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ผลกระทบของความหลากหลายทางวัฒนธรรมที่มีต่อผลการดำเนินงาน ของบริษัทร่วมทุนระหว่างประเทศ: กรณีศึกษาผู้บริหารระดับสูงของ บริษัทร่วมทุนระหว่างประเทศในประเทศไทย

The Impact of Cultural Diversity on the International Joint Venture (IJV) Performance: The Case of Top Management Team of IJV Firms in Thailand

พรลักษ์ สุวรรณรัตน์ Pornlapas Suwannarat^{1,*}

¹ Ph.D., ผู้ช่วยศาสตราจารย์ สาขาวิชาธุรกิจระหว่างประเทศ คณะการบัญชีและการจัดการ มหาวิทยาลัยมหาสารคาม จังหวัดมหาสารคาม ประเทศไทย

¹ Ph.D., Assistant Professor of International Business, Mahasarakham Business School, Mahasarakham University, Kamriang, Kantarawichai, Maha Sarakham, Thailand

บทคัดย่อ

การศึกษาในครั้งนี้มุ่งเน้นไปที่ผลกระทบของตัวแปรกลางทั้ง 4 ตัวแปรอันได้แก่ ความขัดแย้ง การบูรณาการทางสังคม การสื่อสารที่มีประสิทธิภาพ และความคิดสร้างสรรค์ ที่มีผลกระทบต่อ ความสัมพันธ์ระหว่างความหลากหลายทางวัฒนธรรมของทีมผู้บริหารระดับสูงกับผลการดำเนินงาน ของบริษัทร่วมทุนระหว่างประเทศในประเทศไทย นอกจากนี้ยังได้มีการศึกษาผลกระทบโดยตรงของ ความหลากหลายทางวัฒนธรรมที่มีต่อผลการดำเนินงานของบริษัทร่วมทุนระหว่างประเทศ การศึกษา ในครั้งนี้ได้ใช้ฐานข้อมูลบริษัทร่วมทุนระหว่างประเทศในประเทศไทยของคณะกรรมการส่งเสริมการ ลงทุนเป็นประชากรของประเทศไทย การเก็บรวบรวมข้อมูลของการศึกษาใช้วิธีการสำรวจทางไปรษณีย์ โดยแบบสอบถามจำนวน 650 ฉบับทั้งภาษาไทยและภาษาอังกฤษได้ถูกส่งไปยังบริษัทร่วมทุนระหว่าง ประเทศในประเทศไทย ผู้ตอบแบบสอบถามเป้าหมายคือประธานเจ้าหน้าที่บริหารหรือกรรมการ ผู้จัดการของบริษัทร่วมทุนระหว่างประเทศในประเทศไทย อัตราการตอบกลับของแบบสอบถามคือ 14% ผลการวิจัยพบว่าความหลากหลายทางวัฒนธรรมมีผลกระทบเชิงลบต่อการบูรณาการทางสังคม

* E-mail address: pornlapas.s@mbs.msu.ac.th

นอกจากนี้การบูรณาการทางสังคม และความคิดสร้างสรรค์ส่งผลกระทบเชิงบวกต่อผลการดำเนินงานของบริษัทร่วมทุนระหว่างประเทศในประเทศไทย และความหลากหลายทางวัฒนธรรมของทีมผู้บริหารระดับสูงมีผลกระทบเชิงลบต่อผลการดำเนินงานของบริษัทร่วมทุนระหว่างประเทศ และผลการศึกษา�ังพบอีกว่าตัวแปรกลางทั้ง 4 ตัวแปรอันได้แก่ ความขัดแย้ง การบูรณาการทางสังคม การสื่อสารที่มีประสิทธิภาพ และความคิดสร้างสรรค์ มีผลกระทบเชิงคั่นกลางบางส่วนต่อความสัมพันธ์ระหว่างความหลากหลายทางวัฒนธรรมของทีมผู้บริหารระดับสูงกับผลการดำเนินงานของบริษัทร่วมทุนระหว่างประเทศในประเทศไทย ผลจากการศึกษาครั้นนี้มีทั้งสอดคล้องและตรงกันข้ามกับการศึกษาในอดีตซึ่งเป็นความพยายามในการเติมเต็มช่องว่างของความรู้ของการวิจัยโดยเฉพาะในบริบทของประเทศไทยในกลุ่มอาเซียน

คำสำคัญ: ความหลากหลายทางวัฒนธรรม, ผลการดำเนินงานของบริษัทร่วมทุนระหว่างประเทศ, ทีมผู้บริหารระดับสูง, บริษัทร่วมทุนระหว่างประเทศ

ABSTRACT

This study has focused on the mediating effect of four mediators: conflict, social integration, effective communication, and creativity on the relationship between cultural diversity of top management team and international joint venture (IJV) performance in Thailand. Also, the direct impact of cultural diversity on IJV performance has also been investigated. The Board of Investment of Thailand has provided the original dataset, an official database of IJV firms that operate in Thailand as the population of the study. Mail survey has been adopted as the main mode of data collection. The 650 postal questionnaires in Thai and English were sent to the sample companies, addressed to the target respondents of this study, the chief executive officer (CEO) or managing director of the IJV operating in Thailand. The response rate was 14%. The findings indicated that cultural diversity negatively affected on social integration. Furthermore, social integration and creativity had positive impact on IJV performance. The direct negative effect of cultural diversity on IJV performance has also been found. Last but not least, the findings showed that above-mentioned mediators partially mediated the association between cultural diversity and IJV performance. The results of this study are both consistent and contradict to previous studies. This is an original attempt to fill a knowledge gap in the literature especially in the ASEAN country context of Thailand.

