



UNIVERSITI PUTRA MALAYSIA

**EFFECTS OF TECHNOLOGY TRANSFER
ON MALAYSIAN-BASED ELECTRONIC FIRMS**

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**EFFECTS OF TECHNOLOGY TRANSFER ON MALAYSIAN-BASED
ELECTRONIC FIRMS**

By

CHUBASHINI SUNTHARALINGAM

**Thesis Submitted in Partial Fulfilment of the Requirements for the Degree of
Master of Science in the Malaysian Graduate School of Management
Universiti Putra Malaysia**

April 1999



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To my dearest parents.....

*"If I were to pass through this way again, let it be through your
blessings"*

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TABLE OF CONTENTS

	Page
ACKNOWLEDGEMENTS.....	iv
LIST OF TABLES.....	x
LIST OF FIGURES.....	xiii
LIST OF ABBREVIATION.....	xiv
ABSTRACT.....	xv
ABSTRAK.....	xvii
 CHAPTER	
I	INTRODUCTION
	Malaysia's Manufacturing Sector..... 1
	The Malaysian Electronic Industry..... 2
	The Electronic Industry's Performance..... 4
	Structural Changes in The Malaysian Electronic Industry.. 8
	Technology Transfer..... 9
	Types of Agreements of Technology Transfer Process..... 11
	Guidelines for the Approval of Technology Transfer Agreements..... 12
	Problem Statement..... 17
	Significance of The Study..... 19
 II	 LITERATURE REVIEW
	Technology..... 20
	Definition of technology..... 21
	Technological components..... 23
	Technological development..... 24
	Technological change..... 25
	Technological advancement..... 26
	Technological capability..... 26
	Sources of technology..... 27
	Technology Transfer..... 28
	Definition of technology transfer..... 28
	Role of technology transfer..... 29
	Effective technology transfer process..... 31
	Disadvantages of technology transfer..... 32
	Factors Inherent in The Technology Transfer Process.... 33
	Corporate culture..... 34
	Organisational structure and system..... 36
	Skills..... 38



Language.....	40
Flow of communication.....	40
Managers' and Employees' attitude and behaviour	41
Personnel.....	44
Information Technology (IT).....	47
Definition of information technology (IT).....	48
The demand and growth of IT.....	48
Development of IT.....	49
IT in the West.....	51
IT in Malaysia.....	53
Summary.....	54
Conclusion.....	55

III

CONCEPTUAL FRAMEWORK

Justification of The Conceptual Framework.....	58
Inherent Factors in the Technology Transfer Process....	58
Organisational bridge.....	60
Human bridge	61
Procedural bridge.....	62
Information Technology.....	63
IT in the West.....	63
IT in Malaysia.....	63
Comparison of previous studies and proposed study.....	64
Objective of study.....	65
General objective.....	65
Specific objectives.....	65
Corporate culture.....	65
Organisational structure and system.....	65
Skills.....	66
Language.....	66
Flow of communication.....	66
Managers' and employees' attitude.....	67
Personnel.....	67
Information technology.....	68
Hypotheses of study.....	68
Corporate culture.....	68
Organisational structure and system.....	69
Skills.....	70
Language.....	70
Flow of communication.....	71
Managers' and employees' attitude and behaviour..	72
Personnel.....	73
Technology transfer.....	74
Information technology.....	75

IV	METHODOLOGY	
	Introduction.....	76
	Research Site.....	76
	Study Population.....	77
	Research Instrument.....	78
	Dependent variable.....	80
	Independent variables.....	80
	Moderating variable.....	81
	Data Collection.....	81
	Phase 1 - Delivery of questionnaire to the respective respondents <i>via</i> fax.....	81
	Phase 2 - Data collection through qualitative method.....	82
	Phase 3 - Data collection through quantitative method.....	83
	Methods of Data Analysis.....	84
	Reliability Analysis.....	85
	Corporate culture.....	86
	Flow of communication.....	86
	Manager and employee.....	87
	Personnel.....	87
	Information technology.....	88
V	ANALYSIS AND DISCUSSION	
	Background of the firms.....	90
	Corporate Culture.....	91
	Managerial styles.....	92
	Operational procedures.....	93
	Corporate environment.....	95
	Organisational structure and system.....	96
	Size of organisational structure.....	97
	Decision making environment.....	98
	Nature of technology used.....	100
	Degree of vertical integration.....	101
	Skills.....	103
	Language.....	106
	The Flow of Communication.....	108
	Upward communication.....	109
	Downward communication.....	111
	Lateral communication.....	112
	Manager and Employee.....	114
	Attitude and behaviour.....	114
	Resistance.....	116
	Personnel.....	120
	Assistance.....	120

