INTER-PARTNER FIT AND JOINT VENTURE PERFORMANCE: A CASE STUDY ON PADIBERAS NASIONAL BERHAD

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ABSTRACT

Although joint venture, as a corporate strategy, has been gaining popularity over the past few decades, its growth is often fraught with instability and poor performance. This paper aims to share the story of a Malaysian public listed company – Padiberas Nasional Berhad (BERNAS) – which has achieved success through joint ventures. The case highlights the significance of inter-partner fit and relations as determinants of joint venture performance. It also underlines the importance of both micro and macro factors in the determination of fit between partners.

Key Words: joint venture, inter-partner fit, firm performance, Malaysia

INTRODUCTION

In the last two decades, joint-ventures (JVs) have been increasing in frequency and strategic importance (Geringer and Hebert, 1991; Luo and Park, 2004). However, many firms have learnt that the performance of their JVs often does not meet their expectations (Geringer and Hebert, 1991; Mohr and Puck, 2005). Previous studies have shown that the instability rate for JVs range from 28.8% to 70% (Kale and Anand, 2001; Kogut, 1988, 1989; Meschi, 2005; Meschi and Ricco, 2008; Park and Ungson, 1997). In addition, a study done by Kent (1991) also shows that JVs may enjoy a significant advantage in market power, but the overall performance of JVs is significantly lower than that of non JVs.

The determinants of JV performance have been extensively studied by scholars in the past two decades (Tey and Idris, 2009). Two main streams of studies have been identified. One mainly examines the micro-level variables of JV (Kale and Anand, 2001; Lin and Wang, 2008; Ng et al., 2007; Selekler-Goksen and Uysal-Tezolmez, 2007; Swierczek and Dhakal, 2004; Whitelock and Yang, 2007) such as trust, control and learning, while the other is concerned about the macro-level variables (Ghemawat, 2001; Khanand et al., 2005; Meschi and Riccio, 2008; Pothukuchi et al., 2002), which studies the host country’s characteristics including culture, politics, and the economy.

Based on the above studies, it appears that lately researchers have converged on the concept of “inter-partner fit” (Heiman et al, 2008; Ozorhon et al, 2008; Yan and Duan, 2003). The concept of fit has been widely used in strategic management literature to denote a congruent relationship between the firm and its environment or between its strategy and its structure and processes (Yan and Duan, 2003). This paper shares the experience of a Malaysian public listed firm, Padiberas Nasional Berhad (BERNAS), which is successfully engaging in JV to develop its competitive advantage. In so doing, the paper highlights the significance of inter-partner fit and relations as determinants of JV performance.

LITERATURE REVIEW

Two areas of research are discussed here: inter-partner relations, and measures of performance.

Inter-partner relations
A joint venture (JV) is a type of strategic alliance which occurs when two or more firms create a legally independent firm to pool a portion of their resources and capabilities to develop a competitive
advantage (Hitt et al., 2005; Kogut, 1988). After forming the JV, the firms will actively participate in the decision making activities of the jointly owned-entity. And if at least one parent firm is headquartered outside the JV’s country of operation, or if the venture has a significant level of operations in more than one country, then it is considered to be an international joint venture (IJV) (Geringer and Hebert, 1989).

According to Ozorhon et al. (2008), inter-partner relations are defined by factors such as commitment, communication, cooperation, trust, and conflict resolution. The degree of tacit knowledge transfer depends on the closeness or fit between the partners. Frequent interactions afford the two parties the ability to understand each other’s needs and satisfy the needs accordingly. As a result, inter-firm relation strength affects the extent of tacit knowledge transfer (Cavusgil et al., 2003). Darr and Kurtzberg (2000) find that firms which can better understand each other are more capable of effectively sharing knowledge.

Constructs of inter-partner fit include strategic fit, organizational fit, human fit, operational fit, and cultural fit (Douma et al., 2000; Murray and Kotabe, 2005; Ozorhon et al., 2008; Smith and Reece, 1999; Yan and Duan, 2003). These factors are discussed in greater detail as follows.

**Strategic fit**

Strategic fit depends on the congruence between two sets of objectives of the partners with respect to the particular JV (Ozorhon et al., 2008; Yan and Duan, 2003). In addition, Ozorhon et al. (2008) also emphasize that 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, are also critical in considering the strategic fit of JV partners.