Keywords: Cultural Diversity, IJV Performance, Top Management Team, International Joint Ventures

INTRODUCTION

A number of researchers (e.g., Lassserre, 1999; Glaister and Buckley, 1996; Sim and Ali, 2000; Suwannarat *et al.*, 2010a, 2010b; Suwannarat, 2012, 2013) argue that international joint ventures (IJVs) become a prevalent mode of entry of multinational enterprises (MNEs) into new markets and achieve strategic benefits. Hambrick., *et al.*, (2001) point out that, in previous IJV studies, little attention has been paid to the top management teams in charge, although they play an important role in accomplishing the goals of the venture and determining the success and failure of IJVs.

According to Hambrick *et al.*, (2001), the composition of top management teams within IJVs and the cultural characteristics of team members have implications for the functioning and effectiveness of the top management team. The IJV top management team often has members from different national, cultural, and demographic backgrounds. Previous studies (e.g., Julian, Wachter, and Mueller, 2009) prove that these differences affect the operation and performance of teams, [and eventually impact IJV performance]. However, few studies have been systematically conducted into the assessment of cultural diversity and empirically correlating such diversity with IJV performance, especially in the context of Southeast Asian countries. This is despite the fact that IJV formation as well as the economy of countries in this region has grown significantly in the past three decades (OECD, 2004; Suwannarat *et al.*, 2010; Suwannarat, 2016). As well, comparing to other issues in cultural diversity, the literature shows that there is relatively little theoretical clarity concerning how the following mediators: conflict, social integration, effective communication, and creativity influence the association between cultural diversity and IJV performance (e.g., Jackson, Joshi, Erhardt, 2003; Stahl *et al.*, 2010).

This study will accordingly investigate the possible implications of cultural diversity on the process and performance of IJVs, and will focus on the effect of these mediators: conflict, social integration, effective communication, and creativity on the relationship between cultural diversity and IJV performance. It introduces new data and new empirical insights into the international business literature.

PURPOSE OF THE STUDY

The aim of the study is to investigate the mediating effect of conflict, social integration, effective communication, and creativity on the relationship between cultural diversity and IJV performance. Also, the impact of cultural diversity on IJV performance is studied. The specific objectives of the study are as follows:

1. To examine the effects of the cultural diversity of top management team of IJVs on IJV performance.
2. To study the mediating effect of four mediators: conflict, social integration, effective communication, and creativity on the association between cultural diversity and IJV performance.
3. To ascertain the effects of the cultural diversity of top management team of IJVs on the following mediators: conflict, social integration, effective communication, and creativity.

CONTRIBUTION OF THE STUDY

This study concentrates on the effects of cultural diversity on IJV performance, and importantly the mediating role of four mediators: conflict, social integration, effective communication, and creativity on the relationship between cultural diversity and IJV performance. The results of the study contribute to the literature in a number of respects.

First of all, the study provides a new insight of the effects of cultural diversity on IJV performance. This study has made a further contribution to the literature by focusing on the mediating effects of the above-mentioned mediators on the relationship between cultural diversity and IJV performance. The study is accordingly a first attempt to fill the knowledge gap in the literature in response to this issue.

LITERATURE REVIEW

Culture and Cultural Diversity

Culture is a set of beliefs and values that people view as commonalities for members of a society to hold on to (Hofstede, 1980; House *et al.*, 2004; Lane *et al.*, 2009). A culture also influences the worldview of its members (Earley, 2006), and at the same time provides a source of identity for its members. It is common in international business for most people to differentiate cultures on the basis of the country they are talking about, but in fact cultures are diverse and specific to every community including, but not limited to, those who identify with each other in terms of occupations, organisations, and religions. It would be difficult to find a country which had only a single culture, because most countries include a variety of ethnic

groups whose cultures differ from one another. Moreover, there has been migration of people across borders since the earliest times and it not only continues but has been increasing in modern times. The mingling of various groups of people inevitably creates a society composed of multiple cultures. (Leung *et al.*, 2005; Tung, 2008).

Stahl *et al.*, (2010) argue that diversity, including cultural diversity, influences teams in three ways (Mannix and Neale, 2005). First, the social identity and social categorisation theory posits that individuals usually identify themselves as members of a specific group, and at the same time categorize nonmembers as belonging to other groups (Tajfel, 1982). In this sense, favoritism is shown to insiders and judgment of outsiders is typically based on the culture of the group. Diversity according to these two positions would seem to complicate social processes and thus exert a negative influence on teams. Second, the similarity theory explains that people with related values, beliefs, and attitudes tend to cooperate more and work better together (Williams and O'Reilly, 1998). Third, the information-processing theory asserts differently that diversity generates an assortment of contributions. Therefore, a diverse team can expand its information boundary in order to draw perspectives from eclectic sources of information. Other benefits include enhanced problem-solving, creativity, innovation, and adaptability (Weick, 1969; Blau, 1977; Katz, 1982; Pfeffer, 1983; Cox and Blake, 1991; Ancona and Caldwell, 1992; Watson, Kumar, and Michaelson, 1993; Cox, 1994).

What, from the above mentioned three perspectives, is true of the influence on teams of diversity in general, is true also of cultural diversity in particular. People of similar cultures tend to attract one another because of the commonalities of their beliefs and values (Triandis, 1959, 1960). It is evident that people naturally categorize each individual according to their nationality, race and ethnicity (e.g., Earley and Mosakowski, 2000; Tajfel, 1982). It is no surprise, therefore, that the identification of insiders and outsiders in multinational teams is immediate and usually continues for a long time, but it is also the case that diversity of culture correlates with diversity of viewpoints, attitudes, and logics which are brought into a team by people from different backgrounds (Hofstede, 2001; Lane *et al.*, 2009). Overall, cultural diversity seems to enhance rather than detract from the performance of teams.

