MOTIVATIONS AND MANAGEMENT PRACTICES: THE DYNAMICS OF FOREIGN DIRECT INVESTMENT IN THAILAND

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ABSTRACT

Multinational companies investing in Thailand are surveyed for their motives and management practices pertaining to their operations in Thailand. The preliminary survey findings reveal that market growth and labor costs are the most important reasons for undertaking FDI in Thailand. There are some differences across multinational companies, based on their country of origin, which are evident. For instance, the importance given to the formation of ASEAN Free Trade Area, by Japanese and other Asian companies, as a significant motivation for undertaking FDI, is more pronounced than their counterparts from Australia, Europe, and the U.S. Regarding the degree of risks of operating in Thailand, political instability and foreign exchange or currency risk are rated highest among other kinds of risks. Capabilities that parent companies transferred to Thai branches are many, but product/service quality assurance is found to be the most important capability transferred to Thailand. Japanese rated the importance of this capability transferred to Thai, subsidiaries much higher than companies from other countries. High positions, i.e., CEO and General Managers, in Thai subsidiaries are mainly occupied by expatriates, whereas manufacturing/production, marketing, finance, and human resource managers are mainly held by local Thai managers. The survey results also provide an invaluable insight into the dynamics of management practices, undertaken by multinationals in Thailand.

INTRODUCTION

Foreign direct investment (FDI) has been a focus of international business studies for the past several decades. To a host country, FDI helps promote economic growth and employment through transferring know-how, creating jobs, and encouraging exports. Despite these benefits, FDI is also blamed for incurring costs to a host country, e.g., pollution, natural resource exploitation, and social problems.

Thailand is chosen to be a host country of interest in this study, due to its high economic growth and FDI inflow. The FDI inflow had a steady increase from 2005 to 2007 but a downward trend was witnessed in 2008 and 2009, due to a global economic crisis. However, the FDI inflow has been on the rise again, reaching US$ 9,111.55 million in year 2010 but has declined again to US$ 8,999.45 million in year 2011. As the world economy has gradually recovered, FDI inflow to Thailand has risen up to US$ 10,696.99 million in year 2012. The major business sector invested in Thailand is manufacturing, followed by financial and insurance activities.

Most FDI studies in Thailand were done at a broad level. For example, Chinwanno and Tambunlertchai (1983) investigated the impacts of Japanese FDI on the Thai economy. They found that Japanese FDI worsened the balance of payments, transferred little technology and contributed relatively little to economic development and employment. Japanese MNEs came to Thailand to utilize low-cost labor, benefit from tariff protection and enjoy tax exemption incentives, reflecting Thailand's open door policy to inward FDI. Mardon and Patik (1992) studied the major factors in attracting FDI to Thailand. Similar to Chinwanno and Tambunlertchai (1983)'s findings, they found that low labor costs and the Thai government's open approach to FDI were major factors in attracting FDI to the country. Mardon and Patik (1992) argued further that although FDI contributed greatly to Thailand's economic growth, but at the cost of foreign control, little technology transfer and Thai local producers being driven from the market.

Jansen (1995) argued that Japanese FDI helped restore private investment and growth and that export-oriented FDI added to Thai export earnings. Despite this positive contribution, Jansen (1995) conceded that Japanese FDI led to an even sharper increase in import demands than export earnings, causing deterioration in the current account deficit.

Since most studies are at macro level, this study is aimed to fill the gap of FDI stream of research at the micro level. There is no up-to-date information that identifies the strategic management issues facing foreign firms in Thailand. The objective of this study, is thus to investigate the firm-specific data of FDI in Thailand, ~~-~~either in the form of wholly-owned subsidiary or joint venture. FDI motives and key management practices of foreign firm operations in Thailand will be studied. The management issues at a firm level are posited to be related to business success. Differences across multinational companies based on their country of origin will also be studied.

FDI MOTIVES

Dunning (1993) classified four motives of FDI as (1) resource-seeking, (2) market-seeking, (3) efficiency-seeking, and (4) strategic (or created) asset-seeking. World Investment Prospects Survey 2009-2011 by UNCTAD (2009) showed the top 15 most attractive countries for FDI. Thailand, being among the 15 top FDI destinations, was found attractive due to the country's market growth, skills and talent, as well as cheap labor. Respondents in the Survey are multinational companies around the world, in which some of them do not have a presence in Thailand. They were asked to rate their perception towards FDI destination countries. This study, on the contrary, is aimed to examine the most preferred motives of MNCs, which have already invested in Thailand.

Research Question 1.1: What are the most preferred motives of MNCs investing in Thailand?