According to Ozorhon et al. (2008), strategic fit has a direct impact on inter-partner relations and indirect impact on the performance of JV. The finding shows that JV partners that have compatible resources, congruency of objectives, management skills, industry experience, technical skills, and human resources may enhance the inter-partner relations in terms of commitment, cooperation, communication, and trust in the operation of JV. This finding is in line with the finding of study conducted by Heiman et al. (2008) and Yan and Duan (2003).

**Organizational fit**

Organizational fit consists of compatibility of partners’ financial capabilities, company size, management systems, and national/international workload (Ozorhon et al., 2008). Organizational fit has a moderate impact on the performance of JV. This finding is supported by Heiman et al (2008). To increase organizational fit among JV partners, firms should especially consider compatibility of firm sizes, financial capability, and workload of partners during the partner selection process.

**Organizational culture fit**

Organizational cultural distance significantly affects the satisfaction of partners (Pothukuchi et al., 2002). The difference in organizational culture of JV partners is perceived to cause conflict in the JV (Heiman et al., 2008). Organizational culture fit may be measured by using six dimensions proposed by Hofstede et al. (1990, 1993). These six dimensions are as follows:

1. Process-Oriented vs. Results-Oriented
2. Employee-Oriented vs. Job-Oriented
3. Parochial vs. Professional
4. Open System vs. Closed System
5. Loose Control vs. Tight Control
6. Normative vs. Pragmatic

**National culture fit**

A country’s cultural attributes determine how people interact with one another and with companies and
institutions. Differences in religious belief, race, social norm, and language are all capable of creating distance between two countries (Ghemawat, 2001). Hofstede (1994) develops a pioneering and widely accepted classification scheme which breaks national culture into the dimensions of power distance, uncertainty avoidance, individualism-collectivism, masculinity-femininity, and long-term orientation.

According to Meschi and Riccio (2008), large national cultural differences between local and foreign partners increase the instability of IJVs. The difference in national culture of JV partners is perceived to cause conflict in the JV (Heiman et al., 2008; Park and Ungson, 1997).

**Measures of performance**

A great number of studies have examined JV performance. However, it remains one of the least understood aspects of alliances, in part due to certain empirical research obstacles. Most researchers hardly agree on the measures of JV performance. Some prefer subjective measures such as perceived satisfaction (Lasserre, 1999; Lin and Wang, 2008; Selekler-Goksen and Uysal-Tezolmez, 2007). Others use objective measures such as marketing performance (Acquaah, 2009; Gong et al., 2007; Julian and O’Cass, 2002; Li, 2003; Luo et al. 2001; Mohr and Puck, 2005) or financial performance (Chiao et al., 2008; Luo, 2002). Yet other studies use the survival-termination dichotomy as a proxy for the performance of IJV, based on the assumption that terminated alliances are less successful (Lu and Beamish, 2006; Meschi and Ricco, 2008).

The lack of agreement reflects that researchers still do not agree on the effective meaning of the performance of JV. There are three distinct loci of performance of JV in the literature. The most common one is the JV itself. The venture is usually considered successful when it achieves profitability and growth (Acquaah, 2009; Gong et al., 2007; Julian and O’Cass, 2002; Li, 2003; Luo et al. 2001; Mohr and Puck, 2005). However, some researchers follow partner locus (Lasserre, 1999; Lin and Wang, 2008; Selekler-Goksen and Uysal-Tezolmez, 2007; Whitelock and Yang, 2007); they argue that because partner firms use JV to achieve certain strategic objectives, JV performance ought to be measured in terms of the aggregated results for the partners.

**RESEARCH METHODOLOGY**

This case study involved BERNAS (a Malaysian public listed company at Kuala Lumpur Stock Exchange) and its JVs. There are at present a total of 17 JVs formed between BERNAS and various partners including strategic existing players at the farming, milling, wholesaling, retailing level, rice exporting (regional), bakery player, and logistic service provider. Table 1 shows the JVs formed by BERNAS since its corporatisation.

Archival data were collected from BERNAS since its corporatisation, including annual reports, industry/market reports, company brochures, company announcements, and newspaper and magazine reports. Unstructured interviews were also conducted with several senior executives from the JVs formed by BERNAS.

