THE UNIVERSITY OF HULL

The Internationalisation Process of Firms from a Developing Country: Empirical Study of Malaysian-based Multinational Corporations

being a Thesis submitted for the degree of Doctor of Philosophy in the University of Hull

by

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Abstract

This thesis aims to investigate the emergence and evolution of Malaysian-based firms and identify the factors that influence the organisation's international expansion process. This study reviews different streams of literature on the internationalisation process of firms and developing country multinational enterprises, highlighting the necessity to maintain a balance between exploiting existing resources and accumulating new competencies. Drawing upon extensive field research of three case studies of notable Malaysian-based multinational firms namely, Petroliam Nasional Berhad, TM Berhad, and Sime Darby Berhad, this study attempts to explains how symbiosis of internationalisation knowledge and experience, technological competence, and business network connections (including government support) is pivotal to the emergence and international expansion of Malaysian-based multinational firms. The findings of the research indicate that these corporations did not follow the sequential pattern of internationalisation process. Rather, internationalisation processes and expansions are diverse and complex, often reflecting areas of specialisation of the firm, or its internal growth processes. The factors influencing internationalisation tends to be firm specific and associated with the capabilities, competencies and resources of the associated firms. The study attempts to explain the growth and expansion of the three case Malaysian firms and shed light on the relatively unexplored area of outward direct investment by these corporations, thereby contributing to the existing literature on multinational corporations from developing countries. This study is an empirical contribution concerning the developmental process of multinational corporations from Malaysia.

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List of Abbreviations

AFTA	ASEAN Free Trade Area
BCIC	Bumiputera Commercial and Industrial Community
BOP	Balance of Payment
DOS	Department of Statistic
E&P	Exploration and Production
EOI	Export Oriented Industrialisation
EPF	Employee Provident Fund
EPZs	Export Processing Zones
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GLCs	Government-linked Corporations
HICOM	Heavy Industries Corporation of Malaysia
INV	Instant Investment New Venture
ISI	Import Substitution Industrialisation
JV	Joint Venture
LTAT	Lembaga Tabung Angkatan Tentera
LUTH	Lembaga Urusan dan Tabung Haji
MATRADE	Malaysia External Trade Development Corporation
MCA	Malayan Chinese Association
MIDA	Malaysian Industrial Development Authority
MISC	Malaysia International Shipping Corporation Berhad
MITI	Ministry of International Trade and Industry
MNCs	Multinational Corporations
MNFs	Multinational Firms
MNOC	Malaysia National Oil Corporation
MSC	Multinational Super Corridor
NBER	National Bureau of Economic Research
NDP	National Development Policy
NEP	New Economic Policy
NICs	Newly Industrialised Countries
NIEs	Newly Industralising Economies
NOC	National Oil Company
NVP	National Vision Policy
OECD	Organisation of Economic Cooperation and Development
PCSB	Petronas Carigali Sendirian Berhad
PDA	Petroleum Development Act
PDB	Petronas Dagangan Berhad
Petronas	Petroliam Nasional Berhad
PLC	Product Life Cycle Theory
PNB	Permodalan Nasional Berhad

RM	Ringgit Malaysia
SD	Sime Darby
TM	Telekom Malaysia
TWGRI	Technical Working Group on Reverse Investment
UMNO	United Malays National Organisation
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation

CHAPTER ONE

INTRODUCTION:
PURPOSE OF THIS THESIS

1.0 Context of the Study

Theories and research on the internationalisation of firms (or their expansion across national borders) have received significant attention from many scholars and researchers within the areas of international business, international marketing, and business strategy (Vernon, 1966, 1971, 1979; Johanson and Wiedersheim-Paul, 1975; Bilkey and Tesar, 1977; Bilkey, 1978; Cavusgil, 1980; Davidson, 1980; Reid, 1981; Davidson, 1983; Sharma and Johanson, 1987; Johanson and Vahlne, 1990; Gripsrud, 1990; Millington and Bayliss, 1990; Sullivan and Bauerschmidst, 1990; Erramilli, 1991; Anderson, 1993; Calof and Beamish, 1994; Blomstermo and Sharma, 2003a and 2003b; Ramamurti, 2004, and UNCTAD, 2005). To some key authors, internationalisation is the process by which firms gradually increase their involvement in international business activities, and establish and conduct transactions in other countries beyond their national jurisdiction (Welch and Luostarinen, 1988; Beamish, 1990; Pananond and Zeithaml, 1998; Luo, 1999; Sim and Pandian, 2003). The higher level of internationalisation by firms means that there are strong relationships between different national networks (Theorelli, 1986; Johanson and Vahlne 2003a, 2003b). In spite of the importance of understanding the dynamism of the internationalisation process however, most of these studies have been confined to firms operating in well-established developed countries namely, North America, the European Union, and Japan. Therefore, these studies exhibit a distinct Western perspective on the process of international expansion of firms to create competitive advantage, and have advanced a view that takes into account the more successful economies of the world (Erramilli et al., 1999). Such business expansion involved assorted issues, such as the processes in moving abroad, modes of entering foreign markets, internationalisation, and globalisation.

Though these studies have helped firms gain an insight into how to achieve and attain competitive advantage and maintain a global presence, their focus and interest are on multinational firms from industrialised developed countries. There is a meagre amount of empirical research on the internationalisation processes, strategies and operations of multinational firms from developing countries[1]. In spite of this limited attention, interest in the study of developing country multinationals emerged in the late 1970s and in the early 1980s (see Wells, 1983b; Lall, 1983a, 1993b, 1993c; Ting, 1985). In the 1990s, renewed attention was given to the topic of multinational corporation (MNC) growth by scholars and researchers such as Aggarwal and Agmon (1990), Ho (1992), Tolentino (1993, 1997a, 1997b, 1999, 2000), UNTCAD (1993), Ulgado et al., (1994), Nagesh (1995), Cantwell (1997), van Hoesel (1997a, and 1997b), Dunning et al., (1997), Yeung (1994, 1995, 1997, 1998a, and 1998b), Pananond and Zeithaml (1998), Kuada and Sorensen (2000), UNCTAD (2000), Mirza (2000), Mathews (2000), Adrian (2002), Sim and Pandian (2003), and Ibeh et al., (2004). These studies considered multinationals from developing countries, led by firms from four newly industrialising economies[2] (NIEs) or 'the dragons' (Hong

[1] Some of the literature refers to multinationals from third-world countries (see Wells, 1983; Tolentino, 1993; Dunning, van Hoesel and Narula, 1997; Sim and Pandian 2003; Ramamurti, 2004). It refers to domestic firms with head-quarters in developing nations, which control assets and/or exert influence in the decision-making process of one or more cross-border subsidiaries and/or affiliates in another country (Yeung, 1994).

[2] The newly industrialising economies (NIEs) are a group of countries which, in terms of world economic development, are in a transitional stage between the less developed countries (LDCs) of the third world and the advanced industrial countries (AICs) of the west. They are sometimes referred to as newly industrialising countries (NICs) (Gerald, 2001)

Kong, Taiwan, South Korea, and Singapore). They examined the challenges faced by corporations in these countries in becoming respected international players in the global market. Unlike the plethora of literature on internationalisation, however, very little has been written about multinational firms based in Malaysia, about their activities, strategies, motives, and performance, although they, too, have grown extremely rapidly, largely because of an export-led industrialisation policy (ESCAP, 1985; Chia, 1996; Yeung, 1998c; Ragayah et al., 1997; Ragayah, 1999). Thus in this respect, there is a theoretical and practical gap.

Current studies are also limited in their scope as the main attention is focused on describing and explaining the emergence of developing countries' multinational corporations in the world market (Yeung, 1995; Lim, 1996; van Hoesel, 1997a; Tolentino, 1997a; Pangarkar, 1998; Zutshi and Gibbons, 1998; Tolentino, 2000, Choi et al., 2003). They are dominated by a handful of well-known and distinguished East Asian multinational corporations such as Acer and Tatung (Taiwan-based), DBS and Sembawang Corporation (Singapore-based), Hutchison Whampoa and HSBC (Hong Kong-based), Daewoo, LG Electronics, Samsung, and Hyundai (South Korea-based) and other Asian conglomerates. Published data from the United Nations Conference on Trade and Development (UNCTAD) World Investment Report of the top ten outflows of investment from Asian developing countries in 2005, given in Table 1.1, indicate that Hong Kong was ranked first, followed by Singapore (second), Taiwan (third), Korea (fourth), India (fifth), Malaysia (sixth), China (seventh), Bahrain (eighth), Turkey (ninth) and the Philippines (tenth), respectively (UNCTAD, 2005).

Table 1.1: Top 10 Ranking of Foreign Direct Investment Outflows: Developing Asia and the Pacific 2000-2004 (Billions of US dollars)

Countries	2000	2001	2002	2003	2004
Hong Kong, China	59.0	11.0	18.0	5.8	40.0
Singapore	5.0	9.8	4.1	3.9	11.0
Taiwan Province of China	6.7	5.4	5.0	5.9	7.0
Republic of Korea	5.0	2.7	2.9	3.7	4.5
India	0.4	0.7	0.8	0.7	2.2
Malaysia	**2.0**	**0.25**	**0.9**	**1.8**	**2.1**
China	0.9	7.0	3.2	(0.1)	1.9
Bahrain	n.a.	n.a.	n.a.	0.9	1.0
Turkey	0.9	0.5	n.a.	0.7	0.9
Philippines	n.a.	n.a.	n.a.	0.3	0.5
Republic of Iran	0.5	2.8	1.0	n.a.	n.a.
United Arab Emirates	n.a	0.2	0.2	n.a.	n.a.
Kuwait	(0.3)	0.3	n.a.	n.a.	n.a.

Sources: UNCTAD World Investment Report, 2002, 2003, 2004, 2005

Malaysia is one of the biggest developing country investors in terms of overseas direct investment (Asia Pacific Economics Group, 1997; Samuel et al., 1999; UNCTAD, 2005). Its presence as one of the key players in outward investment is undeniable and there is evidence that some of its firms have become significant international players in their own right (see UNCTAD World Investment Report, 2004, 2005). With a modest start in the early 1990s and as international latecomer corporations at the international level, overseas investment by Malaysian corporations has increased consistently over the years since 2001 and seems likely to continue (Samuel et al., 1999; UNCTAD, 2005).

In the world's top 100 multinational corporations, based on their foreign assets (see Table 1.2), one of the Malaysian multinational corporations – Petroliam Nasional Berhad (Petronas) was ranked seventy-second overall, and third among developing country multinationals. The corporation is also ranked among the Top Fortune Global 500 companies. Of the top 50 largest multinational corporations from developing countries as registered by the UNCTAD from 2001-2005, Petroliam Nasional Berhad was listed again, followed by Amsteel Berhad, Sime Darby Berhad, Berjaya Group Berhad, Hume Industries Berhad, YTL Corporations Berhad, and The MUI Group representing Malaysia (UNCTAD, 2002, 2004, 2005). These figures prove the presence of Malaysia as a leading contributor of outbound foreign direct investment (FDI) by its multinational corporations in Asia and the Pacific, with a significant impact on the regional economy. The omission of Malaysia from internationalisation research and developing country literature, therefore, limits the understanding of the extent to which the internationalisation processes of Malaysian MNCs may differ from those of the developed and other developing countries.

Table 1.2: Ranking of Malaysian MNCs by Foreign Assets in Developing Countries 2000-2004.

			Millions of US Dollars			
			Assets		Sales	
Ranking in Developing Countries	**Corporation**	**Industry***	**Foreign**	**Total**	**Foreign**	**Total**
3*	Petronas	Petroleum	16 114	53 457	8 981	25 661
24*	YTL Corp Bhd	Utilities	2 878	6 248	489	1 060
34**	Amsteel	Diversified	1 143	3 453	544	1 416
41**	Sime Darby	Diversified	878	2 417	1 751	2 887
43**	Berjaya Group	Diversified	832	3 352	954	2 052
47*	The MUI Group	Hotels	1 135	1 840	499	621
50**	Hume Industries	Construction	593	1 178	931	1 341

Source: UNCTAD World Investment Report, 2002, 2004, 2005

* *Ranking based on WIR, 2005*

** *Ranking based on WIR 2004*

Therefore, the study of Malaysian firms could and should be included in the current literature on multinational corporations from developing countries. Their recent emergence deserves more attention than is given in existing studies of developing country multinationals. The dominant representation of multinationals from other East Asian MNCs risks biasing the existing literature with growth assumptions that may not necessarily apply to the emergence of multinational firms from other developing countries, with particular reference to those of Malaysia. Moreover, the pattern of corporate growth may differ from country to country, and corporate strategic structures are likely to be embedded in local political, economic and development issues, social and cultural contexts. This thesis is intended to remedy this deficit to a degree, and attempt to contribute to the existing literature.

While study of the internationalisation of capital through the modality of multinational firms is growing, the focus of the existing literature is on examples of well-known East Asian corporations. These corporations are based in countries such as Hong Kong, Singapore, Taiwan, China, and South Korea, which tend to share a common Chinese ethnic cultural, economic and political background (Nagesh, 1995; Hamilton, 1996b, 1997; Lim, 1996; Young, Huang, and McDermott, 1996; Weis, 1996; Dobson, 1998; Peter, 1998). These societies are more homogeneous than Malaysia (see Yoshihara, 1988 for the differences), and for that reason, the tendency to emphasise cultural ethnicity may result in unfair judgements in terms of the influence of multinational firms from such countries. This is a potential weakness of the current literature, which is insufficient to explain the emergence of MNCs from developing countries, leaving a gap to be explored and discussed further. Compared to other East Asian countries, Malaysia has distinctive features that may not apply in the same way to other developing countries; other countries face different business environments, political influences, cultural circumstances, and institutional structures. Malaysia contains several ethnic groups, including Malay, Chinese, Indian, and other ethnicities, and this mix may not resemble that in other developing countries. Hamzah et al., (1989) pointed out that Malaysia is one of only a very few countries in the world whose main ethnic groups still maintain their separate identities, as evidenced in their separate languages, customs, behavioural patterns, and many other outer manifestations of differences in the backgrounds and traditions from which they spring.

The main ethnic group in Malaysia is composed of Malays[3] who consider themselves indigenous, and represent 65.9% of the 25.9 million population in 2005[4]. They are the paramount group controlling both the political sphere and the bureaucracy. The Chinese, the second largest ethnic group, are essentially the domestic capitalist class. They have played, and continue to play, a decisive role in business since the 1950s. They represent 25.3% of the total population. Their business growth has been determined not only by 'Chinese' traits, but also by their ability to forge close ties with the indigenous elite and the Malaysian Government (Robinson, 1986; Yoshihara 1988; Gomez and Jomo, 1997). Indians and other ethnic groups represent 7.5% and 1.3% respectively of the ethnic mix. However, since the 1970s, the Malaysian government has given significant and special attention towards targeting the involvement and participation of the Malay ethnic group in entrepreneurial activities (Edmund and Jomo, 1997).

In order to develop and groom the ethnic Malay middle and business classes for business, the government adopted a series of long-term development policies known as the New Economic Policy (NEP) running from 1970-1990; its replacement, the National Development Policy (NDP), which commenced in 1991-2000; and the

[3] Malay or Bumiptera (in the Malay language), means "sons of the soil". The growing usage of the term 'Bumiputera' especially after the implementation of New Economic Policy (NEP) in 1969 has given it a more specific connotation whereby its meaning has been narrowed specifically to mean the Malays.

[4] As at first quarter March 2005 Department of Statistics, Malaysia (http://www.statistics.gov.my)

Vision 2020 manifesto[5]. The government led the change in Malaysia's business community, and supported the emergence of a Malay business class alongside the long-established Chinese business class. Yeung (1994: 7) emphasised that:

> ...The presence of ethnic minority groups *per se* possesses no causal power to explain the trans-national operations of the Chinese and Indian enterprises. If the presence of these ethnic ties is causal in inducing foreign direct investment (FDI), why then does not the Malay community, the dominant group in Southeast Asia, generate large volumes of foreign investment within the region?

A more plausible mechanism is predicated on the concrete operation of the business systems belonging to the Malay, Chinese and Indian ethnic groups. Their business systems are socially and culturally reproduced, hence are embedded in specific time-space contexts and require explanation beyond the crude extrapolation of economists (Yeung, 1994). In these circumstances, it could be presumed that intra-ethnic business co-operation has contributed to the continued growth of the Malaysian economy. However, an investigation is needed in order to unravel the complex processes by which the business systems of Malays and other ethnicities are managed primarily in their domestic growth and international competition. For these reasons, there is a need for the present study of Malaysian business.

1.1 The Aims of the Present Study

International business has long been the domain of large corporations (Delacroix, 1984; Kaufman, 1995). Yet the United Nations (UNCTAD 1993: 38) has pointed out

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[5] The National Development Policy was formulated in the late 1980s to succeed the New Economic Policy, and essentially highlights growth, the first prong of the NEP, while de-emphasising redistribution, the second prong of the NEP. Vision 2020, contrived in the early 1990s, has been a more influential policy, and plays a *de facto* ideological institutional role in Malaysia. The central aspirations of Vision 2020 are for Malaysia to attain fully industrialised status by 2020, ostensibly accompanied by a dismantling of the affirmative action policies currently upholding Bumiputera interests.

that internationalisation is "by no means the exclusive province of large firms". Compared to firms from well-established developed countries and newly industrialised countries, Malaysian firms are still small, relatively new in some industries, and young in the international market. However, as explained in section 1.0, their emerging development in cross-border economic activities appears to justify an adjustment of the conventional perspective, and their presence and growth are pressing concerns among their competitors. Some of these firms have become excellent international competitors (UNCTAD, 2005). However, until now, very little empirical research has looked deeply into the aspects of the internationalisation and emergence of Malaysian-based firms. Indeed, the lack of research is particularly apparent in examining the characteristics and the rising international development of these corporations (Ragayah, 1999). The existing literature lacks concrete and convincing evidence to explain how these firms emerged from the domestic realm, and undertook international expansion.

Given the spread and scale of operation of these corporations, this thesis aims to address this subject, and explain the emergence of developing country MNCs in general, and Malaysian multinational firms in particular. More specifically, the objective of this thesis is to explore the international expansion and business strategies of Malaysian firms, and identify the form and behaviour of these corporations in streamlining their expansion i.e. their motives for international investment, competitive strategy, and selection for foreign entry modes. In addition, this thesis also tries to delineate to what extent the traditional internationalisation process and developing country theories apply to Malaysian-based firm's internationalisation strategy and therefore may provide some new empirical evidence to the current set of literature.

This thesis will be the first study systematically to review the internationalisation process of Malaysian-based firms. Not only is this a groundbreaking effort, but its theoretical and analytical contributions seem timely. In order to serve the aim of this study and to explain the intricacies of this phenomenon of the international expansion and operations of Malaysian-based firms, two specific empirical questions that appear to be of strategic relevance are discussed:

a. *how* should one explain the internationalisation pattern and process of Malaysian-based multinational firms, the motives of international growth, and the nature of their investment activities with regard to entry modes and expansion strategies? and
b. *what* are the (potential) sources of advantage of these corporations in growing their business domestically, and successfully expanding internationally, and how are these developing and progressing?

Throughout this thesis, all analysis will relate to the emergence and evolution of the Malaysian-based firms because they are not only interesting insofar as they concern dynamic and contemporary aspects; but also they involve issues which have not been fully covered by conventional MNC theory and the international business literature.

Internationalisation is no longer restricted to a few dominant firms from developed countries. Instead, it has become more widely sourced with investment also originating from corporations in developing countries'. As has been discussed, the outward FDI from countries like Malaysia has only recently gained momentum, and has not been previously explored in the internationalisation and developing countries literatures. As such, received MNC theory cannot fully capture the specific dynamic of its operations. Instead, the literature is theoretical, relying on broad analyses such as the 'pull and push' factors framework (Yeung, 1998b). This thesis tries to extend what has previously been known about developing country MNCs to those that have recently emerged from Malaysia, and reflect what can be learned from the experience of these multinationals.

It is anticipated that this thesis will partially bridge an empirical gap in the present literature of the internationalisation process and developing countries. The specific objectives of this study could be described as follows: -

a. Most of the previous studies on the internationalisation process or expansion of corporations internationally have been conducted in the well-established industrialised countries and East-Asian NICs. A majority of developing countries particularly in the Southeast Asia region, namely Indonesia, Thailand, the Philippines, and Malaysia are excluded from this research. This study wishes to verify the underlying dimensions of international expansion strategy for Malaysia-based firms. The results of this thesis should expand the knowledge base of competitive advantage and business strategy, and may identify potential areas for future research;

b. A second objective of this thesis is to make an additional contribution to the existing literature due to the cultural and political gaps and environmental differences between Malaysia and other developing countries as argued earlier in section 1.0, which may overshadow the overall development of these firms;

c. A final objective of this thesis is to reveal what can be learned from the experience of these Malaysian-based multinationals in expanding their operations abroad, opening the intellectual horizons to go beyond the conventional studies on the internationalisation process of developed and other developing countries' multinationals.

With regard to the empirical scope, the core of the field research will be concentrated upon the internationalisation process of three corporations, namely Petroliam Nasional Berhad (Petronas), TM Berhad, and Sime Darby Berhad.

The rationale for selecting these three firms is explained below and Chapter 5 will elaborate further:

a. The pioneering position of these corporations in their respective industries, and their being among the leading corporations in Malaysia – Petronas in gas and petrochemicals, TM Berhad in telecommunications, and Sime Darby Berhad in plantation, motor vehicles, heavy equipment and energy;
b. They are among the highest contributors to the country's economic growth;
c. They are the most actively engaged in overseas investment and operation - Petronas in 35 foreign countries, TM Berhad in 11 foreign countries, and Sime Darby Berhad in 20 foreign countries;
d. Their business performance is widely recognised in terms of their profitability and management proficiency – in the year 2004/2005, among Malaysia's Top 100 companies, Petronas ranked first in terms of profitability, TM Berhad second and Sime Darby Berhad third;
e. The firms are willing to participate in the investigation;

f. The firms' internal resources and data were made accessible to the present researcher, and secondary data was made available.

Thus, these three companies would seem able to supply an ideal setting for investigating internationalisation issues.

1.2 Definition of Key Terms

In pursuing this study, the primary key terms and concepts such as the internationalisation process of firms, developing country multinationals, multinational corporations, and competitive advantages have to be defined.

The internationalisation process of firms: the term 'internationalisation process' can be defined as "the process of increasing involvement of corporations in international business operations" (Welch and Luostarinen, 1988). It refers to an attitude of the firm towards increasing international engagement activities (both inward and outward foreign direct investments). The term 'process' is used to emphasise the strong element of continuity in internationalisation development. Scholars such as Young (1990), Buckley and Ghauri (1993), Erramilli, Srivastava, and Kim (1999), have recognised the merits of Welch and Luostarinen's (1988) definition. This is due to the definition proposed being more generally accepted, and covers both inward and outward investment activities. This thesis adopts the same definition and uses the term 'international expansion process' as a synonym and interchangeably.

Developing country multinationals: this thesis uses the term 'developing country multinationals'[6], although the term 'third world multinationals' is commonly used throughout the literature of international business. It follows the criticism made by Yeung (1994) of the latter term as too imperialistic and unproductive to conceptualise the nature of international businesses and production. The term 'developing country multinationals' is more acceptable and unbiased for the current study of internationalisation of corporations (Yeung, 1994).

Multinational corporations: the United Nations defined the term 'multinational corporations' or MNCs as all enterprises which control assets - factories, mines, sales offices and the like, in two or more countries (UNCTAD, 1978: 158). Since then, a variety of definitions have been offered and are widely known and used in the literature (see Chapter 2 for further explanation). However, according to Jones (1996:4), attempts to restrict and limit the definition of multinational corporations may lead to more difficulties than when a more general definition is used. Therefore, for the purpose of this thesis, a broad and basic definition of 'multinational corporation' will be adopted. It refers to a corporation that engages in foreign production through its affiliates located abroad, and controls their business activities (that is, it controls assets and/or exerts influence in the decision-making process), and business strategies that transcend national boundaries. The terms 'multinational

[6] The definition of 'developing countries' in this thesis follows the UNCTAD (2005) classification of the world into developed, developing and least developed countries. The term 'developing countries' refers mainly to countries with a relatively low level of economic development, low standard of living, underdeveloped industrial base, which are technologically less advanced, and have moderate to low Human Development Index (Gillis et. al., 1983; Cole, 1987). According to Yeung (1998:254), it should be noted, however, that the UNCTAD definition of developing countries is problematical because it relies on GNP/GDP statistics. For instance, although Asian Newly Industrialised Economies (NIEs) are included in the category of 'developing countries', they are discussed as a separate group because, on a per capita income basis, all Asian NIEs have matched such developed countries as the United Kingdom.

companies (MNCs)', 'multinational enterprises (MNEs)', 'multinationals', or 'transnational' are also used as synonyms and interchangeably throughout this study.

Competitive advantage: conceptually, in order to perform, and grow in either a national or a global business environment, a business needs to possess some form of 'competitive advantage'[7] or 'distinctive advantage' and to apply a unique business strategy. Business strategy refers to "a deliberate choice by entrepreneurs or managers of firm to organise the resources and capabilities within their control (competitive advantages) to achieve an objective or set of objectives over a specified time period" (Dunning, 1993b: 186). Competitive advantage is how a firm actually puts the generic strategies (i.e. cost leadership, differentiation, and focus) into practice (Porter, 1980, 1985, 1990).

The potential to confer a competitive advantage is not inherent in all resources (Wernerfelt and Montgomery, 1988) but, rather, only in those that meet a rigorous set of conditions (Barney, 1991; Peteraf, 1993). The first condition is that the resource must be valuable – it must provide the opportunity to exploit some environmental opportunity or neutralise some threat. Resources are valuable when they enable a firm to conceive of, or implement, strategies that improve the firm's efficiency or effectiveness (Barney, 1991). Some authors construe value in terms of meeting a key buyer's needs (Coyne, 1986; Aaker, 1989). In addition, resources must have the characteristic of rarity. If a large number of competitors or potential competitors possess such resources, they no longer represent a source of competitive advantage. Third, there must be the condition of imperfect mobility of resources. Where

[7] There is no common meaning for 'competitive advantage' (Day and Wensley, 1988). Sometimes it is used interchangeably with 'distinctive advantage' to mean relative superiority in skills, unique assets and resources, lower relative costs, which are denied to other competitors (Barney, 1991)

resources are easily traded between competitors, little competitive advantage can be maintained. Imperfectly mobile resources include those that are idiosyncratic to the firm (Williamson, 1979), those for which property rights are not well defined (Dierick and Cool, 1989), or those that are co-specialised assets (Teece, 1986). Finally, for an advantage to be sustained, a resource must be imperfectly inimitable (Barney, 1991), or provide some ex-post limits to competition.

Therefore, competitive advantage is concerned with developing a value-creating strategy by uniquely combining valuable firm resources (Barney, 1991) and skills (Day and Wensley, 1988). Likewise, Keegan (2002) refers to 'competitive advantage' as an offer made by a firm that is most attractive to customers. It occurs when a firm has the advantage of exclusive or unique assets and resources that are not available to and difficult to replicate by current or potential competitors (Dunning, 1988, 1993). Dunning refers to this as 'ownership advantage'. It constitutes assets that are capable of generating income streams that could compensate for higher costs in order to operate domestically or internationally. This definition by Dunning covers a broader range of meanings, and can take several forms including tangible and intangible assets, and resources (e.g. plant, location, investment, capital, market knowledge, technological, managerial and entrepreneurial skills). In order to make a clear distinction, this thesis uses the term 'competitive advantage' as an aggregate term in referring to distinctive resources to firms in their domestic operations, and 'ownership advantage' in specific reference to international activities. They refer to a variety resources and capabilities that could be beneficial to a firm's development in order to grow and compete with its competitors.

In analysing the internationalisation process of Malaysian-based firms, which are relative newcomers to the international market, three primary types of (potential) ownership advantages will be examined in this thesis. These are internationalisation knowledge and experience, technological competence, and business network connections.

Clarifying the above key terms is important as they are central to the task of this thesis in debating how Malaysian-based corporations have internationalised and expanded their operations and investments abroad, and aligned their business activity and strategy to ensure they are competitive. The next section (1.3) provides an overview of the research methodology and design of the study (Chapter 5 will discuss this in greater detail).

1.3 The Research Platform

Given the dynamic aspect and complexity of the subject matter, this research combines elements of economic and international business theories, including historical analyses and case studies. Since this is, in effect, an attempt to study and understand the internationalisation process of Malaysian firms, it calls for an approach that will explore a wide range of variables. The so-called 'embedded multiple case-studies' research strategy has been applied to fulfil the objectives of the study. By using this approach, the implications for these firms can be better understood. A complementary set of major empirical analyses is performed: qualitative data (case study). This procedure enables insights gained from the analysis to be compared and contrasted.

According to Yin (1994: 6), a case study is the best approach since it focuses on contemporary events and current phenomena. Although the technique has evident limitations, because it does not adopt statistical criteria to select the sample and validate results, Miles and Huberman (1994) have supported it. According to them,

> The case study method is well equipped to cycle back and forth between variables and process, showing that 'stories' [*such as a firm's internationalisation process*] are not capricious, but include underlying variables, and that variables are not disembodied, but have connections over time

Moreover, an increasing number of studies of multinational corporations at the firm level by many researchers and scholars prefer to use the case study method as their research strategy (see for instance, Yeung, 1994, 1998c; Pananond and Zeithaml, 1998; van Hoesel, 1997a), and it continues to be in great demand. As this thesis tries to gain a deeper understanding of a relatively new phenomenon, namely, 'Malaysian investment abroad by its multinational firms', this approach helps to explore the dynamic aspects of the corporations' business strategies, and show how firms structure their operations domestically and expand internationally. Large amounts of data on economic performance, industrial structure, trade, foreign direct investment, business networks, and technological achievement will be analysed to place the case studies in context.

Case studies are also preferable when analytical generalisation is the main aim of the research. "In analytical generalisation, the investigator is striving to generalise a particular set of results to some broader theory" (Yin, 1994). This thesis does not involve statistical generalisation, i.e. generalising from samples to an entire population. Rather, analytical generalisation is achieved through a replication process, the relevance of various theories being studied for a variety of different cases. The purpose of the analytical generalisation here is not to validate theories but to study their suitability in unfamiliar economic environments. The generalisation criterion is thus replaced by a flexibility criterion (Bulmer, 1979; Yin, 1994).

This thesis is mainly qualitative in nature and based on actual cases. The investigation can be labelled exploratory and the basis of the field research is a number of in-depth interviews with key senior executives of specific Malaysian-based corporations, in order to determine the key business strategies for the development and expansion of their firms. Corporate executives were interviewed using a number of open-ended discussion guides (see Appendix 2) to gather information and gain a deeper understanding of the most important issues. Some secondary data from archival documents will was also used in this research, both in company confidential information not in the public domain, and information on company backgrounds or organisational profiles derived from annual reports, brochures, books, newspaper or magazine reports, and other related information, as and when required and needed to support this research.

Malaysian multinational firms are still considered as embryonic and nascent to the international market. Therefore, in the selection of the case companies, "Malaysia's Top 100 Corporations" edition 2003/2004, from *Malaysian Business Magazine* was used as a basic guide. This magazine contains a compilation of data and information on the 100 most successful and profitable corporations in Malaysia. It uses Malaysian company information published annually to rank Malaysia's 100 largest corporations by turnover, net profit and shareholders funds. In addition, Smith's (2002) *Major Companies of the Far East and Australasia 2003: South East Asia* (Volume 1) and

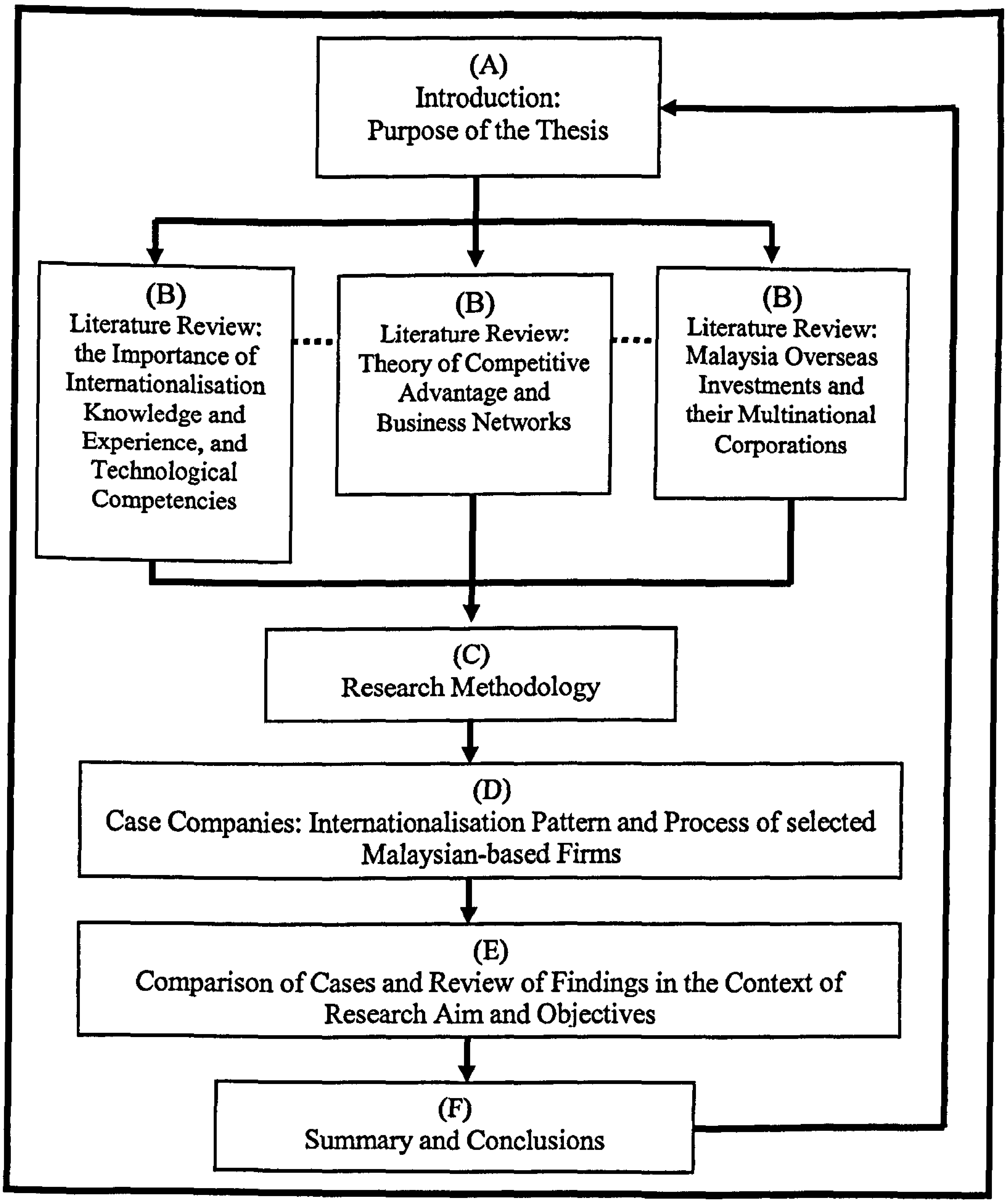
Asiaweek's: "An Investor's Guide to Asia's Top 1000 Blue-Chip Companies" were used to select the samples for the cases. Chapter 5 will discuss the research method for this thesis in further detail.