Cultural Diversity and Mediating Variables

There is a need for further investigation of how cultural diversity causes difficulties or provides opportunities for the success of a team and the success of an organisation as a whole. The overall outcomes from previous studies show that diversity, as an input, exercises a great deal of influence on team processes and psychology, leading to different team performances or outputs (DiStefano and Maznevski, 2000; Earley and Gibson, 2002; Mannix

and Neale, 2005; Brett, Behfar, and Kern, 2006). Stahl *et al.*, (2010) categorize intermediate variables that relate to the relationship between cultural diversity and team performance on the basis of two criteria: loss/gain from the process, and convergent/divergent process. These can be divided into the following four variables: cohesions, groupthink, creativity, and conflict.

Stahl *et al.*, (2010) argue that cultural diversity is likely to promote divergent processes. Divergent processes are receptive towards a variety of values and ideas and connect them together (Canney Davison and Ekelund, 2004). The similarity-attraction and social categorisation processes tend to point up dissimilarities. Many divergent processes result in process gains which enhance team performance. They are essential elements and increase productivity of a team more than depending on each individual's work, for example in terms of brainstorming and creativity (Adler, 2002; Cox, 1994). Nevertheless, divergent processes can sometimes be a hindrance to team performance when team members view them as irrelevant to current purposes or progress. In this scenario, divergent processes emphasise conflict and cause a process loss.

Cultural diversity tends to minimize convergent processes (Stahl *et al.*, 2010). Convergent processes help keep a team focused on mutual goals, decisions, and commitment. A lot of convergent processes support productivity of a team, positively leading it to an agreed conclusion. Nevertheless, some convergent processes can undermine team performance by tending to suppress different viewpoints or block new information, particularly where this would promote superior outcomes. For example, groupthink (Janis, 1972), a phenomenon in which group members impulsively rush into a decision, is a potentially harmful bias in group decision making.

For this study, the hypotheses have been developed within the above framework by identifying variables in each type which affect team performance. However, convergent processes linked with process loss, such as groupthink, have not been focused on since they are beyond the scope of this study. Also, Stahl *et al.*, (2010) point out that this type of variable is still less cited in the literature, making it difficult to test the hypothesis by comparing it with previous studies. On this basis, the conceptual framework of the study is shown in Figure 1.

Divergent Process

Conflict: Conflict is formed by a discrepancy in perspectives and concerns due to contradictory motivations (Tjosvold, 1986; Stahl *et al.*, 2010), leading to a divergent process (which can become convergent if the conflict is settled). Some research studies prove that task conflict can improve productivity, while personal conflict can undermine performance (Jehn, Chadwick, and Thatcher, 1997), while a meta-analysis (De Dreu and Weingart, 2003) indicates

that both forms of conflict constitute negative outcomes. It is possible to say that group diversity tends naturally to lead to conflicts because each individual has been exposed to diverse sets of beliefs and values that inevitably have effects on how they present their characteristic traits and viewpoints (e.g., Wiersema and Bantel, 1992). Some studies conclude that it is too complicated to track the sources of conflict in multinational teams because cultural diversity is at a subconscious level, and thus conflict resolution is difficult to manage (e.g., Kirchmeyer and Cohen, 1992).

Convergent Process

Social Integration: Social integration is “the attraction to the group, satisfaction with other members of the group, and social interaction among group members” (O'Reilly, Caldwell, and Barnett, 1989: 22 cited in Stahl *et al.*, 2010). Social integration reflects on the characteristics of group performance and teamwork, including cohesion (Katz and Kahn, 1978; Shaw, 1981), morale and trust (Smith *et al.*, 1994), and coordination (McGrath, 1984; O'Reilly, Williams, and Barsade, 1998). The majority of research on teams points out that social integration is negatively influenced by diversity. For instance, gender diversity is believed to weaken group cohesion and trust (e.g., Kirchmeyer, 1995). However, this correlation is not evident according to Webber and Donahue's meta-analysis, (2001). Culture naturally supports intra-cultural social integration; therefore, it is anticipated that a multicultural group will inevitably enjoy less social integration. Based on a close relationship between cultural differences and the similarity-attraction and social categorisation theories, social integration is influenced by cultural diversity as expected.

Convergent Process

Effective Communication: Communication is crucial for an alignment process since it decides how effectively people get their meanings across without losing their intended message. Effective communication can directly influence group productivity, as well as acting as a stimulant in such processes as conflict settlement and cohesiveness. Cultural diversity at times impedes the effectiveness of communication because participants in a communication need a common language so that the alignment process occurs. People from diverse language backgrounds and cultures do not always interpret messages in the same way, even though they use a common language. The dissimilarity of values and norms also obstructs practicality when a multinational team seeks an agreed conceptualisation (Maznevski, 1994).

Divergent Process

Creativity: Creativity is an attempt to seek a broader range of options and ways of appraising them, while at the same time developing new and viable conceptions never previously heard of. Creativity is indispensable for innovation (e.g., O'Reilly, Williams, and Barsade, 1998), and helps improve productivity. It is apparent in various studies that creativity is part of a divergent process that draws particularly on the diversity of a team and brings a great many benefits (e.g., Cox and Blake, 1991; Doz, Santos, and Williamson, 2004). Cultural diversity tends to stimulate creativity because of the different cognitive frameworks, modes of perception, and approaches to problems it brings. Accordingly, the following hypotheses were established:

Hypothesis 1a: The cultural diversity is positively related to conflict.