Data were then analysed and the findings organized according to these subsequent topics: company background, company financial performance and inter-partner fit. Using financial data as the measure of performance is in line with the practice in most previous studies (Acquaah, 2009; Gong et al., 2007; Julian and O’Cass, 2002; Li, 2003; Luo et al. 2001; Mohr and Puck, 2005).
TABLE 1: Joint Ventures Formed by BERNAS

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint venture companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>Syarikat Faiza Sdn Bhd</td>
</tr>
<tr>
<td>1998</td>
<td>Edaran Bernas National Sdn Bhd</td>
</tr>
<tr>
<td>1998</td>
<td>Era Bayam Kota Sdn Bhd</td>
</tr>
<tr>
<td>1998</td>
<td>YHL Holding Sdn Bhd</td>
</tr>
<tr>
<td>1999</td>
<td>Jasmine Food Corporation Sdn Bhd</td>
</tr>
<tr>
<td>1999</td>
<td>Ban Heng Bee Holdings Sdn Bhd</td>
</tr>
<tr>
<td>1999</td>
<td>Serba Wangi Sdn Bhd</td>
</tr>
<tr>
<td>2002</td>
<td>OEL Realty Holdings Sdn Bhd</td>
</tr>
</tbody>
</table>

Local trader, distributor, and supplier of rice (Marketing Arms)

Paddy Seed Production (Sources/Produce of Rice)

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint venture companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>Bernas Seed Pro Sdn Bhd (formerly known as Bernas Marditech Seed Sdn Bhd)</td>
</tr>
</tbody>
</table>

Overseas Rice Trading (Sources of Rice)

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint venture companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>Asian Peninsula Corporation Ltd (Thailand)</td>
</tr>
<tr>
<td>1997</td>
<td>Irfan Noman Bernas (Pvt) Limited (Pakistan)</td>
</tr>
<tr>
<td>1999</td>
<td>Bernas China Corporation. (British Virgin Islands)</td>
</tr>
<tr>
<td>2008</td>
<td>Bernas International Trading Ltd. (Thailand)</td>
</tr>
</tbody>
</table>

Other Businesses (Diversification)

<table>
<thead>
<tr>
<th>Year</th>
<th>Joint venture companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>Bernas Logistics Sdn Bhd (Freight and forwarding services)</td>
</tr>
<tr>
<td>2000</td>
<td>Keongco Holdings Sdn Bhd (Import and Export commodities of garlic, onion, dried chilies, ginger, beans, and rice)</td>
</tr>
<tr>
<td>2001</td>
<td>Gardenia Bakeris (KL) Sdn Bhd (Bread manufacturing, bakery)</td>
</tr>
</tbody>
</table>

Source: BERNAS Annual report(1999-2008)

FINDINGS

Background of BERNAS

Lembaga Padi dan Beras Negara (LPN) was a statutory body established on 20 September 1971 under the Lembaga Padi dan Beras Negara Act 1971. Its primary function was aimed at regulating the paddy and rice industry. Its formation resulted from the merger of two government agencies, namely the Supplies Division of the Ministry of Trade and Industry and the Paddy and Rice Marketing Board of FAMA. In 1994, the Malaysian government sanctioned the corporatisation of LPN and Syarikat Padiberas Nasional Berhad was incorporated to take over LPN. Syarikat Padiberas Nasional Berhad was subsequently renamed Padiberas Nasional Berhad (BERNAS) on 30 March 1995.

BERNAS continued to perform an important role in the national paddy and rice industry, assuming all social and commercial obligations previously undertaken by LPN. These included conserving, maintaining and managing the National Paddy/Rice Stockpile, representing the government on the management and disbursement of subsidies to paddy farmers, managing the Bumiputra Rice Miller Scheme, purchasing paddy from farmers at a guaranteed minimum price, and acting as the buyer of last resort. In return, BERNAS was given the responsibility of being the sole importer of rice into Malaysia for a period of 15 years with effect from 12 January 1996, with the option for renewal for another 5 years. On 25 August 1997, BERNAS was listed on the KLSE (Bursa Malaysia) main board. At the beginning of incorporation, BERNAS lacked sources of raw material (the supply of rice), market knowledge, distribution network and marketing arms to ensure a stable supply of rice and distribution...
of their rice products in Malaysia. To alleviate the problems, BERNAS identified several strategic directions as follows:

- Link and manage the rice supply chain to entail the vertical integration of the core business, from seed to shelf.
- Value-add the supply chain with other food products: to strengthen the distribution network through branding strategies and logistics enhancement and to cater for the distribution of other food products.
- Diversify into supporting and ancillary services through shipping and transportation, packaging and warehousing, construction and engineering, database management and ancillary services related to food distribution.