The research strategy for this thesis having been briefly explained, section 1.4 now discusses the organisation of the thesis.

1.4 Organisation of the Thesis

This thesis is organised as follows (see Figure 1.1). It contains 10 chapters. After this introductory chapter (Chapter 1), Chapters 2 and 3 review the literature on the growth, development and expansion of multinational firms from developing countries and further develops a framework for analysis of the cases. The discussion and framework focus on three key areas: the importance of internationalisation knowledge and experience; technological competence; and business network connections. The background of Malaysian overseas investments and the characteristics of their multinational corporations are presented in Chapter 4. Chapter 5 introduces the methodology and research setting employed for gathering the essential data and information in this thesis. It contains an explanation of the methodology chosen in the study for case selection and the details of the selection process; data collection; and data analysis. Chapters 6-8 present individual empirical exercises conducted for the research. Reports on the three companies in the case studies namely, Petroliam Nasional Berhad, TM Berhad and Sime Darby Berhad, are structured similarly. It is divided into three main parts. In the first part, the background of the industry is introduced. The second part discusses the chronological emergence and evolution of each firm in the domestic and international market. In the third part, the findings of the each case are presented. To deepen further the understanding of each case, Chapter 9 contains a comparison of cases and review of the key findings in the context of the research aim and objectives, and finally Chapter 10 concludes the thesis and offers proposals for policy-making and directions for further research.

Figure 1.1: Overview of the Research Structure



1.5 Conclusion

Although there has been a corpus of theoretical and empirical studies on developing country MNCs, until now very little empirical research has been done on investment abroad by Malaysian multinational corporations, leaving the theoretical and empirical gaps to be explored in this thesis. Despite the growth of Malaysian firms in the international market (UNCTAD, 2005), there remains a relative lack of sustained empirical research examining the internationalisation strategies of these corporations. Previous studies seem to have underestimated the important of Malaysian corporations in the international arena. This thesis intends to fill this shortcoming by examining the development and growth of Malaysian-based corporations and investigating how they have built up their competitive strengths in order to grow not only in the domestic market but also internationally. More specifically, the aim of this thesis is to gain insight and better understanding of outward direct investment activities by leading corporations from Malaysia in the international arena. The key issues which emerge from this include: how the internationalisation pattern and process of Malaysian-based multinational firms emerged; what are the motives of international growth; what are the (potential) sources of advantage of these corporations are based, and how are these developing and progressing.

The focus of this thesis having been explained, the next chapter reviews the related literature applying in the study.

CHAPTER TWO

LITERATURE REVIEW: THE IMPORTANCE OF INTERNATIONALISATION KNOWLEDGE AND EXPERIENCE, AND TECHNOLOGICAL COMPETENCE

2.0 Introduction

This chapter aims to review the related literature and theoretical structure applied in analysing the following empirical research. Because this thesis intends to examine the international expansion at the firm level (i.e. the internationalisation process of Malaysian-based corporations), reviewing key relevant literature on the internationalisation of firms will be the main theme to this chapter. It is divided into two main parts, the importance of which will be explained within each section. The first part (section 2.1) explains the emergence of developing country multinational corporations (MNCs). In this section, the chapter begins with a historical exploration into the theory of international production in general prior to the 1960s (2.1.1), and is followed by an examination of general theories of foreign direct investment (FDI), which primarily address the existence and behaviour of firms having value-added operations abroad (2.1.2). As the primary theory of developing country MNCs is based on and adapted from the theory of FDI, the section aims to provide a chronological analysis of the development in regard to the modern and distinct theory of international trade and capital movements. It stresses the importance of internationalisation knowledge, experiential knowledge, and technological competence in order for firms to grow and expand internationally. Section 2.1.3 discusses the development of firms from becoming international to acquiring the status of multinational corporations.

The second part of the chapter (section 2.2) explains the evolution of developing country multinational firms. Because the conventional determinants of international production theory do not, at first glance, seem to apply to MNCs from a developing country (i.e. which is not ostensibly on the world frontiers of technology, advanced marketing skills, size or organisation sophistication), a deeper understanding into the characteristics of the international investment activity made by these firms is sought in section 2.2.1. Since the entry method and expansion strategies vary in the internationalisations of firms, a review of the literature of foreign entry modes is explored in section 2.2.2. Finally, section 2.3 summarises and concludes the chapter.

2.1 Emergence of Developing Country Multinational Corporations: Knowledge and Experience Development, and Technological Competence

This section discusses the most important theories that contribute to a deeper understanding of the development and growth of developing country multinational firms, in particular from Malaysia. Given that the theories of MNCs grow out of, and are built upon the core theories of FDI, it is imperative first to discuss the general FDI theories that have been widely accepted as seminal to the development of MNCs; also to explain the nature and behaviour of these firms in extending their operational territorial horizons abroad. Various theories are discussed in this section. It starts with the general theory of international production based on the Hecksher-Ohlin-Stolper-Samuel model of trade and capital movements. The major contribution in advancing a unique and distinct theory of FDI began with Hymer's theory of market power. The Coasian theory of internalisation is then explained, followed by Vernon's product life cycle, Dunning's eclectic paradigm, and the dynamic theory of internationalisation.

The discussion focuses on the increasing importance of ownership advantages of firms in order to operate and compete in an unfamiliar foreign environment.

2.1.1 General Theory of Investment: A Theoretical Retrospective

Until the 1960s, most of the literature on international business was based on traditional macroeconomics rooted in the theory of absolute advantage by Smith, the theory of comparative advantage by Ricardo, and the Ohlin-Stolper-Samuelson model of trade theory (Chacholiades, 1973, 1978). Generally, these pioneering works focused on explaining trade and capital movements between countries, and proposed that trade and capital flows would be the greatest between countries whose factor endowments (i.e. labour, capital or land) are most dissimilar (Chacholiades, ibid). Still, most assumptions made by these theories were not supported by the reality of international trade and were insufficient to explain the growth of firms in the international market. This is because some basic assumptions underlying these theories such as trading being restricted to only two countries, factors of production not being mobile across countries, no transportation costs in trade, identical production functions and perfect competition limit the explanations on the theory of international investments. The phenomenon of cross-investments proliferation by the MNCs increasingly required microeconomics-based explanations as opposed to conventional trade theories (Hymer, 1976).

Given these limitations, in the 1960s, researchers such as Hymer turned the attention to the patterns of FDI in full, its growth and composition. According to Hymer, existing macroeconomic theories appeared insufficient to explain two-way flows of capital between countries and more particularly between countries with similar factor endowments and cross-investment within the same industries. Hymer (1960, 1976) was among the first to relate FDI trends to the rapid post-war expansion of firms and to focus on their international operations. Building directly on Hymer's contributions, the field of international business started to develop with an economic orientation.

2.1.2 General Theories of Foreign Direct Investment: the Rationale for Firms to Internationalise

(i) The Pioneering Work of Stephen Hymer: Industrial Organisation Theory

The beginnings of modern FDI theory are found in Stephen Hymer's pioneering work in a well-argued and inspiring doctoral dissertation, which was defended in 1960, and belatedly published in 1976. It is regarded by many scholars such as Dunning and Rugman (1985) as the precedent of the modern theory of MNCs based on industrial organisation. Hymer's great contribution was an escape from the intellectual straitjacket of neo-classical economic theory of international trade. His work, instead, lay in pointing out that the unique feature of foreign direct investment (FDI) is a mechanism by which MNCs maintain control over productive activities beyond their national boundaries. The most distinctive contribution from his ideas in reference to the neoclassical trade and investment theory was in considering the multinational corporation as an institution for international production rather than international exchange. From Hymer's perspective, multinational firms are creations of market imperfections, which use this condition to their advantage by searching for control in imperfect markets in order to maximise profits, remove competition, control market share, and exploit advantages.

Hymer's theory suggests that, in order for firms to internationalise abroad and penetrate distant markets, they must possess some specific, hard-to-replicate advantages over competitors to make investment viable. The advantages in question are usually cited as being superior technological expertise, unique business techniques, successful product differentiation, economies of scale, superior knowledge and experience advantages, and high capital intensity. According to Hymer, the risk for firms operating abroad is much higher than for those operating in the domestic market. They face greater pressures in terms of unfamiliar rules and regulations, language barriers, a dissimilar or different cultural environment, political pressure, discrimination, and other operational barriers. Moreover, indigenous firms tend to possess better knowledge and information regarding economic conditions in their respective countries. Hymer believed that to compete successfully with local producers, the investing firm must possess some specific advantages that could offset the higher production cost of doing business abroad. Such advantages will enhance a firm's ability to restrict competition and therefore increase its market power.

Kindleberger (1969) and Caves (1971) strengthened the link between industrial structure and foreign direct investment along the lines articulated by Hymer. Kindleberger (1969) developed the 'market imperfections model'. This model states that for FDI to thrive, foreign firms must possess specific advantages outweighing the disadvantages of being foreign, and the market for those advantages must be imperfect. In contrast to Hymer's model, which referred to oligopolistic competition, Kindleberger had a monopolistic theory of foreign direct investment. He viewed market imperfections as the reason for the existence of foreign direct investment, which hence led to the birth of multinational firms. Specifically, in his analysis, Kindleberger (1969: 14) classified four imperfections of the market which lead to direct investment, namely: departures from perfect competition in goods markets including product differentiation, unique marketing skills, administered prices, and so forth. Secondly, departures from perfect competition in market structure include proprietary technology, discriminatory access to capital, and managerial skills. Thirdly, there are internal and external economies of scale, and, finally, government-imposed distortions on output or entry.

Caves (1971) similarly identified and explained the nature of ownership advantages and indicated that the fundamental element of FDI is a particular trait of market structures in both home and host countries. The precise nature of ownership advantages varies according to the three ways in which a firm may expand in a new geographically segregated production facility. These ways are: horizontal extension, vertical extension and conglomerate diversification.

Hymer was hailed as the originator of industrial organisation theory as he made a first systematic approach in breaking out of the arid mould of international trade and investment theory and focused on examining and explaining the internationalisation and expansion of firms abroad (Dunning and Rugman, 1985). His work, however, was not without its critics. It has some constraints and limitations, and does not claim to be perfect. It is recognised that his approach does not provide a sufficiently comprehensive theoretical framework for the study of multinational firms (Dunning and Rugman, ibid). The theory is criticised for explaining the growth of FDI *per se* and for having paid little attention and interest to the emergence and role of multinational firms specifically. Aliber (1970), Lall and Streeten (1977), and Calvet (1981) indicate its limitations, and further discuss alternative models. Nonetheless, Hymer's foundation work in reformulating the theory contributed significantly to the theory of the MNCs in general, and to the concept later known as 'competitive advantage' (synonymous with Dunning's ownership advantage) in particular, paving the way for future research.

(ii) Transaction Cost Theory to Internalisation Theory

Criticism of the Hymer-Kindleberger-Caves industrial organisational theory resulted in a new generation of scholars writing about FDI. However, they shifted the focus of their attention from the act of foreign direct investment as a central theme to the institution actually making the investment (Dunning, 1979; Calvet, 1981). Buckley and Casson (1976) attempted to piece together various past work on FDI approaches to construct a more comprehensive, and encompassing theory of FDI widely known as 'internalisation theory'. According to the theory of internalisation (Buckley and Casson 1976, 1985; Hennart 1991), the motivation for MNCs to internalise across national boundaries occurs when benefits and incentives through internalising are greater than those arising within the firm. The underpinning notion of the theory is that the net benefit from internalising an intermediate product market linking activities located in different countries is both a necessary and a sufficient condition for the existence of a multinational firm (Buckley and Casson, 1976). The MNC becomes a device for reducing transaction costs by buying or by creating complementary assets in different nations, and integrating their operations within a single unit of control (Buckley, 1992: 62-3). It draws upon theory originating from the works of Coase (1937), and developed principally by Williamson (1975, 1979), and later by Hennart (1991) on 'transaction cost theory' to explain the existence of multinational corporations across national lines, based on the concept of market failure. Market failures are the main reason for MNCs using direct investment instead of licensing or other entry modes (for further discussion on method of market entry see below, section 2.2.2). From Buckley and Casson's perspectives, under certain conditions, firms prefer to internalise in order to avoid market imperfections in intermediate markets, and to minimise business transaction costs. Proponents of this view include McManus (1972), Caves (1982), Rugman (1981, 1982), Teece (1985), Hennart (1991), Buckley (1988, 1992), and Angel (2002).

Despite its contribution to the literature on MNCs, internalisation theory has been rejected, and criticised by some scholars. For instance, Calvet (1981: 53) attempted to explain that multinationals do not expand beyond national borders simply because they can internalise transactions within their hierarchies. According to Calvet, any theory of MNCs must therefore, address two facets of foreign expansion: one is the foreign involvement as a multinational character, and the other is internalisation within a single corporation. On the other hand, Moon and Roehl (1993) argued that internalisation theory does not provide a satisfactory explanation of the internalisation activities of firms specifically, and Demsetz (1988) has supported this. According to Demsetz (1988), internalisation and transaction cost theories fail to consider the accomplishment of firms but are more concerned with market failure, and the explanation provided by the theories is too simplistic. In addition, Cantwell (1991a) and Ietto-Gillies (1992) argue that both theories correspond more to a theory of choices rather than a theory of multinational corporations.

Although these theories have become part of MNC theory, a significant criticism concerns the neglect of the role of location-specific variables in explaining the direction of FDI. The internalisation model does not explain the structure and location of FDI flows, as it neglects ownership-specific and location advantages of FDI in addition to the internalisation possibilities (Dunning, 1993a).

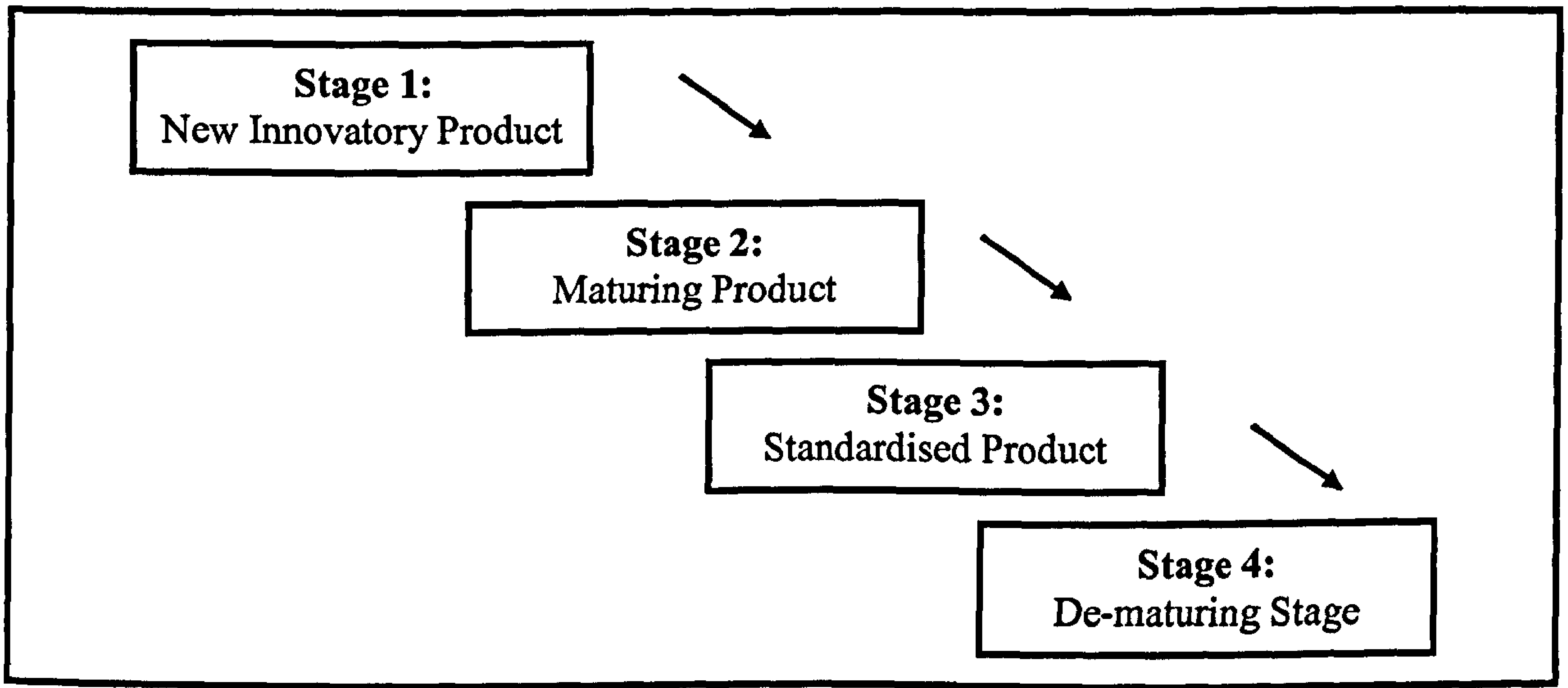
(iii) Product Life Cycle Theory

The work developed by Raymond Vernon (1966) and known as product life cycle (PLC) theory[1] constitutes another early strand included in the theory of FDI. By his theory, Vernon (1966) attempted to explain the patterns of international trade in the direct investment cycle process in developed and less developed countries. This theory of Vernon, which drew from the technological gap theory of Posner (1961) and the theory of trade due to income differentials of Linder (1961), distinguishes three stages of interaction in the product life cycle: technology, international production, and trade. According to the original PLC theory, the development of a newly innovated product and process requires that it be produced in an advanced country, close to the research department, technological sources, and sophisticated demand. This implies that products and processes are developed in those countries where the needs first arise, that is, in the countries with factor endowments of high income

[1] Van Hoesel (1999) differentiated between the original (1966) version of product life cycle theory, and the later one published in 1974, and 1979. According to van Hoesel, the revised version of the theory emphasised the need for multinationals to maintain their position through oligopolistic behaviours by erecting barriers to entry.

levels, excellent facilities and high labour costs. In essence, the theory explained the circumstances of production in the United States - a high per capita income, technologically advanced and well-developed country. When the products are developed, one-way mass communication is possible, the market grows and production is carried out on a large scale. After some time, the domestic market is saturated and, thanks to the economies of scale, it is possible to start exporting competitively to less developed countries where the average income is lower. Foreign direct investments by firms are typically complementary to their export performance. When these markets have become so big that large-scale production can be supported, it is profitable to move all production to these countries and export to the original domestic market. Direct investments are made. Vernon (1979: 266) pointed out that the product cycle concept could be used to analyse investment flows among less-developed countries. He explained that firms in the more rapidly developing countries would produce innovations responding to the special conditions of their economies, and later export to, or invest in, other developing countries which were behind in the industrialisation order, and their limited ownership advantages could be exploited. Figure 2.1 shows the stages of product development in international business as proposed by Vernon.

Figure 2.1: Stages of Product Development in the Vernon Product Life Cycle Model



Source: Vernon (1966, 1979)

Despite its conceptual appeal, the explanatory power of Vernon's PLC theory (1966) is limited due to its lack of clarity in analysing the relationship of the US economy to that of other industrialised countries and vice versa. As a result, a revised version of the theory was published in 1974 to take account of oligopolistic market structures associated with the progressive internationalisation of industries. Its applicability is no longer only in relation to American MNCs but has been changed to include all developed countries and developing countries. However, the theory can be additionally criticised for its shortcomings in explaining the connection between FDI and MNCs, as it does not detail the ownership of production abroad by multinationals. Moreover, the descriptive value of the theory is weak for products with short life cycles. In addition, the PLC theory is not concerned with the behaviour of individual firms, but the influence of income and cost levels in different countries on international trade and direct investments (Johanson and Vahlne, 2003b). Kindleberger (1969), Giddy (1978), Kojima (1978), and John et al., (1999), shared these views. Sim and Padian (2003) furthermore argued that the theory does not apply to FDI, which is always resource-based, efficiency-seeking and strategic asset-seeking. Traditional location-specific advantages therefore lost their initial importance, and firm-specific advantages, neglected by Vernon, became important. Despite much criticism and argument, the theory is not completely defunct and remains influential and useful in explaining the nature and behaviour of firms from developing countries that invest in other less developed countries. A major contribution of Vernon's PLC theory to the theory of foreign direct investment is in analysing trade and investment as part of the dynamic process of exploiting foreign markets (see section 2.2.1 for further explanations).

To encompass every detailed aspect of international activities of firms an strengthen the account of it, Dunning introduced a new general approach known as the 'eclectic paradigm' theory. Dunning's theory, which is examined in turn, has been recognised as a centrepiece for modern FDI theory in explaining trade and investment flows of multinational firms.

(iv) Dunning's Eclectic Paradigm of International Production

Perhaps the most comprehensive of the theories on FDI in explaining the involvement and movement of multinational firms in international operations is the 'eclectic paradigm'. Developed by John Dunning in 1976, it was put forward at a presentation to a symposium in Stockholm on '*The International Allocation of Economic Activity*'. The Dunning eclectic paradigm linked together previous works of economic and FDI theories, namely, industrial organisation theory, internalisation theory, and international trade theory into one general framework popularly known as the eclectic theory or 'OLI paradigm' (Dunning, 1979, 1981b, 1988, 1993b). Eclectic paradigm theory is a holistic framework that draws together several streams of thought in an attempt to explain the different routes to serving and entering international markets. The acronym 'OLI' refers to *o*wnership, *l*ocation and *i*nternalisation.

According to the eclectic theory or paradigm, three distinct sets of conditions must be satisfied if firms are likely to engage in cross border investment[2]. They are the firm's net ownership-specific (*O*) advantages vis-à-vis firms of other nationalities in its capability of competing with domestic competitors, the location (*L*) advantages of the market in which it is investing, and internalisation (*I*) advantages conferred by direct investment (Dunning, 1979, 1981a and 1981b). As pertinently observed by Anderson (1997) and Whitelock (2002), the eclectic framework represents a multi-theoretical approach integrating international trade and resource based and transaction cost theories. A firm faces a greater business risk if it extends its business operations abroad, and therefore, specific advantages are important in order to offset the handicaps faced in an unfamiliar atmosphere, and to cover the greater business risks encountered (Kindleberger, 1969; Caves, 1971).

The first condition of the paradigm is ownership-advantages that is, the competitive advantages of multinational corporations, or firm-specific advantages possessed by a firm, which are related to the accumulation of unique assets used for income generation (see Chapter 3 for the theory of competitive advantage). These compensate for higher costs arising for firms operating across national boundaries (i.e. by

[2] Dunning (1993b) classified cross border activities by firms into four categories: natural resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking, which are each characterised by their own OLI constellation.

economies of scale, market access, trademarks, economies of joint supply, product diversification, expertise, skills, human capital, and technology). The second part of the theory or condition to be satisfied is constituted by internalisation advantages. This refers to the preference of firms to internalise their operations abroad rather than exporting or licensing when market imperfections of the latter (exporting and licensing) create additional transaction costs. In other words, internalisation within the firm is designed to overcome market failure (such as information costs, effective management control, opportunism, and asset specificity) by replacing missing or imperfect external markets with the firm's hierarchy and boundaries. Therefore, it may maximise economic returns to the firm.

The motives of firms choosing to move offshore will also depend on the location specific advantages offered by the host ('pull factors') and home countries ('push factors'), such as: sluggish domestic markets, exploitation of knowledge of local markets, more liberal foreign exchange regimes, exploitation of relative firm-specific advantage, attractive investment incentives, size and scope of markets, low cost production, diversification of risks, and level of infrastructure development. The investing firm will, therefore, evaluate the array of location advantages, which may result in higher marginal returns from internalising its assets and investments abroad. Dunning (1993b) added to his theory a fourth condition required by firms investing beyond their national jurisdictions: the consistency of the firm's long-term management and organisation policies, including the foreign direct investment strategy of the companies. Table 2.1 shows examples of determinant factors for firms to invest abroad.

Table 2.1: Types of International Production: Some Determining Motives of Firms to Invest Abroad

Type of International Production	O advantages	L advantages	I advantages	Strategic targets	Illustration of activities that favour MNCs
Natural Resource Seeking	Capital, technology, market access, size and negotiating strengths.	Possession of natural resources, transport and communication infrastructure, tax and other incentives	Ensure stability of supplies at right price, control markets	Gain privileged access to resources vis-à-vis competitors	a. Oil, copper, cocoa, bananas, hotels b. Export processing, labour-intensive products
Market Seeking	Capital, technology, management skills, surplus R&D, economies of scale, brand image	Material and labour costs, market size, government policy (e.g. import controls)	Wish to reduce transaction or information costs, buyer ignorance, or uncertainty	Protect existing markets, counteract behaviour of competitors, preclude (potential) rivals	Computers, pharmaceuticals, vehicles, cigarettes, processed foods, airline services
Efficiency Seeking a. of Products b. of Processes	As above, but also market access, geographical diversification, economies of scope, international input sourcing	a. Economies of product specialisation and concentration b. Low labour costs, incentives to local production by host governments	a. As for second category plus gains from economies of common governance b. Economies of vertical integration and horizontal diversification	As part of regional or global product rationalisation and or gain advantages of process specialisation	a. Motor vehicles, electrical appliances, business services b. Consumer electronics, textiles and clothing, cameras, pharmaceuticals
Strategic Asset Seeking	Any of the first three that offer opportunities for synergy with existing assets	Any of the first three offering technology, markets and other assets in which firms are deficient	Economies of common governance, improved competitive or strategic advantage, to reduce or spread risks	Strengthen global innovatory or production competitiveness, gain new product lines or markets	Industries with high ratio of fixed to overhead costs and that offer substantial economies of scale or synergy

Source: Dunning (1993a: 82-83)

Even though the broad framework of Dunning's eclectic theory in identifying and evaluating the most significant variables affecting multinationals' investment across national boundaries made a large contribution to the popularity of the eclectic paradigm, his works were not free of criticism, and were the subject of debate.

For instance, Buckley (1985) points out several unsolved issues in Dunning's approach. First, the connection and relationship between three variables (ownership, location and internalisation), and their development over time is unclear. In addition, the existence of ownership advantages is redundant because internalisation advantages account for the existence of corporations in the absence of such advantages (Casson, 1986; Cantwell, 1991a). Other opponents disputing the OLI eclectic theory especially on the basis of its methodological operationability include Rugman (1981), Casson (1984), and Itaki (1991). The eclectic theory does not consider the current complexity of multinationals and the nature of their business. The theory's success is not mirrored by similar accomplishment at the empirical level. In addition, the model's explanatory value is valid primarily for firms that have wide international experience. Furthermore, the eclectic theory explains why internationalisation takes place, but neglects the dynamic process of internationalisation (Sim and Pandian, 2003). Bala (2003) also found that the theory was only able to provide a framework for FDI activities under normal conditions and had inadequate explanatory power during times of uncertainty. The current dynamism of the fast-changing world indicates that certain modifications need to be made in the development of the theory. As Dunning pointed out, the eclectic theory does not intend to offer a comprehensive explanation of international production, but of ingredients of particular forms of foreign value added activity (Dunning, 1991: 125).

The foregoing MNC theories are all generally static in nature. There is evidence that some of these theories may be unable to explain the dynamic behaviour and development of firms individually (Johanson and Vahlne, 2003b). Thus there was reason and need to construct a more dynamic model. Johanson and Vahlne's (1977) contribution was a major step forward in explaining a more dynamic concept of MNCs theory. This new spate of research attempted to investigate learning progress, knowledge accumulation, experiential development and foreign market commitment as the main explanatory constructs in the international expansion of firms. Because this thesis is interested in explaining the dynamic aspect of Malaysian-based multinational firms, the next part reviews the key development theories that have addressed the dynamism of international investment activities.

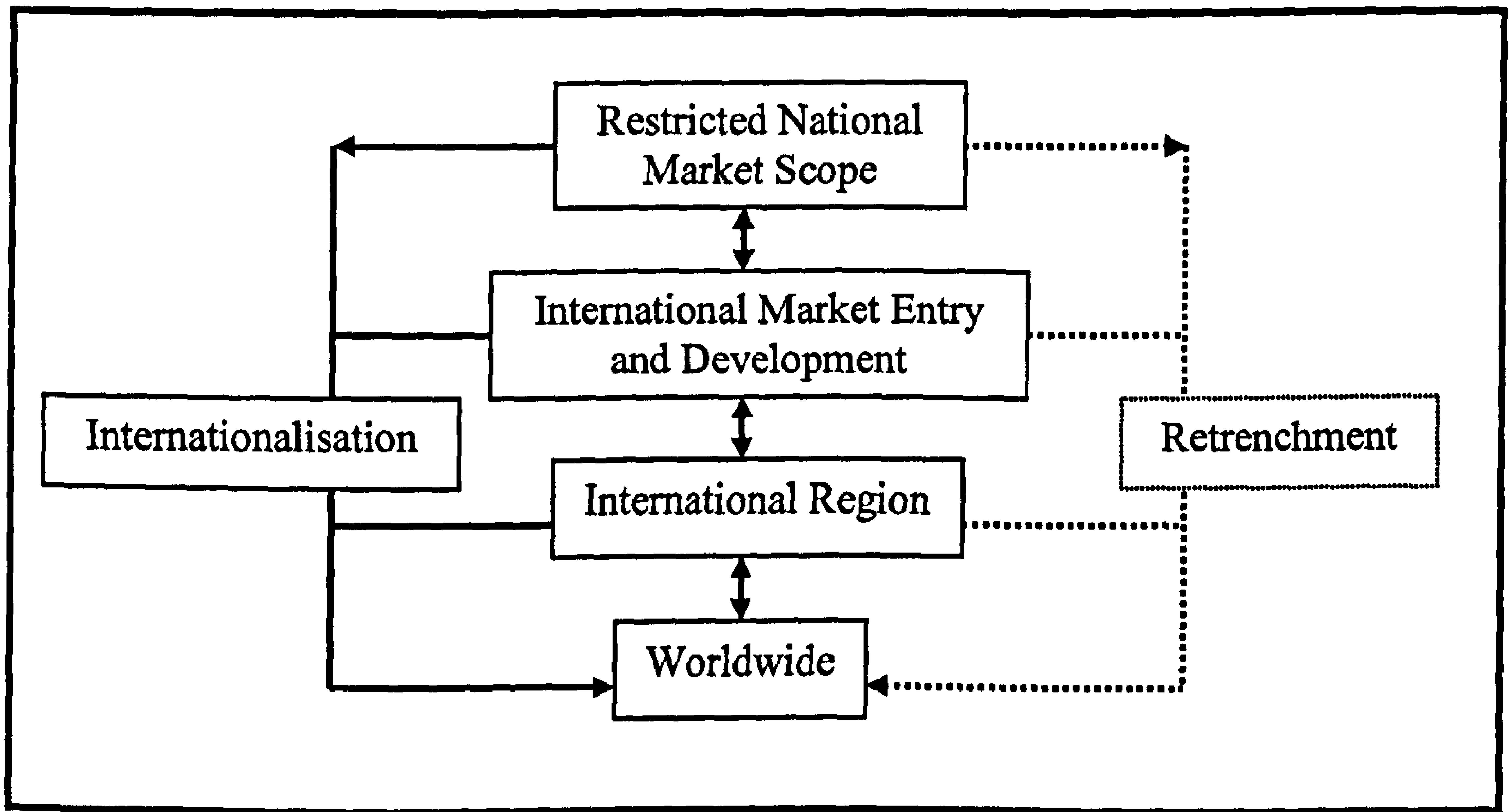
(v) Dynamic Theories of FDI: the Internationalisation Process, Instant International New Ventures, and Technology and Technological Change of Firms.

The Internationalisation Process Theory

Internationalisation can be viewed as a learning and knowledge accumulation process (Johanson and Vahlne, 1977; Berkema and Vermeulen, 1998; Hadley and Wilson, 2003). Beamish et al., (1997: 3) have defined internationalisation as "the process by which firms increase their awareness of the influence of international activities on their future activities and establish and conduct transactions with firms from other countries". Other authors (such as Welch and Luostarinen, 1980) have defined internationalisation as the process of increasing international engagement. The term 'process' is used to stress the strong element of continuity in the international expansion. It is simply a series of decisions, concerning increasing geographical spread of economic activities or regional investments across national boundaries, which requires adaptation of the firm's strategy, resources, structure and organisation to international environments (Dicken, 1998). The process of internationalisation is described as gradual and incremental in the pattern of a firm's expansion (see

Erramilli et al., (1999), and Fillis (2001) for an overview of past key studies on internationalisation). The process commences from the domestic market, and extends to investment abroad. Cavusgil and Nevin (1981) and Luostarinen (1980a) have frequently used the term 'internationalisation' to describe the outward growth in a firm's international operations. Lindqvist (1991) identifies three sets of primary dimensions in the study of the internationalisation process of firms; first, speed of foreign entry, which concerns the time lags between the establishment of the firm and its first international activities, and between subsequent entries; second, the pattern of foreign market selection, which refers to the sequence of markets entered and penetrated by the firm; and third, the choice of foreign entry form used to enter overseas markets. According to Ellis and William (1995), firms start to internationalise when the home market is close to saturation and they therefore seek new alternatives in other countries. Figure 2.2 shows the expansion of the international business model as proposed by Ellis and William (1995). The process is dynamic and continuous. Movement from one phase to another is not, however, necessarily sequential.