Hypothesis 1b: The cultural diversity is negatively related to social integration.

Hypothesis 1c: The cultural diversity is negatively related to effective communication.

Hypothesis 1d: The cultural diversity is positively related to creativity.

Hypothesis 2a: The conflict is negatively related to IJV performance.

Hypothesis 2b: The social integration is positively related to IJV performance.

Hypothesis 2c: The effective communication is positively related to IJV performance.

Hypothesis 2d: The creativity is positively related to IJV performance.

The Relationship between Cultural Diversity and IJV Performance

Research on teams concentrates mainly on the relationships between performance and team process (Hackman, 1987). Diversity in general impacts negatively on performance (e.g., Basadur and Head, 2001). The similarity-attraction theory posits that people are more content to be in contact with similar others. People also tend to prefer to see a group proceeding smoothly, and consider diversity to be a negative input for group dynamics. Cultures help to provide a group identity, and also enhance group efficiency. Working in a multicultural team shows a tendency to lower satisfaction (performance) in both aspects. This leads to the following hypothesis:

Hypothesis 3: The cultural diversity is negatively related to IJV performance.

Mediating Effect of Conflict, Social Integration, Effective Communication, and Creativity

Previous studies (e.g., Stahl *et al.*, 2010) show the effect of these four mediators (conflict, social integration, effective communication, and creativity) on the relationship between

cultural diversity and team performance. This leads to the following hypothesis:

Hypothesis 4: The relationship between cultural diversity and IJV performance is mediated by conflict, social integration, effective communication, and creativity.

CONCEPTUAL FRAMEWORK

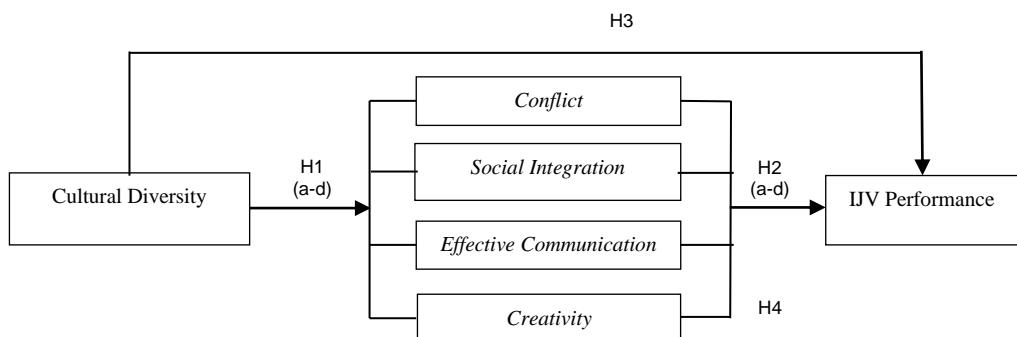


Figure 1: The Conceptual Framework of the Study

RESEARCH METHODOLOGY

Sample and Data Collection

A number of researchers (e.g., Glaister and Buckley, 1994) point out that it is likely that only large and well-known firms will be reported in the press, with perhaps many small firms going unreported. Accordingly, this study follows their approach and has used an unpublished official database of IJV firms that operate in Thailand; this is provided by the Board of Investment, Thailand. The database registered 3,106 IJV firms. According to previous studies, three criteria have provided a framework for selecting the final samples: 1) IJVs in which neither partner holds more than ninety percent of the venture's equity. This is because a number of researchers use at least 10% shareholding by parents as the minimum equity criterion for defining an international joint venture in a developing country (Beamish, 1988; Chowdhury, 1992). These researchers argue that a smaller percentage of equity ownership might not reflect a true picture of joint ventures and the nature of relations between the partners; 2) the companies in the database must still be operational (the present researcher checked the status of each IJV directly from the website of the Department of Business Development, Ministry of Commerce of Thailand to determine their continued existence or termination); 3) the IJVs must have existed for at least three years, because the literature (Pan and Chi, 1999; Pangarkar and Klein, 2004) shows that it takes approximately three years for each partner to devise a comprehensive plan against which to assess the performance of the

IJV. After applying these criteria, the number of qualifying IJVs fell to 1,801 companies from the original 3,106 firms. An adequate sampling size needed to be determined by using a statistical formula. For this study, a formula proposed by Krejcie and Morgan (1970) was adopted. Ultimately, of the 1,801 qualifying companies 650 firms formed the sample size of this study. A stratified systematic sampling technique (Skalski *et al.*, 1993) was adopted for sampling; it was used to classify the samples for each stratum (industrial sector), and then each stratum was sampled by a systematic sampling method.

The 650 postal questionnaires in Thai and English were sent to the sample companies, addressed to the target respondents of this study, the chief executive officer (CEO) or managing director of the IJV operating in Thailand in March 2012. The response rate was 14% (89 completed questionnaires). This compares favourably with similar studies in the extant literature, where rates range from 10-40%. To test non-response bias, a comparison was made between early and late respondents, as suggested by Armstrong and Overton (1977). The results showed no significant differences between early and late responses.

Operationalisation

Independent Variable: Cultural Diversity (CD)

The objective of the study is to assess the effect of cultural diversity of the IJV top management team on IJV performance. Culture has been divided into different levels that explained from previous studies (Ely and Thomas, 2001; Mannix and Neale, 2005). Hence, it is necessary to identify which level should be included.