PERCEPTION OF FDI RISKS

Country risk is an important limiting factor that discourages investors to undertake outward FDI. Thailand has been prone to political risk and resulting economic stability. The most recent example has been the political crisis resulting in the September 2006 military coup. Some foreign investors had used a wait-and-see approach, before making big investments and reinvestment plans in Thailand. There had been an uncertainty about the political commitment to liberalization, especially in key sectors like telecommunications and utility services. The present study looks into perceived risks of MNCs operating in Thailand.

Research Question 2.1: How do MNCs perceive risks of operating in Thailand?

MANAGEMENT PRACTICES OF MULTINATIONAL COMPANIES

One of the objectives of this study is to examine MNCs' ownership advantages (product and process technology, work and managerial practices, advertising, marketing and distribution skills, brand name and parent reputation advantages) that are being transferred to their subsidiaries in Thailand. These transferred advantages are of great contribution to both local branches and to a host economy as a whole.

Research Question 3.1: How important are capabilities transferred to the branches?

In managing these capabilities transferred, the parent company has to make a decision whether they will use local or expatriate managers.

Research Question 3.2: How do MNCs manage their management positions in their branches?

NATIONALITY OF MULTINATIONAL COMPANIES

Aforementioned, Japanese are the largest investors in Thailand. Thus it would also be interesting to study whether Japanese MNCs have distinct characteristics and practices from MNCs of other countries. Lakhera (2008) has studied Japanese FDI flows in Asia and has discovered many unique characters of Japanese MNCs. For example, Japanese MNCs prefer to transfer their home management practices and systems or normally known as Japanese Management Technique (JMT) to their foreign branches as these are viewed as firm specific advantages. Japanese MNCs also tend to exploit their inter-firm linkages known as "club of suppliers" in order to co-specialize in the R&D and production of complex products and to facilitate technological diffusion among firms in conglomerates or "keiretsu".

Banga (2003) studied the productivity spillovers from Japanese and U.S. FDI to local companies and found that there is a positive spillover effect in Japanese FDI to productivity growth of the Indian firms, while there is no spillover effect from U.S. FDI.

In this study, the differences in terms of FDI motives, perception of FDI risks, and management practices among subsidiaries from different nationalities of MNCs, will be examined.

Research Question 4.1: Does nationality of MNCs make a difference in terms of (a) FDI motives, (b) perception of FDI risks, and (c) management practices?

RESEARCH METHODOLOGY

The population in this study is FDI in Thailand, either in the form of wholly-owned subsidiary or joint venture. Factory Directory in Thailand (2009) is used as a sampling frame. Purposive sampling method is adopted. Firms which have 100% foreign ownership, or at least 10% of foreign ownership, will be used as a sample in the study. Questionnaires were sent to 560 companies addressing to the persons in the highest position of the local branches. Three follow-ups were executed during the end of year 2009 and the first quarter of 2010. Of total 560 companies sent, 85 of them are useable yielding a 15% response rate. Industry coverage includes chemical, electronic machinery, food stuff, jewelry, leather products, machinery, metal, paper, petroleum, plastic products, rubber products, textile, transport machinery, watch, medical equipment, and wood products. Non response bias was tested by comparing the size of the company (registered capital and the number of employees) and the number of years since a subsidiary's establishment between responding and non-responding companies. It is found that there's no significant difference of these characteristics between the two. It is thus assured, that non response bias is absent.

DATA ANALYSIS

Of the total sample, 48 companies were associated with Japanese parents/partners; 20 with Australian/European/US partners, and 17 with the Asian parents/partners, such as Singapore, Taiwan, Korea. Further, the average annual sales/turnover for the past three years was around 2,010 million Baht whereas export, as a percentage of total sales (average over the past three years), was 52 per cent. In terms of the assets of these companies, the average total assets (for the past three years) were valued at 1,530 million Baht.

FINDINGS

The findings of each research question are presented.

Research Question 1.1: What are the most preferred motives of MNCs investing in Thailand?

MNCs were asked to indicate the importance of the reasons for investing in Thailand. It was found that the most preferred motives of MNCs investing in Thailand are market growth, labor costs, provision of infrastructure, and investment incentives.

Research Question 2.1: How do MNCs perceive risks of operating in Thailand?

MNCs were asked to rate the degree of the risks of operating in Thailand. From the survey, the companies rated political instability with the highest degree of risks perceived, followed by foreign exchange/currency risk, and inconsistent government policies.

Research Question 3.1: How important are capabilities transferred to the branches?