Figure 2.2: Expansion of the International Business Model



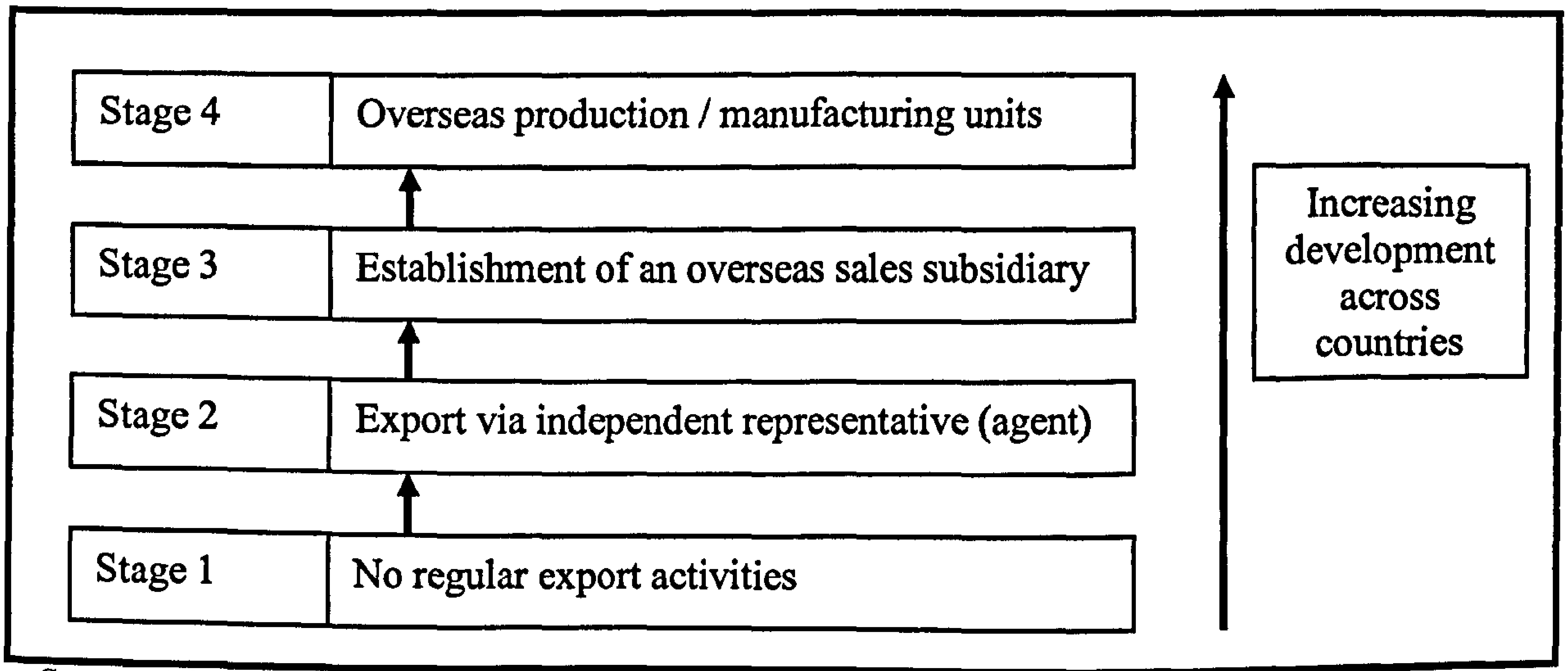
Source: Ellis and William (1995)

Specifically, the background of the internationalisation process theory is of Nordic origin (Bjorkman and Forsgren, 1997; Buckley and Ghauri, 1999). It was initially developed by Luostarinen (1970), and further formalised and popularised by Johanson and Wiedersheim-Paul (1975), and Johanson and Valhne (1977, 1990). The latter made a major contribution to the understanding of the internationalisation process of the firm in work published in the 1970s, which later become known as the 'Innovation-Related Internationalisation Model (I model)', and the 'Uppsala Internationalisation Model (U model)'. The model of Johanson and Vahlne (1977) is based on the behavioural theory of the firm (Cyert and March, 1963; Aharoni, 1966) and on the theory of firms' growth (Penrose, 1959). The model states that lack of knowledge of foreign markets and operations creates an obstacle to internationalisation, and that this knowledge can only be acquired by operating in, and experiencing, international markets. The knowledge that is lacking may be internationalisation knowledge, institutional knowledge or business knowledge

(Eriksson et al., 1997). The Uppsala school extended the idea of incremental international development to the entire process of a firm's internationalisation from exporting to FDI.

In the I-model shown in figure 2.3, Johanson and Wiedersheim-Paul (1975) proposed that the internationalisation process of firms usually takes a long time, is cautious, and is characterised by four incremental phases of entering international markets, where successive phases represent higher degrees of international involvement and the gaining of more internationalisation knowledge and experience. Internationalisation knowledge is awareness of the firm's capability and resources for engaging in international operations. It functions as a repository and is accumulated over time (Yu, 1990). Lack of internationalisation knowledge refers to general experience gained from operating abroad. Experiential knowledge, on the other hand, refers to knowledge that firms accumulate by being active in the international market (Penrose, 1959). It is unique and firm-specific and is developed by interactions with other firms, individuals, government organisations and non-profit organisations (Blomstermo and Choi, 2003).

Figure 2.3: Various Stages in the Innovation-Related Internationalisation Model (I-model)



Source: Johanson and Wiedersheim-Paul (1975)

To begin with, according to the model, firms only sporadically engage in export activities. After some time, the firms enter into an agreement with an agent to act as their representative in the market. In a subsequent step, the firms may establish a sales subsidiary and, finally start local manufacturing. The assumption that the internationalisation of a firm develops according to a chain of establishment was originally supported by evidence from case studies of four Swedish firms, namely, Sandvik, Atlas Copco, Facit and Volvo which were done in 1975. This was supplemented by research into Australian firms in 1978 (Wiedersheim-Paul et al., 1978). Based on these cases, the model emphasised the importance of gaining knowledge and experience about the characteristics of foreign markets along the internationalisation path, leading to reduced levels of uncertainty in unfamiliar foreign environments before investing. It rests on the assumption that firms have imperfect access to information, and learning about the opportunities and problems that exist abroad is therefore crucial. Constraints such as a lack of knowledge and uncertainty are deterrents to internationalisation. Table 2.2 summarises some of the most best-known models that explain the internationalisation process of firms from an innovation-related viewpoint. It starts from the model developed by Bilkey and Tesar (1977), followed by Cavusgil (1980), Czinkota (1982), and finally by Reid (1981). Although the theories differ in the number of stages of internationalisation development, the models share one common similar theme; they focus on the learning sequence of firms in their international expansion activities. Internationalisation knowledge and experience are accumulated by operating abroad and increase over time. They are also associated with distinct steps following from commitment decisions that in turn lead to more activities and, through them, more experience and knowledge. Johanson and Vahlne (1990) place emphasis on business network connections as the primary vehicle for resource commitment and experiential knowledge generation. They state that "...in relation to the internationalisation process model it can be assumed that market (network) knowledge is based on experience from current business activities, or current business interaction"(p.19) (theories of business network connections will be discussed in more detail in Chapter 3). In other words, the stage theories acknowledge the importance of internationalisation knowledge and experience in order for firms to internationalise. Proponents of this view include Barkema and Vermeulen (1998), Delios and Beamish (1999), Zahra, et al., (2000), and Blomstermo and Sharma (2003a and 2003b).

Table 2.2: Review of the Innovation-Related Internationalisation Models

Bilkey and Tesar (1977)	Cavusgil (1980)	Reid (1981)	Czinkota (1982)
6 Stages	5 Stages	5 Stages	6 Stages
Stage 1 Management is not interested in exporting	**Stage 1** Domestic marketing: The firm sells only to the home market	**Stage 1** Export awareness: Problem of opportunity recognition, arousal of need	**Stage1** The completely uninterested firm
Stage 2 Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting	**Stage 2** Pre-export stage: The firm searches for information and evaluates the feasibility of undertaking exporting	**Stage 2** Export intention: Motivation, attitude, beliefs, and expectancy about export	**Stage 2** The partially interested firm
Stage 3 Management actively explores the feasibility of active exporting	**Stage 3** Experimental involvement: The firm starts exporting on a limited basis to some psychologically close country	**Stage 3** Export trial: Personal experience from limited exporting	**Stage 3** The exploring firm
Stage 4 The firm exports on an experimental basis to some psychologically close country	**Stage 4** Active involvement: Exporting to more new countries - direct exporting - increase in sales volume	**Stage 4** Export evaluation: Results from engaging in exporting	**Stage 4** The experimental firm
Stage 5 The firm is an experienced exporter	**Stage 5** Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign market	**Stage 5** Export acceptance: Adoption of exporting/rejection of exporting	**Stage 5** The experienced small exporter
Stage 6 Management explores the feasibility of exporting to other more psychologically distant countries	**Stage 6** None	**Stage 6** None	**Stage 6** The experienced large exporter

Source: Andersen O., (1993)

Increasing knowledge and experience of internationalisation is important before a firm decides to move to the next stage of expansion. Firms are expected to begin their international expansion in nearby countries and then progress to those with successively greater 'psychic distance'[3]. The concept of psychic distance has been defined as factors preventing or inhibiting the flow of information between business and markets, such as differences in the level of development between the home country and foreign market. It includes factors such as differences in business language, culture, political systems between two countries, customs and legal systems, level of education or level of industrial development before exposure to other new foreign markets (Johanson and Valhne, 1977: 24). According to Nordstrom and Vahlne (1992), cultural distance is highly correlated to psychic distance, and this thesis uses these two terms interchangeably. Due to internationalisation knowledge and experience deficits, firms first internationalise to markets that they most easily understand. Empirical studies in a wide range of countries by Weinstein (1977), Davidson (1980, 1983), Karafakioglu (1986), Erramilli and Rao (1993), and Calof and Viviers (1995) have provided evidence of this scenario. In their view, firms prefer to learn gradually about the international arena by entering markets that are perceived to be minimal in terms of risk that is, being geographically and culturally close to the home market, before further extending to distant new markets. Research on path dependency in internationalisation reveals that the first international step has an effect on a firm's current experiential knowledge structure (Eriksson et al., 2000). Empirical investigation provides support for path dependence in internationalisation. The conditions at the start of internationalisation have an effect on the subsequent

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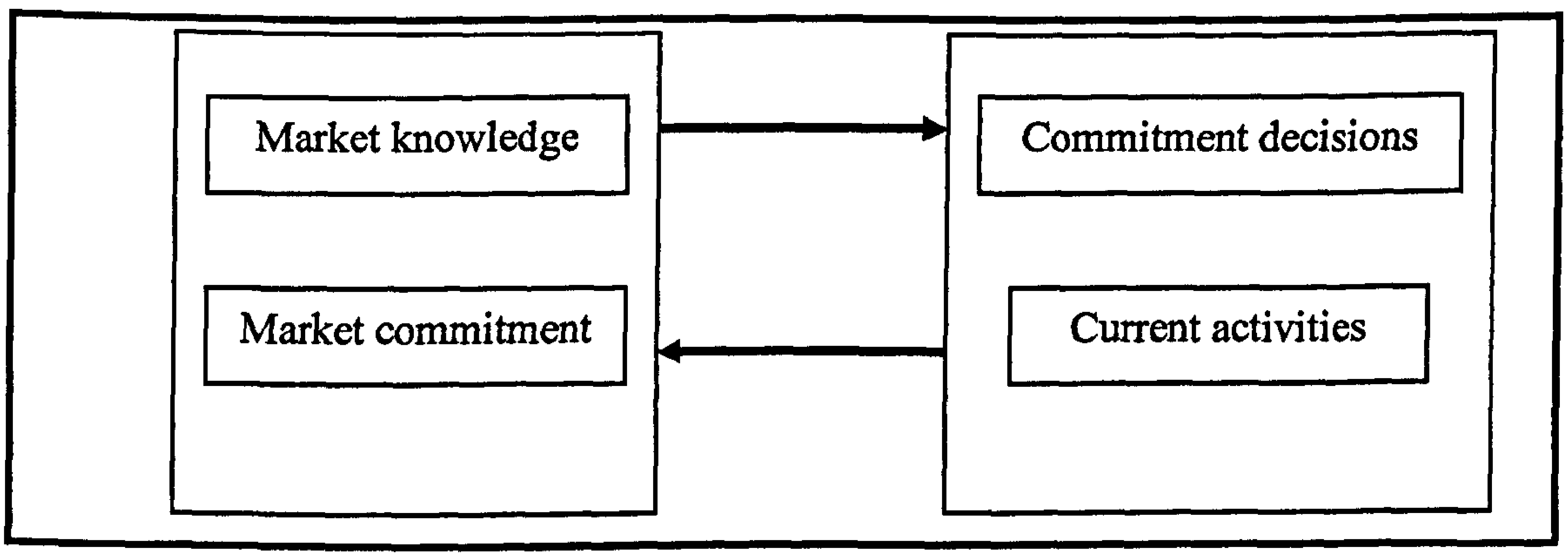
[3] Hofstede (1980) and Kogut and Singh (1988) use the term 'cultural distance'.

development of experiential knowledge. The theoretical explanation was that a lack of market knowledge is an important factor in international business.

The key explanatory feature for increased international involvement by firms is a process driven by interplay between learning about international operations on the one hand and commitment to foreign markets on the other. Lack of knowledge and experience of foreign markets and operations is the main obstacle to internationalisation, and knowledge can mainly be developed through experience from operations in those markets. This is shown in figure 2.4, which represents the approach popularly known as the Uppsala International Model (U-model). The model emphasises that the internationalisation process consists of four interrelated cornerstones: market knowledge, market commitment, decisions of commitment and continuous activities.

Figure 2.4: The Uppsala International Model (U-model)



Source: Johanson and Valhne (1977)

As proposed in the U-model, incremental developments of knowledge through "learning from the experience process" assist firms to overcome any lack of experiential knowledge or market information that could otherwise create an uncertainty strong enough to prevent international development. Forsgren and Johanson (1992: 10) stated, "International expansion is inhibited by the lack of knowledge about markets and such knowledge can mainly be acquired through experience from practical operations abroad". Experience and practice give the firm an ability to evaluate business opportunities and thereby reduce uncertainty associated with commitments to foreign markets.

Although it provides a plausible explanation and has been respected as axiomatic in explaining the internationalisation expansion of firms, the internationalisation theory has weathered various criticisms and disagreements. The main limitation is the small number of cases in the pioneer study of internationalisation process of firms; as a result, the findings are confined to the Scandinavian environment only. Zander (1994) stressed that some firms, especially those with large resources, do not necessarily follow any consistent pattern in their international expansion. Firms can 'leap-frog' stages and transfer learning from one market to another (Benito and Gripsrud, 1992). Zahra and George (2002) and Anderson (1993) further added that the popularity of the concept is inconsistent with empirical and theoretical evidence. On the theoretical level, Reid (1983), Strandskov (1986), Turnbull (1987), and Rosson (1987) criticised the theory as being too deterministic and mechanistic in nature, in the sense that it assumes that the progress of internationalisation is in linear fashion from one stage to another. Indeed, the model has been accused of being descriptive rather than explanatory (Turnbull, 1987). Anderson (1993) on the other hand made the criticism that the theory failed to take other firm-specific factors into account. Moreover, there is no attempt to explain the mechanism by which a firm proceeds from one stage to the next. Recent empirical findings show that firms are in a particular 'state' of internationalisation which can be subject to both backward and forward momentum, instead of progressing in an incremental fashion through stages (Burgel and Murrey, 2000, and Lamb and Liesch 2002). Researchers provide empirical evidence that shows that firms do not always start with occasional exporting and ending up with a production firm abroad (Hedlund and Kverneland, 1985; Oviatt and McDougall, 1994). The theory also explains the current behaviour of firms in the dynamic business environment insufficiently, i.e. the impact of global economy, and high technology (Axinn, and Matthyssens, 2002). Hirch and Meshulach (1991) further argued that in explaining the internationalisation process, the model focuses more on the firm's internal resources (market knowledge and experience from foreign activities), and completely ignores other external factors such as market potential and competitive conditions. Blomstermo and Sharma (2003a) have pointed out that there is a lack of operationalisation of important dimensions in the theory. Many of the basic assumptions about the process remain controversial, untested, and largely un-investigated. This point was similarly stressed by Christensen (1991), Johanson and Vahlne (1990), and Bonaccorsi (1992). According to Hadjikhani (1997), critiques of the internationalisation process can be divided into two groups: first, concerning the empirical validity of the stage theory, and second, concerning the theoretical underpinning of the model. Finally, the argument against the stage model stems from the emergence of the 'born global' firms theory as proposed by Oviatt and McDougall (1994). According to the 'born global' theory, growing global competition and accelerating technological development are now forcing firms to internationalise more rapidly without having followed the incremental process. These firms are, by theoretical definition, international at inception (Madsen and Servais, 1997). However, despite the various criticisms that it has received, it is important to note that the internationalisation process theory remains a valuable reference when investigating and examining the internationalisation process of nascent MNCs from developing countries, most of which are small and new to the international business environment. Their internationalisation expansion depends mainly on the knowledge gained and experience of foreign markets.

Instant International New Ventures

The most recent dynamic theory to have attracted substantial attention in the study of the internationalisation process of firms is that proposed by Oviatt and McDougall (1994) popularly known as the 'instant investment new venture (INV) theory'. The key argument postulated in this theory is that, instead of firms beginning their international activities following the traditional sequential stages pattern, they start their international movement right from the earliest days of their establishment to pursue global strategies (Moen, 2002; Zahra and George, 2002). The firms in the Oviatt and McDougall (1994) study used hybrid modes of market entry and did not follow the sequential pattern of internationalisation stage theory. They describe "a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". Similarly, Knight and Cavusgil (1996) conceptualise 'born global' firms as being "small, technology-oriented companies that operate in international markets from the earliest days of their establishment". Within the literature, various terms have been coined and used to consider the same basic phenomenon. Notable examples are 'born globals' (Knight and Cavusgil, 1996; Madsen, Rasmussen and Servais, 2000; Aspelund and Moen, 2001), 'global start-ups' (Oviatt and McDougall, 1994), 'instant international' (Preece, Miles and Baetz, 1999), and 'high technology start-ups' (Jolly, Alahuhta, and Jeannet, 1992). This thesis prefers to use the term 'INV' interchangeably with 'born globals'.

According to Knight and Cavusgil (1996) and Knight (1997), the facilitating factors that lead to the emergence of INV firms include: globalisation of markets for goods and services, advances in communications technologies, inherent advantages of young firms, advances in production technologies, the growing role of global networks, and the increasing salience of global niche markets. From the outset, firms view the world as their marketplace and INVs focus on receiving revenue mostly from the sale of their products abroad. By internationalising early, firms can counteract the potential limiting effects of domestic inertia (Oviatt and McDougall, 1994). The theory holds that such firms are formed by active entrepreneurs who have strong international knowledge and experience, and tend to emerge because of a significant breakthrough in some process or technology (McKinsey and Co., 1993; Knight, 1997). The theory is based on the importance of the internationalisation knowledge of the firm's founder in order to internationalise (McDougall et al., 2003). Such knowledge and experience are required, since firms face higher business risk and uncertain conditions by operating in the global marketplace. Empirical evidence provided by Brish (1992), Bloodgood et al. (1996), and Kuemmerle (2002) has supported this. The growing significance of INV firms seems to be challenging most of the theory development previously established in the field. Therefore, in order to enrich the understanding of the firm's internationalisation process, this recent generation of INVs should be taken into account.

Although research on the international activities of new venture firms exists and has provided a remarkable challenge to the previous theories, gaps remain. The terminology accorded to this specific phenomenon have been diverse and somewhat confusing, because labels are not always synonymous, i.e. born globals, INV, international entrepreneurs, global start-ups, all of which have been used to describe those firms that decided to internationalise from inception, thus making any comparison challenging (see Criado, Criado and Knight 2002). Furthermore, Zahra et al., (2000) argued that there is limited research on new ventures' technological learning through international operations. Current studies on INV suggest that firms gain knowledge as they diversify further into international markets. Little is known about the amount of technological learning that occurs as new venture firms diversify internationally. Similarly, the effect on firms' technological learning of their modes of entry into international markets has not been examined systematically and further studies need to be undertaken.

Technology and Technological Change of Firms

The next aspect of dynamic aspects of the theories of internationalisation to be incorporated into the FDI theory is derived from literature on the growth and technological competence of firms (Cantwell and Tolentino, 1990; Michael, 1995; van Hoesel, 1999). The theory acknowledges that through technological accumulation, firms can increase their technological competence, thus enhancing their ownership advantages. As defined by Cantwell (1991b:35), technological competence is "all changes to the immediate conditions of product which, over time, raise the productivity of inputs and provide for new products". With technological competence, firms can grow faster than others, and thereby increase their market share. In these theories of 'technology and technological change (TTC)'[4], technological competence is seen as the controller of a firm's competitive success or failure (Cantwell, 1991b). The theory forms part of a broader approach to competitive advantage for firms' expansion. The origin of the TTC model came from evolutionary economics (the origins of which can be traced to Nelson and Winter, 1982; and an extensive commentary on which is to be found in Dosi, Freeman, Nelson, Silverberg and Soete [eds.], 1988), whose principal proposition was that a firm's behaviour reflects a unique and path dependent process that has been built on an accumulation of organisational 'routines'. The theory emphasises the proprietary nature of technology and suggests that development of technology within a firm is a cumulative process, proceeds incrementally, and is unique in nature (Pavitt, 1988; Cantwell, 1991b).

Bell and Pavitt (1997) refer to the growth of the technological process as increases or strengthening in a firm's 'technological competence'. Through technological growth, firms can develop their technological competence and thus enhance ownership advantages. Technological competence forms part of a broader approach to competitive advantage and is a dynamic key to successful business strategy (Prahalad and Hamel, 1990; Teece et. al., 1997). As pointed out by Cantwell (1991b):

> Technological competence provides a sustainable competitive advantage because it is based upon the tacit element of technology which cannot be traded between firms nor substituted for the codified element that can be traded

[4] Van Hoesel (1999) attempted to use this term to avoid confusion, since there is an overlap between the 'technological accumulation theory' as it is called by Cantwell and Tolentino (1990), and the 'theory of localised change', by Lall (1990). Both address similar issues related to technological growth.

Table 2.3 summarises the main contributions to the development of firm learning and technology capability taxonomies, based primarily, though not solely on the situation in developing countries. Despite its inspiring role in explaining the dynamic concept of firm ownership advantage, TTC has been criticised for its failure to discuss the specific behaviour of multinational corporations (Cantwell, 1991a; van Hoesel, 1999).

Table 2.3: Different Types of Firm and Inter-firm Learning Process

Learning by doing	Arrow (1962)
Learning by using	von Hippel (1976, 1988), Rosenberg (1982)
'Adaptive' learning	Katz (1987), Lall (1987) Westphal et al., (1985)
Learning by interacting	Lundvall (1988, 19992)

Having paid significant attention to the theories of FDI and key development strategies in order to internationalise, the next section explains the progression of firms from international status to that of multinational corporations.

2.1.3 From International Firm to Multinational Status

The imperative to control resources and expertise, as well as to secure access to overseas markets, has driven some firms to engage in foreign direct investment (FDI), and gradually or potentially to become multinational firms or multinational corporations. Widespread use of the term 'MNC' commenced in the early 1960s (Hymer, 1979; Jones, 1996). Since then, a variety of definitions has been offered and these are widely known and used in the literature[5]. In fact, David E. Lilienthal[6], who was a Director of the Tennessee Valley Authority and Director of the Atomic Energy Commission at that time, first introduced the term 'multinational corporation'. At a symposium held on the Occasion of the Tenth Anniversary of the Graduate School of Industrial Administration, Carnegie Institute of Technology, Lilienthal (1960: 119) distinguished between portfolio and direct investment, and then defined "multinational corporations – which have their home in one country but which operate and live under the laws of other countries as well..". It is of interest that from the start, the multinational corporation was defined in terms of jurisdiction and potential jurisdictional conflict. The term 'multinational corporation' is distinct from 'International Corporation'. The latter term was used to designate a company with a strong national identification. A multinational corporation consists of the parent company (normally the head office based in its home country), and its affiliates (either subsidiaries or associates in other countries abroad). The parent company owns some percentage of the share capital in order to be able to exercise control; that is, its overseas activities are an extension of its domestic functions and its decision-making centre remains at home (Wilczynski, 1976: 1). Since then, various hypotheses and additional terminologies have been formulated to encompass the nature and character of this 'newly discovered species'.

[5] The earliest example quoted in the 1976 supplement to the *Oxford English Dictionary* is from The Economist for 17th October 1964.

[6] Parentage of the term was first pointed out by Baran P. A., and Sweezy P. A., "Monopoly capital: an essay on the American economic and social order", (Harmondsworth: Penguin Books, 1966: 192). Fieldhouse D. K., (1986), corroborates Lilienthal's first use of the term, and provides an interesting intellectual history of the development and use of *multinational enterprise* in "The multinational: a critique of a concept", in Teichova A., et. al., (eds.) "Multinational enterprise in historical perspective", (Cambridge: Cambridge University Press, 1986: 9-29)

Scholars and researchers in international business (Vernon, 1971; Buckley and Casson, 1976; Todaro, 1989; Dunning, 1993a and 1993b; Glynn, 1993; Caves, 1996; UNCTAD, 1997; Dicken, 1998) have provided various definitions of the term 'multinational corporation'. The adoption of different definitions is clearly understood from the perspective that differential objectives and functions have been adopted by individual researchers. According to Dunning (1993a, 1993b), a multinational corporation is "an enterprise that engages in foreign direct investment, and owns or controls value adding activities in more than one country". The United Nations prefer to use the label 'trans-national corporation' which refers to all enterprises which control assets – factories, mines, sales offices and the like – in two or more countries (UNCTAD, 1978: 158). Study of multinational corporation terminology also reveals that definitions can vary according to structural criteria, performance, or behavioural characteristics (Robock and Simmonds, 1989). The same authors further indicated that a MNC is a cluster of firms, being controlled by headquarters and with the operations being simultaneously spread to other countries around the world. Thus, multinational corporations are enterprises that control and manage production facilities in at least two countries (Caves, 1996). According to Caves (ibid), the use of the term 'enterprise' is to direct attention to the top level of management, whereas 'company' focuses on the controlled subsidiary of another firm. In this regard, MNC traditionally means a company that holds an equity interest and sits at the intersection of production, international trade, and cross border investment (Glynn 1993: 65-90).

Walters and Blake (1992) weakly defined MNCs as all firms, industrial, service or financial doing international business of all types within a myriad of international structures. The term is sometimes qualified by specifying and explaining that firms should have a certain minimum level of overseas activities, either in terms of the number of countries in which they operate or the proportion of production, assets, or employment overseas, and they should be of a certain minimum size.

Dicken (1998:8) defines an MNC as "a firm, which has the power to co-ordinate and control operations in more than one country, even if it does not own them". Generally, multinational corporations do own assets in foreign countries. On the other hand, this definition implies that multinationals do not have to own productive assets abroad in order to be able to control them. They can, however, have control by getting involved in legal collaborative relationships across national boundaries. One of the unique characteristics of multinational corporations compared to other firms is the flexibility of the company to transfer and relocate resources across borders through its affiliate global network (Kogut, 1983). Schultz and Kitchen (2000) described how multinational corporations normally start their business in a domestic market, and than expand abroad and may become global players. Dunning (1993b) sees global player companies as "enterprises that engage in value-adding activities in all of the major regions in the world and possess an integrated strategy towards these activities". The characteristics of firms to become multinational firms having been discussed, the next section reviews key literature on the evolution of developing country multinational firms.

2.2 Evolution of Developing Country Multinational Corporations

It may seem surprising that there exist a significant number of foreign investments by some firms from developing countries – an endeavour that is usually credited to more developed countries. A number of studies indicate that FDI flows originate not only from the industrialised or well-developed countries, but from developing countries as well. Scholars such as Heenan and Keegan (1979), Lecraw (1977, 1981, 1993), Wells (1977, 1981), Lall (1983a, and 1983b), Kumar and Lim (1984), Ulgado, Yu and Negandhi (1994) are only some of those who have carried out empirical studies and researched FDI flows from developing country firms commencing in the 1970s and 1980s. Most of these studies provided comparisons between the nature of international expansion of firms from developing countries and the nature of those corporations that originated from developed countries (Dunning, 1986; Vernon-Wortzel and Wortzel, 1988). Studies conducted by Kumar (1995a, 1995b, 1996, 1997) during the mid-1980s recounted that it was at this time that outward direct investment from developing countries started to grow rapidly to a sizeable magnitude. This, according to Kumar, became the main strategic tool of developing country multinationals in demanding that their constituent firms prepare for the fierce international competition that they were about to face. However, the emergence of new technologies in the late 1980s, somehow stole the limelight and the interest in outward direct investment from developing countries subsided (Kumar, 1996; Oh et. al., 1998; Pananond and Zeithaml, 1998; van Hoesel, 1999). But by the early 1990s, a new area of interest – on aggregate analyses of developing country MNCs conducted at the industry level – attracted scholars (Pananond and Zeithaml, 1998; van Hoesel, 1999). These studies yielded interesting results. They concluded that there were marked differences in characteristics between developing country MNCs in the 1980s and 1990s. Scholars posited that these two groups of MNCs belonged to two separate "waves" of development: differing as regards their respective historical backgrounds, nature of businesses, extent of the role of government in operations and transactions, geographical direction, and mode of internationalisation activity. Scholars characterised the developing country MNCs in the 1980s as those more concerned with cost competitiveness vis-à-vis their competitors (van Hoesel, 1999). Developing country MNCs in the 1990s, on the other hand, placed greater emphasis on the development and/or redirection of business strategies in response to the changing patterns of world business structure brought about by trade liberalisation and economic globalisation (Dunning et al., 1997). In addition, they put more emphasis on technological competence as the source of competitive advantage (Pananond and Zeithmal, 1998). Realising the differences, scholars categorised these scenarios into two separate 'waves': the first wave in the 1980s, and the second wave in the 1990s. They noted that notwithstanding these differences, there existed several significant interrelated points of convergence between the two groups (Dunning et al., 1997; van Hoesel, 1999). The following sub-section reviews the theoretical implications of the international investment activity that resulted from the 'first wave: the 1980s' of outbound direct investment from developing countries, followed by deliberations on the 'second wave in the 1990s'.

2.2.1 International Investment Activity: Applicability of MNC Theories to Multinationals from Developing Countries

(i) Emergence of the MNCs – 1980s: the 'first wave'

When discussing the emergence and development of developing country multinationals, there are two major schools of thought (Young, et al., 1996; Dunning, et al., 1997; van Hoesel, 1999). The first major school of thought is the one that was espoused by Wells (1983a, 1983b), and was heavily based on Vernon's product life cycle theory applied to developing country multinationals. The second discipline, on the other hand, emphasised the localisation of technological change developed by Lall (1983a, 1983b).

In describing his school of thought, Wells (1983b) claimed that there are two pertinent market features in developing countries that force local firms to generate and adapt various innovations to achieve growth. These two features, according to Wells, are the small size of markets and a wealth of cheap labour. Wells put forward the idea that it would be in the best interest of the local firm, as well as the local market, that these firms establish their initial advantages through 'de-scaled manufacturing' or smaller scale of production. This is a process whereby technologies from industrialised countries are adapted to suit smaller markets by reducing scale, replacing machinery with manual labour, and relying on local inputs (Ramamurti, 2004). In this way, the single most important ownership advantage of developing country MNCs will be formed, by capitalising on cost advantages derived from the set-up. Sharing this view were other noted scholars such as Aggarwal (1984) and Lecraw (1977, 1981). Together, they believed that, to exploit these cost advantages, developing country MNCs should concentrate on serving the price-sensitive mass market, not the niche markets dominated by marketing competition. They pointed out that such a low-cost, low-price competitive strategy could be carried out with greater ease and better results only in other developing countries with a similar or poorer economic status. Aggarwal (1984) and Lecraw (1977, 1981) noted, however, that these competitive advantages are short-lived, and may erode over time as local firms or affiliates of advanced-country MNCs catch up, utilising the same technologies or set-up.

Lall (1983b and 1983c), in espousing the second school of thought in developing country MNCs, argued that smaller scales of production in developing countries do not necessarily result in 'de-scaling advantage'. Contrary to Well's propositions, Lall believed that localisation of technological change is the key to the development of developing country MNCs (Lall, 1983a, 1983b). He further asserted that the wealth of resources, assets, and knowledge of the local environment enabled developing country MNCs to develop sustainable proprietary assets that could be effectively utilised in overseas operations. These resources, along with other innovations, differ greatly from those possessed by MNCs from developed countries. Moreover, he emphasised that the lack of high-end technologies among multinationals from developing countries allows them to derive their advantages from widely diffused technologies, and from special knowledge of developing country markets. The technology in most developing countries tends to be almost exclusively of the incremental rather than of the frontier-moving or innovative type. This, while being a little crude, amounts to a significant advantage, and can be carried out on a sustainable basis. This technological development is made possible through the localisation of technological change at the micro level, and the irreversibility of such change. Lall (1983b) theorised that it is more effective to initiate innovations that are more relevant and tailored to the environment and market conditions of developing countries. With this strategy, products can be better developed to suit the needs and tastes of local consumers in such countries. Moreover, cheap labour in their home countries, as well as membership in large, diversified conglomerates, could further strengthen the developing country MNCs, as these would allow windows of opportunity to flourish in local markets by having access to additional financial, managerial, technical, and labour resources (Lall, 1983b). Table 2.4 summarises the sources of ownership advantages of developing country MNCs.

Table 2.4: Sources of Monopolistic Advantage for MNCs

Developed Country MNCs	Developing Country MNCs
a. Large size of firm/group b. Access to capital markets c. Technology, patented or unpatented d. Product differentiation e. Other marketing know-how f. Management skills, complex organisations g. Access to low-cost inputs h. Vertical control over factor/products markets i. Host government preference	a. Conglomerate group ownership b. Technology (mostly disembodied and adapted to developing country conditions) c. (Occasional) differentiated products d. Other marketing skills e. Management adapted to developing country conditions f. Low-cost inputs (especially managerial and technical personnel) g. Ethnic advantages h. Host government preference

Source: Lall (1983b)

Contrary to Well's earlier propositions, Lall (1983a; 1983b) asserted that developing country MNCs ownership advantages lie in the fact that they have indigenous knowledge of local market conditions, rather than in the ability to descale manufacturing technologies to a smaller market *per se*. These inherent advantages, as Lall pointed out, could be further developed and sustained through intensive research and development efforts and continued learning. These and other related conclusions formed the impetus for the second wave of literature that focused on the technological competencies of developing country multinationals.

(ii) Spread and Transformation MNCs – 1990s: the 'second wave'

Globalisation has brought a completely new challenge and perspective to developing country multinationals. With globalisation and market liberalisation, the influential factors in international business, such as demand for products, market power, and number of competitors to name a few, have changed dramatically. To the firms, the nature of ownership advantages has changed, as well as geographical direction, segmentation of business, locational advantages, and levels of motivation to move abroad (Dunning et al., 1997; van Hoesel 1999: 227-34). To cope with the globalising world, many developing country MNCs were left with no alternative but to redefine their business patterns and strategies.

Globalisation has become a liberalising driving force that has pushed firms from developing countries to explore other markets other than their own. In terms of geographic spread, the second wave of outward FDI flows from developing countries has become less restricted to other developing countries from the same region. Rather, the corporations have embarked on a completely new world of challenges by entering even some of the most tenacious markets, such as those of the United States and Europe. Aside from this, these developing country corporations have likewise embarked on a new sectoral scope, shifting away from highly labour intensive industries to knowledge-based industries such as automobiles, electronics and telecommunications. In line with the latest market developments, developing country MNCs have veered away from searching for basic needs: that is, the need for natural resources and markets. At this globalising stage, they have gone abroad, no longer looking for these resources; instead they have focused their efforts on more ambitious endeavours such as the search for new markets, new strategic assets and higher efficiency. All these are to be found in the literature of the "second wave".

Moreover, this second wave was marked by an improvement in the nature of ownership-specific advantages of MNCs – such as those that can be derived from the ability to build on technological competencies, to improve production efficiency etc. The proponents of this second wave of developing country multinationals likewise sought to paint a brighter and more optimistic picture of the characteristics of these firms. Through the learning-by-doing and learning-by-adapting technological accumulation processes, these firms were able to develop sustainable ownership advantages that allow them to compete in the global market. Proponents of this view included Cantwell and Tolentino (1990), Tolentino (1993), Lecraw (1993), Ulgado et al., (1994), van Hoesel (1999) and Dunning et al., (1997). This was a great stride forward from deriving ownership advantages from small-scale, labour-intensive technology, low input costs, and low prices – those that were indicated in the first wave of literature.

Following the positive note set by the second wave of literature, Cantwell and Tolentino (1990) and Tolentino (1993) sought to determine the industrial and geographical distribution of developing country MNCs. Adopting the view that accumulation of technology led to more sophisticated outward FDI, they proposed that a general connection could be drawn among the patterns of domestic economic development, the emergence of ownership advantages of local firms and the growth of outward investment. As widely advocated in the second wave of literature, Cantwell and Tolentino (1990) stated that the outward investment of developing country MNCs centred on resource-based and simple manufacturing activities in neighbouring countries. According to their view, as domestic firms accumulated technological expertise and experience in international markets, the structure of outward investment became more complex, involving more sophisticated manufacturing activities, such as the production of more research-intensive and differentiated products. With a higher level of technological capabilities, they concluded, developing country multinationals were able to expand their investments to countries with a higher level of economic development.