Based on these strategic directions, BERNAS has engaged heavily in JVs, both local and abroad, to enhance its competitive advantage. The motives for BERNAS to engage in JV include:

- Access to raw material
  It has formed a number of JVs abroad, including with partners from Pakistan, Thailand and China to ensure the sufficient supply of rice.

- Gaining market knowledge
  It has looked for strategic partners who possess the knowledge to enter the market faster.

- Access to distribution networks
  To develop its own distribution network would be very time consuming and costly. Hence, BERNAS has formed a number of JVs with local rice distributors to gain access to distribution networks.

- Increasing market share
  BERNAS is continuously looking for opportunities to formed JV with local rice distributors to increase the market share.

- To achieve economies of scale and scope.
  Besides running the core business, BERNAS has also diversified its business into food related/supporting industries, such as, bakery, flour, logistic, etc. to achieve economic of scale and scope.

These strategic motives appear to be concurrent with those identified in previous studies (Tatoglu, 2000; Boateng and Glaister, 2003; Whitelock and Yang, 2007; Seleker-Goksen and Uysal-Tezolmez, 2007; Zineldin and Dodourova, 2005).

Financial performance of BERNAS

Table 2 shows the company’s Key Financial Performance Indicators - namely its revenue, profit before taxation, total assets, net profit margin, net return on assets, and net return on equity - from 1997 to 2008.

Overall the data indicate that the market share, revenue and total assets of BERNAS have increased significantly since its incorporation. It has gained more than 45% of market share while its revenue has increased by 92.16%. The total assets have grown tremendously, recording an increase of 142.02%. The profit figures are similarly impressive, except for 2003 and 2008 when specific market conditions had resulted in higher production costs. The overall business performance thus is found to be encouraging.
### TABLE 2: BERNAS Financial Performance 1997-2008 (RM’000)

<table>
<thead>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,302</td>
<td>1,634</td>
<td>1,902</td>
<td>1,791</td>
<td>1,679</td>
<td>1,763</td>
<td>1,824</td>
<td>1,970</td>
<td>2,134</td>
<td>2,240</td>
<td>2,501</td>
<td></td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>38,657</td>
<td>9,183</td>
<td>120,467</td>
<td>245</td>
<td>54,257</td>
<td>(7,571)</td>
<td>155,990</td>
<td>166,139</td>
<td>178,205</td>
<td>145,139</td>
<td>(94,329)</td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>840,405</td>
<td>920,773</td>
<td>1,060,113</td>
<td>1,271,187</td>
<td>1,310,128</td>
<td>1,402,1,357</td>
<td>1,423,2,033</td>
<td>1,410,1,800</td>
<td>1,357,931</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>-0.21%</td>
<td>5.84%</td>
<td>3.25%</td>
<td>4.22%</td>
<td>2.04%</td>
<td>(1.03%)</td>
<td>5.79%</td>
<td>6.63%</td>
<td>6.33%</td>
<td>4.79%</td>
<td>(2.30%)</td>
<td></td>
</tr>
<tr>
<td>Net Return on Assets</td>
<td>-0.37%</td>
<td>10.48%</td>
<td>5.22%</td>
<td>5.58%</td>
<td>3.04%</td>
<td>(1.43%)</td>
<td>9.37%</td>
<td>9.31%</td>
<td>9.96%</td>
<td>7.54%</td>
<td>(2.83%)</td>
<td></td>
</tr>
<tr>
<td>Net Return on Equity</td>
<td>-0.85%</td>
<td>23.15%</td>
<td>10.69%</td>
<td>1.87%</td>
<td>5.76%</td>
<td>(3.06%)</td>
<td>16.13%</td>
<td>15.69%</td>
<td>14.76%</td>
<td>11.09%</td>
<td>(6.67%)</td>
<td></td>
</tr>
</tbody>
</table>


