of knowledge transfer on the relationship between strategic fit and behavioral innovativeness was statistically not significant at $p < 0.005$ with 95 percent CI = $-0.0198, 0.2545$. Thus, $H_{2c}$ is not supported.

**Discussion and conclusion**

Motives for firms to engage in IJVs and the factors which affect their performance have been the focus of numerous studies in developed countries. The current study extends existing literature by examining the above issues from the perspective of Malaysian firms engaging in IJVs abroad. Besides identifying the primary motives for these firms, the study also examined the relationships among three key variables found in the literature: strategic fit, knowledge transfer and innovation performance. Of particular interest was the mediating effect of knowledge transfer on the relationship between strategic fit and innovation performance. The above results are further discussed in this section before major conclusions are drawn.

Based on previous studies (Muthaly et al., 1999; Yacob, 2007), differences are noted in key motives between Western firms that form IJVs in Malaysia and Malaysian firms that engage in IJVs abroad. While the primary reasons for the former appear to be to share resources and knowledge about the local environment, gain access to well-established local supply chains, and establish a local identity, for the latter they seem to be to maximize profit and expedite market penetration. This may be explained by differences in contextual factors among the host countries. Western firms set up IJVs in Malaysia to enjoy specific advantages found in a relatively modern economy such as sophisticated infrastructure and skilled human capital. Additionally, acquiring knowledge of the local environment is one of their key motives for engaging in IJVs since it helps them to establish a local identity. In contrast, Malaysian firms pursue IJVs mainly in less developed countries where resources may be limited but which offer the advantages of a large market size and cheap production costs.

Through hypotheses testing, the direct effect of strategic fit on knowledge transfer was demonstrated which affirmed findings in previous research (Darr and Kurtzberg, 2000; Murray et al., 2009). Hypothesis testing was also concerned with the mediating effect of knowledge transfer on the relationship between strategic fit and innovation performance of the IJVs. Based on factor analysis, three dimensions of innovation performance were identified namely strategic, market, and behavioral innovations. Hence, the main hypothesis was further divided into three sub-hypotheses and tested through bootstrapping. The results showed that knowledge transfer had a mediating effect on the relationships between strategic fit and two out of the three dimensions of innovation used in the study. In sum, the hypotheses test results have strengthened the proposition that partners in IJVs with a high level of strategic fit are more likely to achieve greater knowledge transfer between them which in turn will enhance their capacity for innovating (Saenz et al., 2009; Darr and Kurtzberg, 2000; Montgomery et al., 1998).

As a general observation, it can be concluded that strategic alliances play a critical role in global innovation. Partner firms can overcome individual constraints and achieve superior innovative performance not only by sharing tangible assets such as
infrastructure but also intangible resources particularly knowledge, skills and experience in various aspects of business. However, given that knowledge transfer or sharing is not a primary motive among Malaysian partner firms in offshore IJVs, it is unlikely that their innovative capacity can be developed through this type of venture (Eisner et al., 2009). Their top two motives namely making a faster market penetration and profit maximization also reflect an emphasis on short-term gains (especially if profit is maximized through indiscriminate cost-cutting), and do not augur well for innovation which requires longer-term research and financial investments. Obviously the situation has serious implications to all parties involved especially the Malaysian government which has been aggressively promoting innovation as the main strategy for economic growth and sustainability. A more detailed discussion of these implications is provided below.

Research implications

Theoretical and methodological implications

The study has not only given additional empirical support to the importance of strategic fit and knowledge transfer in innovation, it also affirms that innovation is best treated as a multi-dimensional variable in exploratory studies. The findings indicate that if the second hypothesis had not been split and tested as three sub-hypotheses, scores for behavioral innovation could have cancelled out those for market and strategic innovations. Thus the overall result could have led to the erroneous conclusion that knowledge transfer did not have a significant mediating effect on the relationship between strategic fit and innovation.

At the same time, researchers may also wish to investigate why knowledge transfer fails to enhance behavioral innovation in Malaysian IJVs. In fact, the negative relationship between strategic fit and behavioral innovation as well as the non-significant relationship between knowledge transfer and behavioral innovation suggest that there may be moderating factors that account for this unexpected result. Even though moderating factors are beyond the scope of the current study, future researchers should consider examining the possible effects of moderators on the relationship between knowledge transfer and innovation performance. Such factors have been suggested by previous scholars to include firm size, type of industry and age of IJV, government policies and cultural values (Sazali et al., 2009; Malairaja and Zawdie, 2004; Rahman, 2008).

Poor innovation performance observed among the firms surveyed in the study also suggests the importance of having a deliberate intent or motive for knowledge transfer. According to Rahman and Korn (2009), an alignment or fit between partners’ strategy and motive is critical to the performance of the resulting IJV. In the context of the current study, it is proposed that a stronger motive to acquire knowledge will result in a more concerted effort and coordinated strategy to ensure that knowledge transfer does happen. In turn, the transfer of knowledge itself improves the innovation performance of the resulting IJV. These propositions are visualized in Figure 1.

Finally, results of the reliability tests show that some items in the strategic fit and knowledge transfer scales have to be removed before scale reliability can be improved, which questions the generalizability of these scales in a Malaysian setting. At a more general level, this further strengthens the argument that scales developed in the West must undergo extensive validity and reliability evaluations before they can be applied.
to non-Western samples (Johnson et al., 2001). The finding should also emphasize the need for scholars to continually develop more generalizable scales that can be applied in multiple IJV settings.

**Practical implications**

From a practical perspective, the study provides lessons both for practitioners and policy-makers. It should create a better understanding for foreign firms of what motivates Malaysian businesses to pursue IJVs, which in turn will help them determine whether those motives are aligned with their own corporate strategies. For Malaysian firms, the study serves to remind that knowledge acquisition or transfer is very important in improving innovativeness and therefore deserves greater attention and commitment. Activities related to knowledge acquisition, such as learning and R&D, which have long taken a back seat in Malaysian businesses (Malairaja and Zawdie, 2004) must be stepped up and allocated with adequate resources. To develop a genuine interest in knowledge, policy-makers too have a huge role to play by shifting their own focus from short-term action plans to longer-term strategies in business development. These clearly involve not only giving financial incentives for research and development activities, but also by inculcating business values that emphasize learning and sharing.

**References**


Exploring the motives of Malaysian IJVs

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