However, despite these propositions, Cantwell and Tolentino (1990) failed to expound on the firm-level mechanisms that drove the internationalisation process of developing country multinationals. Their explanations, while providing a more positive note on developing country MNCs' capability to improve, focused more on the evolution of aggregate outward investment flows over time, rather than on the details of how an individual developing country firm evolved to multinational status.

Foreign entry modes are a crucial step in internationalisation. In fact, they are often treated as if they were synonymous with internationalisation. The next section discusses the commitment of firms in international expansion. It focuses on the modes of foreign entry and expansion strategies adopted by firms in their international operations.

2.2.2 Commitment of Firms in International Expansion: Modes of International Market Entry and Expansion Strategies

An important consideration in examining the internationalisation process of firms is the methods of international market entry, as these are closely associated with varying degrees of resource commitment, risk exposure, controls, and profit returns of firms

(Ferner, 1994; Andersen, 1997; Pan and Tse, 2000; Kuada and Sorensen, 2000; Yi, Zigang and Xiaobo, 2004; and Rasheed, 2005). This view recognises that a firm must decide on what it considers the best means to establish itself internationally. Commitment decisions tend to be akin to those operations in which the firm is already engaged. The selection of the entry mode and expansion strategy for a particular foreign market is one of the most critical decisions for firms in international business and operations (Terpstra and Sarathy, 1991; Baek, 2003). The motives to enter foreign markets by firms include gaining market power in host countries (Hymer, 1960), minimising transaction costs (Buckley and Casson, 1985), exploiting underutilised productive resources (Cheng, 1995), and exploring new sources of competitive advantage (Makino et al., 2002). According to Root (1998), entry method can be defined as the institutional arrangement for organising and conducting international business transactions. It has been argued that the selection of foreign entry modes depends on various types of factors, including the firm's resources (Erramilli and Rao, 1993; Kumar and Subramaniam, 1997; Madhok, 1997) and industry- and country-specific factors (Anderson and Gatingnon, 1986; Kogut and Singh, 1988; Tse, Pan and Au, 1997). According to Driscoll and Paliwoda (1997), there are three primary aspects influencing a firm in its entry mode strategy; first, dimensions of mode choice i.e. levels of control, dissemination risk, resource commitment, and flexibility that each mode possesses; second, situational factors such as country risk, socio-cultural distance, government regulations and policies; and third, rapid globalisation, economic liberalisation, accelerating rates of technological change, and the transition of centrally planned economies into more market-based systems have focused attention on international markets.

Three main schools of thought sought to explain the choice of entry modes by firms. The first school of thought derives from the perspective of transaction cost economics (Anderson and Gatignon, 1986; Erramili and Rao, 1993). Under this approach, firms will internalise activities that they can perform at a lower cost. However, they will subcontract those activities externally if other providers have a cost advantage. The second school of thought (Johanson and Vahlne, 1977, 1990; Root 1998) views business activity and operation in foreign markets as inherently risky, and argues that firms need to minimise the risk of involvement when they first enter the international market. As the firm acquires more internationalisation knowledge and experience, it will assume a higher degree of involvement and resource commitment. This is the conceptual basis for modelling entry modes as a continuum of increasing levels of resource commitment, risk exposure, control, and profit potential from export to wholly owned subsidiaries (Chu and Anderson, 1992). Finally, the third school of thought, proposed by Dunning (1980, 1988), suggests that the choice of entry mode and international strategy is influenced by three types of determinant factors: ownership (O) advantages of a firm, locational (L) advantages of a market, and internalisation (I) advantages of integrating transactions within the firm.

Treadgold (1988) suggested that there are three types of entry strategy for corporations in international markets. The first is the entry strategy that affords a high degree of control i.e. wholly owned, and acquisition. The second is a medium degree of cost and control, i.e. joint venture, and finally there is the low cost of control strategy, i.e. franchise arrangements. Rugman et al., (1985) have identified eight modes of entry strategy that a firm may select from: export/import, joint venture, licensing, franchising, wholly owned subsidiary, turnkey contract, management contract, and contract manufacturing. As has been proposed by Pan and Tse (2000), these entry strategies can be divided into two different levels: equity modes of entry which require a major resource commitment in the overseas location (Vanhonacker, 1997), and non-equity modes of entry which do not require the establishment of an independent organisation (Zafar et al., 2002). The next paragraphs summarise the primary choices of entry mode by firms.

Exporting: Export is a common way for a firm to begin its international expansion, but it may later switch to another mode. The firm is located domestically and is controlled administratively. According to Driscoll and Paliwoda (1997), exports have been depicted as the most flexible entry mode and are divided into two categories: direct exports and indirect exports. Direct exports usually involve the firm handling all the necessary processes from documentation to selling the product, whereas indirect export modes, by contrast, involve the use of intermediaries, i.e. trading companies, to perform these activities. The export mode facilitates the firm's entry movement from a lower commitment to a higher one (Johanson and Vahlne, 1990). It is recognised as being the lowest-risk method of internationalisation, with low start-up costs, no incremental investment in fixed capital, and immediate returns; and it may provide easy access to overseas markets (Young et al., 1989). It can serve as an international learning experience for a firm, by obtaining knowledge about foreign markets and its ability to compete in them (Root, 1998). However, despite its strengths, this option suffers severe limitations. Uncertainty and repetitive transaction costs thwart long-term expansion objectives, while regulations in the sphere of tariffs, quotas, and foreign exchange restrictions tend to restrict the access to the markets of many countries. These are among the weaknesses (Reimens, 1989).

Licensing: Licensing is a contractual arrangement entry mode. A licence has been described as merely permission given by one party (the licensor) to another (the licensee) to allow the latter to use, in exchange for a payment or royalty an industrial property right which would otherwise be legally forbidden to it, for a special period of time. The licensee is given the right to use patents, designs, trademarks, copyrights, intellectual property and expertise in exchange for a fee. Licensing allows entry into the foreign marketplace without substantial investment, but the licensee relinquishes direct control over the foreign operations. According to Reimens (1989), fear of loss of proprietary knowledge is what usually makes firms reluctant about licensing, unless the product has some kind of inbuilt pilfer-proof quality for example a reputable brand name or a secret formula for some products.

Franchising: A franchise is a business arrangement that comprises a contract-tied co-operation between the franchiser and the franchisee, where the franchiser allows the franchisee to run a business using the former's trademark, brand name, and methods of operation in return for a fee, royalty payments, or both. The franchiser also provides assistance, marketing support, technical advice and training to the franchisee. Young et al. (1989: 148) and John et al., (1999) have explained the difference between licensing and franchising in detail.

Management contract: A management contract is an arrangement by which one firm provides managerial expertise to another firm for a specific period in return for a fee for services rendered. Management contracts allow the firm to control better the amount of knowledge that is divulged, through its influence on the foreign firm's management. Thus, the expertise of the firm is made available to the foreign market without the necessity of actual investment. According to Brooke (1985), it is part of a broader foreign market servicing strategy.

Turnkey projects: A turnkey project is a package deal in which the MNC constructs a production facility and provides training for the personnel necessary to operate it, such that the facility is ready to begin operations on the completion of the project (Giridhar and Ramesh, 1998). Turnkey projects are often large scale and often involve government agencies. This can be an alternative mode of foreign entry for a MNC when a host government has imposed restrictions on other modalities. The added advantage of turnkey projects is that the MNC can become a supplier of future factor inputs.

Contract manufacturing: Also known as international subcontracting. In contract manufacturing, the MNC may not perceive the host market as warranting FDI, so instead production is contracted out to a local firm and the product is marketed under the MNCs brand name. This reduces the necessity for direct investment in a foreign environment, but can create wholly dependent foreign firms if the contractor is the prime or only customer of the supplier.

Joint ventures: A joint venture (JV) is a partnership by which two or more firms create a joint ownership entity in order to achieve a common business objective, e.g. control an overseas business. Despite having a reputation for instability for such reasons as being forced to incorporate different management styles as well as business cultures, the joint venture is one of the modes frequently utilised to gain access to a foreign market (Paliwoda et al., 1998). It is a preferred choice of international entry modes by many small firms, especially those from developing countries (Reimens, 1989). With JV, a firm may reap the benefit from the knowledge possessed by the local partner (Hennart 1991; Hennart and Park, 1993) before considering direct entry to the foreign market. This entry mode is useful when a firm lacks familiarity with the local context or perceives the political or socio-cultural risks in the host country to be unusually high (Guillen, 2003). As classified by Young et al., (1989) there are two types of JVs. The first is contractual JV, which is characterised by one group merely providing a service for another, and commonly terminates once the project is complete. The second is equity JV, which involves sharing of assets, risks, and profits by the MNC in a business enterprise with a local partner.

Wholly owned subsidiaries: A wholly owned subsidiary is a facility entirely owned and controlled by a single parent company. It may be formed through acquisitions or greenfield operations. 'Acquisitions' refers to the purchase of stock in an existing company in an amount sufficient to acquire control (Kogut and Singh, 1988), while 'greenfield investments' refers to start-up investments in new facilities (Driscoll and Paliwoda, 1997). The subsidiary is a part of the organisation's formal structure, and its formation involves the direct investment of both capital and company personnel. This type of entry has the advantage of complete control of operations, albeit subject to the regulations and culture of the host country. It is the most expensive form of entry (i.e. it requires the transfer of staff and equipment, the purchase or lease of offices and/or manufacturing facilities, and the development of a network of suppliers and customers), and its potential is not unlimited. Apart from the investment outlay, large expenses must be borne to gain both information about and entry into the local market (Reimens, 1989).

Table 2.5 summarises the major types of entry modes strategies employed by firms in venturing abroad.

Table 2.5: International Strategies: Advantages and Disadvantages

	Advantages	Disadvantages
A. Exporting	- economies of scale in production concentrated in home country	- high transportation costs - trade barriers - marketing distance from customers
B. Licensing and franchising	- low development costs - low risks in foreign market expansion	- little control over product quality and marketing - may create competitors - intellectual property hazards
C. Joint ventures	- sharing development costs and risks - access to local partner's knowledge and assets - politically acceptable	- divergent goals and interests of the partners - difficult to manage locally and coordinate globally - limited control
D. Wholly owned subsidiaries	- complete local control - protection of technology and know-how - ability to coordinate globally	- high development costs - potential political problems

Source: Reimens (1989)

2.3 Conclusion

This chapter has sought to formulate a theoretical framework of analysis for developing country multinationals through a historical explanation of FDI theories. The modern analysis of the FDI approach started with the pioneering contributions of modern industrial organisational theory, followed by transaction cost theory, internalisation theory, product life cycle theory, and the dynamic theory of FDI. The discussion emphasised the importance of internationalisation knowledge and experience as sources of ownership advantage in relation to firms expansion.

From the core of FDI theories, theories of 'third world multinationals', sometimes referred to as 'multinationals from developing countries' have formed an established stream of literature emerging since the 1980s and are divided into two separate waves. Although this stream of literature can be broadly categorised under two different headings, based on the timing of their emergence and their views on the nature of these multinationals' competitive advantage, both groups share a strong emphasis in that the competitive advantage of multinationals from developing countries is seen as lying in their ability gradually to accumulate technological skills from imported technology (Pananond and Zeithmal, 1998; Hoesel, 1999). On the one hand, the first group's view is that the competitive advantages of these firms derive from their ability to imitate and adapt foreign technology to better suit the local environment. This is achieved through downscaling techniques such as reducing operating scale, substituting machinery with human labour, and replacing imported inputs with cheaper local ones (Wells 1977, 1981, 1983b, and Lall 1983a, 1983c). Downscaling refers to a reduction in the scale of production technology so that a smaller operation can be maintained at the same level of technology.

The second group, on the other hand, believes that the ownership-specific advantages of these multinational firms are derived from the ability to build on technological competencies, and to improve production efficiency through the learning-by-doing and learning-by-using processes (Tolentino, 1993, Dunning et al., 1997). The recent literature on multinationals from developing countries has highlighted the technological competence accumulated through the process of learning as the key source of competitive advantage for developing country multinationals.

Concerning foreign market entry, firms may choose from a variety of different modes, ranging from licensing and franchising through exporting to foreign direct investment (joint ventures, acquisitions, mergers and wholly-owned new ventures). Entry modes vary in the degree of control the firm has over invested tangible and intangible resources and the transaction costs associated with resource commitment. It is important for firms to understand the right choice of entry mode strategy to suit their situation.

The insights drawn from the discussion of the literature on internationalisation and developing countries have been useful in highlighting the experience of firms in their development and expansion. As the primary proposal for this thesis is to investigate the international expansion of Malaysian-based corporations, an understanding of the literature is essential as they follow a similar line of argument which relies on internationalisation knowledge and experience, and also technological competence in their growth and expansion. Because the majority of Malaysian-based corporations are relatively small and new to the international arena, the observations suggested in the existing works are helpful in analysing the internationalisation process. However, despite having been based on internationalisation knowledge and experience, and also technological competence, the ownership advantage of Malaysian-based firms is also derived from other factors such as business network connections with various parties such as government, local players and foreign partners. The next chapter addresses the theory of competitive advantage and the theory of business networks. It strives to explain how business network connections can contribute to becoming a valuable ownership advantage for a multinational from a developing country particularly in the case of Malaysian firms, and become an important part of the dynamic mechanism behind the firm's internationalisation process.

CHAPTER THREE

LITERATURE REVIEW: THE THEORY OF COMPETITIVE ADVANTAGE AND THE CONCEPT OF BUSINESS NETWORKS AS A SOURCE OF OWNERSHIP ADVANTAGE

3.0 Introduction

The preceding chapter (Chapter 2) detailed the importance of internationalisation knowledge and experience, and technological competence as sources of ownership advantages for developing country multinational firms to grow and expand internationally. This penultimate chapter of the literature review poses another very important mechanism and underscores the potential, and yet important, contributions of business networks as dynamic sources of ownership advantage for developing country multinational firms' operations. Many researchers such as Lall (1983a, 1983b, 1983c), United Nations (1993), and van Hoesel (1999) have stated that the ownership advantages of developing country MNCs are generally derived from lower costs of overheads or productions, the understanding of developing country markets, downscaling the technology (to smaller markets), and making production more labour-intensive. The existing literature on developing country multinationals is too simplistic in explaining the organisation behaviour and provides very little insight into the ownership advantage of these firms, and the result is the lack of a clear understanding of the emergence of developing country multinationals, in particular from Malaysia. Little is known on how social relations and economic actors can perform as another source of advantages and could be beneficial to the firm's development (Yeung, 1998), which is the main focus of this chapter.

The chapter is organised into two major parts. The first part, section 3.1, reviews the theories of competitive advantage and business networks. The second part, section 3.2 examines the role of business networks as a dynamic source of ownership advantage. Section 3.3 concludes the chapter.

3.1 The International Expansion of Multinational Corporations: Review of the Theories of Competitive Advantages and Business Networks

In discussing the nature and behaviour of firms in internationalising and competing in foreign markets, there are major attributes that cause firms to expand beyond their national boundaries and become multinational. These are the competitive advantages or ownership advantages a firm has over its competitors. These advantages arise from the sources of a firm's core competencies. This section discusses generic theories of competitive advantage and business networks, and addresses how business networks can become a distinct advantage to the development of firms from developing countries generally and Malaysia in particular.

3.1.1 General Theories of Competitive Advantage

The term competitive advantage emerged in the 1970s, articulated by McKinsey and Company, and was based on the success of Japanese firms in penetrating world markets under changing business circumstances (South, 1981). However, the concept of competitive advantage of the firm has become popular, and become a central focus of research with the works carried out by Porter and other scholars in the field of strategic management (Porter, 1980, 1985; Rumelt, 1984; Gerald, 2000). In Michael

Porter's theory of the competitive advantage of nations known as Porter's 'diamond model'[1], the national competitive advantage serves as the determinant of firm competitive advantage (Porter, 1990). Porter (1980, 1985, 1990), pointed out that the success of firms in international competition is because they follow better strategies and possess various form of competitive advantage. Competitive advantage grows from the value a firm is able to create for its buyers that exceeds the firm's cost of creating the product or service. Porter distinguished between three generic strategies used by firms for competition, namely, cost leadership, differentiation, and focus strategy.

In explaining his diamond theory, Porter emphasised the firm's positioning in an industry as the main source of competitive advantage. To him, the creation and sustainability of national competitive advantages arises from four broad and inter-related attributes which constitute: the conditions surrounding the firm's strategy, structure, and rivalry; demand conditions; the nature of its factor conditions; and related and supporting industries. The four determinants work both as a system and individually to create the environment in which a nation's firms are created and compete to gain and sustain competitive advantage. Besides the four determinants of national advantage, Porter (1990) included the roles and influence played by the government and the chance events as factors influencing the functioning of the determinants. The government has direct influence upon the propensity of national firms to invest overseas in three ways: national economic development strategies; policies of national firms' overseas investment; and state intervention into enterprise activities. The complete framework developed by Porter is presented in Figure 3.1.

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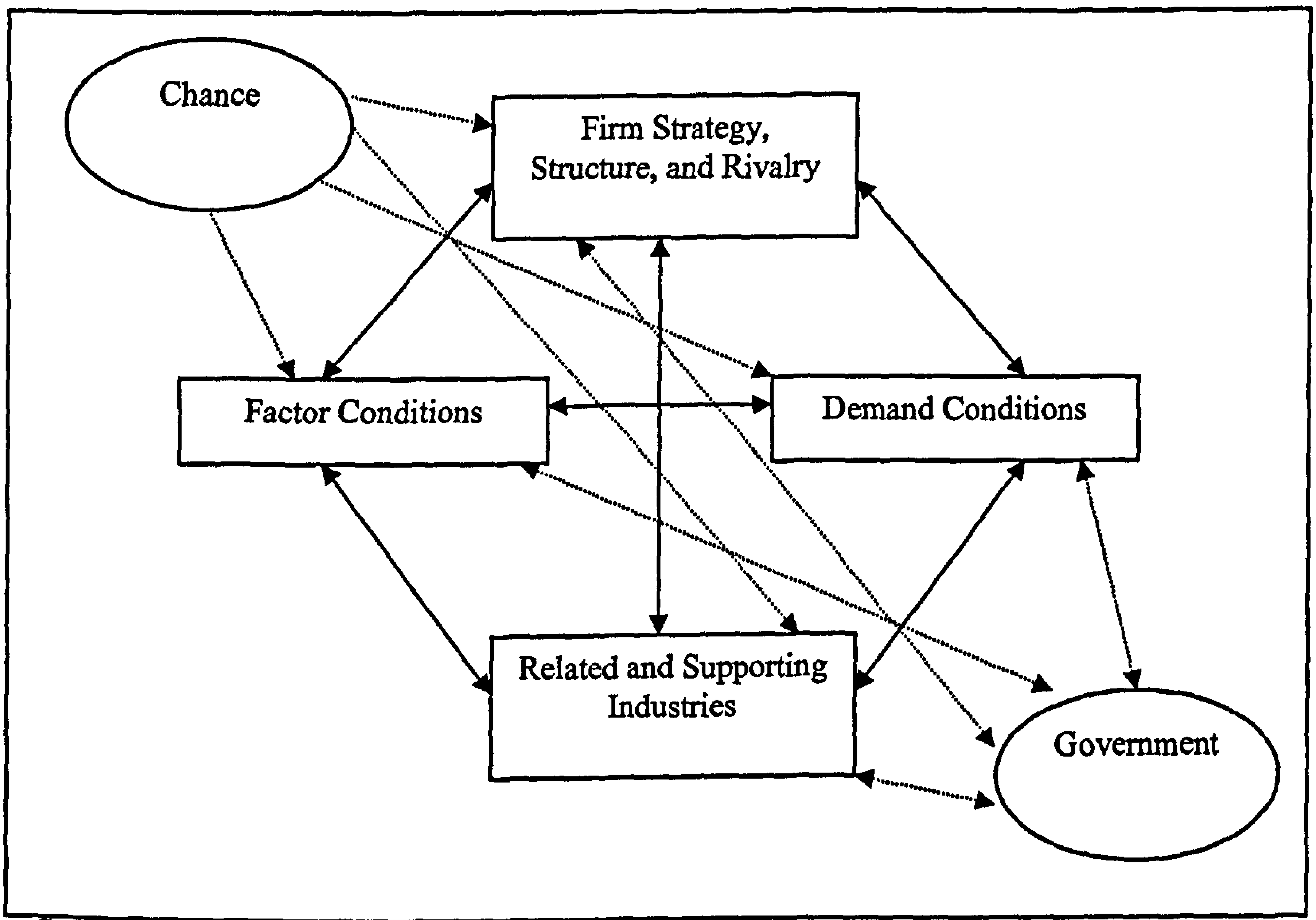
[1] Porter termed the framework the 'diamond' due to the obvious shape of the four determinants. It is a dynamic system in which all elements interact and reinforce each other (Porter, 1990).

Figure 3.1: The Complete System of Porter's National Advantage



Source: Porter (1990)

Despite its major contribution to the theory of competitive advantage, Porter's diamond model has been criticised as it is essentially a framework for assessing *industry* competitive advantages of nations rather than *firm* competitive advantages (Dunning, 1992). Dunning's (1992), concerns were specific to Porter's lack of attention in explaining the dynamics aspects of international business in the form of multinational corporations. According to Dunning (1993), Porter's work does not seek to explain the emergence and nature of the firm or international investment pattern and process. Rather, Porter stresses the significance of a firm's competitive advantage at an industry level. Porter's works fail to highlight how internal resources and capabilities of a firm may contribute to its domestic development and international growth. Such a restricted view of competitive advantage makes it difficult to extend Porter's framework to the experience of MNCs from developing countries, which often rely on a variety of competitive advantages in their operations and business strategies.

Firms' Competitive Advantage: In order for firms to internationalise, they must possess some specific, hard-to-replicate advantages over competitors to make such investment viable (Hymer, 1960). The term advantage is a relative concept that refers to the ability of a firm to outperform its rivals on some performance criteria. Hofer and Schendel (1978: 25) describe competitive advantage as "the unique position an organisation develops vis-à-vis its competitors". Day and Wensley (1988) claimed that competitive advantage is not a single entity but a complex construct, which is the sum of many parts, i.e. positional and performance superiority, and occurs when a firm implements a strategy not being implemented simultaneously by any of its current or potential competitors (Lippman and Rumelt, 1982; Rumelt, 1984). Similarly, Barney (1991) suggests that firms obtain sustained competitive advantage by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralising external threats, and avoiding internal weaknesses. The notion of key competitive advantage suggests that the dynamic key to successful strategic competition is the selection of competitive arenas which meet two criteria: (a) they can be protected from changes in the business environment, and (b) an advantaged position can be achieved as protection from intense global competition (South, 1981).

However, what are the sources from which these advantages are derived? The research on sources of competitive advantage is primarily driven by two perspectives. The first is grounded in the earlier works of Mason (1938) and Bain (1959), in the area of industrial organisation economics and is known as the Mason/Bain model. The second, grounded in the earlier work of Penrose (1959), and subsequently extended by a number of other researchers (i.e. Wernerfelt, 1984; Rumelt, 1984; Barney, 1991), focuses on the resource-based view of the firm. In examining the internationalisation process of firms, the present thesis will emphasise the concept of competitive advantage from the resource-based perspective, a description tailored to clarify the importance of core competence in the strategic process (Madhok, 1997; Barney et. al., 2001). It views firms in terms of unique bundles of resources and capabilities that provide the basis upon which a competitive advantage can be pursued. The normative implication of this view is that the firm should base its strategy on its own resources and capabilities. Irrespective of the markets or combination of markets served, firms should seek to leverage the resources best suited to those markets. This may even lead to a situation where the firm will choose to compete in inherently less structurally attractive markets if it possesses resources that are valuable in serving those markets (Collis, 2000). This viewpoint of competitive advantage has emerged as the most vital approach for studying factors that motivate firms to internationalise operations beyond their national jurisdiction. Moreover, this perspective highlights how the internal resources of a firm contribute to its domestic and international growth.

Under the resource-based approach, the resources of the firm are the primary determinant of competitive advantage (Peng, 2001). This approach rests on two fundamental assertions: (a) resources possessed by competing firms may be different (i.e. resource heterogeneity); and (b), these differences may be long lasting (i.e. resource immobility). The term resources refers to all assets, capabilities, organisational processes, attributes of the firm, information, knowledge, physical facilities, reputation, business networks relationships and so forth that are controlled by a firm. They also enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Daft, 1983; Porter, 1980; Grant, 1991; Hill and Jones, 1992; Gulati, Nohria, and Zaheer, 2000; Barney, Wright and Ketchen Jr., 2001). The term refers to unique internal firm-specific assets that may be tangible or otherwise (Grant, 1991), and could be thought of as a strength or a weakness of a given firm (Wernerfelt, 1984). The central argument of this perspective is that if a firm possesses a resource which is not currently possessed by competitors, then it may gain short-term or temporary competitive advantage (resource heterogeneity). In addition, if a firm without a resource faces a cost disadvantage in obtaining that resource, then the firm that already possesses that resource can have sustained competitive advantage (resource immobility). In terms of internationalisation, therefore, access to such exclusive resources can provide a solid base for international expansion.

Not all resources possessed by a firm are sources of competitive advantage. Only those that meet certain criteria can be considered as sources of firm competitive advantage (Peteraf, 2001). First, the resource must be valuable, enabling the firm to exploit some environmental opportunities and neutralise lesser environmental threats. Resources are considered valuable when they enable a firm to conceive of or implement strategies that improve the firm's efficiency or effectiveness (Barney, 2000). Second, the resource must be unique and not possessed by other competitors or potential competitors. Third, the resource must be non-substitutable, or non-equivalent. Finally, the resource must be difficult to imitate. For a firm to be in a position to exploit a valuable and rare resource there must be a resource position barrier preventing imitation by other firms (Wernerfelt, 2001). According to Barney (1991), there are three main characteristics that make resources difficult imitate: unique historical conditions, causal ambiguity, and social complexity. The process of asset stock accumulation within the firm may also prevent imitation. Where these stocks possess the characteristics of time compression diseconomies (accumulation has taken place over a long period), asset mass efficiencies (a critical mass of stocks has been developed), and interconnectedness (stocks are interrelated), then imitation is difficult (Dierickx and Cool, 1999). In terms of internationalisation, therefore, access to such exclusive resources can provide a solid base for international expansion. The concepts introduced in the firm resource-based approach have been supported by a number of empirical studies which suggest that resources are primary sources of competitive advantage which motivates a firm to internationalise (Powell, 1992).

Following this introduction to the generic concept of competitive advantage, the next section introduces the theory of business networks and discusses how they can be an important key value for firms, providing additional advantages for domestic growth and international expansion.

3.1.2 General Theories of Business Networks

The theory that business networks constitute a source of ownership advantage for firms helping their growth in domestic and international business is not a new phenomenon[2]. It has been the focus of numerous recent studies, from both the theoretical (Nohria and Eccles, 1992; Greif, 1993; Staber, Schaefer and Sharma, 1996,

[2] For detailed reviews of the literature on business networks, see for example, Gulati and Nohria, 2000; Gulati, 1998; Ebers, 1997; Dyer, 1996; Contractor and Lorange, 1988.

Chen and Chang, 2004) and empirical aspects (Coviello and Munro, 1995, 1997; Yeung, 1998b; Rauch and Trindade, 2002). The richness and variety of topics addressed under the business network concept have inevitably turned the topic into one of the most complex subjects in the area of international business, strategic management and business strategy (Gulati, Nohria, and Zaheer, 2000; Ebers, 1997; Nohria, 1992; Holmlund, 1997; Yeung, 1997; Contractor and Lorange, 1988; Jones and Conway, 2004; Kapasuwan and Rose, 2004).

The term 'networks' refers to a set of nodes and the relationships which connect them (Fombrun, 1982). It is a mode of organising economic activities through inter-firm coordination and cooperation in order to exchange or share information or resources. It is an integrated and coordinated structure of ongoing economic and non-economic relations embedded within, among and outside business firms (Yeung, 1998c). According to Johanson and Vahlne (2003a) and Emerson (1981), the business network is defined as a set of interconnected business relationships in which each exchange relation is between business firms conceptualised as collective actors. Loasby (1998: 173-4) pointed out that firms have to rely on the capabilities of many people and many organisations, and the ability to merge these external capabilities with their own needs could allow these firms to achieve distinctive advantages. These partners do not have to be formally linked by any governance structure and may include a variety of players, ranging from suppliers to governments. Due to the connectedness, the activities the firms perform and the resources they employ in the network are interdependent (Anderson, Hakansson and Johanson, 1994). The business network concept suggests that the coordination of activities between two firms in a business relationship also takes place within the wider business network context. Thus each firm can be expected to be engaged in a limited number of connected business relationships, each one coordinating the firm's activities with those of its counterpart (Hakansson and Snehota, 2003). When two or more firms cooperate in a focal business relationship, they bring to the focal relationship their connected relationships. The evaluative criteria upon which they base their engagement in the focal relationship are influenced, at least indirectly, by their business network contexts (Anderson et al., 1994).

In business networks, the development of a firm's ownership advantage is largely tied to its interactions with other committed partners in the network (Dunning, 1995). It evolves because of the co-ordination (Alter and Hage, 1993), adaptation (Hallén, Johanson and Seyed-Mohammed, 1991), and levels of trust and commitment (Morgan and Hunt, 1994) in the relationship. In the realm of business organisation, the motives for engaging in an inter-firm networking relationship can be classified into two sets (Ebers, 1997). First, through co-operation, firms can increase their revenue and reduce competition by binding competitors as allies (Porter and Fuller, 1986). Moreover, firms can access complementary resources and/or capabilities or can closely co-ordinate their use of resources. Second, with business networks, firms can reduce costs as a result of economies of scale and scope that can be achieved in joint research, marketing, or production (Contractor and Lorange, 1988). Networks can also increase flexibility and efficiency (Lorenzoni and Baden-Fuller, 1995), and allow access to critical network resources at minimal transaction cost (Casson and Cox, 1993) and reduced risk (Gulati, Nohria, and Zaheer, 2000), ultimately leading to higher performance (Dyer and Nobeoka, 2000). In fact, a firm's competitive advantage may rest on collaborative business networks (Gulati, Nohria, and Zaheer, 2000). It is this particular perspective that this thesis follows; to investigate the emergence of Malaysian-based corporations which may seem to rely not only on a firm's internationalisation knowledge and experience, and technological competence as explained in Chapter 2, but also on business network relationships with various parties. The networking includes the firm's relationships with the Malaysian government, local business partners and foreign technology partners for its growth and development in domestic and international markets. For instance, research findings by Yeung (1998b), about Hong Kong firms prove the importance of network relationships as the 'hidden' competitive advantage for the growth of these corporations internationally.

Oliver (1990) offered a slightly different opinion in discussing the motives for an inter-organisational networking relationship and proposed six predictive contingencies for the formation of networks. These are: (a) necessity, when organisations are mandated through law or regulation by higher authorities to establish a relationship; (b) asymmetry, which allows one party to exercise power or control over another or its resources; (c) reciprocity, when through cooperation, firms can pursue common or mutually beneficial goals or interests; (d) efficiency, when through cooperation firms can achieve higher input/output ratios; (e) stability, where through cooperation firms can better forestall, forecast, or absorb uncertainty affecting their activities; and (f) legitimacy, when through cooperation organisations can establish or enhance their reputations, images, prestige, or congruence with prevailing norms.

Networks are beneficial where they can increase flexibility from the partners, facilitate a more open stream of confidential information between exchange partners, and reduce conflict (Jarl and Michael, 1995). Studies have shown that the structural connectedness of networks increases the commitment in the relationships and indirectly increases the profitability and value creation in the relationship (Blankenburg, Eriksson and Johanson, 1999). Ebers (1997: 24) made the point that,

> Firms engaging in inter-organisational networking may enjoy comparative advantage over self-sufficient firms, because they can draw on specialised yet complementary partner contributions that extend the resource base and capabilities of the networked firms, and can entail production cost advantages.

He also added (ibid: 25):

> Through networking, firms can gain competitive advantage because they can gain access to desired resources and capabilities that are complementary to their own; they can thus in different ways enhance their abilities, share risks, gain market power, or realise economies of scale and scope.

The empirical results of Coviello and Munro (1997) corroborate this view by showing that the internationalisation process of firms is strongly driven and facilitated by a set of formal and informal network relationships.

Following from this explanation of the theory of business networks, and how they allow firms to achieve distinctive advantages, section 3.2 provides evidence of different types of business networks systems in Asia that rely heavily on networking relationships as a source of competitive advantage.

3.2 The Role of Business Networks: A Dynamic Source of Ownership Advantage for Firms

3.2.1 The Forms of Asian Business Networks Organisations

Compared with the nature of Western business systems, which define themselves as legal entities and relate to each other as legal persons with rights and obligations (i.e. share a respect for individualism, contractual relations, and explicit enforcement of those contractual relations), Asian business systems are more diverse and are grounded in different societal cultural, political, and economic settings. Businesses in Asia define themselves in terms of inter-relationships with other businesses and they share a respect for status-based relationships, which emphasise cooperative business networks based on family and other informal relations, as well as ties with the government (Hamilton, 1996a; Michael, Lee and Yucel, 2002). Richter (1999) and Dobson (1998) have identified five main types of Asian business systems whose existence depends on extensive use of business network connections, which will be discussed here: the Japanese *keiretsu,* the Korean *chaebol,* the overseas Chinese, and Indian networks, and Southeast Asian conglomerates.

(i) Japanese *keiretsus* and Korean *chaebols*

The Japanese inter-firm networks widely known as *keiretsu* (alliance of companies) and Korean inter-firm networks commonly known as *chaebol* (families with large wealth) are perhaps the most commonly cited examples of business network systems in Asia. Many writers have documented these two influential groups of business, which use network connections as a key competitive strategy (Dobson, 1998; McGuire and Dow, 2002, 2003; Douthett et. al., 2004).

The Japanese *keiretsu*

The modern Japanese business systems have their roots in the pre-war, family-owned conglomerates known as *zaibatsu*. Through holding companies, these *zaibatsu* controlled a large number of shares in trading companies, banks, and other enterprises. According to Yoo and Lee (1987), to be a *zaibatzu*, an organisation should satisfy two conditions: it should be owned by family members or relatives, and have diversified business operations. During World War II, the *zaibatsu* groups increased their market power, and played an important role in supporting the Japanese Imperial Army. In the post-war period, the American occupational authorities (The Supreme Commander of the Allied Powers or SCAP) attempted to dissolve these conglomerates into independent firms as they were considered powerful and generally anti-democratic institutions. However, these linkages re-emerged as *keiretsu* after the occupation ended. The family role was largely replaced by professional managers and cooperation was voluntary (Dobson, 1998). There are two different kinds of *keiretsu* in Japan (Dobson, 1998; Teramoto, 1999; Douthett et. al., 2004): the horizontal *keiretsu* (known as *kigyo shudan*) which comprises large firms operating in different economic sectors (non-bank activities) and the vertical *keiretsu* (*kinyu keiretsu*) which links vertically integrated activities in an industry within a business group (financial grouping). However, the two terms are often misused, with the term '*keiretsu*' being applied as a generic term for large Japanese business networks (Kienzle and Shadur, 1997; Scher, 1997).