The literature shows that cultural diversity can be divided into two levels: surface and deep levels. Surface level diversity is defined as differences among team members in overt demographic characteristics, such as age or gender (Ely and Thomas, 2001; Mannix and Neale, 2005). This item has been measured by using a five-point Likert scale. Target respondents have been asked to assess such questions as: "Most managers of the top IJV management team have the same race", where 1=definitely not true to 5=definitely true. Deep-level diversity refers to differences among team members' psychological characteristics, including personalities, values, and attitudes (e.g., Harrison *et al.*, 1998). In this study, the deep level has been measured in terms of conscientiousness, since this has long been credited with being an important predictor of team performance. Conscientiousness is associated with being careful, thorough, responsible, organised, hardworking, achievement-oriented, and persevering (Barrick and Mount, 1991; Mount *et al.*, 2005). One of the sample items of conscientiousness is "Please indicate the extent to which there are differences of

strictness, norms and shared values among managers of the top management team", where 1=very different to 5=very similar. The extent of national culture difference among managers in the IJV top management team has also been enquired into. Overall cultural diversity is taken as the average diversity of the above-mentioned variables.

Dependent Variable: IJV Performance (IJVP)

Following previous studies of Sim and Ali (1998); and Boateng and Glaister (2002), IJV performance was measured by using a composite index (an arithmetic average). Respondents were asked to assess IJV performance on a five-point Likert scale, where 1 denoted "much worse than expected" and 5 denoted "much better than expected". Here the activities included sales levels, market share, profitability, cost control, IJV management, technology management, product design, quality control, and labor productivity.

Mediator Variables

Conflict (CF): Two types of conflict have been identified in the literature: substantial and emotional (Amazon, 1996; Pelled, 1996; Pelled, Eisenhardt, and Xin, 1999; Choi and Sy, 2010). Conflict regarded as substantial conflict was measured using the five-item scale. An example from the scale is, "How frequently are there conflicts about ideas in the IJV top management team?", where 1=very seldom to 5=very frequently. The emotional scale was also elicited from the perception of respondents on a five-item scale to such questions as, "Please indicate to what extent do people take the arguments in IJV top management team personally" where 1=very small extent to 5=very great extent.

Social Integration (SI): Likert-type questionnaire items (5-point scale) completed by each respondent assess social integration. This item was taken from the previous study of Smith *et al.*, (1994). The sample question is "Members of the IJV top management team really stick together", where 1=definitely not true to 5=definitely true.

Effective Communication (EC): This variable captures the effectiveness of communication among members of the top IJV management team, and is adopted from the previous study of Attharangsun and Ussahawanitchakit (2010). It includes diverse communication implementation, communication openness, flexible communication channel, and so forth. The sample question is "The members (managers) of the IJV management team openly share information with each other", where 1=definitely not true to 5=definitely true.

Creativity (CRE): Creativity is measured in terms of the novelty of ideas generated on a brainstorming task (McLeod *et al.*, 1996), the ability to generate creative solutions to

problems or case studies (Rodriguez, 1998), and the development of creative endings to short stories (Paletz, *et al.*, 2004). The sample question is “The members (managers) of the IJV management team are capable of generating creative solutions to problem”, where 1=definitely not true to 5=definitely true.

Control Variable

Firm size (DFS) and firm operational capital (DFC) are the control variables of the study. Firm size was measured by the number of employees working full time (Christmann, 2000), while firm operational capital was established from the value of operational capital (Husted & Allen, 2007). According to Husted and Allen (2007), and Ciliberti, Pontrandolfo, and Scozzi (2008), larger firms tend to have more resources and are more active than smaller firms in strategic planning; they are also better in utilising resources to accomplish firms' goals. Hence, the dummy variables used to distinguish firms' size and firms' operational capital. Dummy coding provides one way of using categorical predictor variables in various kinds of estimation models such as linear regression. Dummy coding uses only one (1) and zero (0) to convey all of the necessary information on group membership. In general, with k groups there will be $k-1$ coded variables. Each of the dummy coded variables uses one degree of freedom, so k groups has $k-1$ degrees of freedom, just like in analysis of variance (Aulakh, Kotabe, and Teegen, 2000).

In this study, firm size is demonstrated by a dummy variable where: 100 is a firm that has number of employees lower than 50 persons; 010 is a firm that has number of employees between 50 to 100 persons; 001 is a firm that has number of employees between 101 to 200 persons; and 000 is a firm that has number of employees more than 200 persons. Also, firm operational capital is measured by a dummy variable where: 100 is a firm that has the value of operational capital less than THB5,000,000 (approximately USD166,000); 010 is a firm that has the value of the operational capital between THB5,000,000 (approximately USD166,000) to THB15,000,000 (approximately USD500,000); 001 is a firm that has the value of operational capital more than THB15,000,000 (approximately USD500,000) to THB25,000,000 (approximately USD830,000); and 000 is a firm that has the value of the operational capital more than THB25,000,000 (approximately USD830,000).

Reliability and Validity

Reliability of the measurements was computed by Cronbach Alpha coefficients. In the scale of reliability, the coefficient values in this study are greater than 0.70 (ranging from 0.741 – 0.944); this can be interpreted as meaning that the scale of all measures is internally

consistent (Nunnally and Bernstein, 1994). Factor analysis is employed to test the validity of data in the questionnaire. According to the rule of thumb of Nunnally and Bernstein (1994), if all factor loadings are greater than 0.40 cut-offs and are statistically significant, this can be taken as showing the validity of instruments. All the results of this study comply with this rule. This can be found from Table 1, which the factor loading values have been shown ranging from 0.703 – 0.956).