**Inter-partner fit**

**Strategic fit**

Strategic fit in terms of objectives, experience, skills and other resource contributions is summarized in Table 3. JVs with local rice distributors and overseas rice traders show the highest level of fit among the four divisions of business sector.
### TABLE 3: Strategic Fit of Partners

<table>
<thead>
<tr>
<th>Strategic Objective</th>
<th>Local Rice Distribution</th>
<th>Overseas Rice Trading</th>
<th>Paddy Seed Production</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>BERNAS</td>
<td>Access to distribution network and increase market share</td>
<td>Access to sources of Rice</td>
<td>Access to paddy seed</td>
<td>Related diversification</td>
</tr>
<tr>
<td>Partner</td>
<td>Access to sources of rice, and increase market share</td>
<td>Increase exports, profit margin</td>
<td>Financial supports and technology</td>
<td>Financial support and sources of raw materials</td>
</tr>
<tr>
<td>Level of congruence</td>
<td>High</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate-low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry experience, Technical skills, and other resources contribution</th>
<th>Local Rice Distribution</th>
<th>Overseas Rice Trading</th>
<th>Paddy Seed Production</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>BERNAS</td>
<td>Source of rice, financial support</td>
<td>Distribution channel and financial support</td>
<td>Financial support, technical skills</td>
<td>Financial support and sources of raw materials</td>
</tr>
<tr>
<td>Partner</td>
<td>Industry experience, distribution channel</td>
<td>Source of rice</td>
<td>Technical skills and industry experience</td>
<td>Technical skills and industry experience</td>
</tr>
<tr>
<td>Extent to which partners complement each other</td>
<td>High</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate-low</td>
</tr>
<tr>
<td>Overall degree of fit</td>
<td>High</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate-low</td>
</tr>
</tbody>
</table>

**Organizational fit**

In organizational fit, three factors are examined, including the financial capabilities, company size, and management system. The overall organizational fit is summarized in Table 4. Local rice distribution and paddy seed production show the highest level of fit, followed by overseas rice trading and other sector showed the lowest level of fit.

**Organizational and national culture fit**

Table 5 shows first the level of organizational culture fit. The findings show that paddy seed producers achieve the highest level of fit, followed by local rice distributors and overseas rice traders. In terms of national culture fit, local rice distributors and paddy seed producers show the highest level of fit.

### TABLE 4: Organizational Fit of Partners

<table>
<thead>
<tr>
<th>Financial capability</th>
<th>Local Rice Distribution</th>
<th>Overseas Rice Trading</th>
<th>Paddy Seed Production</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>BERNAS</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td>Partner</td>
<td>Moderate-low</td>
<td>Strong</td>
<td>Moderate-low</td>
<td>Strong</td>
</tr>
<tr>
<td>Extent to which partners complement each other</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company Size</th>
<th>BERNAS</th>
<th>Overseas Rice Trading</th>
<th>Paddy Seed Production</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>BERNAS</td>
<td>Large</td>
<td>Large</td>
<td>Large</td>
<td>Large</td>
</tr>
<tr>
<td>Partner</td>
<td>SME</td>
<td>Large</td>
<td>SME</td>
<td>Large</td>
</tr>
</tbody>
</table>
CONCLUSION

The financial data show that BERNAS has identified the right strategic direction and approach to achieve its vision, and that overall it has chosen the right partners in terms of strategic fit, organizational fit, and cultural fit. BERNAS and its partners have regular formal meetings to discuss their operations, as well as market and financial conditions. Through these discussions, the partners will come to a consensus on new strategies, such as introduction of new products, new management system, etc. A good inter-partner relation may increase the critical knowledge transfer among the partners (Cavusgil et al., 2003; Darr and Kurtzheng, 2000). This knowledge transfer will in turn increase the innovativeness of the firms and enhance their competitive advantage (Saenz et al., 2009).

Based on the degrees of fit shown in Tables 3, 4 and 5, it appears that JVs with the local rice distributors show the best fit. This is mainly due to the fact that the partners highly complement each other in terms of objectives, resources, experience and organizational characteristics. Additionally, compared to foreign partners, these local firms share many common values and cultures with BERNAS. In sum, the case study has provided further empirical support to the significance of inter-partner fit and relations as determinants of JV performance. It also underlines the importance of both micro and macro factors in the determination of fit between partners.

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