The Japanese inter-firm network is organised around one or more main financial institutions, which include a commercial bank, an insurance company, or other financial institution in the financial market, a general trading company, and manufacturing firms from a wide cross-section of industry. These financial institutions serve as the main source of funding for other member companies, while the trading companies are responsible for all kinds of domestic and international transactions for members (Achrol, 1999). Maintaining the network relationship is an important priority for member companies and this is done through webs of cross-shareholdings (Scher, 1997). According to Zahra et al. (1999) and Douthett et al. (2004), Japanese business networks are complex combinations of overlapping connections between firms. They are constructed by multidimensional arrangements consisting of various interlocking directorships, cross-ownership, production, and distribution relationships. The cross-shareholding is not intended to grant any ownership right, but is used as a method of cementing transactional relationships (Scher, 1997).

The Korean *chaebol*

The second important group discussed here is the Korean patrimonial bureaucracy or *chaebol*, which forms industrial conglomerates linked by direct or indirect cross shareholdings within the group. *Chaebols* work in many diversified business areas, mostly unrelated industries. They are owned and controlled by a family, and have developed under active government support and encouragement (Shin and Kwon, 1999). The *chaebol* structure was created by the government in the sense that the government picked several *chaebols* – which were originally small firms in their initial stages in the 1960s – in selected industries and provided them with massive financial support in the form of policy loans that carried very low interest rates. According to Yoo and Lee (1987), the development of *chaebols* as giant conglomerates or financial cliques can be grouped into three periods depending on their time of formation: (a) *chaebols* formed in the late 1950s by the founder through government support; (b) *chaebols* of the 1960s, formed because of foreign loans; and (c) the *chaebols* of the 1970s, formed during the economic boom and during a time of unprecedented export growth. Although the Korean *chaebol* does have its roots in and appears to be similar to the development of the Japanese *keiretsu* model, they are actually dissimilar in many aspects and elements, especially in terms of ownership and control (Kienzel and Shadur, 1997). The founders and their families generally retain the ownership and management of *chaebols* (Zahra et. al., 1999). Family ties are important in Korean networks. Their ownership can be classified into three types: direct ownership, holding company ownership, and mutual ownership. In direct ownership, the owner or the family directly owns the *chaebol* group companies; in a holding ownership, the owner or family owns the holding company, which, in turn, owns the group's companies and finally, in mutual ownership, the owner or the family owns the holding company or intermediary organisation such as an entertainment business, which has interlocking mutual ownership with affiliated companies. In terms of control, Korean *chaebols* are far more hierarchical, centrally controlled and vertically integrated which leads to fewer intra-industry links (Whitley, 1991). Unlike the Japanese *keiretsu,* the Korean *chaebols* do not rely as heavily on relationships with affiliated financial institutions. This is because the Korean government plays a central role in allocating capital to sectors of development priority (Hamilton, 1996a). Relationships with the State therefore become one of the most significant success factors for the Korean *chaebols*. However, despite its uniqueness in terms of corporate structure, the Korean *chaebol* has weathered various shortcomings. Among them are dearth of business planning and lack of real specialisation, a lack of focus and outsourcing, a complex and long decision-making process, and long working hours (see Lee, 2004: for detailed arguments).

(ii) Overseas Chinese Business Networks and Overseas Indian Business Networks

Overseas Chinese business networks (hereafter referred to as the Overseas Chinese) and the Overseas Indian business networks (hereafter referred to as the Overseas Indians) are other business groups which rely on business networks as a key competitive advantage (Haley and Haley, 1999). Their presence and domination in controlling business operations in Asia has attracted researchers to study their business activities and strategies (Yeung, 1998b; Haley and Haley, 1999; Haley and Tan, 1999).

Overseas Chinese Networks

The overseas Chinese business is a prominent mode of business organisation and can be found in the South and East Asia regions (Dobson, 1998; Linda et al., 1999 and Wu and Choi, 2004). This form of social and business organisation has spearheaded a rapid diffusion of economic activities and intraregional FDI flows among various Asian-Pacific countries in which ethnic Chinese have significant economic control (Chen and Hu, 1997; Yeung, 1998b). It is perhaps one of the most institutionalised systems in world business, giving rise to what Kao (1993) calls 'the worldwide web of Chinese business' and 'the Chinese commonwealth'. The typical type is family-owned business firms, ranging from small and medium size industries to large conglomerates headed by the founder patriarch or his immediate descendants. They have a relatively simple organisational structure emphasising centralised decision-making (Kienzle and Shadur, 1997). The overseas Chinese participation in the business and economic activities in the region far outstrips their actual number in the population (Lim, 1996; Vatikiotis, 1998). For instance, in Cambodia, the population of ethnic Chinese is around 2.0%; however, its holds 70% of the share capital in the country. Similarly with Malaysia, where Chinese represent 25.3% of the total population, and yet control approximately 69% of the share capital by market capitalisation (Far Eastern Economic Review, 1998). They tend to use their network relationship or *guanxi* (personal connection) to expand their business activities abroad. *Guanxi* is viewed as long term cooperation among business partners that contributes to organisational efficiency and sustained competitive advantage (Lovett, Simmons and Kali, 1999; Tsang, 1998). Redding (1990, 1995) expresses the strategic predisposition of overseas Chinese entrepreneurs as follows: (a) it is essential to retain control of the firm in the interests of long-term family prosperity; (b) risks should be hedged to protect family assets; (c) key decisions should remain within an inner circle, and (d) dependence on outsides for such essentials as managerial, technical, or marketing skills should be carefully limited. According to Edmund and Hsin-Huang, (2001) and Peng (2000), the overseas Chinese business essentially taps into *guanxi* based on kinship, common dialect, trade association, education, and other common denominators, to facilitate and reduce the transaction costs of doing business. These business network relationships have provided these firms with privileged access to scarce capital, technology, managerial, information, and marketing expertise (Lim, 1996). This form of 'social resource' becomes a business core competency and distinctive competitive advantage, contributing to high performance (Luo and Chen 1997).

Overseas Indian Business Networks

Similar to the Chinese family business, the Indian family firm is also found in most Asian economies, notably those of Hong Kong, Indonesia, Singapore, Philippines, and Thailand. Like overseas Chinese businesses, overseas Indian businesses also tend to expand their ventures through networking (Haley and Haley, 1999). They often use an internal web of business connections over outside sources of funding to finance the business (Gidoomal and Porter, 1997). Some of the main characteristics of Indian family firms are; rapid decision-making style, the existence of little differentiation between the controlling families and the firms, strong informal networks, good relationships with local governments, and high diversification (Haley and Haley, 1999). Although overseas Indian businesses form an extremely potent business force in Asia, they tend to be low profile and often prefer to operate behind the scenes. As a result, very little is known about the nature of their business and behaviours.

(iii) Southeast Asian Conglomerates

In the Southeast Asian economies of Thailand, Malaysia and Indonesia, ethnic Chinese and indigenous capitalists operate several family-owned conglomerates of varying size and business activities ranging from industrial sectors to financial services (McVey, 1992a and 1992b). The Chinese who migrated to the region have expanded their business operations and become dominant players in the countries, controlling the economic activity (Dobson, 1998; see chapter 4 for details). To counterweight economic domination by this ethnic group, the respective governments have promoted indigenous capitalists to become entrepreneurs. Relying heavily on personal and political connections, these business groups have managed to expand their businesses domestically, and in some cases even internationally. This thesis incorporates the concept of 'business network relationships' as an additional source of ownership advantage for firms in their growth, and argues that the emergence and evolution of Malaysian-based corporations are based on networking with various parties. It is important to stress that those networks of personal and business relationships seem to be the primary means of sustaining competitive advantage for Malaysian-based firms in their development and expansion processes.

Some evidence having been presented of different types of business systems that rely heavily on social business network connections in Asia, the next section looks closely at the nature of business networks from a Malaysian perspective.

3.2.2 Malaysian Focus: Nature of Malaysian Business Networks

In order to provide a framework for the analysis of the case studies in chapters 6 - 8, this section reviews the literature on business network connections in Malaysian business practices. Two main categories of business network connections are discussed: government-business cooperation, and business-to-business connections.

(i) Government-Business Cooperation

It should be noted that the lack of a Malay entrepreneurial community and subsequent emergence of Malay nationalism[3] provides, to a certain extent, the rationale for government support in business activities. As pointed out by Porter (1980, 1985, 1990), the government's involvement in business activities is basically upon the development of entrepreneurial skills, managerial skills and know-how. For the purpose of restructuring society and accelerating Malay economic activities, the government has performed an entrepreneurial role (Lall, 1996). This was stressed in the Second Malaysia Plan (1971-75) where "the government will assume an expanded and more positive role in the economy than in the past" (Second Malaysia Plan, 1971-75:7). The New Economic Policy (NEP) which was launched in 1970 brought about major structural changes that affected the way Malaysians live. The NEP was a twenty-year plan to achieve national unity by 'eradicating poverty', regardless of race, and by 'restructuring society' so as to achieve inter-ethnic economic parity between the Malays and the predominantly Chinese.

Government-business cooperation to assist the development of indigenous people to counteract the dominance of ethnic Chinese in the business sector is not confined to Malaysia, but also exists in other Southeast Asian countries (Searle, 1999). In the case of Malaysia, the dominance of ethnic Malays in the political sphere has given an advantage to this group to transform the nature of business activity through networking, which McVey (1992a) has characterised as the changing role of the state, moving from incubus to incubator.

[3] The racial crisis of May 1969 was undoubtedly the most explosive expression of Malaysia ethnic relations (Comber, 1983)

In examining the government-business cooperation in Malaysia, Sieh (1992) described the political pressure in relation to increasing ownership of ethnic Malays in the corporate community which has changed in its business characteristics. Among these are: changes in the social sources of entrepreneurship, a shift from single lines of business to multi-industry conglomerates, increasing dependence on public and state funds, a growing involvement of bureaucrats as businessmen, and the emergence of corporations whose goals are social-political rather than purely business. This led to proliferation of a large number of predominantly Malay controlling groups – political, aristocratic, bureaucratic, military and religious – all of which have come to acquire a significant segment of the corporate sector, mainly through government assistance (see Chapter 4 for details).

According to Searle (1999), business network connections among Malay capitalists and the government is necessary in order to develop and promote Malay business as a counterweight to the private sector dominance of the ethnic Chinese. Interventions and support relationships between the government and Malay business entrepreneurs have been manifest in various forms. Among notable examples are the expansion of the role of the public sector and state-owned enterprises (also known as Government-linked Companies or GLCs) [4], preferential loans, capital concessions and discriminatory allocation of corporate shares to the *bumiputeras*[5], and the design of legislation and regulations to gain control over private non-*bumiputera* and foreign

[4] *Transformation Manual* defines a Government-linked Corporation or GLC as one in which government-linked investment fund or agencies (such as Permodalan Nasional Berhad, Khazanah Nasional, or Employees Provident Fund - see Chapter 4 for more details) have an influence over the nomination of directors and senior management as well as major decisions (Malaysian Business, 16 October 2005)

[5] As pointed out in Chapter 1 page 7, Malay or *Bumiputera* (in the Malay language), means 'sons of the soil'. To avoid confusion, this thesis refers to *Bumiputera* as Malays and other indigenous people, and the terms are used interchangeably in this thesis.

corporate businesses. Some Malay entrepreneurs have been given privileged access to government contracts and credit allocations. The government used three main strategies that Edmund (1990) characterised as protection, assistance, and acquisition, in its attempt to develop a Malay industrial and capitalist class.

Edmund (1997) classified the Malaysian political system as an 'authoritarian regime', in which decision-making had been centralised in the government and where survival of business entrepreneurs, especially government-linked enterprises, depends on covert and viable relations with government connections. The most popular way of achieving this was to invite influential state officials, the political elite and bureaucrats, to sit on boards of directors of GLCs. Edmund and Jomo (1997) similarly implied that political patronage was crucial in the development of the Malaysian private sector, particularly in the state enterprises on behalf of the Malay ethnic group. Because of this government-business relationship phenomenon, a study of 100 top Malaysian listed corporations in Malaysia Securities reveals that GLCs have always been on the top list. In year 2005 for instance, Sime Darby (see Chapter 8), TM Berhad (see Chapter 7) and Petronas (see Chapter 6) were the top five in the lists of Malaysia's largest companies by turnover respectively (Malaysian Business, 16 October 2005).

Although it is argued that the benefits of government support and involvement in business activities were limited to the early establishment of corporations, to deny their continued existence would be unrealistic as there are still some business transactions relying on these ties (see the case studies in Chapters 6, 7, and 8 for evidence). In sum, the ownership and participation of Malays in the corporate activities of the economy through government relationships have shown progress. Corporate ownership of the Malays individuals and trust agencies had increased from 2.6% in 1971 to 19.1% in 1999 (Eighth Malaysia Plan, 2001-2005).

(ii) Business to Business Connections

Apart from the relationships with the government, networking among other business parties was also essential in the development of business activity in Malaysia. Because the overseas ethnic Chinese[6] were the most predominant group controlling the economic and business sectors in the country, it is imperative to discuss the nature of business networking of this ethnic group. During the colonial period, the nature of business relationships among the ethnic Chinese was based on Chinese Chambers of Commerce, trade associations and sub-ethnic associations (Heng, 1988). These relationships are important as their role in providing financial support, business opportunities, resources, access to contacts and information towards the expansion of Chinese capital (Edmund et.al., 2001). However, the networks during this period were established around one of the following principles: clan, kinship, or dialect group (Edmund, 1999; Malaysian Business, 16 June 2001).

In the early 1970s, as a result of the New Economic Policy, many Chinese businesses soon adapted frontier community institutions and other relations to cope with the socio-political changes. They entered into joint ventures with other Chinese clans and

[6] Most of these Chinese migrants originated from southern China and comprised members of various dialect groups, the most prominent of which were the Hokkien, Cantonese, Hakka, Hainanese and Teochew. By 1947, of the 2.6 million Chinese in Malaya, 827,411 were Hokkien, 641,945 Cantonese, 437,407 Hakka, 364,232 Teochew and 157,649 Hainanese. The other dialect groups were Kwongsai (71,850), Hokchiu (48,094), Hokchia (12,754), Henhwa (17,065) and other groups (36,260) (Wu and Wu, 1980)

with non-Chinese businessmen, state governments, and with foreign groups (Sieh, 1992: 110). The foundation of business ties with other ethnic groups, primarily the Malays, also became important. The relationships focused on common ethnic backgrounds have weakened due to economic and political pressures. As Pan (1998) noted, these entrepreneurs became too 'cosmopolitan' to restrict their business dealings only to people from the same ethnic background. Various trade associations, co-operatives, political parties and chambers of commerce were established. Furthermore, the thinking regarding business activities changed and has often been led by profit opportunities rather than ethnic ties. These trade associations became the mechanism through which Chinese entrepreneurs from similar lines of work could exchange information, formulate a concerted effort to negotiate with the government, or even restrict the entry of new competitors. A study by Yeung (1998b) of the Hong Kong firms in the ASEAN region pointed out that, in the case of Malaysia, political connections with the local government are important in order to be able to access lucrative government contracts which would otherwise be beyond their reach. He further added that without embedding gains from political connections in personal relationships, business would be extremely high risk.

To preserve their interests in business, the Chinese business groups began to seek political patrons among influential politicians of the indigenous community[7]. A primary reason for this is that Malaysia has been, in spite of the multi-party nature of its political system, an authoritarian state since the colonial period (Edmund and Jomo, 1997). It is characterised specifically by the centralisation of power in the executive

[7] The ethnic diversity of Malaysia's population is largely a legacy of British colonialism from the 18th century to 1957, when independence was granted. Of Malaysia's almost 25.9 million population in 2005, indigenous *bumiputera* (sons of the soil), particularly the Malays, accounted for 65.9%, while Chinese constituted about 26.0%, Indians 7.5% and other minor ethnic groups the remaining 1.3%.

arm of government, particularly in the hands of one party, the United Malays National Organisation (UMNO), an ethnic Malay-based party. The Malayan Chinese Association (MCA), the Chinese-based party forged a coalition with the UMNO to form Alliance, ostensibly as a means to promote inter-ethnic ties (Edmund et. al., 2001), and to ensure that the economic interests of the Chinese business would be protected through some form of political involvement (Heng, 1988: 57).

However, realising the limited capacity of the MCA to protect and advance their interests within the government, Chinese businessmen, particularly the more established Chinese capitalists, began recruiting Malay politicians or politically influential Malays as company directors (Edmund, 2000). However, the ties with the Malay politicians were in the interest of the Chinese businessmen to secure their business success and ensure the continued expansion of the corporate base of major Chinese businesses in Malaysia. As argued by Jesudasson (1989) and Sieh (1992) (cf Edmund, 2000: 214)

> Rather this strategy of co-opting influential Malays as directors, usually as chairperson of the board of directors but in a non-executive capacity, has helped achieve interlocking ties between Chinese businesses and the political elite as well as circumvent potentially troublesome bureaucratic requirements over bumiputera participation in companies as required under the NEP.

The perspectives discussed above are the two primary natures of business networks in Malaysia. It can be seen that the development of Malaysian businesses has always been based on close relationships between the government and other business parties as the strategic mechanism for their growth in the past, and is likely to remain so in the future.

3.3 Conclusion

This chapter has discussed the theories of competitive advantage and business networks, and explained how business networks can become an important asset to multinationals from developing countries, particularly those from Asia. As most firms from developing countries are still new to and young in the world market compared to their predecessors from the world's developed countries, additional sources of advantage are needed to counteract the challenge and sustain growth. Apart from the importance of internationalisation knowledge and technological competence as a sources of ownership advantages (see Chapter 2), this thesis posits that business network relationships seem to play an equally, if not more, vital role in the domestic growth and internationalisation process for developing countries' MNCs, particularly in the case of Malaysian firms. Once established, business network relationships tend to provide additional advantages to the growth and expansion of firms. Included among these are entry into growing markets, reducing transaction costs, providing resources, shared information, increased adoption of technology, increased productivity and improved quality. Furthermore, according to Yeung (1998b: 219), business networks may provide a powerful advantage in economies or a market in which information is asymmetrical and rules and regulations are vague and opaque. The theories of competitive advantage and business networks having been explained, the next chapter of this thesis presents a review of Malaysian overseas investments and the development of their multinational corporations.

CHAPTER FOUR

MALAYSIA'S OVERSEAS INVESTMENTS AND ITS MULTINATIONAL CORPORATIONS

4.0 Introduction

The preceding two chapters discussed key development issues for developing country multinational firms in growing domestically and expanding internationally. Specifically, they emphasised the importance of internationalisation and experiential knowledge, and technological competence, as (potential) sources of ownership advantages. The previous chapter also examined the nature of business networking and similarly stressed its vital function in the development and growth of these firms. In order to provide the framework for the thesis's case analyses, the background of these key development strategies was explored, focusing particularly on business networking and discussing it from a Malaysian perspective.

The principal purpose of this chapter on the other hand is to provide further explanation of the Malaysian context of international investment development, especially the historical development of its outward direct investment activity, and the characteristics of the country's leading multinational firms. Malaysia is not only a recipient of FDI but also a major supplier of investment abroad, and its contribution to the regional economies is significantly important (UNCTAD, 2005).

This chapter consists of two main sections. Section 4.1 deals with the trend and magnitude of Malaysia's overseas investments. An overview of Malaysia's economic development towards these overseas investments is provided in sub-section 4.1.1, followed by the motives for the rising trend of outward investments (in sub-section 4.1.2). Statistical data on the geographical distribution of Malaysian investment abroad is provided in 4.1.3, before a discussion of the government policies towards these investments in sub-section 4.1.4. The second main section (section 4.2) addresses the emergence of Malaysian-based multinational firms. Two main issues are discussed in this section: the history and method of internationalisation by leading Malaysian corporations, and the characteristics of the leading Malaysia-based firms.

4.1 Malaysian Overseas Investments: Trend and Magnitude

Unlike foreign direct investment (FDI) into Malaysia, not much is known about the magnitude, motives, and performance of Malaysian firms investing abroad. Although the country began to have its own corporations that could be considered multinationals in the mid-1970s through the nationalisation programme by which the Malaysian government via its state corporations and trust agencies began to acquire foreign companies operating in the country, particularly those in the tin-mining and rubber industries, the trend of overseas investments was a new phenomenon and only became noticeable in the early 1990s. In examining this event, there were indications that between 1990 and 1996, there was a 534% increase in overseas projects, and the overseas investments had increased consistently over the years (Malaysian Business, 16

January 2003). Prior to that, Malaysia's experience with foreign direct investment had principally been as a recipient (Angel, 1998). FDI has played, and continues to play a pivotal role in the transition of Malaysia from an agriculturally based to an industrially based economy in a mere 30 years. The Malaysian government has undertaken a serious drive towards industrialisation during this period. In an effort to accelerate the industrialisation process, the Malaysian government has encouraged investors from many parts of the world to invest in Malaysia. Malaysia's trade with the world has increased remarkably over the past twenty years, growing from RM 128.7 billion (USD 51.48 billion)[1] in 1989 to RM 394.3 billion (USD 157.72 billion) in 1996, and RM 657.9 billion (USD 173.13 billion) in 2002 (Central Bank of Malaysia Annual Report, 2003). With regard to the source of FDI, Japan, Taiwan, the United States, France and the ASEAN-4 (Singapore, Thailand, Indonesia and Philippines) account for more than 70% of total FDI into the country. The country has become one of the leading recipients of foreign direct investment in ASEAN since 1991. Malaysia has led ASEAN countries in attracting investment, and every year since 1980, Malaysia has been among the 10 top destinations of FDI in the region (Asia Pacific Economics Group, 1997). The large inflows of FDI have conferred positive effects on the domestic economy. According to Ariff (1991), these contributions include financing deficits in the current account of the balance of payments, a broader spectrum of production, a package of technological improvements and management skills, and finally, assistance in the expansion of productive capacity and consequently output, employment, and growth. In summary,

[1] The 1989 – 1996 the average exchange rates was US$1.00 equivalent to RM2.50. Due to the Asian economic and financial crisis, the exchange rate was pegged to USD1.00 equivalent to RM3.80 in 1997 – 2005.

trade has contributed much to the structural transformation and modernisation of the Malaysian economy.

Starting from being a recipient country of FDI since the 1960s, and especially from the 1970s to the 1980s, Malaysia joined other Asian investors in investing abroad extensively only in the early 1990s. As shown in Table 4.1, Malaysian overseas investments prior to 1990 were insignificant, contributing almost nothing in generating earnings for the country. However, the figure started to improve from 1991 onwards, and made up US$ 1.9 billion by 2004 (Central Bank of Malaysia, 2004). Although the published figures were still rather low, the rapid increase of overseas investment in the 1990s shows a new episode in the history of Malaysian economic development towards an export-led growth orientation.

Table 4.1: Malaysia: Net Capital Inflows (US dollar billion) 1988-2004

	1988	1989	1990	1991	1992	1993	1994	1995
Total	-2.0	1.4	1.7	5.5	8.3	10.1	0.2	4.2
Net direct foreign investment	0.7	1.7	2.3	3.8	4.7	4.3	3.0	3.8
- Direct investment abroad	-	-	-	0.2	0.5	0.7	1.3	1.4
- Direct investment in Malaysia	0.7	1.7	2.3	4.0	5.2	5.0	4.3	5.2
Net portfolio investment	-0.4	-0.1	-0.3	0.2	-1.1	-0.7	-1.6	-1.7
Net other investment	-2.3	-0.2	-0.3	1.5	4.7	6.5	-1.2	2.1

	2001	2002	2003	2004
Total	-3.9	-3.1	-3.2	4.0
Net direct foreign investment				
- Direct investment abroad	0.3	1.9	1.4	1.9
- Direct investment in Malaysia	0.6	3.2	2.5	4.7
Net portfolio investment	-0.7	-1.7	1.1	8.7
Net other investment	-3.5	-2.7	-5.4	-7.5

Source: Asia Pacific Profile, 1997; Bank Negara Annual Report 1989-2005

With intensification of trade liberalisation and accelerating economic globalisation, which involved increasing international market competitiveness and rapid technological advancement, Malaysian corporations could not afford to be apathetic or complacent. The international expansion of Malaysian-based MNCs was driven by the need to overcome the limited size of the domestic market and to expand production and service capacity, as well as by the need to acquire further advanced technologies. The momentum increased consistently, and the sums involved became more significant. In 2002, the value of Malaysia's total exports was RM354.4 billions compared to RM220.8 billions in 1997 and RM460 millions in 1978 respectively (see Table 4.2 for Malaysian export data and other related key economic indicators). Overseas investments from Malaysia were also favoured by a shift in governmental policy away from a focus on attracting inward FDI to the active encouragement of outward investment, given its key role in domestic industrial upgrading and meeting the desire for economic growth. This process had to be carried out by private corporations with strong support from the government to facilitate the process. In analysing the emergence of Malaysian overseas investment, the next section begins with an overview of Malaysia's economic development towards overseas investments.

Table 4.2: Malaysia Key Economic Figures (1996-2005)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Population (RM million)	21,954.9	22,020.6	22,191.3	22,723.2	23,265.8	23,665.0	24,095.5	25,050.0	25,580.3	n.a.
GDP (in 1987 constant prices) (%)	10.0	7.3	-7.4	6.1	8.3	0.4	4.2	5.3	7.1	5.3
External Trade (RM million)										
- Total Export	197,026	220,890	286,563	321,560	373,270	334,284	354,475	398,882	480,740	484,375
- Total Import	197,280	220,935	228,124	248,477	311,459	280,229	303,508	317,746	400,077	393,977
- Balance of Trade	-245	-45	58,439	73,083	61,811	54,055	50,967	81,136	80,663	90,398
Prices Indices (% p.a)										
- Consumer Price Index	3.5	2.7	5.3	2.8	1.6	1.4	1.8	1.2	1.4	n.a.
- Producer Price Index	2.3	2.7	10.7	-3.3	3.1	-5.0	4.4	5.7	8.9	n.a.
Unemployment (% of labour force)	2.5	2.4	3.1	3.4	3.1	3.6	3.5	3.6	3.5	3.8
Exchange Rates RM:US Dollar (end period)	2.520	2.810	3.920	3.800	3.800	3.800	3.800	3.800	3.800	3.7510
Inflation (% p.a)	-	-	5.3	3.0	1.9	1.4	1.8	1.3	1.5	1.6
Money and Banking (RM million)*										
- Money Supply M1	60,585	63,365	54,135	73,447	78,216	80,728	89,072	102,104	114,283	n.a.
- Money Supply M2	238,209	292,217	296,472	337,138	354,702	362,512	383,541	426,060	534,177	n.a.
- Money Supply M3	329,708	390,809	401,459	434,590	456,496	469,519	501,127	549,627	617,653	n.a.

* M1 – currency holdings and demand deposits of the private sector; M2 – M1 plus fixed savings and other deposits of the private sector placed with the Central Bank, commercial banks, negotiable certificates deposits and Central Bank certificates; M3 – currency in circulation plus all private sector deposits with the Central Bank, commercial banks, finance companies, merchant banks and discount houses.

Sources: Economic Planning Unit (EPU), Ministry of Finance (MoF), Department of Statistic (DoS), Central Bank of Malaysia (BNM) and the Kuala Lumpur Stock Exchange (KLSE), 1997-2005

4.1.1 Overview of Malaysia's Economic Development Towards Overseas Investments

Among the second-tier newly industrialising countries (NICs) in Southeast Asia, Malaysia is one of the most prominent examples of the Asian economic miracle. Since the 1960s, its economy has achieved rapid growth combined with a relatively equal income distribution (World Bank, 1993; Jomo, 2001). Its economic expansion is part of the regional industrialisation which started from Japan and the four so-called first-tier newly industrialising economies (South Korea, Taiwan, Singapore and Hong Kong) with advanced economic and technological development, and was then extended to the less developed Southeast Asian countries such as Thailand and Indonesia (Jomo, 1997; 2001). From the perspective of Dunning and Narula (1994, 1996) in the investment development path (IDP) model, this intra-regional investment phenomenon is a process where countries with more advanced economic growth invest in less developed ones. It follows the 'flying geese' theory, where FDI disperses production technology and know-how from a high wage source country to one or more lower-wage host countries[2] (Michael, 1995; Ozawa, 1995). Although Malaysia has been part of the post-war economic regional industrialisation process that engaged with tremendous expansion in international trade, creating remarkable opportunities for export-led growth, the commitment towards export-oriented industrialisation only became clear in the early 1970s (Jomo, 1998). It has been claimed that the changing of policy to follow an export-push strategy grew rapidly by relying on market forces and supportive interventions (World Bank, 1993: 25). Prior to

[2] Notably, the flying geese theory of FDI in Asia conforms closely in important regards to the product life cycle theory of international investment and trade expounded by Vernon (1966).

that, government policies from the late 1950s to the 1970s largely favoured import-substitution industrialisation (ISI) and focused almost exclusively on supplying domestic growth and development. Table 4.3 shows the phases of industrial strategies and trade orientation adopted by Malaysia from 1958-2000. The government policy under the ISI framework encouraged local industrial capital and foreign investment to come into the country. Various tariff protections, infrastructure facilities, tax exemptions and other incentives were offered to encourage foreign investors to set up production, assembly and packaging plants to supply finished goods previously imported from abroad. This was mainly to help transform the country from a traditional agricultural-based economy to a modern industrial-based economy.

Table 4.3: Malaysia Industrial Strategies and Trade Orientation, 1958-2000

Phases	Trade Orientation	Period of Dominance	Policy Instruments
Phase 1	ISI-1	1958-1970	Pioneer Industries Ordinance, 1958
Phase 2	EOI-1	1970-1980	Investments Incentives Act, 1968 Free Trade Zone Act, 1971
Phase 3	ISI-2	1980-1985	Heavy Industries Corporations of Malaysia (HICOM), 1980
Phase 4	EOI-2	1985-2000	Industrial Master Plan (IMP), 1986 Promotion of Investment Act, 1986 Action Plan for Industrial Technology Development (APITD), 1990 Industrial Master Plan 2 (IMP2), 1996

The inherent limitations of the ISI had become clear in the mid-1960s (Jomo et al., 1997). This, according to Jomo et al., (1997), is because the government realised that ISI tended to be limited to final consumer goods which are more highly protected than intermediate manufactures; the majority of the import-substituting industries were set up by foreign-owned companies, which tend to take their profits back home; and there was a regional concentration of industry in only one west coast site; small-scale plants tended to be pushed out. The decision to switch to an export-oriented industrialisation (EOI) strategy was no easy task. It took a number of adverse circumstances to convince the government to shift to an EOI policy. This major move was not prompted by choice but by circumstance. First, the country was experiencing a high trade deficit coupled with a constrained domestic market. Thus, the saturation of the local market served as a spur to pull Malaysia beyond the phase of what Robison et al. (1987) described as 'industrial deepening' or extending import-substitution industrialisation to up-stream and downstream industries of intermediate and capital goods sectors. Another unfavourable factor which prompted the move was the drop in production levels within the ISI framework. From 1959-1968, industrial growth for import-substitution stood at 52%, while the figure for export expansion was 7.9% and demand expansion was 40.1% (Hoffmann and Tan, 1980). Throughout this period, the growth rate for the manufacturing sector did not rise significantly. The rapid drop in commodity prices, which had long served as the main source of export income, also encouraged the move. Company tax dropped, and the government lost revenue, which consequently affected the state financial budget. Hence, the government was stripped of much of its capacity to finance major industrial projects within the ISI regime. In addition, a number of authoritative studies commissioned by the Organisation of Economic Cooperation and Development (OECD) in Paris, and the National Bureau of Economic Research (NBER) in New York, had proved the economic drawbacks of inefficient ISI and the economic advantages of EOI strategies. The shift to export-oriented substitution was almost inevitable. Following extensive promotion and encouragement by the World Bank and the United Nations Industrial Development Organisation (UNIDO) by the early 1970s, the government launched an EOI strategy. The shift to export-oriented substitution was no longer just an issue of economic propriety; it was seen as a *fait accompli.*

The decade between 1970 and 1980 saw a concerted policy move towards EOI. Malaysia's export-led growth was further enhanced by the sharp appreciation of East Asian currencies, especially the Japanese Yen, against the US dollar (following the Plaza Accord of 1985), and the withdrawal of the Generalised System of Preferences (GSP) from the Asian NICs in 1988 (Lim, 1996; Ravenhill, 1994; Urata, 1994). The value of the currencies of most East Asian NICs rose significantly. This raised comparative production costs, leading to the need to seek offshore production in low-cost sites. The substantial decline in the Malaysia ringgit by a little over 7.0% against the US dollar in 1986 (in terms of IMF Special Drawing Rights based on a basket of currencies, the ringgit currency fell by 29%) made the country more competitive, and thus attracted foreign corporations especially from Japan to relocate investments. Japanese manufacturing investment in Malaysia grew from US$33 million in 1985 to US$684 million by 1993 (Jomo, 1997). A variety of mechanisms was undertaken to encourage FDI. Among the notable examples was the deregulation of the guidelines imposed under the 1975 Industrial Coordination Act. The government lifted or relaxed restrictions on foreign ownership, and increased incentives given under the 1986 Promotion of Investment Act. Generous incentives were offered and several taxes were abolished (Jomo and Edmund, 1998). Incentives for exporting firms were extended in the form of export abatement allowances and double deduction exemptions. Another principal device for promoting manufactured exports was the establishment of export-processing zones (EPZs) in the 1970s. In these EPZs, exporting firms were allowed to import duty-free raw materials, parts and components, subject to the requirement that their entire output would be exported. According to Hill (1997: 8), Malaysia has been the most successful country among the Asean countries in effectively operating its EPZs within the context of a relatively open economy, honest bureaucracy, and location strategy. In 1998, the incentive of a double deduction for training was introduced to encourage new FDI (Jomo, 1997).

As a result of these measures, the years 1987-1997 witnessed impressive economic records in Malaysia (see Table 4.4). Real per capita GDP, for instance, grew by an average of 8.5% per year. This growth, however was greatly overshadowed by the speculative activities in the region which led to the Asean financial crisis in the middle of 1997.

Table 4.4: The Malaysia Gross Domestic Product, 1988-2005

Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP (in 1987 constant prices) (%)	-1.0	1.2	5.4	8.9	9.2	9.8	8.7	7.8	8.3	9.2	9.5

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP (in 1987 constant prices) (%)	10.0	7.3	-7.4	6.1	8.5	0.3	4.1	5.2	7.1	6.0

Sources: The Malaysia Economy in Figures, Economic Planning Unit, 1986 - 2005

The major segment that pushed economic growth was the manufacturing sector. Manufacturing has come to play a greater role as a foreign exchange earner, in line with the government's intention of reducing Malaysia's dependence on primary export commodities. The composition of the country's export earnings has changed drastically. As Table 4.5 shows, Malaysia's export earnings from the manufacturing sector rose significantly to account for 81.2% in 2004 compared with 54.7% in 1989. On the other hand, the percentage share of export earnings from agriculture declined from 35.3% in 1989 to 16.6% in 2004.