MNCs operating in Thailand were asked to rate the importance of nine capabilities transferred from foreign (non-Thai) partner(s)/parent to Thailand at formation. At the establishment of the operations in Thailand, the capabilities of foreign partner(s)/parent transferred to Thailand which were rated the top three most important are product/service quality assurance, codified technology (blueprints/instructions/manuals), and skills through training.

Research Question 3.2: How do MNCs manage their management positions in their branches?

Table 1: Management positions in Thai branches filled by Thai managers

	Yes	No	Position not exist
Chief Executive Officer	22	35	23
General manager	41	29	10
Manufacturing/Production manager	65	10	4
Marketing manager	45	24	12
R&D manager	32	22	27
Finance manager	70	5	6
Human resource manager	66	7	7

Table 1 illustrates the number of management positions in Thai branches that are filled by Thai managers (in the “Yes” column). All management positions except Chief Executive Officer (CEO) are more than half filled by Thai managers.

Research Question 4.1: Does nationality of MNCs make a difference in terms of (a) FDI motives, (b) perception of FDI risks, and (c) management practices?

Three sets of nationalities of MNCs were classified, i.e., (1) Japanese (as Japanese are the largest investors in Thailand), (2) Australia, Europe, and the U.S., and (3) other Asians. The differences across these nationalities were then tested.

Tests for Research Question 4.1 show that only the following issues are significantly different, due to the nationality of MNCs.

(a) FDI motives

Only the reason "Due to the formation of ASEAN FTA" that MNCs invest in Thailand, is found statistically different (0.05 level of significance) across MNCs from different nationalities. To be specific, MNCs from other Asian countries have put the highest importance (3.46) on this reason, while Japanese MNCs have placed this reason as 3.44 (out of 5 scale) and MNCs from Australia, Europe and U.S. have placed this reason as only 2.44.

(b) Perception of FDI risks

Only the risk dimension "Restrictions on transfer of funds from Thailand" that MNCs perceived in operating in Thailand, is found statistically different (0.05 level of significance) across different nationalities of MNCs. Specifically, MNCs from other Asian nations perceived this FDI risk dimension, to be the highest (3.67 out of 5 scale) while Japanese MNCs perceived at 2.71 and MNCs from Australia, Europe, and the U.S. perceived this risk as the lowest (2.22).

(c) Management practices

Also for the test of difference of capabilities transferred to Thailand, there is only one capability which is found statistically different among MNCs from different nationalities, i.e., Product/service quality assurance (only at formation). It was found that the most significant was in the Japanese branches (4.16 out of 5 scale). While Australian, European, and U.S. branches placed the importance at 3.94 and branches from other Asian countries (except Japan) placed the importance of this capability transferred at only 3.36.

In addition, there is a relationship between nationality and how General Manager (GM) positions are filled by Thai firms, with the test of Pearson Chi-Square at significance level of 0.005. Specifically, Japanese MNCs tend to fill in GM positions with Thai managers more than MNCs of other nationalities. For other positions, there is no relationship with nationality.

DISCUSSION

From the findings, market-seeking and resource-seeking seem to be major motives of foreign multinationals investing in Thailand. It was found that foreign companies investing in Thailand are motivated by its market growth and low labor costs, followed by infrastructure and investment incentives respectively. Chandprapalert (2000) similarly found in his study, on the determinants of U.S. direct investment in Thailand, that other than firm size, market potential, and investment risk, market seeking and resource seeking were factors affecting American firms investing in Thailand. Ismail and Yussof (2003) also found that the size of the labor force in Thailand plays a significant role in attracting FDI to the country. The finding is also consistent with a study by Yew, Yong, and Tan (2010) titled "Impact of economic integration on foreign direct investment into ASEAN5" in that FDI inflow into ASEAN5 (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam), is more for market-seeking motive, as firms can enjoy the growing internal markets of ASEAN5.

It is also interesting to note that multinational firms investing in Thailand are also motivated by investment incentives offered by the government. Based on a panel dataset comprising of 4812 FDI projects during 1995-2010 of 76 Thai provinces during the period of 1985-2005, Wattanadumrong, Collins, and Snell (2010) argued that province-specific location factors underpin the motivations of selecting a particular province for a FDI project. These province-specific factors include cost of labor, provincial GDP per capita, demographic characteristics, level of educational attainment, population density, distance to port, state of physical infrastructure (transportation and communication); presence of industrial estates; and relative attractiveness of government incentives and regional policy to woo FDI. The empirical results indicate that the incentives built-in government regional policy is the most significant policy instrument in attracting FDI to a particular region.