	Methods.....	121
	Technology Transfer.....	124
	Inherent factors.....	125
	Information Technology.....	128
	Information stored.....	128
	Media.....	129
	Functional areas.....	131
	Influence of IT.....	133
	Facilitation of technology transfer by IT.....	134
	General Discussion.....	136
VI	CONCLUSION AND IMPLICATIONS	
	Conclusion.....	141
	Implications.....	144
	Limitations of Study.....	146
	BIBLIOGRAPHY.....	147
	APPENDICES	
	A Cover Letter.....	163
	B Questionnaire 1.....	164
	C Questionnaire 2.....	170
	D Likert Scale.....	174
	Vita.....	175



LIST OF TABLES

Table	Title	Page
Table 1.0	Malaysia: Output & Employment in the Electronic Industry (1986-1997).....	5
Table 1.1	Malaysia: Number of Electronic Projects Approved by Sub-sector, 1985-1997.....	6
Table 1.2	Malaysia: Export (RM million) Of the Electronic Industry, by Sub-sector (1988-1996).....	7
Table 1.3	Malaysia: Share (%) of Total Output of Electronic Industry by Sub-sector, 1984-1997.....	9
Table 4.0	Reliability Analysis.....	89
Table 5.0.0	Background of the Japanese firms.....	90
Table 5.0.1	Background of the American firms.....	91
Table 5.1.0	Mean Values Depicting the Changes in Corporate Culture	91
Table 5.1.1	Comparison of Changes in Corporate Culture between Japanese and American Firms.....	92
Table 5.2.0	Mean Values Depicting Factors that Influenced the Organisational Structure and System.....	97
Table 5.2.1	Comparison of Changes in Organisational Structure and System between Japanese and American	97
Table 5.3.0	Mean Values Depicting the Number of Employees Possessing Diversified Skills.....	103
Table 5.3.1	Comparison of Number of Employees Possessing Diversified Skills During the Technology Transfer Process between Japanese and American firms.....	103
Table 5.3.2	Skills Possessed Across Levels of Management.....	104



Table 5.4.0	Mean Values Depicting the Language Difficulties Faced During the Technology Transfer Process.....	106
Table 5.4.1	Comparison of Language Difficulties Faced between Japanese and American Firms During the Technology Transfer Process.....	108
Table 5.5.0	Mean Values Depicting the Changes in the Flow of Communication.....	108
Table 5.5.1	Comparison of Changes in Flow of Communication between Japanese and American Firms.....	109
Table 5.6.0	Mean Values Depicting the Changes in the Attitude and Behaviour of Managers and Employees between Japanese and American Firms.....	114
Table 5.6.1	Comparison of Changes in Attitude and Behaviour of Managers and Employees between Japanese and American Firms.....	114
Table 5.6.2	Mean Values Depicting the Resistance Faced Across Levels of Management.....	118
Table 5.6.3	Comparison of Resistance Faced Across Levels of Management between Japanese and American Firms.....	119
Table 5.7.0	Mean Values Depicting the Assistance Provided by the Transferor.....	120
Table 5.7.1	Comparison of Assistance Provided by the Transferor between Japanese and American Firms.....	121
Table 5.7.2	Mean Values Depicting the Methods Used to Disseminate Knowledge.....	122
Table 5.7.3	Comparison of Methods Used to Disseminate Knowledge Regarding the New Technology between Japanese and American Firms.....	124
Table 5.8.0	Mean Value Depicting the Success Rate of the Technology Transfer Process.....	125
Table 5.8.1	Comparison of Success of Technology Transfer Process between Japanese and American Firms.....	125