Table 4.5: Malaysia Percentage Share in Gross Export Earnings of Major Commodities

Item	1989	1992	1994	2002	2003	2004
Manufactures	54.7	69.8	78.3	84.3	82.0	81.2
Crude Petroleum	11.0	8.7	4.5	3.3	4.0	4.4
Palm Oil	6.7	5.2	4.5	4.2	5.1	4.2
Sawn Logs	6.3	3.7	1.7	0.5	0.5	0.4
Rubber	6.5	2.2	1.6	0.7	0.9	1.1
Liquefied Natural Gas	3.0	2.3	1.7	2.8	3.3	3.6
Tin	1.8	0.7	0.4	0.1	0.1	0.2
Other Commodities	10.0	7.4	7.3	2.0	2.1	2.7

Sources: Annual Report, Central Bank of Malaysia (various issues)

The share of total exports represented by manufactures rose from 11.9% in 1970 to 69.8% in 1998 (see Table 4.6). The transition to an export-led, manufacturing-based growth trajectory was motivated by high inflows of FDI aimed at global export markets in a range of manufacturing industries.

Table 4.6: Malaysia: Relative Share of Manufactured and Non-Manufactured Export in Total Exports

Year	Manufactured Share (%)	Non-manufactured Share (%)	Total Export (RM billion)
1970	11.9	88.1	51.6
1980	21.9	78.1	9.23
1990	22.4	77.6	28.17
1991	32.8	67.2	38.02
1992	42.2	56.5	35.32
1993	45.0	55.0	45.22
1994	48.6	51.4	55.26
1995	54.0	46.0	67.82
1996	64.9	35.1	79.65
1997	69.8	30.2	94.50
1998	69.8	30.2	102.81

Source: Central Bank of Malaysia, Quarterly Economic Bulletin, 1999

Given the healthy growth of the Malaysian economy, new economic sectors such as telecommunications, hotels, entertainment, tourism, education, transportation, stock broking, insurance and real estate have emerged. This has provided new opportunities for domestic entrepreneurs to venture into these businesses and diversify their investments. The desire to transform Malaysia into a newly industrialising economy also resulted in investments in heavy industry mainly through government-sponsored projects. Inspired by the success of Japan and Korea, the Heavy Industries Corporation of Malaysia (HICOM) was established in 1980. A variety of industries ranging from steel and cement production to the manufacture of a national car were developed (Jomo and Edmund, 1997). Alavi (1996) called this strategic move 'second round import substitution' (ISI-2). Although it has been argued that this foray was a costly failure (Sanjaya, 1996:159), nevertheless, it created links with the domestic economy and contributed to economic growth in the end.

Although the government, through its prominent strategic plans and policies, was responsible for the rapid growth of the Malaysian economy, success was not achieved without the participation and involvement of the private sector to promote and contribute to domestic investment. In fact, the policy agenda under the New Development Policy (NDP) 1991-2000 and the National Vision Policy (NVP) 2001-2010 required the government to work closely with the private sector, and envisaged their playing a leading role in economic development (Islam and Anis, 1997). Thus, the government has one of the most comprehensive and broad-ranging privatisation programmes in the region (DFAT, 1995; 16). New projects were developed and foreign corporations are allowed to participate, provided relevant local expertise is not available, there is insufficient local capital and, most importantly, the project is for export promotion. EOI strategy remains the main vehicle for achieving Malaysia's 'Vision of 2020'[3].

In summary, although it is important to recognise that the regional industrialisation created by the first-tier of NICs has inspired the Southeast Asian countries, however, the dynamic role played by the government in moulding the process of economic development cannot be denied (Angel, 1998). The main engine of this growth has been the inflow and outflow of FDI. Since the early 1990s, FDI has been directed to the high-tech industries in support of the establishment of the Multinational Super Corridor (MSC)[4] and the realisation of Vision 2020.

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[3] Vision 2020 is a long term future plan commencing from 1990, whereby Malaysia envisages itself becoming a fully industrialised nation by year 2020 (Sarji A., 1993)

[4] The idea of the Multinational Super Corridor is a bold initiative of Mahathir Mohamad, a former Malaysian Prime Minister. Through the MSC development is an opportunity to link Malaysia to the rest of the world, the main purpose is to make Malaysia the centre of electronic economic development. MSC is seen as a centre of attraction for FDI and a means to leap-frog towards attaining fully developed industrialised status.

Having provided a discussion of Malaysia's economic development towards overseas investments, the chapter now further examines the motives for the rising trend of these investment outflows.

4.1.2 Motives for the Rising Trend in Malaysia Overseas Investments

Developing Asia is the largest and fastest growing outward investor in the developing world (UNCTAD, 2004; 2005). With an outward FDI stock amounting to US$635 billion in 2003, the region accounted for three-quarters of the total for developing economies (UNCTAD, 2004). Table 4.7 shows the data to support this contention.

Table 4.7: FDI from Developing Economies, by Region and Major Economy, 1980-2003

	FDI outward stock				
	1980	**1990**	**1995**	**2000**	**2003**
South, East and South-East Asia	4.5	41.0	181.8	577.8	607.5
China	-	2.5	15.8	25.8	37.0
Hong Kong, China	0.1	11.9	78.8	388.4	336.1
India	-	-	0.3	1.9	5.1
Republic of Korea	0.1	2.3	10.2	26.8	34.5
Malaysia	0.2	2.7	11.0	21.3	29.7

Source: United Nation, 2004

The United Nations (1993), Bell and Young (1998), and Mirza (1999) have identified four primary motives for MNCs from developing countries in undertaking international investment activities: market-seeking, export-oriented, resource-seeking, and technology-seeking. These motives depend on various factors and differ from one country to another. Referring to this view, empirical studies by the United Nations (1985), Ragayah et al., (1997), and Ragayah (1999) have identified three main factors motivating the rising trend of Malaysian overseas investments. Firstly, sustained high economic growth for past decades has increased returns to the corporate sector. Malaysia has exhibited excellent economic performance from 1970 to the present except during the three-year period from 1985 to 1987, when the country faced a recession, and during the Asian financial economic crisis in 1997/98. The average growth rate of the economy from 1988, the year in which Malaysia recovered from its recession to 2002 has been high 10.0% (see Table 4.2). Profitable Malaysian corporations that are flush with excess funds have diversified their cross flow investments to more lucrative business ventures abroad. It is likely that these investments are to seek high-end technology development facilities in more advanced developed countries in order to accumulate knowledge in this area.

Second, the liberalisation of certain economies, particularly in East Asia, the Middle East and Africa, has to a certain extent decreased the tariff and non-tariff barriers to capital flows to these countries. The formation of the ASEAN Free Trade Area (AFTA) for instance, which was to link the Southeast Asian countries into one united market with few trade and investment barriers among members, has increased opportunities for overseas investments by Malaysian corporations. These factors have driven Malaysian corporations to speed international expansion and take advantage of trade liberalisation to spread out abroad. The motive behind such investment is to gain access to a market driven by locational advantages arising, primarily, from the need to bypass existing or potential barriers of trade and to establish a local presence and enlarge international production (Dunning, 1993b).

Third, the rapid industrialisation process has resulted in an increasingly tight labour market and rising cost of labour. Malaysia is, therefore, no longer attractive as a cheap labour country and this has encouraged corporations to invest in the potentially large untapped markets of developing countries where resources, particularly labour, are abundant. Such investment is the classic edge of low-cost labour in the host country, with investors being forced to bases that are more economical to service established export markets as costs rise in the home country (United Nations, 1993; Ozawa, 1995). In the writings of Dunning (1993a and 1993b), such investment is known as resource-seeking FDI.

All of these have acted as the push and pull factors for Malaysian corporations to look beyond Malaysian shores. Their growing capabilities, their strong export orientation and their need to access technology, brand names and strategic assets abroad have acted as key drivers to expand beyond the national jurisdiction. Although the 1997/98 Asian economic crisis caused some corporations to give up or suspend some overseas projects and developments, international expansion looks set to be part of the growth strategy for most Malaysian corporations. Chapter 6 about Petroliam Nasional Berhad in the gas and petroleum industries, Chapter 7 on TM Berhad in the telecommunications industry, and Chapter 8 on Sime Darby Berhad in plantation, motor vehicles, heavy equipment and energy will explore this strategy further.

4.1.3 Sources of Statistical Data and Geographical Distribution of Malaysia Overseas Investments

Before analysing the statistical data on overseas investments by Malaysian corporations, an understanding of how the various data and information was collected should be established. This is because, according to UNCTAD (1993), there are a number of important developing countries that do not collect or publish data on outward FDI. Even when official estimates are reported, the data series are inconsistent because of changes in reporting systems; with respect to international comparisons, inconsistency is further aggravated due to different requirements for reporting and different definitions of outward investments (UNCTAD, 1993). It has proven to be a Herculean task. As the concept of Malaysian investment abroad is relatively new, the data is far from sufficient for extensive analysis of activities in this area (Samuel et al., 1999). Moreover, the overall pattern for such activities is not consistent (Samuel et al., ibid). The analysis of outward FDI from Malaysia has had to rely at times on scattered reports and scanty data and information collected for different purposes. The complexity of measurement arises mainly because Malaysia's outward direct investment statistics data are published by two distinct sources: the Cash Balance of Payments (BOP) Reporting System of the Central Bank of Malaysia (Bank Negara Malaysia), and data compiled by the Malaysia Department of Statistics (DOS). Whilst the Central Bank's data imply a degree of influence by investors on enterprise management, the primary differentiating feature in the Statistical Department's survey is control. The DOS started collecting and compiling the trends and magnitude of overseas investments by Malaysian corporations in 1977, whereas data from the BOP have only been available since 1992. Data from these two agencies are hardly comparable, however, as there are a number of discrepancies in the way the two agencies collect the information. The data and information compiled by the DOS is extracted from the *Report of the Financial Survey of Limited Companies in Malaysia.* This source contains data on overseas investments by the Malaysian corporations in terms of: (a) investments in or claims on branches, subsidiaries and affiliated enterprises abroad; (b) investments in other companies abroad; (c) long-term loans to foreigners, and (d) holding of foreign securities, undertaken by locally controlled Malaysian Limited firms (companies which have more than 50% Malaysian ownership). There are, however, several limitations associated with this source. First, the DOS figures include only limited companies with revenue of more than RM1 million[5], thus excluding all outflows for companies with revenue less than this. The second limitation concerns the definition of a Malaysian controlled corporation (companies where 50% or more of the equity share capital is held by residents). According to this definition, foreign corporations incorporated in Malaysia with majority Malaysian ownership but effectively controlled by foreigners would still be classified as Malaysian controlled. The survey defines control based on share ownership rather than actual significant and effective influence given to investors over management through share purchases. Therefore, it is not possible to identify the amount of outflows by genuine Malaysian-based corporations alone. For this reason, DOS statistics could overestimate the amount of Malaysian cross-flow investments. Third, DOS data does not reveal information on the geographical location or direction of distribution, but only the aggregate amount of capital outflows by

[5] Due to the Asian 1996/1997 economic and financial crisis, an average exchange rate was US$1.00 equivalent to RM3.80.

industry of parent companies. Thus from the DOS figures, it is not possible to identify the destinations of Malaysian outward investments, nor which Malaysian-based corporations are leading overseas investments.

Unlike the DOS, the BOP defines overseas investments by Malaysian corporations as comprising: (a) equity investments in related and non-related companies abroad; (b) investments in real estate abroad; and (c) loans provided or extended to non-residents by Malaysian residents. The data are not without shortcomings, however. Firstly, the main weakness of this published source is that the data only come in aggregate form and without a sectoral breakdown. This results in difficulty when attempting to identify at the firm or micro-level, which corporations are involved in outward direct investment, and which sectors are the leading sectors. The second problem is that BOP data only capture the outflows amounting to more than RM 50,000 and exclude lesser amounts. Thus, the data tend to undervalue the exact amount of Malaysia's overseas investments. The discrepancies in statistical data between the two agencies make comparison and verification of the two sources almost impossible, and because of these limitations, the statistics must be interpreted with caution. In fact, some data on Malaysian firms abroad have to rely on foreign investment statistics recorded by host countries. Firm-level data on the international activities of Malaysian multinationals are not yet available. Information on individual firms' overseas investments has to be pieced together from various sources. Although listed firms are required to provide information on their operations, not all activities are made public. The popular practice of setting up holding companies to invest in various subsidiaries within the business groups enables large firms to reduce public exposure of their activities by placing them under the control of privately held holding companies. The reluctance of many Malaysian firms to provide information on their international activities remains a major obstacle in studying their behaviour. Therefore, the discussion in this part is based on the BOP statistics because, according to the Technical Working Group on Reverse Investment (TWGRI), this is the best available source of up-to-date and relatively more consistent and comprehensive data on outward investment by Malaysian corporations (TWGRI, 1995; Ragayah, 1999).

Table 4.8, based on the BOP data, shows the details of the top five destinations of gross overseas investment by Malaysia. Singapore, Hong Kong, the United Kingdom and the United States have always been the most important export destinations, while the South-South cooperation initiated by the Malaysian Government has resulted in investments in the African continent. Currently, Malaysian investors are concentrating more on regional niche markets. The shift of focus to regional markets was led by increasing business opportunities in developing economies. As can be seen from the Table, from 1993 to 1999, the direction of Malaysia FDI shifted to the main four leading ASEAN countries, namely Singapore, Thailand, Indonesia, and the Philippines (hereafter known as ASEAN-4). Among these four, Singapore has been Malaysia's most important trading partner. This is due to geographical reasons and to the long-standing historical ties that they have enjoyed for more than forty years. The existence of Malaysian corporations in Singapore and vice versa has had a long history, given the close historical and economic links between the two countries, reflected in the formation and spatial extension of business network connections among their firms (Yeung, 1998c, 2002). The bulk of Malaysia's investment in Hong Kong aims to take advantage of the China market. Recently, the aviation industry in the United States has been attracting Malaysian funds and it remains among the favourite destinations. In general, Malaysia's direct investment abroad is determined by two sets of phenomena: first, the objective conditions of profitability for capital as determined largely by factor prices; and second, a set of subjective determinants (Samuel et al., 1999).

Table 4.9 summarises information on Malaysian exports of major and selected commodities (see Appendix 1 for breakdown figures). The nature of Malaysian exports from the 1990s onwards began to shift from major primary commodities products to manufactured, chemical and chemical products, non-metallic mineral products, petroleum refining, textiles, wood-based products, and electrical and electronic products. The geographical distribution was focused within the Asean-4 countries, although exports were also directed to some European countries.

Table 4.8: Top Five Destinations of Gross Malaysian Investment Abroad[6] 1992-2004 (RM million)

1992		1993		1994		1995	
Country	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**
Hong Kong	337	ASEAN-4: (Total)	784	ASEAN-4: (Total)	1,341	ASEAN-4: (Total)	3,284
ASEAN-4: (Total)	299	- Singapore	686	- Singapore	987	- Singapore	2,185
- Singapore	259	- Thailand	33	- Thailand	43	- Thailand	89
- Thailand	24	- Indonesia	11	- Indonesia	88	- Indonesia	328
- Indonesia	10	- Philippines	54	- Philippines	223	- Philippines	646
- Philippines	6	Hong Kong	734	Hong Kong	1,486	Hong Kong	816
Japan	111	United States	628	Australia	461	United Kingdom	793
Australia	100	United Kingdom	372	United States	445	Australia	592
United States	94	Germany	138	United Kingdom	437	United States	544

1996		1997		1998		1999	
Country	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**
ASEAN-4: (Total)	2,724	ASEAN-4: (Total)	2,655	ASEAN-4: (Total)	2,971	ASEAN-4: (Total)	2,284
- Singapore	1,806	- Singapore	1,783	- Singapore	2,096	- Singapore	1,635
- Thailand	129	- Thailand	133	- Thailand	540	- Thailand	151
- Indonesia	414	- Indonesia	649	- Indonesia	229	- Indonesia	398
- Philippines	375	- Philippines	90	- Philippines	106	- Philippines	100
United States	1,416	United Kingdom	1,716	Australia	2,748	Mauritius	790
United Kingdom	1,308	United States	1,334	United States	1,654	United Kingdom	568
Hong Kong	769	Hong Kong	936	United Kingdom	822	United States	547
Japan	641	Australia	505	Netherlands	266	Hong Kong	435

Source: Bank Negara Malaysia (Central Bank of Malaysia), 1992-2004

[6] Malaysian Investment Abroad refers to direct equity investment, purchase of real estate abroad and extension of loans to non-residents (effected through the domestic banking system). Does not include retained earnings overseas.

continued

Table 4.8: Top Five Destinations of Gross Malaysian Investment Abroad 1992-2004 (RM million)

2000		2001		2002		2003	
Country	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**
United States	3,930	United States	4,014	United States	5,714	United States	994
ASEAN-4: (Total)	3,799	ASEAN-4: (Total)	3,953	ASEAN-4: (Total)	2,061	ASEAN-4: (Total)	1,491
- Singapore	2,865	- Singapore	2,082	- Singapore	1,057	- Singapore	844
- Thailand	292	- Thailand	134	- Thailand	45	- Thailand	225
- Indonesia	533	- Indonesia	1,683	- Indonesia	900	- Indonesia	356
- Philippines	109	- Philippines	54	- Philippines	59	- Philippines	66
United Kingdom	538	Iran (Islamic Rep of)	695	Chad	1,099	United Kingdom	492
Cayman Islands	349	Netherlands	531	Netherlands	928	Cayman Island	1,622
Hong Kong	158	United Kingdom	313	Cayman Island	906	Chinese Taipei	666

2004	
Country	**RM Million**
United States	772
ASEAN-4: (Total)	3,604
- Singapore	2,529
- Thailand	686
- Indonesia	389
- Philippines	-
Hong Kong China	1,126
Chad	956
People Republic of China	407

Source: Bank Negara Malaysia (Central Bank of Malaysia), 1992-2004

Table 4.9: Export of Major and Selected Commodities (RM million)

	1992	1993	1994	1995	1996	1997	1998
Major Primary Commodities							
- Rubber	-	-	-	4,038	3,509	2,971	2,829
- Palm Oil	-	-	-	10,397	8,723	10,817	17,779
- Sawlogs and Sawn Timber	-	-	-	6,101	5,402	5,121	4,391
- Crude Petroleum	-	-	-	6,701	7,212	7,069	7,510
Manufactured Products	71,476	89,694	120,295	147,253	158,540	178,945	237,649
Textiles, Clothing and Footwear	5,119	5,383	6,056	6,519	6,963	7,616	9,442
Electrical and Electronic Products	41,597	55,129	76,367	96,748	104,272	119,025	161,733
Manufactures of Metal	2,289	3,057	3,634	4,656	4,998	5,661	8,255

	1999	2000	2001	2002	2003	2004
Major Primary Commodities						
- Rubber	2,346	2,571	1,886	2,492	3,585	5,193
- Palm Oil	14,475	9,948	9,876	14,838	20,191	20,110
- Sawlogs and Sawn Timber	5,469	5,509	3,796	4,018	5,098	5,663
- Crude Petroleum	9,306	14,241	11,118	11,597	54,222	73,825
Manufactured Products	271,730	317,908	285,316	302,021	326,322	390,449
Textiles, Clothing and Footwear	9,467	10,433	9,054	8,587	-	-
Electrical and Electronic Products	195,047	230,429	200,307	209,137	222,851	257,051
Manufactures of Metal	7,862	8,618	8,692	8,827	11,242	16,140

Sources: Economic Planning Unit, Central Bank of Malaysia, Malaysia Department of Statistics and Ministry of Finance, 1992-2004

The sources of statistical data on the distribution of Malaysia overseas investments having been explained and discussed, the thesis now turns to the Malaysian government's policies in supporting these investments.

4.1.4 Malaysian Government Policies Towards Overseas Investments

The structure of Malaysian exports has undergone a significant change. The export growth of the country has increased considerably over the past decades. Having realised the potential of overseas markets, the Malaysian government began to encourage Malaysian entrepreneurs to expand their business operations and ventures abroad. The Malaysian government was the first of the ASEAN-4 (Malaysia, Indonesia, the Philippines, and Thailand) actively to promote overseas investment by their companies. With special reliance upon an export-orientation industrialisation (EOI) strategy, related plans, policies and strategies have been developed and implemented to promote the development. According to Root (1971), export promotion programmes are public policy measures that seek to enhance exporting activity at a firm, industry and national level, and they are typically coordinated through government agencies. Mehmet (1990) said that the investment incentives policies of Malaysia are divided into four categories: fiscal incentives, tariff-related incentives, financial incentives, and finally non-financial incentives. The Ministry of International Trade and Industry (MITI) and its related agencies, such as the Malaysia External Trade Development Corporation (MATRADE) [7], and the Malaysian

[7] Established in 1st March 1993, MATRADE acted as the external promotion arm of Malaysia's Ministry of International Trade and Industry. It functions as a focal point for Malaysian exporters and foreign importers as a source for trade related information (see www.matrade.gov.my for details)

Industrial Development Authority (MIDA)[8], have been given the responsibility for the task of promoting and facilitating Malaysia's foreign investments. Among the various packages of incentives are one in the form of tax abatement on income earned abroad and remitted back to Malaysia; export allowances; tax reduction for 'pre-operating expenses'; double deductions for export promotion activities; and export credit insurance premiums, as shown in Table 4.10 (see also Mehmet, 1990 for detailed explanations). The Ministry set out three basic objectives of the reverse investment policy. These were first, to develop new markets or access to third markets; second, to boost sales of local components and resources; and third, to utilise ownership advantages possessed in plantation, mining and manufacturing.

[8] MIDA has its origins in the Federal Industrial Development Authority (FIDA) which was established pursuant to the FIDA in Corporation Act of 1965. In 1979, FIDA changed its name to MIDA in recognition of the increasing importance of the agency's international activities and the need to project a Malaysian identity (see www.mida.gov.my for details)

Table 4.10: Various Export Promotion Programmes offered by the Malaysian Government Agencies

Industrial technical assistance fund	MATRADE services	Tax incentives	Financial assistance
Feasibility study scheme	Trade mission	Abatement of adjusted income for exports	Central Bank of Malaysia (BNM)
Productivity and quality development scheme	Trade fairs and exhibitions	Export allowance	Export Credit Refinancing (EXIM Bank)
Development and product design scheme	Trade publication	Double deduction of approved outgoings and expenses for companies engaged in the promotion of exports	
Market development	Training programs	Double deduction of export credit insurance premiums paid to Malaysia Export Credit Insurance Berhad	
		Double deduction of expenses incurred in international trade fairs approved by MITI	
		Exemption of customs duty on raw materials used in the manufacture of finished goods for export market	

Source: Zafar et al., (2002)

Despite their various efforts, the role of MATRADE and MIDA towards outward direct investment remains rather limited[9]. Their focus is only on channelling overseas trade enquiries and providing information to Malaysian businesses via their representative offices, and organising trade and investment missions to coordinate and facilitate business networking with foreign partners and government agencies. Doubt as to the effectiveness of these programmes is raised by the empirical evidence collected by Zafar et al. (2002) on the export promotion programmes of Malaysian firms. They found that the firms in their study were either unfamiliar with the services

[9] (Interview with Dr. Michael D Lunjew, Senior Director, Strategic Planning Division, MITI, 6th January 2004; Tuan Haji Abdul Hadi bin Othman, Senior Director, Investment Policies and Manufacturing Related Services, MITI, 7th January 2004; Puan Fuziyah Abdul Wahad, Director, Domestic Investment Promotion Division, MIDA, 14th January 2004; and Madam Wong Lai Sum, Director, Planning and Strategy, MATRADE, 15th January, 2004)

provided or they did not view MATRADE as an effective medium for meeting their information needs. Similarly, Weil (1978) found that a lack of information about what services specific groups needed and inadequate financial resources are the two common shortcomings of export promotion programmes. Moreover, the export promotion programmes typically focus on the broad areas of the motivational, informational and operational needs of firms (Czinkota, 1982; Cavusgil, 1984), but these needs vary according to a firm's stage of export involvement.

As part of the effort to encourage domestic entrepreneurs to engage in international business, the Export-Import Bank of Malaysia (Exim Bank) was established in August 1995. The main objective was and is to provide financial support to Malaysian exporters in enhancing their role in international business, especially to non-traditional markets (Exim Bank Annual Report, 2004). Various financing facilities were introduced, including buyer credit, overseas project financing, guarantees, supplier credit, and export of services financing. Exim Bank has approved loans and guarantees for exports and investments projects in more than 20 countries, with a total value of RM 378.47 million and RM471.30 million in 2002 and 2003 respectively, compared to RM 259.80 million in 2000 (Exim Bank Annual Report, 2004).

While the discussion in this section has focused on the trend and magnitude of Malaysian overseas investments, the next part considers the emergence of Malaysia-based MNCs.

4.2 The Emergence of Malaysian-based Multinational Corporations

Any discussion of the trends in flows or stock of FDI should take into account the subject of the ownership and structure of private investment in the country. The emergence of Malaysian-based MNCs has to be understood in the context of the Malaysian government's policy of transforming the ethnic pattern of economic ownership that existed in 1970. The Malay ownership of shares in all major sectors of the economy at that time was still insignificant compared to that of other ethnicities. As shown in Table 4.11, 60.7% of share ownership was controlled by foreign capital. Foreign capital ownership was highest in modern agriculture, forestry and fisheries (75.3%), and mining and quarrying (72.4%), which together made up the major export sectors. The Chinese owned 22.5% and the Indians 1.0%. Even with the inclusion of shares owned by government agencies in trust on behalf of Malays, the amount still lagged behind and stood only at a meagre 2.4%. Table 4.12 illustrates the structure until 1999.

Table 4.11: Ownership of Share Capital of Limited Companies by Ethnicity and Industry, 1970

	Ethnic (Percentage)			
Sectorial	**Malay**	**Chinese**	**India**	**Foreign**
Agriculture, Forestry and Fisheries	0.9	22.4	0.1	75.3
Mining and Quarrying	0.7	16.8	0.4	72.4
Manufacturing	2.5	22.0	0.7	59.6
Construction	2.2	52.8	0.8	24.1
Transport and Communications	13.3	43.4	2.3	12.0
Commerce	0.8	30.4	0.7	63.5
Banking and Insurance	3.3	24.3	0.6	52.2
Others	2.3	37.8	2.3	31.4
TOTAL	**1.9**	**22.5**	**1.0**	**60.7**

Source: Low (1985: p.26)
Note: The shares listed as owned by the ethnic groups in each sector in the table do not include the shares held by government agencies and nominee companies.

Table 4.12: Ownership of Share Capital (at par value) of Limited Companies, 1969-1999

	1969	1970	1975	1980	1985	1990	1995	1999
Bumiputera individuals and trust agencies	1.5	1.9	9.2	12.5	19.1	19.2	20.6	19.1
Chinese	22.8	22.5	n.a	n.a	33.4	45.5	40.9	37.9
Indian	0.9	1.0	n.a	n.a	1.2	1.0	1.5	1.5
Others	-	-	-	-	-	-	-	0.9
Nominee Companies	2.1	6.0	n.a	n.a	1.3	8.5	8.3	7.9
Locally-controlled firms	10.1	-	-	-	7.2	0.3	1.0	n.a
Foreigners	62.1	60.7	53.3	42.9	26.0	25.4	27.7	32.7

n.a.: Not available
Sources: Seventh Malaysia Plan, 1996-2000; Eight Malaysia Plan, 2001-2005

The desire and need to exert greater influence in the economy was apparent. Several plans were introduced. Table 4.13 illustrates the restructuring programme of the Malaysia Plan starting from 1950 to the present time.

Table 4.13: Malaya and Malaysia Development Plans, 1950-2005

Year of Publication	Plan
1950	Draft Development Plan 1950-1955, 'Yellow Book'
1953	Progress Report on the Draft Development Plan
1956	First Malaya Plan 1956-1960
1961	Second Malaya Plan 1961-1965
1965	First Malaysia Plan 1966-1970
1971	Second Malaysia Plan 1971-1975
1976	Third Malaysia Plan 1976-1980
1981	Fourth Malaysia Plan 1981-1985
1986	Fifth Malaysia Plan 1986-1990
1991	Sixth Malaysia Plan 1991-1995
1996	Seventh Malaysia Plan 1996-2000
2001	Eighth Malaysia Plan 2001-2005
2005	Ninth Malaysia Plan 2006-2010

Sources: the Government Printer Published Malaya and Malaysia Plans in Kuala Lumpur

The Second Malaysian Plan (1971-1975) under the flag of the New Economic Policy (NEP) set out two particular quantitative targets. First, it was decreed that employment by sector should reflect the ethnic composition of the population: Malay

54%, Chinese 35%, Indian 10%, and other 1.0%. Second, by 1990, it was intended that the Malay *bumiputera* group should own and manage at least 30% of the corporate sector, an increase from its 2.4% share in 1970. The primary thrust of the NEP was to "accelerate the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function" (cf. Islam and Anis, 1997). As such, the State became the main instrument for this economic reorganisation.

The strategy to increase Malay participation in business appeared to lead to the emergence of Malaysian-based MNCs. The next part further discusses how the history and method of internationalisation of Malaysian-based corporations emerged.

4.2.1 History and Method of Internationalisation

As explained in Chapter 2, the traditional path of internationalisation is one where firms originate locally in their home country and expand abroad to other countries. Ellis and William (1995) describe the sequence through which a firm evolves from a domestic organisation, serving a relatively homogeneous home market, to an active exporter, and subsequently an international corporation serving a large number of diverse international markets. Furthermore, in order for firms to enable to compete abroad effectively, they need to acquire sufficient proprietary advantages. According to Hymer (1976), in order to compete successfully with indigenous producers, the investing firm must possess some specific advantages that can offset the higher production costs of doing business abroad.

In the case of Malaysia, internationalisation came about *quite differently*. The internationalisation of Malaysia's leading corporations was through a nationalisation programme where the Malaysian Government via its state and trust agency namely Permodalan Nasional Bernad (PNB or National Equity Corporation) and Pernas began to acquire foreign firms operating in the country particularly in the primary sector. Notable examples are Sime Darby Berhad (see Chapter 8), Malaysian Mining Corporation Berhad and Guthrie Berhad. These corporations were originally British private enterprises and had already established their presence internationally. The trend of massive acquisition started in the mid-1970s after the Malaysian government launched the New Economic Policy (NEP). NEP was a five-year plan that was introduced by the government in the Second Malaysian Plan attempt to correct the economic inequalities that existed among the races in Malaysia. The objective was to ensure that the capital equity of the Malays was increased from less than 3% in 1970 to 30% in 1990. This was to be done, however, within the context of an expanding national pie and not at the expense of the non-Malays. In addition, the NEP also targeted the eradication of poverty, regardless of race and creed.

Pernas was incorporated in 1969 under the Companies Act of 1965 with a paid-up capital of RM116 million and controlled by the Ministry of Finance. It was the forerunner of the NEP and the initial set-up objectives were to develop and encourage Malays to participate in economic activity and business sectors. As it evolved, however, its strategy changed from that of assisting Malays to that of corporate takeovers. PNB was placed under the jurisdiction of the *Bumiputera* Investment Foundation (Yayasan Pelaburan *Bumiputera*), established by the government in 1978 and headed by the Prime Minister, which was soon to emerge as the country's largest institutional investor. Its mission is to acquire corporate wealth for redistribution to the majority of the *Bumiputera* community under a national unit trust scheme[10].

In 1975, in relation to the NEP, the Malaysia government began its first acquisitions by buying a controlling interest in the London Tin Corporation in partnership with other foreign MNCs, namely, Charter Consolidated Limited. London Tin Corporation had control over eleven listed tin-mining companies, while Charter Consolidated Limited controlled a further four listed mining companies. The London Tin Corporation was restructured and later merged with Charter Consolidated Limited to form a new company named New Trade Winds Sdn Bhd, which would be 71% owned by Pernas and 29% owned by Charter. In 1977, New Trade Winds changed its name to Malaysian Mining Corporation (MMC), which subsequently became the largest tin company in the world during the period (United Nations, 1985).

Following this success, next in line in the Malaysian internationalisation was Sime Darby, one of the largest plantation-based conglomerates (see chapter 8 for further details). Sime Darby Berhad was a British-owned, Southeast Asia-based multinational. Given its strong domestic and international presence, controlling Sime Darby was a desirable goal (United Nations, 1985). The company was peculiar in that it was incorporated in London, owned substantially by Singaporeans and Malaysians, and managed in Singapore by mostly British executives. The company was listed in Kuala Lumpur, Singapore and London. The take-over of the company by the Malaysian government succeeded in 1977. In the 1980s, PNB together with Pernas joined in controlling the foreign plantation sector. This set the stage for PNB to acquire the

[10] PNB's handbook 1986

Guthrie Corporation Limited of London. A successful takeover was achieved in August 1981 by buying a controlling share in the Guthrie Corporation through a lightning dawn raid on the London Stock Exchange. It is estimated that PNB spent a colossal RM 932.8 million in this process. Attempting to create many Malaysian MNCs, the Malaysian government, via PNB, succeeded in bringing home another foreign firm, Harrisons and Crosfield. During 1978-1982, this takeover process accelerated; through its investment companies, the Malaysian government acquired Dunlop Holdings, Barlow Holdings, and the Boustead Company. Within just one decade, Malaysia began to own some of the largest corporations in Southeast Asia. State intervention as well as public sector investments became important means for private wealth accumulation and political patronage.

The acquisition of foreign corporations and the move into the international limelight was a result of the policy of 'nationalisation', i.e. the attempt by the Malaysian government and later private capital to assume greater Malay ownership and control of the local economy (United Nations, 1985, Edmund, 2004). In his pioneering study of ownership and control of major firms in pre-independence Malaya, Puthucheary (1960) showed the overwhelming dominance of foreign, especially British enterprises over the Malayan economy in the early 1950s. Similarly, Chinese capital had a ubiquitous presence in the country in the pre- and post-independence periods. However, under the NEP, the approach of business expansion has changed and clearly focused on developing Malay capitalists into the business sector (Sieh, 1992). According to Edmund (2004: 157):

> The NEP entailed partial abandonment of the laissez-faire style of economic management in favour of greater state intervention, primarily for ethnic affirmative action, including the accelerated expansion of the Malay middle class, capital accumulation on behalf of the Malays and the creation of Malay capitalists

Given a strong government intervention under the NEP, a number of well-connected Malay capitalists have emerged (section 4.2.2 will elaborate in detail). In a study of ownership and control of corporate Malaysia, Edmund (2004) reveals that the dominance of the Malaysia government in holding majority ownership on behalf of Malays in the leading corporations is significant. These include firms such as Petronas (see Chapter 6), TM Berhad (see Chapter 7), and Sime Darby Berhad (see Chapter 8). To control these corporations, a number of Malay *Bumiputera* businessmen have been appointed as board members. In addition, in order to protect the Malay domination in several companies, a structure of interlocking directorship[11] ties has been applied (see Edmund, 2004 for more details).

The argument to be posited here is that the techniques employed by the Malaysian government through its state agencies, which allowed them to go on a massive acquisition drive, signified a new era in the method of the internationalisation process and in any case went beyond the traditional theories of FDI as suggested by most scholars (see Chapter 2). Given that the objective of this thesis is to explain the emergence of Malaysian-based corporations, an understanding of the characteristics of those firms that have played an important role in the country's economic development is discussed in the next part.