Multicollinearity

Possible problems relating to multicollinearity, occur when two or more independent variables are linearly related very closely. This problem was also monitored. Hair et al. (2006) argue that a correlation with a value above 0.80 should be considered a serious problem. After the simple correlations between independent variables and standard errors of the estimated coefficients had been examined, the data showed there was no serious multicollinearity which would distort the efficiency of the estimate. This can be seen from Table 2, which the correlation value ranging from 0.052 - 0.656 have been shown. As well, the variance inflation factor (VIF) has also been used to check the multicollinearity problem between the independent variables. The VIF value of this study is below the cut-off value of 10; this indicates that the independent variables do not correlate to any great extent with each other (Neter, William and Michael, 1985).

Statistical Technique

Ordinary least square (OLS) regression analysis is adopted to test the hypothesis relationships among cultural diversity, conflict, social integration, effective communication, creativity, and IJV performance. According to Aulakh, Kotabe, and Teegen (2000), if all dependent, independent, and control variables in the research are neither nominal data nor categories data, OLS is the appropriate method for examining the hypotheses' relationships. The model of the relationship to test all established hypotheses are shown as below:

$$\text{Equation 1: } CF = \beta_{01} + \beta_{1}DFC1 + \beta_{2}DFC2 + \beta_{3}DFS1 + \beta_{4}DFS2 + \beta_{5}CD + \varepsilon$$

$$\text{Equation 2: } SI = \beta_{02} + \beta_{6}DFC1 + \beta_{7}DFC2 + \beta_{8}DFS1 + \beta_{9}DFS2 + \beta_{10}CD + \varepsilon$$

$$\text{Equation 3: } CE = \beta_{03} + \beta_{11}DFC1 + \beta_{12}DFC2 + \beta_{13}DFS1 + \beta_{14}DFS2 + \beta_{15}CD + \varepsilon$$

$$\text{Equation 4: } CRE = \beta_{04} + \beta_{16}DFC1 + \beta_{17}DFC2 + \beta_{18}DFS1 + \beta_{19}DFS2 + \beta_{20}CD + \varepsilon$$

$$\text{Equation 5: } IJVP = \beta_{05} + \beta_{21}DFC1 + \beta_{22}DFC2 + \beta_{23}DFS1 + \beta_{24}DFS2 + \beta_{25}CF + \beta_{26}SI + \beta_{27}CE + \beta_{28}CRE + \varepsilon$$

$$\text{Equation 5: IJVP} = \beta_{06} + \beta_{29}DFC1 + \beta_{30}DFC2 + \beta_{31}DFS1 + \beta_{32}DFS2 + \beta_{33}CD + \varepsilon$$

$$\text{Equation 6: IJVP} = \beta_{07} + \beta_{34}DFC1 + \beta_{35}DFC2 + \beta_{36}DFS1 + \beta_{37}DFS2 + \beta_{38}CF + \beta_{39}SI + \beta_{40}CE + \beta_{41}CRE + \beta_{42}CD + \varepsilon$$

Table 1: Reliability and Validity Measurement

Items	Factor Loadings	Cronbach Alpha	Number of Items
IJV Performance (IJVP)	0.742 - 0.843	0.794	9
Cultural Diversity (CD)	0.707 - 0.815	0.741	7
Conflict (CF)	0.779 - 0.917	0.818	6
Social Integration (SI)	0.703 - 0.781	0.771	6
Effective Communication (EC)	0.705 - 0.852	0.762	4
Creativity (CRE)	0.888 - 0.956	0.944	4

Table 2: Correlation Matrix of Variables

Variable	CD	CF	SI	EC	CRE
Cultural Diversity (CD)	1				
Conflict (CF)	0.265 [*]	1			
Social Integration (SI)	0.318 [*]	-0.166	1		
Effective Communication (EC)	0.052	-0.129	0.656 ^{**}	1	
Creativity (CRE)	0.259 [*]	-0.309 ^{**}	0.629 ^{**}	0.588 ^{**}	1

**p<0.01, *p<0.05

FINDINGS AND DISCUSSIONS

The Impact of Cultural Diversity on Conflict, Social Integration, Effective Communication, and Creativity

Table 3 (Model 1 - Model 4) shows the results of the impact of cultural diversity on the following four variables: conflict, social integration, effective communication, and creativity. The results indicate that cultural diversity has a significant positive effect on social integration (standardised beta coefficient = 0.311, p<0.01) and creativity (standardised beta coefficient = 0.525, p<0.001). Overall, the regression can explain about 7% (0.073) and 21% (0.217) of the variation of the dependent variable in Model 2 and Model 4 respectively. Hence, **Hypothesis 1b is supported, while Hypothesis 1a, Hypothesis 1c, and Hypothesis 1d cannot be accepted.** The outcomes of this study somewhat contradict and are partially consistent with previous studies. Regarding Hypothesis 1b, the result suggests that cultural diversity has a positive influence on social integration, since the questions were asked of respondents in

cultural diversity variables denoting 1=very different, 5=very similar, while social integration questions signify 1=the least social integration, 5=the most social integration. Hence this result shows a positive relationship; the higher the level of similarity (lower level of cultural diversity), the higher the level of social integration. This is consistent with the findings of Stahl *et al.*, (2010), which suggested that cultural diversity has a negative influence on the effective dimension of social integration assessed in their study. According to O'Reilly, Caldwell, and Barnett, (1989: 22), social integration is the attraction to the group, satisfaction with other members of the group, and social interaction among group members. Social integration will capture a set of dynamics associated with general group functioning and collaboration, including cohesion (Katz and Kahn, 1978), and coordination (McGrath, 1984; O'Reilly *et al.*, 1989). Most research has found that diversity has a negative impact on social integration. For instance, Jackson, 1992; Kirchmeyer, 1995) have found that gender diversity diminishes group cohesion and trust. This is consistent with this study.