Table 5.8.2	Mean Values Depicting the Degree of Challenge Posed by Factors Inherent in the Technology Transfer Process..	126
Table 5.8.3	Comparison of Degree of Challenge Posed by Factors Inherent in the Technology Transfer Process between Japanese and American Firms.....	127
Table 5.9.0	Mean Values Depicting the Manner in Which Information Regarding the Technology Transfer Process was Stored.....	129
Table 5.9.1	Comparison of Information Stored Regarding the Technology Transfer Process between Japanese and American Firms.....	129
Table 5.9.2	Mean Values Depicting the Media Tools Used During the Technology Transfer Process.....	130
Table 5.9.3	Comparison of Media Tools Used During the Technology Transfer Process between Japanese and American Firms.....	131
Table 5.9.4	Mean Values Depicting the Functional Areas Aided by IT.....	132
Table 5.9.5	Comparison of the Functional Areas Aided by IT between Japanese and American Firms.....	132
Table 5.9.6	Mean Values Depicting the Influence of IT on the Technology Transfer Process.....	133
Table 5.9.7	Comparison of the Influence of IT on the Technology Transfer Process between Japanese and American Firms	134
Table 5.9.8	Mean Values Depicting Facilitation of IT on Technology Transfer	135
Table 5.9.9	Comparison of Facilitation of IT on Technology Transfer Process between Japanese and American Firms	135
Table 6.0	Comparison of Mean Values between Japanese and American Firms.....	142



LIST OF FIGURES

Table	Title	Page
Figure 1	Maack's definition of technology.....	21
Figure 2	Kemp's definition of technology.....	22
Figure 3	The Conceptual Framework.....	71
Figure 4	Comparison of proposed study in relation to previous study	64



LIST OF ABBREVIATION

IT Information Technology



ABSTRACT

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in partial fulfilment of the requirements for the degree of Master of Science.

EFFECTS OF TECHNOLOGY TRANSFER ON MALAYSIAN-BASED ELECTRONIC FIRMS

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April 1999

Chairman : Associate Professor Zainal Abidin Mohamed, Ph.D .

Faculty : Malaysian Graduate School of Management

This study was carried out to determine effects of technology transfer on Malaysian-based electronic firms by examining whether the factors found to be inherent (i.e. corporate culture, organisational structure and system, skills, language, flow of communication, attitude and behaviour of manager and employee, and transfer of personnel) in technology transfer in the West were applicable in the technology transfer process in Malaysian firms. The study focused on two types of firms, which were electronic-based, i.e. Japanese and American firms. Investigations were also made to elucidate the influence of information technology (IT) on technology transfer.



Data for this study were obtained through personal interviews, structured questionnaire and secondary sources. Results showed that the inherent factors operating in the technology transfer process in Malaysia were in conformity with those found in technology transfer processes occurring in the West. Comparatively, it was found that the Japanese firms underwent more intense changes in their organisational aspect in order to adopt new technologies. The American firms, on the other hand, were found to be agreeable to the notion that IT influenced the technology transfer process. This was because the Americans were more exposed to the usage of IT in the said area as compared to the Japanese.

This study showed that human and organisational aspect of a firm were important in ensuring successful implementation of new technologies in the respective firms. However, further research should be carried out to determine the degree of importance of the inherent factors, which are responsible in ensuring successful technology transfer.



ABSTRAK

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Master Sains.

KESAN PEMINDAHAN TEKNOLOGI KE ATAS FIRMA-FIRMA ELEKTRONIK MALAYSIA

Oleh

CHUBASHINI SUNTHARALINGAM

April 1999

Pengerusi : Professor Madya Zainal Abidin Mohamed, Ph.D.