[11] Interlocking directorship is a concept in which two companies share one or more persons as members of their respective boards (Burt, 1983)

4.2.2 Characteristics of Leading Malaysian-based Corporations

Like the MNCs from other developed and developing countries, the nascent Malaysian-based multinational corporations are firms that have a strong and successful presence in the home market and are seeking new challenges abroad. They are pioneers and leading Malaysian entrepreneurs who have developed their strength domestically via various methods including government facilitation and local business networks, engaged in overseas investments and expanded their operations overseas by means of FDI. Although their existence is still 'new' to the international business community, their emergence and evolution has proven significant in contributing to regional economic growth (see Chapter 1, World Bank, 1998; Angel, 1998; UNCTAD, 2002, UNCTAD, 2005). For instance, in less than a decade, Petroliam Nasional Berhad or Petronas, Malaysian National Oil Corporation has managed to become an international corporation and to be ranked seventy-second of the world's top 100 corporations (UNCTAD, 2005). As explained in Chapter 1, there are a few other Malaysian corporations also in the list of the top 50 MNCs from developing economies. In recognition of this fact, it is important to understand the characteristics, nature of ownership, and organisation structure of these firms, as many features remain unexplained. An understanding of the characteristics of these firms is important as it will provide a general overview of the case studies in the latter chapter of this thesis.

There are two primary groups among the owners of leading Malaysian-based firms: the ethnic Chinese entrepreneurs and the Malay capitalists, both of which are now prominent ethnic groups controlling corporations. In the former group, firms were normally owned by a single family, a group of families or a Chinese political party, while the last group expanded through government involvement and support. Some of these corporations are known as Government-linked Corporations (GLCs), 100% Government-owned Corporations or corporations owned by a Malay political party and members of the political elite. According to Yoshihara (1988:76), although there are at present government and military enterprises in other Southeast Asian countries such as in the Philippines and Indonesia, it is only in Malaysia that political parties own or control business groups. Details of these two characteristics are explained in the following paragraphs.

(i) Controlled by the Chinese Business Group

The dominance of the ethnic Chinese in controlling economic and business activities in Southeast Asian countries is undeniable, and Malaysia is no exception (Lim, 1996; Crawford, 2000; Malaysian Business 16 June, 2001; Peng 2000, 2002). Almost all the literature on Chinese business would acknowledge the ubiquitous profile of this community in various economies (see Yoshihara, 1988; Jesudason, 1989; Hara 1991; Heng 1992). While accounting for only a small proportion of Southeast Asia's population as a whole (Singapore is the exception, where ethnic Chinese are the majority), they dominate each country's private business sector. Their combined wealth has a considerable impact on the business environment in the region. The ethnic Chinese in Malaysia constitute about 26.0% of Malaysia's almost 24.5 million multi-ethnic population, and own approximately 69.0% of the total share capital by market capitalisation. Likewise in Thailand, the ethnic Chinese comprise only 14.0% of the total population, but control 81.0% of share capital by market capitalisation. In

Indonesia, the ethnic Chinese make up only 2.5% of the total population, but control 73.0% of share capital (see Table 4.14 for details).

Table 4.14: Economic Participation of the Ethnic Chinese in Southeast Asia

Country	Chinese as Per cent of Population	Per cent of Share Capital by Market Capitalisation
Brunei	16.0	In Brunei, Chinese often do not hold citizenship and businesses are held in partnerships with local citizens; figure unavailable
Cambodia	2.0 (very rough estimate)	70.0
Indonesia	2.5	73.0
Laos	1.3	Economies are now just moving out from under strict socialistic systems; figure unavailable
Malaysia	26.0	69.0
Myanmar	17.5 (very rough estimate)	Economies are now just moving out from under strict socialistic systems; figure unavailable
Philippines	2.0	50.0 – 60.0
Singapore	77.6	81.0
Thailand	14.0	81.0
Vietnam	1.4	45.0 (estimate for Ho Chi Minh City only)
Taiwan	97.0	95.0% of economy controlled by ethnic Chinese, not market capitalisation

Source: Table compiled from Far Eastern Economic Review, February 26, 1998, and East Asia Analytical Unit estimates.

The Chinese began to immigrate extensively to Southeast Asia in the 12th century (Peng, 2000). However, the emergence of ethnic Chinese in Malaysia can be traced back to the 14th century. They came to the country as traders and established trade links with local communities in major ports in the Malay Archipelago, namely Malacca, Singapore and Penang (Lynn, 1998). However, the Chinese settlement was relatively insignificant until the late 19th century and early 20th century (Malaysian Business, 16 June 2001). Under the British colonial era, migration of Chinese into the country was encouraged, primarily to supply labour for the tin mining industry (Gullick and Gale 1986: 52-6). They were employed as 'coolie' labour. Most of these Chinese immigrants came from the Southern China provinces of Guangdong and

Fujian, and comprised members of various dialect groups[12]. There are two main factors leading to ethnic Chinese migration to Malaysia. First, the pull factor of the British expansion in Southeast Asia, which led to economic opportunities and business growth; second, the push factors of instability of the economic and political conditions in the Republic of China, such as agrarian problems of overpopulation, natural calamities, and landlord exploitation (Malaysian Business, 16 June 2001).

In Malaysia, it was this second group of ethnic Chinese immigrants, which came under British colonisation, who gave rise to the present-day group of entrepreneurs (Lee and Tan, 2000). They initially accumulated their wealth from tin mining activity, and then started to venture into rubber production and subsequently banking. Edmund and Jomo (1997) explained that the dominance of ethnic Chinese in commercial activities resulted from the British administrative system, which limited interaction among ethnic communities. The Chinese were mainly involved in urban-based tin mines, the Indians in semi-rural plantations, and the Malays remained peasants in rural areas. This meant that the communities were largely kept apart and separated by economic specialisation. Lynn (1998) further explained that the Chinese culture emphasised hard work, strong ambition and economic advancement, which resulted in their employment by the British in tin mines, rubber plantations and urban sector jobs.

The Chinese, following Malaysia's independence, held power in economic and commercial sectors. They made impressive gains in the 1960s by taking advantage of the loss of the foreigner's favourable political position in the colonial era and government's greater national orientation in its development programmes (Jesudason,

[12] They hail from six major clans – Hokkien (Southern Hokkien or Minnan), Fuzhou, Cantonese, Teochiu, Hakka, and Hainanese.

1989). In addition, Chinese equity ownership continued to rise during the NEP decades, from 27.2% to 45.5% (Edmund, 2004). For instance, in an analysis of the top 10 wealthiest businessmen in Malaysia, in terms of the total value of corporate assets they owned, seven Chinese businessmen dominated the ranking; there were two Malay *bumiputeras*, and only one Indian in the list (Malaysian Business, 16 February 2004). This study indicated that the growth of ethnic Chinese in post-NEP still remained. They managed to establish themselves under a more favourable political and ethnic climate because of the political coalition between the Chinese and the Malays. As in other Southeast Asian countries, ethnic Chinese dominate and own most of the major business in Malaysia. Table 4.15 shows the ownership of share capital by the ethnic Chinese. The value of ownership of share capital by ethnic Chinese is much higher than that of other ethnicities. Ethnic Chinese controlled 37.9% of ownership of share capital in 1999, followed by Malays at 19.1%[13], Indians at 1.5% and others 0.9%.

Table 4.15: Ownership of Share Capital (At Par Value of Limited Companies, 1990 and 1999 between Ethnic Groups in Malaysia) (RM million)

Ownership Group	1990	%	1995	%	1999	%
Malay *Bumiputera*	20,877.50	21.0	36,981.20	20.6	59,394.40	19.1
Non-*Bumiputera*	50,754.00	51.0	78,026.90	43.4	125,013.30	40.3
Chinese	49,296.50	49.5	73,552.70	43.4	117,372.40	37.9
Indians	1,068.00	1.1	2,723.10	1.5	4,752.90	1.5
Foreigners	27,915.00	28.0	64,784.10	36.0	125,668.70	40.6
TOTAL	**99,546.50**	**100.0**	**179,792.2**	**100.0**	**310,076.4**	**100.0**

Source: Seventh Malaysia Plan, 1996-2000; Eight Malaysia Plan 2001-2005

Some Chinese firms eventually succeeded in becoming large conglomerates and were involved in nearly every kind of business. Among the most prominent Chinese corporations in the country are the Berjaya Group Berhad, the Kuok Group, the Hong

[13] The components of this percentage includes individual and institutions (17.4%) and Trust agencies (1.7%) such as Permodalan Nasional Berhad (PNB) and States Development Economy Board (Eighth Malaysia Plan 2001-2005)

Leong Group and YTL Corporation Berhad. These corporations are owned or controlled by a single individual, the founder, or his family, usually through a holding company in which the family retains a dominant stake (Lynn, 1998; Edmund, 2004). Edmund (1994) and Lynn (1998) added further that the Chinese political parties (see Chapter 3) also controlled some of these leading corporations. A notable example is the Malaysian Chinese Association (MCA) which controls the Multi-Purpose Group of Companies (see Edmund, 1994; Edmund and Jomo, 1997). The mechanisms of control rely on interlocking stock ownership and directorships. In interlocking stock ownership, a small number of investors tend to hold large blocks of shares in various companies, while interlocking directorship is a situation in which a director of one company also sits on the board of directors of one or more other companies (Lim, 1981). The business activities of the Chinese group are both highly diversified and concentrated. They are usually involved in property development, trading, services, banking and financial services or other fast growing urban services of the modern sector, such as telecommunications, insurance, hotels and securities. According to Lim (1996), this is because the Chinese are less likely to develop internal firm competitive advantages based on marketing assets, and more likely to rely on privileged external relationships (see also Chapter 3). At the end of the 1990s, the Chinese were estimated to hold 50% ownership of the construction sector, 82% of wholesale trade, 58% of retail trade, approximately 40% of the manufacturing sector and almost 70% of small scale enterprises (see Malaysian Business, 16 June 2001; Edmund, 1999; Edmund et al., 2001).

The rapid growth of the Malaysian economy in the 1980s and the 1990s further enhanced the development of this Chinese group, which led to new business ventures.

They expanded to more lucrative businesses and ventured abroad to tap new market opportunities. Although these groups came under pressure from the Malaysian government under the NEP to increase the proportion of corporate wealth, some of the 'new rich' ethnic Chinese entrepreneurs have benefited greatly from this policy (Jamie, 1992). These 'new rich' Chinese emerged and prospered in the 1990s (Edmund and Jomo, 1997; Peter, 1999; Edmund 2004). This group of entrepreneurs built their success by the close integration of their capital with Malay capital in joint business activities. Some Chinese companies were starting to appoint influential Malays as directors of their enterprises (see Hara, 1991; Heng, 1992, Edmund 2004). This encouraged greater inter-ethnic business networking between those Chinese and Malays in business activity (see also Chapter 3). Apart from business networking among the Chinese ethnic group, it is important to note that the development and growth of Chinese business in Malaysia in the post-NEP period can be ascribed to a variety of factors including inter-ethnic ties, the relationship the government, and growing opportunities in the expanding market (Edmund and Hsin, 2001; Edmund, 2004) As has been suggested by Heng (1992), in Malaysia the leading Chinese business groups appear to have carried out a two-pronged strategy in the development of their corporations: first working closely with Malay political patrons to achieve business success, and second, building relationships with 'overseas Chinese' capital, as a potential source of wealth. Yeung (1997) has pointed out that there are three types of network relations in order to secure Chinese business in the Asean perspective, namely, intra-firm, inter-firm, and extra-firm relationships. This is consistent with the argument in Chapter 3 of this thesis on the important role of business network relationships in terms of corporate development and growth.

Although it has been argued that government policies were carried out to correct the imbalance of economic power between the ethnic Chinese and the indigenous Malays, the evolution of Malaysian business has been undeniably linked to the development of the ethnic Chinese capital (Michael, 1995). The next part discusses the second common feature among leading Malaysian-based multinational corporations – control by the Government on behalf of the Malay and Malay capitalist group.

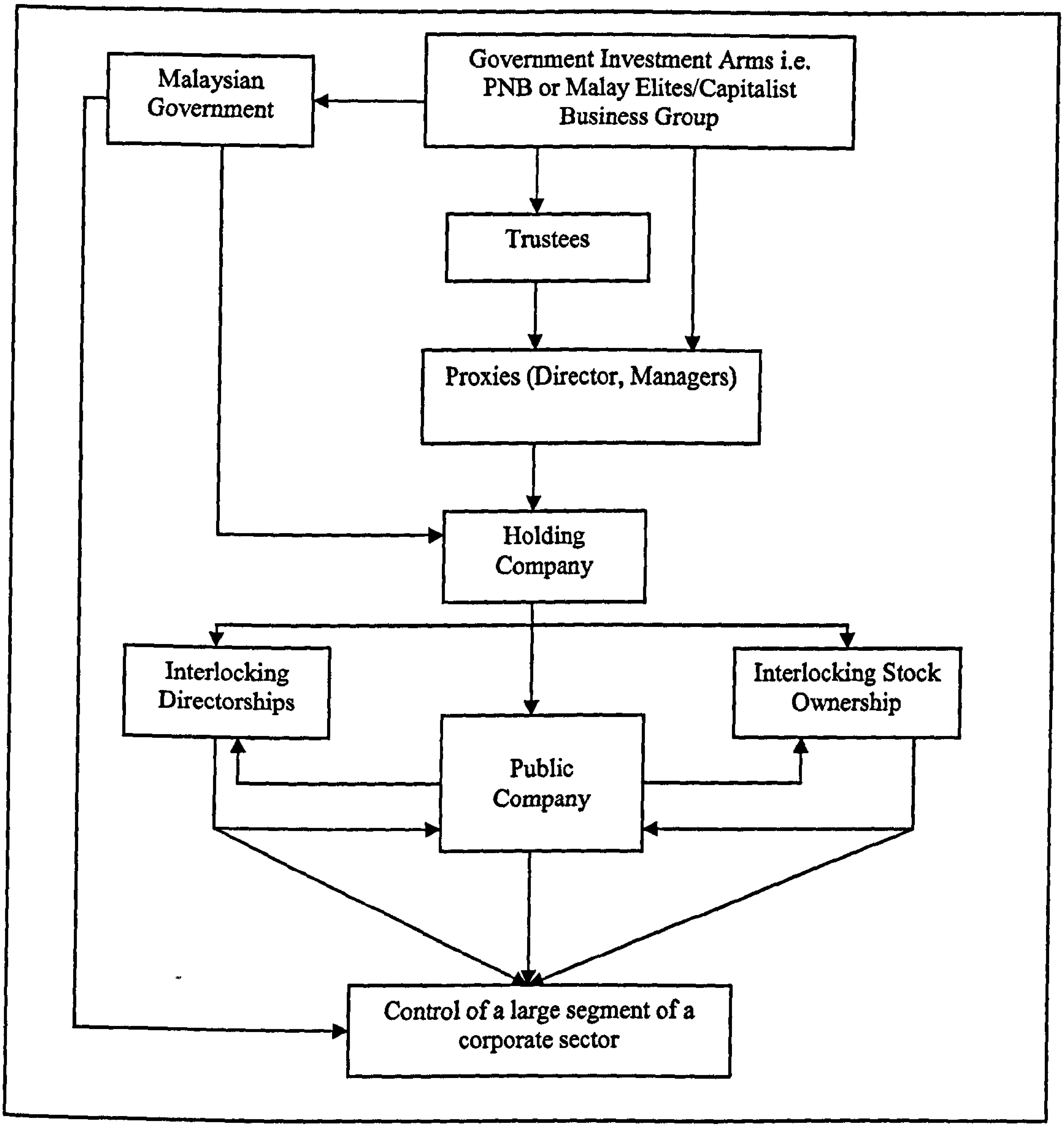
(ii) Controlled by the Government on behalf of the Malay and Malay Capitalist Group

The second dominant group that controls business activity in Malaysia is the Malay capitalist group. Although the dominance of ethnic Chinese in Malaysian economic and business development is undeniable, growth of the ethnic Malay entrepreneurs should not be underestimated. The creation of a Malay entrepreneurs group was the planned result of the implementation of NEP in 1970, whereby the government made a concerted attempt to redistribute wealth to achieve economic parity among the major ethnic communities. As mentioned earlier, the NEP entailed partial abandonment of the previously more laissez-faire style of economic management in favour of greater state intervention, primarily for ethnic affirmative action, including the accelerated expansion of the *Bumiputera* middle class, capital accumulation on behalf of the *Bumiputeras* and the creation of Malay capitalists (Edmund, 2004). The emergence of Malays in business was a result of the government policy of ensuring that 30% of capital equity was transferred to Malays and the creation of what the Second Malaysia Plan (1971-1975) called 'a new *Bumiputera* Commercial and Industrial Community' (BCIC), in short, Malay capitalists. Prior to that, Malays' involvement in business had been very limited (Harold, 1996). The NEP was introduced with the objective of encouraging the Malays to shift from the agricultural to the business sector. This was intended to narrow the gap of unequal distribution of wealth among ethnic groups. To ensure more parity in ethnic ownership patterns, the government increased public sector expenditure, particularly to fund the growing number of government-owned enterprises participating in business activities. Public and private enterprises, including *Bumiputera* trust agencies, State-linked agencies and Government-linked agencies, were used by the government to participate actively in almost all sectors of the economy and acquire assets on behalf of *Bumiputeras* (see Gale, 1981; Edmund, 2004). Government encouragement continued in the Third Malaysia Plan (1976) where the target was to increase the proportion of corporate wealth owned by Malays. In the process of increasing Malays' participation, preferential treatment was accorded. By the end of the 1980s, a 'new rich' class, i.e. politically well-connected *Bumiputeras* who had managed to gain ownership of corporate stock, had emerged (see Edmund and Jomo, 1997: 117-65). However, Malay entrepreneurs were heavily dependent on government support as a source of capital investment. There is evidence that some equity held by nominee companies[14] is attributable to *Bumiputeras,* particularly politicians or politically-connected individuals (see Edmund, 1990). Therefore, it is the government who are in control on behalf of the Malays. As pointed out by Peter (1999:143-53), their development is from 'proxy capitalists to businessmen'. Notable examples of corporations dominated

[14] Nominee services are provided by banks, finance and stockbroking companies and other financial institutions. These organisations hold shares on behalf of their owners, enabling the latter to conceal their ownership of corporate stock. An investor who acquires more than five per cent of a company's shares is, however, required, under the Companies Act, 1965, to disclose publicly his total shareholding. Some investors also use family members or close allies – sometimes referred to as 'proxies' (Edmund, 1990) – to hold corporate stock on their behalf. Such methods of shareholding make it extremely difficulty to quantify the extent of corporate ownership and control of a company by a particular individual.

and controlled by the government either directly or indirectly on behalf of the Malays included the Petroliam Nasional Berhad (Petronas) in petrochemical, oil and gas (see Chapter 6), TM Berhad in telecommunications (see Chapter 7) and Sime Darby Berhad in diversified business (see Chapter 8). Their group business structures are organised under the control of government investment arms and they comprise numerous subsidiaries. Petroliam Nasional Berhad, for instance, is wholly-owned by the Malaysian Government, TM Berhad is a Government-linked company, and Sime Darby Berhad is owned by government trust agencies on behalf of the Malay interest. To disguise the government's actual control on behalf on the Malay group, several layers of investment holding companies were established (see Edmund, 1994; Edmund and Gomez, 1997); while in order to supervise these corporations, interlocking network connections were used. Figure 4.1 illustrates a typical way in which a Malay/Government business group is structured. Through an intriguing network of cross-holdings, which involve a number of private and public-listed companies, the Malay ethnic group retains key positions within the business group.

Figure 4.1: General Structure of Government-owned Corporation and Malay Capitalist Business Group



Adapted from Edmund (1990)

In discussing the Malay capitalist group, four main categories can be identified whose existence depends on the extensive use of elite networks: Malay family businesses; Malay political-entrepreneurs; Bureaucratic entrepreneurs; and the Malay Association (see also Yoshihara, 1988, Sieh, 1992). A variety of networks have been established which have served to inculcate trust between members and provide the basis for a successful economic network. Accordingly, there is a complex web of connection among all of these four groups. The following section will discuss these four business groups.

a. The Malay Family Businesses Group

Although the existence of Malay family businesses is of much less importance than that of Chinese family businesses, the emergence of this group has had a significant economic impact on the development of the Malaysian business scene. This group is composed of aristocratic or royal families, and has major political significance in Malay politics. In the study of *Bumiputera* controlled companies in Malaysia, Cheong (1993) has called this group the 'Cosmopolitan *Bumiputera* Conglomerate'. Yoshihara (1988) terms it a 'Royal Capitalist Group'. This group is credited with bringing the first *Bumiputera* family business to the Malaysia Stock Exchange on the 29th November 1983 (see Cheong, 1993). There are nine sultans of Malaysia, who rule their own states: Perak, Pahang, Kedah, Perlis, Negeri Sembilan, Johore, Kelantan, Terengganu, and Selangor. They have sufficient power to affect decisions in their own territories, mainly those pertaining to land. In many cases, the sultans tie up with Chinese and *bumiputera* capitalists and act more as *rentiers*[15] than as capitalists (Yoshihara, 1988). However, in some cases, their investments are directly managed by their families. The sultans have special rights and the privilege of awarding highly valued titles, such as *datukships*. This is an award given in relations to extraordinary contribution made by an individual to the states. The prestige

[15] Yoshihara (1988) defined the capitalists who try to establish government connections for business advantage as 'rent-seekers'. It is because, according to Yoshihara (1988), they are essentially seeking opportunities to become the recipients of the rent the government can confer by disposing of its resources, offering protection, or issuing authorization for certain types of activity which it regulates.

conferred such a title is much sought after as a source of influence, connections, privileged access to information, and advantage in obtaining permits and licences and winning government contracts. In order to strengthen the business presence with good chances of securing favourable dealings with the government, some of the corporations appoint members of the royal family to their boards of directors. In addition, such appointment is a token of compliance with the NEP desideratum of Malay participation in economic and business activities. Among the well-known members of this group are Antah Holdings and the Melewar Corporation Sendirian Berhad, an investment holding and management corporation belonging to the royal family of Negeri Sembilan, and TAB Holdings Sendirian Berhad which belongs to the royal family of Pahang. Although the royal family group is regarded as one of the new sources of Malay businesses, however, their presence and future direction will rely heavily on the founders of the corporations and the development of these firms is closely connected to the royal family only.

According to Sieh (1992), Malay family participation in business has not been limited to the royal family. There have long been smaller-scale family enterprises organised around a key proprietor. However, compared to Chinese family business, large Malay family-based business groups organised along modern corporate lines are something new. In an analysis of the ownership and control of corporate Malaysia, Edmund (2004) has identified that their existence to dominate the top 20 listed corporations in Malaysia are no longer available. This is because, according to Edmund (2004), is that these Malay firms had been badly affected by the 1997 financial crisis.

b. The Malay Political-Entrepreneurs

In addition to the royal family group, the emergence of ethnic Malay participation in business is also organised around a political elite. In his study of elites in Malaysia, Tilman (1965) defines political elites as:

> Individual or groups clustered within or around the structures of government who are able to exert influence disproportionate to their numbers in the formulation and implementation of government policies.

In other words, they occupy strategic positions within the ruling party, and directly participate in the determination of national policy. Edmund and Jomo (1997), term this group 'Malay politico-entrepreneurs', and say that it sprang up rapidly in the NEP period. It has resulted in large conglomerates which blur the distinction between business and politics (Mohammed, 1973). When the NEP sowed the seeds for the burgeoning of Malay capitalists, Malay-politico entrepreneurs proved to be the most fertile ground, for in the absence of other attractive fields, they included a large number of professional Malays (Yoshihara, 1988; Edmund, 2002). This group has been uniquely well placed to take advantage of political connections (Sieh, 1992). They use the political base to create a business empire. Edmund and Jomo (1997) stressed that the success of this group was a historical product of NEP which could be attributed to the interplay of favourable political environment and business strategy. Perhaps the most notable example of an individual Malay politico-business entrepreneur is Daim Zainuddin, a former Malaysia Minister of Finance (from 1984 to 1991, and 1997 to 1999) (Edmund and Jomo, 1997; Edmund 2002). The Malay-politico entrepreneurs tend to recruit their own kin, friends, and those who have direct personal relationships with them into commanding positions in leading firms. Connections are based on pre-existing relationships of classmates, schoolmates, superiors and subordinates in the same work place, and so forth. These institutions may provide the resources and instruments to preserve their founders' interests and the status quo. Linked by ties that are formed among political parties, the Malay politico-entrepreneurs have been regarded as one of the strongest Malay business groups in the country. This is because their direct relationship and networks with the government are one of the most important success factors.

c. Bureaucratic Entrepreneurs

Compared to Malay business family and Malay politico-entrepreneurs, the bureaucratic entrepreneurs are perhaps the most widely known Malay business groups in Malaysia. According to Yoshihara (1988), the term 'bureaucratic capitalists' or 'bureaucratic entrepreneurs' are defined as: first, those who qualify as bureaucratic capitalists once held or still hold bureaucratic posts, which they used for their initial capital accumulation; second, although they may no longer be in the service, they may still maintain close relationships with the government and use these connections for their own interest in business; and third, they have their own businesses and operate the business as any other capitalist does.

In Malaysia, the Malays have become businessmen by virtue of their role as civil servants. They began their career in public enterprises and later entered private sector industry. They have been given an opportunity to become entrepreneurs through managing state-sponsored corporations and public enterprises. Since the mid 1970s, there has been a rapid increase in the number of Malay executive directors appointed to serve and manage the huge investments made by trust agencies to extend Malay ownership in the business community. The government has encouraged Malays to develop themselves as entrepreneurs, and the shortage of Malays qualified for management positions in private corporations has placed civil servants at an advantage for entry into the business community upon retirement. It can be said that retirement from government service is equivalent to role-transition from an area of government influence to another realm of power, namely, business and the economy. These bureaucrats were employed on the boards of directors of companies or have been given some higher position in the organisation, especially in the private sector, so that there has been an important element supportive of such enterprises, reflected in bureaucratic attitudes (see Edwards, 1975; Sieh, 1992). Examples of the infusion of bureaucrats may be seen from the case studies in the later chapters of this thesis. For instance, all the Sime Darby chairmen since its emergence as a Malaysian MNC have been appointed from among the bureaucrats (see also Chapter 8). Similarly Petronas (see Chapter 6) and TM Berhad (see Chapter 7); both have ex-government officers among their top management leadership. From the viewpoint of the private sectors, the joining of this group into a leading organisation can add a valuable advantage in terms of their intimate knowledge of government machinery and close personal contacts with officials, which help in winning public-sector contracts and licences, and avoiding red tape.

d. The Malay Association

The explanation so far has been based on the family, politics, or the bureaucrat (and frequently all three). However, these are not the only sources of Malay entrepreneurs who have dominated the country's business activity and controlled leading

Malaysian-based firms. The emergence of the Malay businesses group also came from associations based on 'old boy' ties, military coalitions, and religious institutions. 'Old boy' networks refer to those from the same educational background, who share some common attributes. Such groups provide a broader basis than the family in terms of resources and talent, and sometimes they provide an opportunity for interracial participation. Notable examples of the educational institutions that generate this kind of group are the Malay College Kuala Kangsar (MCKK), and the University of Malaya.

The military coalition operates through the Armed Forces Provident Fund or Lembaga Tabung Angkatan Tentera (LTAT), established in August 1972 under the Tabung Angkatan Tentera Act 1980. The primary objective is to provide superannuation and other benefits to members of the regular Armed Forces and to enable officers in the service to participate in a saving scheme[16]. With RM 4.5 billion worth of funds, LTAT is among the top five fund managers in the country and is a source of economic power for the military elite. During the 1970s, LTAT took advantage of equity restructuring opportunities under the NEP to channel its large funds into profitable investments and emerged as an important corporate group in its own right. In early 1983, LTAT had interest in some of the 145 largest listed companies, including those where it had a 1% or more shareholding (Mehmet, 1988; Malaysian Business, August 16th – 31st, 2002). The military coalition controls the corporate interest of LTAT and

[16] LTAT is a trustee fund and the fundamental responsibility is to manage the contributors' funds and assets. It is funded by the monthly contributions of 10% of the salaries of members of the Armed Forces with the Government contributing 15%. Participation is voluntary for officers, who can contribute a minimum of RM25 and a maximum of RM200 per month. LTAT was one of the two Bumiputera institutions approved by the Ministry of Trade and Industry in 1975 to take up a portion of the Special Bumiputera Issue proposed by the then British-controlled plantations group, Boustead Holdings Berhad.

derives quasi-rents via patronage and non-competitive awards of government contracts through networking connections (Mehmet, 1988)

The other category of Malay interest-based associations which are moving into business activity and have an investment interest in leading corporations is a religious institution known as Lembaga Urusan dan Tabung Haji (LUTH) or the Pilgrims' Fund Board. A statutory body established by an Act of Parliament, LUTH has funds in excess of RM10 billion and is basically a trust fund for collecting and managing Malay savings to facilitate Malays' pilgrimages to Mecca, as well as providing travel and other tourist services (Malaysian Business, 1 July 200). Like LTAT, LUTH has directed its savings so as to generate a rapidly growing and diversified investment portfolio. The investment portfolio covers the manufacturing, plantation, pharmaceutical, food, construction, and telecommunications industries. Based on privileged connections, LUTH was given a non-competitive award by the government for the development of the institution. It has become an important agency in expanding Malay ownership through the mobilisation and investment of its depositors' savings in the corporate sector of the economy.

The above discussion has highlighted the main characteristics of the two leading Malaysian firms: the first led by ethnic Chinese entrepreneurs groups and the second led by ethnic Malay business groups. The emergence of the New Economic Policy has transformed the relationship between the Malay capitalists and the Chinese entrepreneurs. Given the Malay political dominance and seeing the need to establish a business relationship with such groups, e.g. the aristocracy, the bureaucracy, the military, and other centres of Malay power, the Chinese businessmen have carefully chosen their Malay patrons and allies. For instance, members of various royal families and high-ranking former civil servants have regularly been sought for positions on boards of directors in the Chinese business firms (Sieh, 1992).

Table 4.16, based on the discussion, summarises some dominant similarities and differences in business network features between these two primary business groups.

Table 4.16: Some Dominant Similarities and Differences of Business Features for Malay and Chinese Ethnic Groups in Malaysia

Features	Chinese	Malay
Type of Business Activities	Diversified investments, Banking and Finance, Insurance, Securities, Property Development	Government-linked sector e.g. petrochemicals, energy, telecommunications
Capital and Source of Funding	Personal, Families (Mainly Internal)	Financial Institutions, Government funds - trust agencies
Type of Connection	Strong kinship ties, the family, clan, village and Chinese home province	Strong Government Connection, political-based relationship
Forms of Ownership	Single Individual, Family Business Operations	Malay Business Family, State agencies, Trustees, Government-owned corporations on behalf of Malays
Structural Development	From small to large firms	Takeover and Acquisition, State controlled or Government-linked/owned companies
Organisation Control	Complex Interlocking stockownership and interlocking directorship	Complex web connection among Malay capitalist groups
Type of Business Practice	Inter- and intra-ethnic	Inter- and intra-ethnic
Nature of the Networks	International	Domestic
Nature of Control	Centralised	Decentralised
Product Line	Broad	Narrow
Public Profile	Low	High

Sources: Yoshihara (1988), Sieh (1992),Edmund, (1999), Edmund and Hsin (2001), Edmund (2004)

With the dominance of politics in the hands of Malays, and private businesses in the hands of Chinese, inter- and intra-ethnic networking are seen as the most viable business strategies for corporations in their domestic growth and international expansion. Peter (1999) in his study pointed out that connection between the two ethnic groups in the business area is a source of dynamism for corporate development, and could serve as a powerful source of competitive advantage that can be applied across industries for the firm's growth and expansion.

4.3 Conclusion

This chapter has explained the necessary background to Malaysia's overseas investment activity and the characteristics of its multinational firms. It thus showed that foreign direct investment (FDI) has played, and continues to play, a pivotal role in the transformation of the Malaysian economy from an agriculture-based to a modern industry-based economy in a mere 30 years. Apart from attracting FDI into the country, the Malaysian government is also actively encouraging outward foreign direct investment activity. In terms of geographical destinations, Malaysia's outward FDI has been concentrated in the developing countries of Asia. As shown in Table 4.8, among the favoured countries are Singapore, Thailand, Indonesia and the Philippines. However there are some investments directed to the developed countries mainly to the United States and the United Kingdom but there had also been some investments in the Netherlands, other European countries and China.

In a manner typical of firms based in small countries (se also Chapter 2), the major determinant of outward direct investment by Malaysian-based firms stems from the need to find new markets and investment opportunities abroad. Among the main constraints on the growth of Malaysian-firms had been the limited size of the domestic market, combined with growing protectionist policies in major markets in the Asia region.

With regards to the characteristics of leading Malaysian-based firms, there are two major categories: the first controlled by the Chinese business group (e.g. Chinese business family, Chinese Association Party) and controlled by the Government and Malay ethnic group (e.g. Malay Family Business, Malay capitalists, Malay Political-entrepreneurs, Bureaucratic entrepreneurs, Malay Associations). The understanding of the characteristics of these corporations is important as it led to the discussion of the selection of the case study which will be discussed in the next chapter (in Chapter 5). As in other countries, Malaysian-based multinationals often emerge out of leading domestic firms that have successfully grown in the domestic market and are seeking to expand internationally. Among major sectors penetrated by leading Malaysian MNCs are: telecommunications, petroleum and gas, hotels, banking, finance, insurance, and conglomerate businesses.

Although the explanation in this chapter, which is based on published figures from Department of Statistics and the Cash Balance of Payments Reporting System of the Central Bank, has shed some lights on the characteristics and geographical distribution of international investment, many questions still need to be addressed in order to get a better understanding of outward investment activities by leading MNCs from Malaysia. For example, what type of entry-mode strategy did these firms use to enter foreign markets? Why did they choose to expand in nearby markets? Once the firm has entered the overseas market, how does it build up and strengthen its strategy? What competitive assets do these firms have to enable them to compete effectively with other firms internationally? This thesis therefore turns to in-depth case studies to contribute to the clarification of the questions above. The next chapter will discuss the methodological choice and the research setting employed in this research.

CHAPTER FIVE

RESEARCH METHODOLOGY AND CASE PROFILES

5.0 Introduction

Chapter 4 presented the trends of Malaysian outward direct investments and explained the characteristics of Malaysian-based corporations. This chapter, in turn, presents the research method and the data collection techniques employed in conducting the field study. The choice of a suitable research methodology is important in any study. The use of the appropriate research method is the key for successful achievement of previously set research objectives. The choice of any research method needs justification and clarification. Schwab (1999) has suggested that research should follow a linear design with each step constituting a necessary pre-requisite for the subsequent one. This can be summarised as follows: The first step is problem definition which includes the research questions. Second comes methods of data collection, which covers issues related to tools of investigation, methodological style, and the objectivity of the methods employed. This also includes the validity and reliability of data collection. Finally, there is sampling, which consists of an explanation of the reasons why and how a particular sample was selected and the extent of its generalisability.

To begin with, the chapter will engage with the issue of research questions, theoretical proposition and research objectives in section 5.1. Section 5.2 explains the research philosophy in order to justify the chosen paradigm, and in particular, its appropriateness to the research topic. Section 5.3 explains the reasons for choosing the case study as its research methodology. Section 5.4 then proceeds with an account of the data selection process. Steps taken during the data collection are discussed in section 5.5, while section 5.6 explains the data analysis for each case study. The contribution and significance of the study are explained in section 5.7. Finally, section 5.8 summarises and concludes the chapter.