As ASEAN Economic Community (AEC) is going to be effective in 2015, the single market and production base of the ten ASEAN nations will more or less enhance the attractiveness of investment in Thailand. The degree of attractiveness will depend on the combination of other factors, e.g., labor costs, infrastructure, and investment incentives. However, Thailand cannot be complacent any more as other countries in ASEAN are rising. As Thai government is going to enforce the increase in minimum wage in the second quarter of 2012, this increase in labor costs will probably be the major hindrance of MNCs to invest in Thailand. All in all, if Thailand can develop a better infrastructure and provide a reasonable investment incentive package, that should be an attractive welcome for foreign investors to Thailand.

Companies operating in Thailand rated political instability with the highest degree of risks perceived, followed by foreign exchange/currency risk, and inconsistent government policies. Since data were collected during a government transition and a possibility of political turmoil, it is not unexpectedly political instability and inconsistent government policies are of major concerns among foreign investors. In addition, as the world has faced the economic recession since 2008, currency fluctuation has become another major concern.

Since most operations are production-based, not marketing-based, capabilities that are transferred are not surprisingly production related. Product/service quality assurance, codified technology (blueprints, instructions, manuals), and skills through training, are rated as the most important capabilities transferred.

While Wattanadumrong et al. (2010) found that government policies are a significant motivating factor that explains inward FDI to Thai provinces, Thai government policies are in fact less effective in influencing Asian Transnational Enterprises (TNEs) to transfer technology to Thai firms. However, when it comes to technical training of Thai workers, the Asian TNEs' subsidiaries are proactive, thus increasing the chances of technology transfer by these subsidiaries (Poon & Sajarattanochote, 2010).

At present, product/service quality assurance and skills through training are still the capabilities that are the most transferred. Interestingly, brand name came up as the third most important capability transferred. It can be argued that Thailand is increasingly perceived as a marketing base as well. Although Thailand is not attractive in an aspect of market size (UNCTAD, 2009) due to a small domestic market, it could be argued that Thailand will increasingly enjoy the positive effects of ASEAN integration for its increasing market size and high growth rate of GDP.

While CEO is the position that is the least filled by Thai managers, other positions from GM, manufacturing/production manager, marketing manager, R&D manager, finance manager, and HR manager are still mostly filled by Thai managers. That is, the strategy is still controlled by the parent while the local operations are better run by local managers.

It is not surprising to find that companies from Japan and other Asian countries found ASEAN FTA of greater use than those from Australia/Europe/U.S. This could be a good suggestion to the Thai government that they have come to the right direction of boosting FDI via ASEAN. However, it would be great if the government promotes the benefits of ASEAN for Western companies, e.g., investment in one member country can increase intra-regional trade in ASEAN.

Regarding perceived FDI risk across different nationalities of MNCs, only the risk dimension “Restrictions on transfer of funds from Thailand” was found to be statistically different. MNCs from other Asian nations perceived this risk in the highest level, while Japanese runs in the second with MNCs from Australia, Europe, and the U.S. are in the lowest level. This can be explained by the cultural dimension by Hofstede (1991) of uncertainty avoidance. Hofstede (1991) has found that Western culture has low level of uncertainty avoidance while Eastern or Asian culture has a higher level of uncertainty avoidance. This could be a factor that Western firms can tolerate more on uncertainty or risks faced in their FDI compared to Asian firms.

Japanese companies care about product/service quality assurance the most among all companies. This is because Japanese value quality as the utmost importance in their work philosophy. The finding is in accordance with Lakhera’s (2008) study, that the Japanese MNCs prefer to transfer their home-based management practices and systems, or so-called Japanese Management Technique (JMT), in their foreign branches, as these are their key competitive advantage (p. 77).

Japanese MNCs are likely to fill in GM positions with Thai managers more than MNCs of other nationalities. The findings are contrary to the general perception of Japanese style of management. Brimble and Urata (2006) also found that Japanese firms tend to keep more Japanese expatriates in key positions than Western firms. It can thus be conclude that generalization of Japanese MNCs practices cannot be made.

Limitations in this study are related to the research design and sample size. Since it is a cross-sectional study, conclusions cannot be generalized over time. As data were collected during a political and economic uncertainty period, some conclusions may have changed if data were collected in another period of time. In addition, a small sample size may limit the generalizability albeit non response bias was not detected.

This study provides an insight into the dynamics of management practices of MNCs investing in Thailand. It also shows differences of these management practices across nationalities of MNCs. The findings are useful for Thai government in formulating strategy to attract more FDI.

Qualitative research methods, e.g., in depth interview, should be used to complement the quantitative approach in future studies. In depth interview is useful in probing for more detailed information such as reasons of investing in Thailand and reasons of choosing expats over Thai managers or vice versa in management positions.

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