Fakulti : Pusat Pengajian Siswazah Pengurusan Malaysia

Kajian telah dijalankan untuk menentukan impak pemindahan teknologi ke atas firma-firma elektronik di Malaysia dengan menguji sama ada faktor-faktor penting (budaya korporat, struktur dan sistem organisasi, bahasa, komunikasi, sikap dan gelagat pengurus dan pekerja, dan pemindahan pekerja) yang mempengaruhi pemindahan teknologi di negara Barat juga mempengaruhi proses pemindahan teknologi di Malaysia. Kajian ini tertumpu kepada dua jenis firma elektronik, yakni firma Jepun dan Amerika. Penyiasatan juga dibuat untuk memahami pengaruh teknologi maklumat ke atas proses pemindahan teknologi.

Data untuk kajian ini diperolehi melalui temuramah, soal selidik berstruktur dan sumber sekunder daripada firma-firma yang dikaji. Keputusan menunjukkan bahawa faktor-faktor penting yang beroperasi dalam proses pemindahan teknologi di negara Malaysia menyerupai faktor-faktor penting yang mempengaruhi proses



pemindahan teknologi di negara Barat. Secara perbandingan, didapati firma-firma Jepun lebih mengalami perubahan terhadap aspek keorganisasian dalam usaha menerapkan teknologi baru. Di samping itu, firma-firma Amerika didapati lebih bersetuju bahawa teknologi maklumat mempengaruhi proses pemindahan teknologi. Ini adalah kerana firma-firma Amerika lebih terdedah kepada penggunaan teknologi maklumat di dalam bidang tersebut.

Kajian ini telah menunjukkan bahawa faktor manusia dan keorganisasian adalah mustahak untuk menjayakan implementasi teknologi baru dalam firma-firma yang dikaji. Penyelidikan selanjutnya harus tertumpu kepada penentuan tahap kepentingan faktor-faktor tersebut dalam menjayakan proses pemindahan teknologi.

CHAPTER I

INTRODUCTION

Malaysia's Manufacturing Sector

In March 1998, Datuk Seri Anwar, the Finance Minister announced that Malaysia registered real GDP growth of 7.8% and enjoyed a trade surplus of RM424 million in 1997 compared with a deficit of RM254 million in 1996. It was the first trade surplus achieved since 1994 and the surplus enabled the current account deficit to be sustained at 5.1% of GNP.

In the manufacturing sector, Malaysia attracted total investments of RM33.441 billion from 854 applicants last year. Of these, RM17.797 billion (59.2%) were from domestic sources (MIDA, 1998). High levels of foreign investments were mainly in petroleum products, electrical and electronic products, basic metal products, fabricated metal products and chemical and chemical products industries and food. These six industries accounted for 82.9% of total proposed foreign investment last year.



The Seventh Malaysia Plan targets high output growth for the manufacturing sector at an average rate of 10.7%, while the sector's share of GDP is forecasted to increase to 37.5% in the year 2000.

The potential benefits which Malaysia can reap from the growth in world trade will depend on its capacity to compete in the global market, hence in view of this, the manufacturing sector of the Malaysian economy has undertaken a strategic shift towards using more capital-intensive production technology, in response to the tight labour market condition and to keep pace with technological advancements.

Significant expansion of production capacity is expected in industries producing electrical and electronic products, chemical and chemical products, non-metallic mineral products and transport equipments.

The Malaysian Electronic Industry

The electrical and electronic industries are internationally linked and as such are essential elements of the Malaysian economy. This is because its contribution to the economy has been and still is very substantial. It was found that the electrical and electronic products remained the largest export earner, netting receipts of RM11.7 billion, or 51.4% of total export earnings in January 1998. Thus, they are in fact the prime movers of Malaysia's drive towards achieving industrialised nation status.

Cheah (1991) outlined that the electronic industry is divided into three broad categories which comprises:-

- a. Electronic components - e.g. semiconductor devices
- b. Consumer electronics - e.g. audio/video equipment
- c. Industrial electronics - e.g. computers and telecommunications equipment.

The electronic components sub-sector present good potential for development in view of the rapidly growing consumer and industrial electronics sub-sector in the country.

The consumer electronics sub-sector's growth is favourable as the European countries are now turning to Malaysia, being the cheapest source and also a major imports for them for their supply of consumer electronics equipment (MIDA, 1998). This is so because it is no longer competitive to produce this particular components over there. Presently, there are in Malaysia a few local companies manufacturing consumer electronics equipment for export.