However, the result of this study shows the opposite to establishing Hypothesis1d and is different to previous studies (e.g., Stahl *et al.*, 2010; Cox and Blake, 1991). According to Doz, Santos and Williamson (2004), cultural differences are associated with differences in mental models, modes of perception, and approaches to problems, they are likely to provide strong inputs for creativity. Since the data in the categories of cultural diversity and creativity were encoded in opposite directions; hence, to show the positive effects of these two variables, the data would have to show negative direction, but the findings show a significant positive sign, which means that the lower the level of cultural diversity (higher level of similarity), the higher the level of creativity. This may explain the positive effect of cultural similarity on creativity. People from similar backgrounds and cultures may work or communicate more effectively in the same way, and could support brainstorming or enabling more harmonious participation by people in problem solving, and this could then boost creativity (Adler, 2002; Cox, 1994).

Regarding the results in testing Hypothesis 1a and Hypothesis1c, it can be seen that the data show a similar trend to the established hypotheses: cultural diversity has a significant positive effect on conflict with standardised beta coefficient value of -0.153, $p>0.05$ (data were encoded in opposite directions) and cultural diversity has a significant negative effect on effective communication with standardised beta coefficient value of 0.174, $p>0.05$ (data were encoded in opposite directions), but these effects are not strong enough to accept at 95% confidence intervals. These results are partially and similarly to previous studies.

Hence, collectively, there is a need to continue the study of the relationship and effects of cultural diversity on these variables to illuminate the reasons for the difference in the significant association of the variables.

The Effects of Conflict, Social Integration, Effective Communication, and Creativity on IJV Performance

Table 4, (Model 5) reveals the findings of the impacts of conflict, social integration, effective communication, and creativity on IJV performance. The results indicate that mediating variables of social integration and creativity significantly and positively impact on IJV performance (social integration, standardised beta coefficient = 0.381, $p<0.01$; creativity = 0.408, $p<0.01$). These lead to the **acceptance of Hypothesis 2b and Hypothesis 2d**. Further, the result indicates the negative effect of conflict on IJV performance, but it is not significant at 95% confidence intervals. This study measures conflict in two dimensions: substantial (task) and emotional (effective), in-depth investigation of the relative effect of these two kinds of conflicts on IJV performance may provide new insights into the literature. Conflict, especially task conflict as a result of brainstorming, may generate creative ideas or solutions for the group and could eventually have a positive effect on team performance (McLeod *et al.*, 1996; Rodriguez, 1998).

Regarding to previous studies, there is some evidence that task conflict may increase performance, and personal conflict may decrease performance (Jehn, Chadwick, and Thatcher, 1997 cited Stahl *et al.*, 2010), but a meta-analysis (De Dreu and Weingart, 2003) found that both types of conflict were negative related to performance. As people with diverse backgrounds and experiences hold different belief structures and values, which affect their prioritisation, interpretation and response to stimuli (e.g., Walsh, 1998; Wiersema and Bantel, 1992), group diversity inherently increases the potential for conflicts. Because cultural differences are deep, and often held subconsciously, the sources of conflict in multicultural teams may be difficult to identify, and even more difficult to resolve (e.g., Kirchmeyer and Cohen, 1992).

Table 3: Result of the Regression Analysis of Model 1 – Model 4

Model	1	2	3	4
Variable	CF(DV)	SI(DV)	EC(DV)	CR(DV)
Cultural Diversity (CD), (IV)	-0.153	0.311**	0.174	0.525***
Firm Size1: DFC1	0.087	0.028	-0.040	-0.180
Firm Size 2: DFC2	-0.011	-0.051	-0.169	-0.091
Firm Size 3: DFS1	0.082	-0.132	0.152	-0.114
Firm Capital1: DFS2	-0.002	0.013	0.152	0.035
Adjusted R ²	-0.028	0.073	0.040	0.217

NB: ***p<0.001, **p<0.01 / DV=Dependent Variable, IV=Independent Variable

Toward to effective communication, it is the transmission of meaning from one person to another as it was intended, and it is an important alignment process. Effective communication is associated with good team performance, both directly and by impacting on other processes such as conflict resolution and cohesiveness. Cultural difference can greatly interfere with the communication process. Effective communication requires that individuals have at least a minimum of shared language around which to align. Different country-based cultures often have different languages, and even when they use a shared language they may not always translate the same way. The different values and norms among people from different cultures make it difficult for them to find a shared platform or a common approach (Maznevski, 1994). Surprisingly, the result of this study shows the negative effect of effective communication on IJV performance (standardised beta coefficient = -0.411, p<0.01). This might infer to the vagueness, interpretative communication, indirectness of communicative especially communicative style of Asian culture may positively effect on IJV performance since the majority of IJV firms in Thailand have the foreign partners from Japan (Pornnavalai, 1997). Future study into the effects of these mediating variables especially conflict on IJV performance is to be encouraged in order to compare the results with this study.

Table 4: Result of the Regression Analysis of Model 5 - 7

Model	5	6	7
Variable	IJVP(DV)	IJVP(DV)	IJVP(DV)
Cultural Diversity (CD), (IV)		0.498***	0.315**
Conflict (CF), (IV)	-0.044	-	-0.049
Social Integration (SI), (IV)	0.381**	-	0.355**
Effective Communication (EC), (IV)	-0.411**	-	-0.344**
Creativity (CR), (IV)	0.408**	-	0.238

Table 4: (continues)

Model	5	6	7
Firm Size1: DFC1	-0.168	-0.089	-0.203
Firm Size 2: DFC2	-0.213*	-0.190	-0.321***
Firm Size 3: DFS1	-0.053	-0.345**	-0.056
Firm Capital 1: DFS2	-0.137	-0.185	-0.151
Adjusted R ²	0.281	0.239	0.342

NB: **p<0.001, **p<0.01, *p<0.05 / DV=Dependent Variable, IV=Independent Variable

The Influence of Cultural Diversity on IJV Performance

Table 4 (Model 6) shows the results of cultural diversity on IJV performance. The results indicate that cultural diversity has a significant effect on IJV performance (standardised beta coefficient=0.498, p<0.001). The result suggests that cultural diversity has a negative influence on IJV performance (data were encoded in opposite directions) since the questions have been put to respondents with the cultural diversity variable denoting 1=very different, 5=very similar, while IJV performance questions signify 1=much worse than expected, 5=much better than expected. These results therefore show a negative effect; the higher the cultural diversity (the lower similarity), the lower IJV performance. This means that the higher the level of cultural diversity, the lower the level of IJV performance. Altogether, **the Hypothesis 3 has been accepted.**

This partially confirms the outcomes from previous studies, since cultural diversity could positively affect IJV performance as well. A number of researchers (e.g., Doz, Santos, and Williamson, 2004; Stahl *et al.*, 2010) argue that cultural diversity could result in creativity and innovation; this could lead to firm performance improvement. As well, as mentioned earlier, cultural diversity tends to stimulate creativity because cultural differences are associated with differences in mental models, modes of perception, and approaches to problems. This means they are likely to provide strong inputs for creativity (Stahl *et al.*, 2010: 692).

Future study is encouraged to study the direct effects of cultural diversity on IJV performance in a wider dimension. The study in the broad approach of Stahl *et al.*, (2010) provides new insights into the effects of cultural diversity on mediating variables in the literature. Nevertheless, if the direct association between cultural diversity and IJV performance is additionally studied, it could further contribute to the knowledge in the literature. Hence, this study is, then, an initial attempt to fill a knowledge gap in the literature in respect of this issue. It is hoped that future research on the above-mentioned issues may employ a qualitative approach, in order to get a more rounded and complete picture of the direct effect of cultural

diversity on IJV performance. This would be a valuable supplement to the knowledge resulting from the present study.

The Mediating Effect of Conflict, Social Integration, Effective Communication, and Creativity

In this study, the approach of Baron and Kenny (1986) and Preacher and Hayes (2008) have been adopted to test the mediating role of conflict, social integration, effective communication, and creativity on the relationship between cultural diversity and IJV performance. Firstly, in accordance with the approach of Baron and Kenny (1986), IJV performance has been tested its dependence on four mediators: conflict, social integration, effective communication, and creativity. The results indicate that mediating variables of social integration and creativity impact on IJV performance significantly and positively, whilst effective communication has a significant negative effect on IJV performance as discussed earlier shown in Table 4 (Model 5). Secondly, the impact of cultural diversity on IJV performance has been investigated, and the result indicates negative association (Model 6). Thirdly, the effect of cultural diversity on four mediators has been detected. The outcome has shown that cultural diversity has a negative influence on social integration: the higher the level of cultural diversity, the lower the level of social integration. As well, the negative effect of cultural diversity on creativity has been founded. Lastly, with the approach of Preacher and Hayes (2008), the cultural diversity and four mediators: conflict, social integration, effective communication, and creativity have been loaded as independent variables to test their effect on IJV performance. The results in Model 7 reveal that cultural diversity (standardised beta coefficient = 0.315, $p<0.01$), social integration (standardised beta coefficient = 0.355, $p<0.01$), effective communication (standardised beta coefficient = -0.344, $p<0.01$) significantly affect on IJV performance, whilst creativity has no longer influence on IJV performance (beta coefficient = 0.238). Altogether, hence, this can be interpreted that the four mediators (conflict, social integration, effective communication, and creativity) partially mediate the relationship between cultural diversity and IJV performance leading to the **acceptance of Hypothesis 4**.

Managerial Implications of the Study

Based on the result of this study, the IJV managers could have to learn in managing the relationships among top managers and mediating the conflicts among managers according to cultural differences since it is too complicated to track the sources of conflict in multinational teams because cultural diversity is at a subconscious level, and thus conflict resolution is

difficult to manage. Also, IJV top managers could boost the understanding via the effective communication. As well, IJV managers need to understand much more about how diverse teams can work harmoniously and effectively when they have to work together within IJV firms. As well, grounding on the results of this study, IJV managers have to learn to interpretively and wisely communicate with IJV management team for accomplishing the goal of IJVs effectively and efficiently within the Asian culture context.

In addition, effective IJV managers could be required to synergise the strength of each manager according to the cultural difference in order to create the better solution and creativity for organisation. Creativity is an attempt to seek a broader range of options and ways of appraising them, while at the same time developing new and viable conceptions never previously heard of.

CONCLUSIONS AND FUTURE RESEARCH AGENDA

This study focuses on the mediating effects of four mediators: conflict, social integration, effective communication, and creativity on the relationship of cultural diversity and IJV performance. Also, the direct impact of cultural diversity on IJV performance has also been investigated. The study provides a new insight of the mediating role of above-mentioned mediators and the impacts of cultural diversity on IJV performance. However, the results of the study are both consistent with and contradict the literature. Future study into the issue is to be encouraged in order to compare the results with this study.

Also, a much larger sample size might have generated different results when using such multivariate data analysis techniques as regression analysis. Ideally, future research could be conducted on a larger scale by a research team, especially in the context of other ASEAN countries. Further, this survey conducted in the course of this study elicited primary data from a single respondent, IJV top manager. Future research might provide more comprehensive results if it proved possible to obtain data from all IJV top management perspectives.

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