The products in the industrial electronic sub-sector are generally more of the high-technology type and it may be relatively more difficult for Malaysians to venture into this field. Nevertheless, Malaysians can enter into this field through the establishment of joint ventures with foreign investors or by way of subcontracting.

A major product that is being encouraged for manufacture is computers and computer peripherals.

The Electronic Industry's Performance

Since the establishment of the first semiconductor plant in Penang in 1972, the export-oriented electronic industry has developed rapidly to become one of Malaysia's major industrial sub-sectors within the manufacturing sector and a significant contributor to the country's economy. From a total of just four companies with 577 employees and a total output value of RM25 million in 1970, the industry has expanded to comprise more than 850 companies in production, employing 343,000 workers in 1997 with a total estimated output values of RM85.6 billion (MIDA, 1998). The electronic industry has in recent years attained a high profile among the principal industries in Malaysia and is now a leading contributor to Malaysia's manufacturing, employment and exports.

The performance of the electronic industry during the period 1991-1997 had been particularly remarkable, registering an output growth of 23.2% per annum. Employment in this sub-sector had also been growing rapidly during the same period at an annual average of 13.4% (Table 1.0).

Table 1.0: Malaysia: Output and Employment in the Electronic Industry (1986 - 1997)

Year	Output RM (bil)	Output Growth (%)	Employment No.	Employment Growth (%)
1986	6.5	-	57,000	-
1987	8.9	36.9	89,000	56.1
1988	12.2	37.1	106,000	19.1
1989	15.9	30.3	123,000	16.0
1990	20.3	27.7	144,000	17.1
1991	26.1	28.6	171,000	18.8
1992	32.2	23.4	204,000	19.3
1993	42.1	30.7	231,000	13.2
1994	56.4	34	278,000	20.3
1995	71	25.9	313,000	12.6
1996	76	7.0	329,100	5.1
1997	85.6	12.6	343,300	4.3
Avg. Annual Growth Rate (1991-1997)	-	23.2	-	13.4

Source : Malaysian Industrial Development and Authority (MIDA) (1998)

The number of electronic projects approved by the Government has also increased steadily over the years (Table 1.1). A total of 1,669 electronic projects with a total proposed investment of RM39.5 billion were approved by the government for the period 1985-1997. As at December 1997, there were more than 900 companies in operation, producing a wide range of electronic products.

Table 1.1: Malaysia: Number of Electronic Projects Approved by Sub-sector, 1985-1997.

Year	Electronic Components		Consumer Electronics		Industrial Electronics		Total	
	No.	Capital Investment (RM mill.)	No.	Capital Investment (RM mill.)	No.	Capital Investment (RM mill.)	No.	Capital Investment (RM mill.)
1985	17	104	9	4.6	11	21.6	37	130.2
1986	19	47.6	11	63.2	8	6.7	38	117.5
1987	29	264	11	145.3	13	159.4	53	568.7
1988	41	582.9	14	322.2	6	134.3	61	1,039.4
1989	64	1,375.7	28	418.9	18	228.5	110	2,023.1
1990	143	2,778.4	25	1,132.1	38	567.3	206	4,477.8
1991	102	1,733	28	87.8	35	466.6	165	2,287.4
1992	93	5,35.5	38	249.8	24	181.3	155	966.6
1993	88	1,559.2	30	107.8	51	413	169	2,080
1994	92	4,606.3	41	138.1	43	472.8	176	5,217.2
1995	95	943.5	29	202.8	50	1,942.3	174	3,088.6
1996	118	11,159.5	28	280.8	46	670.9	192	12,111.2
1997	71	4,755.2	18	52.6	44	582.9	133	5,390.7
Total	972	30,444.8	310	3,206.0	387	5,847.6	1,669	39,498.4

Source : MIDA (1998)

Exports of electronic products have been increasing steadily over the years, from RM13.1 billion in 1988 to RM91.7 billion in 1996 and RM107.3 billion in 1997 (Table 1.2). Electronic exports in 1997 comprised RM46.3 billion in electronic components, RM17.8 billion in industrial electronics.