5.1 Research Questions, Theoretical Proposition, and Research Objectives

Research Questions

Research questions are pivotal in designing the research process. They define what the researcher is trying to find out from the research. Research questions can serve to organise the research (give direction and coherence), delimit the project (by showing its boundaries), keep the researcher focused on the project, provide a framework for writing up the project, and determine what data and information are needed (Punch, 1998, Alvesson and Deetz 2000; De Vaus 2001). Although "there is no foolproof, automatic way of generating research questions" (Robson, 1995: 25), the general rules that can be applied are as follows: (a) decide on a general research area, and (b) refine (identify) more specific research questions (Punch, 1998).

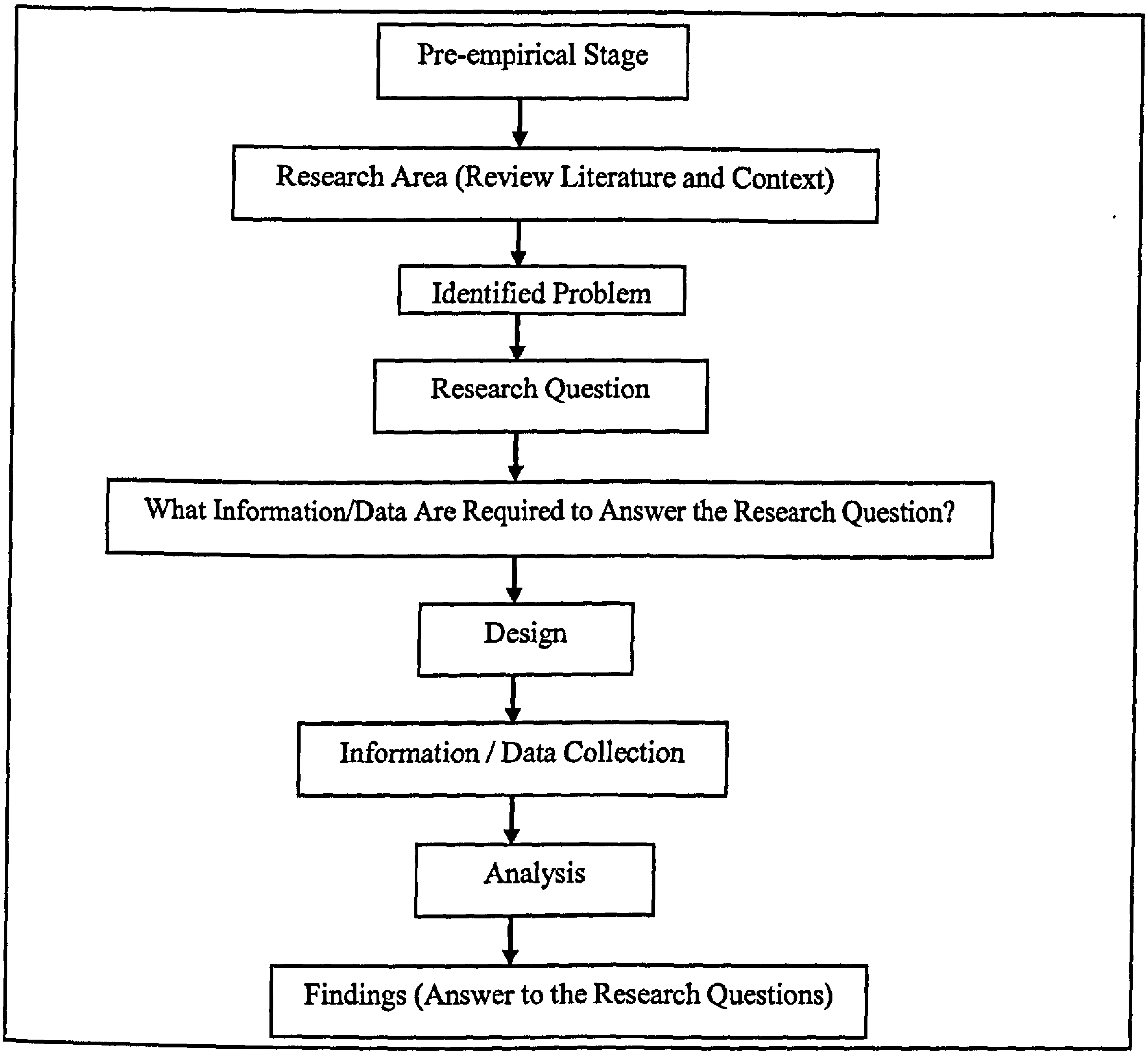
Based on this suggestion, as well as having carried out a literature review related to the subjects (see Figure 5.1 for the research model), the overarching issue of this research was to investigate the emergence of selected Malaysian multinational firms empirically. The general research question, which is derived from the above research area, is to explain the internationalisation pattern and process of three Malaysian-based multinational firms. This thesis then translates this general inquiry into two more specific empirical questions that appear to be of strategic relevance:

(a) *how* should one explain the internationalisation pattern and process of Malaysian-based multinational firms, the motives of international growth, the nature of their investment activities with regard to entry modes and expansion strategies? and

(b) *what* are the (potential) sources of advantages of these corporations in growing their business domestically, and successfully expanding internationally, and how are these developing and progressing?

With regard to its empirical scope, three case companies namely Petronas, TM Berhad and Sime Darby Berhad have been selected as case studies in this thesis (section 5.4 will further elaborate the detail of the selection process). In order to make a clear distinction, this thesis refers to these three firms as Malaysian-based MNCs. While Petronas is a Government-owned Corporation, TM Berhad and Sime Darby Berhad are Government-linked Corporations.

Figure 5.1: Research Model



Source: Punch (1998)

Although the discussion of the literature on foreign direct investment and internationalisation theories in Chapter 2 has shed some light on the characteristics of firms that internationalise, there is still far to go to understand this process, and the limitations become apparent when applied to developing countries' multinational firms, in particular Malaysia-based corporations (see Chapter 1). Many critical questions need to be answered and need further investigation. Among these are:

a. how did these three selected multinational firms internationalise?

b. does the process followed resemble the processes followed by other emerging multinational companies?

c. do these three selected firms follow the sequential internationalisation stages theory/sequential chain of establishment in foreign markets or the investment new ventures model?

d. what are the (potential) ownership advantages on which their international investments are based and how were these advantages accumulated?

e. did these corporations choose to expand their operations in nearby countries with successively greater 'psychic distance' or choose to expand to those with less 'psychic distance'?

f. what were the preferred choices of foreign entry mode strategy made by these firms and why did they choose to use this strategy in developing their international activities?

g. what were the key critical factors motivating these firms to expand their activities internationally?

h. once they have internationalised, how do these firms sustain their operations and compete with their competitors?

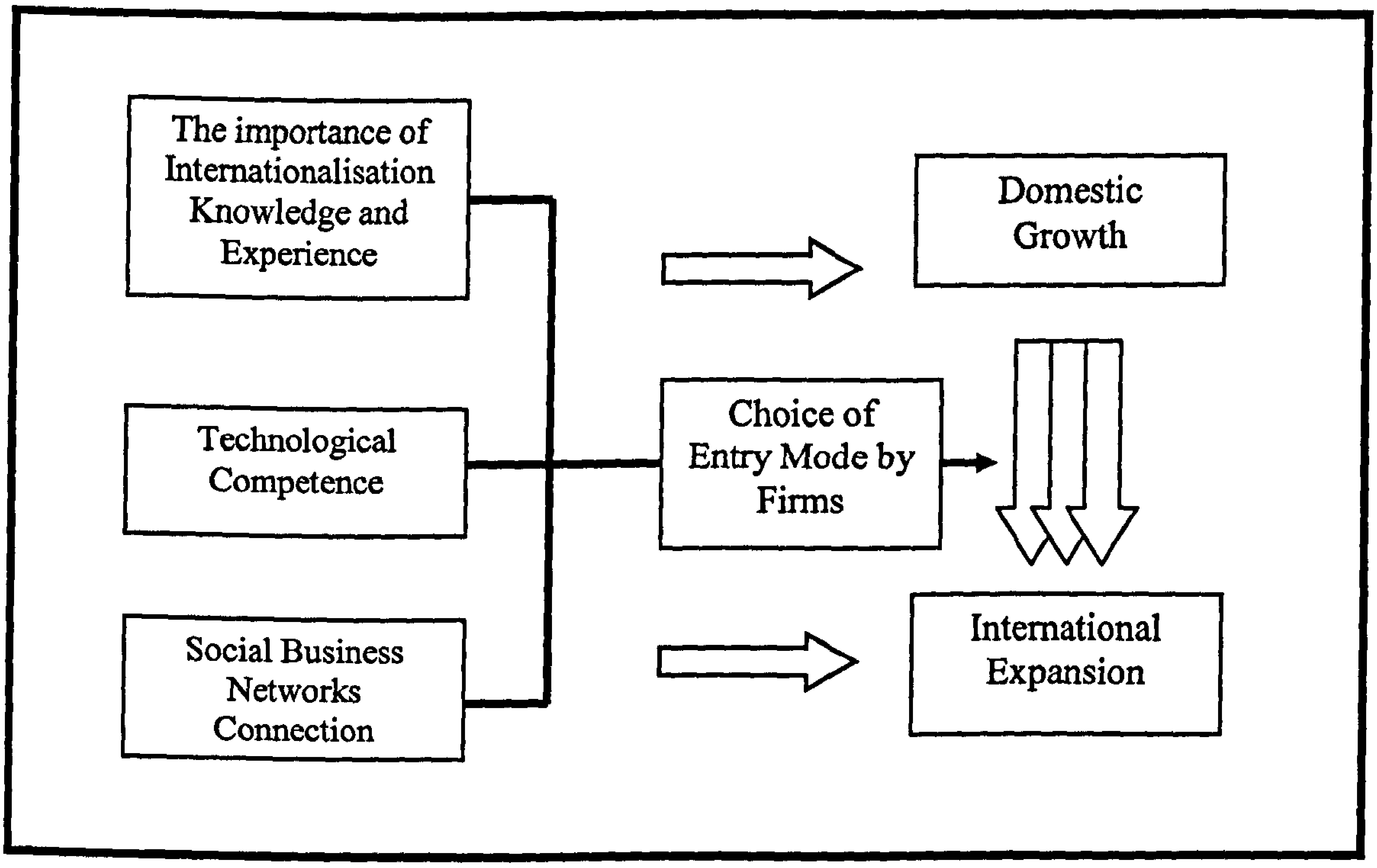
i. what types of obstacle are faced by these Malaysian corporations in their international expansion?

Acknowledging the above questions, there is a need for critical study to investigate the issues, whose Malaysian context seems to be considerably different from counterparts in industrialised Western nations, where the theories of FDI were developed.

Theoretical Proposition

Based upon the preceding literature review (Chapters 2, 3, and 4) and taking into account the research questions above, it can be deduced that the international expansion of the three selected Malaysian-based multinational firms is contingent upon several key aspects: internationalisation knowledge and experience, technological competencies, and business network connections, as proposed in Figure 5.2.

Figure 5.2: Theoretical Proposition of Internationalisation Process of Malaysian-based Multinational Firms



Internationalisation knowledge, experience, and technological competencies, tend to become critically important features for the three Malaysia-based firms to internationalise. However, other key elements such as business network connections are equally important components to be explored in the study, as they could serve as an additional source of (potential) ownership advantages for the three selected Malaysian-based firms' growth, both domestically, internationally, and perhaps globally.

Research Objectives

In light of the research problems identified in relation to the internationalisation process of the three Malaysia firms' cases, the objectives of this research are as follows:

a. to introduce new empirical evidence to the international business literature concerning the emergence, growth, and internationalisation of Malaysia-based firms;
b. to shed light on the dynamic aspects of the internationalisation process of Malaysian firms, and thus potentially develop new information on the international expansion of firms;
c. to reflect on what can be learned from the experience of these firms in growing domestically and expanding internationally;
d. to understand the pattern of outbound direct investment activities of these corporations, which is considered as a new area for the Malaysian economy;
e. to explore the progress of successful professional Malay ethnic involvement in business activity;
f. to add to the knowledge of multinational firms from Malaysia in order potentially to improve policy-making and investment decisions;

g. to gain a better understanding of the role of internationalisation knowledge, experiential knowledge, technological competence, and business networks connection as sources of (potential) advantage in the internationalisation process.

The next part discusses the research design used in this thesis to achieve these objectives.

5.2 Research Philosophy

Choosing a research method is dependent upon the nature of the research problem. Many scholars such as Taylor and Bogdan (1984), Silverman (1993; 1997) and Atherton (1993) have addressed the issue of choosing appropriate methodologies in social science research. There are two main camps: the positivists and the social constructionists (Easterby-Smith et al., 1991). Both philosophies of research are based on a common desire to understand behaviour. However, each approach makes different assumptions about the world of phenomena. According to Finch (1986: 7), positivism is:

> An approach to the creation of knowledge through research which emphasises the model of natural science: the scientist adopts the position of the objective researcher, who collects 'fact' about the social world and then builds up an explanation of social life by arranging such facts in a chain of causality.

In this sense, positivism is based on a particular set of assumptions about the social world and appropriate ways of studying it. The social world is seen as existing externally and best measured through objective methods, which in turn generate objective, usually, statistical data. On the other hand, social constructionism according to Easterby-Smith et al., (1991: 24) is about a reality that:

> Is socially constructed rather than objectively determined. The task of the social scientist should not be to gather facts and measure how often certain patterns occur, but to appreciate the different constructions and meanings that people place upon their experience.

Research in this paradigm is concerned with how people experience social phenomena and the world in which they live. To a positivist, theory is deduced by testing hypotheses, whereas a social constructionist generates theory from the data collected, 'grounded' in the data (Glaser and Strauss, 1967). According to Saunders, Lewis and Thornhill (1997), "Neither approach should be thought of as better than the other. They are better at different things. It depends where (the) research emphasis lies".

Qualitative versus Quantitative Methods

There are two strategies for collecting data. One follows the positivist or quantitative route and the other is qualitative. Qualitative research methods were developed in the social sciences to enable researchers to study social and cultural phenomena (Myers, 1997). This is done through an understanding and description of social situations using tools such as in-depth interviews, expert opinions, document analysis and focus group interviews. These techniques capture the richness and complexity of the real world through detailed examination of people, organisations and their behaviour in their daily interactions. Qualitative methods aim to provide insights into attitudes, perceptions and motivations – to answer what? why? and how? – and therefore avoids artificial situations and reduces the errors associated with statistical analysis. Despite the strengths of this approach, it is not free of criticism. It is argued that the techniques are subjective and lacking in rigour and reliability. Moreover, findings from these approaches are rarely open to re-testing by other researchers and data tend to be presented in an individualistic manner, making it difficult to generalise the findings to other situations.

On the other hand, quantitative methods are instruments to test or verify a hypothesis. Typically, these techniques involve collection of data from a large sample using tools such as questionnaires, and seek to test whether a particular hypothesis is valid for the whole of the population. The sample is selected either at random or specifically on the basis of particular characteristics of the subjects. The data are then analysed using statistical tools in order to reject or confirm the hypothesis. These techniques produce results which are tested by widely available statistical methods. According to Denzin and Lincoln (1994), the objectivity and validity of the results is hard to challenge, allowing specific hypotheses to be tested using different sets of data for scientific theories to be built upon a recognised body of widely tested work. Although the method is sufficient to provide useful results, it is not free of criticism either, especially as regards the applicability of this method to the study of social phenomena, i.e. people and organisations, which are dynamic and far more complicated than those encountered in the laboratory. In addition, the technique has been criticised for assuming that social sciences can be investigated in the same ways as the natural sciences (Smith, 1989).

Having reviewed the two approaches, it can be concluded that there is no ideal methodology that is superior to any other, and that perhaps explains why the choice of method has become the subject of controversy (Atherton, 1993). The next section discusses the methodology adopted for this thesis.

5.3 Methodological Choice: A Case Study Strategy

Although discussion in the preceding chapter revealed interesting insights about the determinants of outbound direct investment from Malaysia and the characteristics of their multinational firms, the analysis did not take into account the dynamic mechanisms and developmental aspects of individual corporations in their domestic growth and international expansion. Many questions need to be addressed and further explored (as indicated in section 5.1). In addition, new elements may exist that are not brought forward by received FDI literature but may be relevant in explaining the internationalisation process of Malaysia-based firms. The main objective of this thesis is to investigate empirically the emergence of selected Malaysia-based corporations and explain how the internationalisation expansion of these corporations took place. Doing this requires flexibility and sensitivity in the process of research and analysis.

Given the nature of the subject being studied, this thesis follows a qualitative method. In order to investigate this subject in detail, the case study was adopted as the research method, since the research questions proposed for this study could more easily be answered by such a strategy, and because the aim was to develop pertinent propositions for further enquiry, rather than describing or testing any causal relationships. According to Feagin et al., (1991) and Yin (1994), the case study is an ideal method when a holistic, in-depth investigation is needed. The study of cases allows coverage of contextual conditions that are highly pertinent to the phenomenon under study (Eisenhardt, 1989; Yin, 1994). It allows for the development of in-depth, extensive, detailed, and intensive knowledge about one or more units of analysis. By combining previously developed theories with new empirically derived insights (Yin, 1994), the case study approach is appropriate in new topic areas. It can transcend local boundaries of investigated cases, capture new layers of reality and result in developing novel, and empirically valid theoretical insights (Eisenhardt, 1989; Tsoukas, 1989). As in the case of this thesis (see Section 5.4 for details), this methodology also allows research to be conducted in a country where the small sample base means that there are not enough firms to justify using statistical generalisation (Chetty, 1996). Yin (1994: 13) has defined a case study as,

> An empirical inquiry that investigates a contemporary phenomenon within its real life context and where the boundaries between phenomenon and context are not clearly evident: and in which multiple sources of evidence are used.

This definition is highly relevant to the present research, since the study of this thesis centres on the issues of the internationalisation process of firms, which is believed to be a 'dynamic' and 'contemporary' event within a real-life context. The data collection has to be carried out in 'real world' conditions where the kind of control present in a laboratory is not feasible or justifiable (Philips and Pugh, 1994; Yin, 1994; Remenyi et al., 1998). Many writers (Yeung, 1994, 1998c; Tsai, 1997; van Hoesel, 1997a; Pananond and Zeithaml, 1998) who have written on this issue agree that the case study is the best method if it is used to study process and behaviour of firms.

As the thesis aims at understanding the internationalisation pattern and process of Malaysian firms, the case study method therefore seems to allow a clear and comprehensive understanding of the process. Although there are several other conventional ways of doing social science research such as experiments, surveys, economic modelling, archival analysis, histories etc, for addressing complex research problems, the case study method is chosen because the investigator has little control over actual events that have occurred. The exploratory nature of the research questions also determines the research method.

Many researchers (including Ph.D scholars) who have conducted firm-level study on the internationalisation process of firms have used case studies as their research strategy (see for instance, Yeung, 1994, 1998c; Young et. al., 1996; van Hoesel, 1997a; Pananond and Zeithaml, 1998; Ping Li 1998; Larimo, 2003), and the approach continues to be widely used. An evident advantage of using case studies in this thesis is that they can be used to trace events over a period of time, hence capturing some dynamic aspects that other research methods may fail to notice. Consequently, case study or case studies can be descriptive, illustrative, experimental, and explanatory, as the research draws upon existing theory to explain what is happening (Hussey and Hussey, 1997).

Another factor that led the present researcher to the use of case study as a research strategy is the deficiency of statistical data and information on Malaysian firms in terms of outward investment. As explained in section 4.1.3, the validity of the statistical data is inadequate in many respects. First, the analysis of outward investment from Malaysia has had to rely at times on scattered reports and scanty data and information. Second, most leading Malaysian corporations are organised in large conglomerates and groups. There are large numbers of subsidiaries and associated companies of these groups (which are not listed on the Malaysian Stock Exchange (MSE) that are involved directly in international business. Data and information on these subsidiaries are not available publicly. Only MSE published data is available, such as annual reports or additional required documentation in the form of budget reports, and in-house publications and magazines. Third, as explained in Chapter 4, outward direct investment is still considered a relatively new phenomenon in the Malaysian economy. These available statistical data and information are not accurate and mostly inconsistent with actual interrelated developments (Malaysian Business, 16 January 2003). In addition, the target population is small, as not many Malaysian firms are involved in international ventures and operations. With all these statistical and methodological limitations, therefore, the reliability of purely quantitative analysis would be dubious.

Bearing in mind the above conditions: the type of research questions, nature of the study, availability and accessibility of data and information, it was concluded that case studies would be the most suitable and appropriate methodology to be used in this thesis.

In general, a longitudinal case study would be a better way of doing research on the internationalisation process of firms, because it provides a continuous series of events and makes it possible to identify the changes that occur. However, for this study, time and financial constraints had to be considered. More importantly, in the Malaysian context, conducting a longitudinal case study would be problematic. This is because first, data on international investment activities by Malaysian companies is limited and scattered, as such activity is a relatively new phenomenon to the Malaysian economy (Okposin et al., 1999). To gain access to information on outward direct investment activities is difficult. Second, in Malaysia, as in many countries, it is often difficult to retain the same set of respondents in a particular company, because they tend to move internally to other departments, divisions or to other subsidiaries when promoted or tend to move to companies that can offer higher rewards. Third, this study focuses only on leading Malaysian firms which are actively involved in international business. Access to these companies to gather strategic data is not an easy task, as information is highly confidential. Fourth, as this thesis was an individual project, time and finance were two major constraints. For those reasons, therefore, a cross-sectional case study research strategy was felt to be more practical for this thesis. As Sekaran (1992) stated, due to the constraints that a researcher experiences, he sometimes has to settle for less than what would be the ideal research design.

5.4 The Data Selection

5.4.1 Case Selection

Hussey and Hussey (1997) suggest that a key stage in case study research strategy is selecting the case(s), and that to understand this issue fully there is a need to acknowledge the rationale behind the selection of the chosen companies. This is because case study selection is purposive rather than random. It is not sampling research. The data selection does not involve statistical generalisation, which seeks to ensure that the data collected are samples of a larger population. Rather, analytical generalisation is achieved through a replication process, the relevance of various theories being studied for a variety of different cases. According to Yin (1994), "In analytical generalisation, the investigator is striving to generalise a particular set of results to some broader theory". The purpose of analytical generalisation here is not to validate theories but to study their suitability in unfamiliar economic environments. The generalisation criterion is thus replaced by a flexibility criterion (Bulmer, 1979;

Yin, 1994). The findings are compared to a developed theoretical proposition (as in section 5.1) that is used as a research outline. If two or more cases support the same proposition, replication may be claimed. In this research, it was anticipated that a single case study would not supply enough evidence to validate all principles and correspondent heuristic 'implementation approaches'. Therefore, a multiple case study design appeared to be the most appropriate configuration for this research, because it increased the degree of certainty and judgmental accuracy about replications. The more the results may be replicated in multiple cases, the more compelling is the overall study (Herriott and Firestone, 1983). According to Remenyi et al., (1998) evidence from multiple-case studies is more compelling, replicating pattern matching and the results are thus more robust. In addition, a multiple-case approach encourages researchers to study patterns common to cases and theory and to avoid chance associations (Eisenhardt, 1991). Moreover, multiple-case study design demands the formulation of a protocol for data collection that reduces the chances of missing important data and thus facilitates subsequent analysis (Robson, 1993; Yin, 1994). Although multiple case study research requires more time and resources, this methodology has been chosen because it best fits the central purpose of achieving both a 'literal replication' and 'theoretical replication' (Yin, 1994). Literal replication is defined as an approach in which a few cases (two or three) are selected to predict similar results. Theoretical replication produces contrasting results across a greater number of cases but for predictable reasons. There is no ideal number of cases in the multiple-case approach (Ghauri et al., 1995). Instead, the research objectives and the research questions generated for the study may influence, but not determine, the quantity and selection of cases to be studied.

Considering these, three corporations were proposed for selection as cases based on their history (see Table 5.1). These case companies were selected because they were good representatives of the phenomenon of interest i.e. the internationalisation of Malaysian-based firms in international markets. Five main topics are discussed in each of the findings chapters in this thesis, and the chapters (6, 7 and 8) are structured similarly: first, the industry background; second, the business background, growth and development of the respective case company; third, the potential ownership advantage and its business strategy; fourth, the overseas expansion; and finally, the conclusion and implications of the case evidence as illustrated in Figure 5.3.

Figure 5.3: Structure of Case Study Development

Two Empirical Research Questions:

a. how to explain the internationalisation pattern and process of Malaysian-based multinational firms, the motives of international growth, and the nature of their investment activities with regard to entry modes and expansion strategies? and

b. what are the (potential) sources of advantage of these corporations in growing their business domestically, and successfully expanding internationally, and how are these developing and progressing?

Chapters 6, 7, 8

General Overview of Industry Background

Case Study: Business Background, Domestic Growth and International Expansion

Building up (potential) Ownership Advantages and Business Strategy

Analysis of the Internationalisation Pattern and Process

Conclusion and Implications of the Case Evidence

Research Objectives:

a. to introduce new empirical evidence to the international business literature concerning the emergence, growth and internationalisation of Malaysian-based firms;
b. to shed light on the dynamic aspects of the internationalisation process of the Malaysian firms, and thus, potentially develop new information on the international expansion of firms;
c. to reflect on what can be learned from the experience of the firms in growing domestically and expanding internationally;
d. to understand the pattern of outbound direct investment activities of these corporations, which is considered as a new area to the Malaysian economy;
e. to explore the progress of successful professional Malay ethnic involvement in business activity;
f. to add to the knowledge of multinational firms from Malaysia in order potentially to improve policy-making and investment decisions;
g. to gain a better understanding of the role of internationalisation knowledge, experience knowledge, technological competence and business network connections as a source of (potential) advantage in the internationalisation process

Table 5.1: Profiles of the Companies Selected for the Cases

Company	Group Revenue 2004/2005 (RM Millions)	Ranking in Malaysia Top 100 Companies by Turnover 2005*	Year (Establishment) /Incorporation	Employees (Appx)	Core Industries
TM Berhad (TM)	13,250.9	3	(1946)/1984	27,000	Telecommunication service provider and related services
Petroliam Nasional Berhad (Petronas)	137,046	1	1974	33,000	Petrochemicals, oil and gas
Sime Darby Berhad (Sime Darby)	18,645.7	2	(1910)/1978	25,000	Diversified – motor vehicles, heavy equipment, plantations, property and energy

* *Malaysian Business, 16 October 2005*

As suggested by Gummesson (1991), knowledge of the company's history is deemed to be essential, since a study of significant events in company history is expected to provide insights that might act as a basis for decisions about the future. Equally, it is also important to bring the story up-to-date with a review of some key developments, which occurred after the research was conducted. Consequently, there follows a review of the development of the case study organisations.

In the literature on internationalisation, Jones (1999) called for studies focusing on more narrowly defined groups of firms generating rich data. Each firm was chosen by replication rather than sampling logic (Chetty, 1996). Each case was looked at as a separate entity, enabling unique patterns, which can be generalised across cases, potentially to emerge (Eisenhardt, 1989). The purpose of this research is not to claim that the findings are universal and representative of all Malaysian corporations. Rather, the research seeks to compare the findings on selected Malaysia-based firms to the theoretical proposition as suggested.

Needless to say, the use of case studies has various shortcomings, including lack of statistical validity, an inability to test hypotheses, and the fact that it is difficult to form general conclusions (Gummesson, 1991). In addition, the company chosen as a case may fail to divulge information and may restrict employees or other key respondents from giving away relevant data to others. A case study obtains its data largely through a review of written records and by means of interview (Jankowicz, 1994). Difficulties in obtaining data through these techniques could become a key problem in the development of the cases. This scenario is especially true for Asian-controlled companies, particularly overseas Chinese and Indian family business organisations. Such organisations take pride in having a low profile, and avoiding publicity. They tend not to report the structures of their firms specifically, and prefer to operate behind the scenes (George and Usha, 1999). These tendencies often obfuscate researchers' efforts to ascertain who the controllers are, and examine their organisation in detail. During selection of the case companies, the researcher approached several of these organisations to invite them to participate in the study. A formal letter from the University of Hull and a supporting letter from the former Malaysian Prime Minister, H.E. Tun Dr. Mahathir Mohammad were sent to these respective corporations. However, some of them refused to participate. Among the reasons given were their being new to international exposure, most of their international ventures being dormant (private holding or investment companies), and confidentiality of information on business strategies.

Malaysians, in particular, are reluctant to answer survey or research questions because of the inadequacy of research culture embedded in the overall society (Arshad, 1998). Ragayah, Mohammad and Habibah (1997) are among the few who have recently conducted empirical study on Malaysian investment abroad. They confirmed that internationalisation research in Malaysia is a relatively new phenomenon, and data and information boundaries limit the ability of researchers to include more companies in their samples. They stress that data gathering, especially in studies which involve analysis of company business strategy, pose challenges to research in this region. In addition, some of the selected companies from Malaysia even asked for anonymity (Osotsapa, 1997). This is indeed true, particularly when considering the fact that Malaysian MNCs are new and nascent to the international arena, particularly in the outward investment, and internal information is not made available to individuals on the grounds of confidentiality. Evidence from this can be seen during the field study in some firms where the researcher need to signed a non-disclosure agreement with respective firms not to disclose some information, which was considered to be confidential to the organisation's business strategy and development (see Appendix 5). Moreover, during the literature review process, it was found that to obtain information (such as articles, books or journals) about Malaysian MNCs is limited or inaccessible. Overcoming these hurdles requires a close relationship between the researcher and individual case study companies.

Given the above difficulties, in this research, the size of the sample was limited to three corporations for the following reasons:

(a) First, although Malaysia began to have firms that could be truly considered multinational in the mid-1970s through a nationalisation programme in which the Malaysian government, via its state corporations, began to acquire some foreign companies operating in Malaysia, the trend of overseas investment by the Malaysian corporations only became noticeable in the 1990s (Asia Pacific Economics Group, 1997; Okposin et. al., 1999). Very few Malaysian firms are involved significantly in international business activities. In fact, only a handful of Malaysian corporations have committed themselves to international expansion activities.

(b) Second, during a preliminary study (conducted between November 2003 – February 2004), several corporations were approached and invited to participate in this study. However, the response was disappointing. Although the researcher approached them directly, with the help of personal contacts and the former Malaysian Prime Minister's Office, some corporations refused to allow access for *any* research in their organisation.

(c) Third, during the selection of the case companies, several more firms were approached to participate, especially those related to overseas Chinese business firms, as these form an extremely vital business force in Malaysia. However, efforts to map the overseas Chinese influence failed entirely. These firms were not willing to participate. They prefer to operate quietly behind the scenes and seemed rather proud to maintain a low profile.

(d) Fourth, the difficulty of the data collection process (as explained in Section 5.3) has led this research to focus on three corporations as cases for the study. Data on the international investment activities of most of the Malaysian corporations are decentralised and scattered (see also Chapter 4). The majority of Malaysian corporations are organised as business groups, and have numerous subsidiaries which often deal with their own international investment activity independently. In addition, information in the public domain on Malaysian MNCs is still sparse.

(e) Fifth, the time and financial resources available precluded conducting more than three case studies. This thesis is interested in examining and investigating the dynamic aspect of the internationalisation process of Malaysian-based firms, for which a historical approach was adopted. As stressed by Kjellen and Soderman (1980: 27), "it is not possible to understand the actual state of an organisation without an insight into the company's history, i.e. the processes that have led up to the company's present condition" (cited in Gummesson, 1991: 87). More efforts were needed to outline the firm's development in chronological order, and information available was not centralised in a single department, division or company. Furthermore this is the first attempt to conduct such a study at the micro level in established corporations, where information is likely to be scattered across various departments and subsidiaries.

Given these complexities, a case study analysis of three corporations was considered sufficient to address the research objectives. Similarly, there is evidence that other Ph.D scholars, who conduct research on the internationalisation of firms have only three cases in their studies (Tsai, 1997; Nickson, 1999). It is anticipated that the experience gained from the use of this methodology will provide some new insights for future study on the subject in Malaysia.

5.4.2 Criteria for Case Selection

The selected Malaysia-based corporations (see Table 5.1) were chosen for the case studies in this thesis on the following criteria (Chapter 6, 7, and 8 will provide more details): -

a. pioneering position of these corporations in their respective industries;
b. they are among the leading corporations in their national industries;
c. they are among the highest contributors to the country's economic growth;
d. they are the most actively engaged in overseas investment;
e. their. recognition in business performance in terms of profitability, and management proficiency;
f. the willingness of the firms to participate in the investigation;
g. accessibility to the researcher of the firm's internal resources and information, and the availability of secondary data

A basic limitation or constraint of this study was that it required access to detailed confidential information about specific companies. This, however, was not always possible. Moreover, the information requested from the firms covered a wide range of subjects, and data had to be gathered from different departments within the firms. The researcher was given a specific timeframe of between one and two months to access information. Given the limited time available within the companies for the research project, it was impossible to access and analyse all the in-depth resources in the departments within the organisations.

However, in order to get useful results, the following steps were taken for each case:

(a) The Pre-Research/Preliminary Phase (First Phase: November 2003 – February 2004): The goal of this stage was to understand the companies' backgrounds. It entailed developing an industrial competitive analysis, an analysis of corporate competitiveness, and reviewing extant literature on each company.
(b) Company Documents Collection (Secondary Data Collection Phase): The purpose of this activity was to collect and compile all documents, both internal and external, written at the time of the event. In TM Berhad and Petronas for example, the researcher used the companies' internal libraries to search for available secondary published and unpublished information.
(c) Primary Data Collection: Interview Key Respondents (First Phase: October 2004 – January 2005) and (Second Phase: end of April 2005 – June 2005): in-depth interviews with key senior executives and related stakeholders were conducted, focusing on questions that could not be answered by secondary information, and obtaining access to information not available in the public domain (section 5.5 will detail the data collection process).

5.5 The Data Collection

As said above, cultural limitations and data gathering problems pose challenges to conducting research in Malaysia, particularly as Malaysia in general and its multinational corporations in particular have been exposed to limited explorations in international business research. Yet the choice of a technique for data collection that is suited to the research is very important. As Creswell (1992) stated, it is useful to consider the methods for data collection and analysis in relation to the paradigm of choice. The next section will discuss issues related to reliability and validity of data, and the interview process and procedure.

5.5.1 Research Validity and Procedures

Research Validity

The primary source of data and information was a series of detailed in-depth interviews, conducted with key senior management personnel/executives of specific Malaysia-based multinational firms (including various subsidiaries and associated companies of the groups). The interview schedule covered questions concerning international expansion and business strategy of Malaysian firms. These interviews were important in order to gain a deeper understanding of the internationalisation process of the case companies, and enhance the credibility of the findings. In total, 32 interviews were conducted during the period of field study. Details of the interview process and procedure will be discussed in the following section. The main purpose of these interviews was to discuss the subject of the study. All interviews were semi-structured, since an interview schedule/guide was used, but extended when necessary, when pertinent topics arose during the interviews. Details of the interview schedule can be found in Appendix 2. The topics covered were as follows:

i. Internationalisation Pattern and Process of Malaysian-based Firms

ii. Internationalisation Knowledge and Experience Knowledge

iii. Entry Modes and Expansion Strategies

iv. Ownership Advantages of Malaysian Multinational Corporations

v. Source of Ownership Advantages: Technological Competence

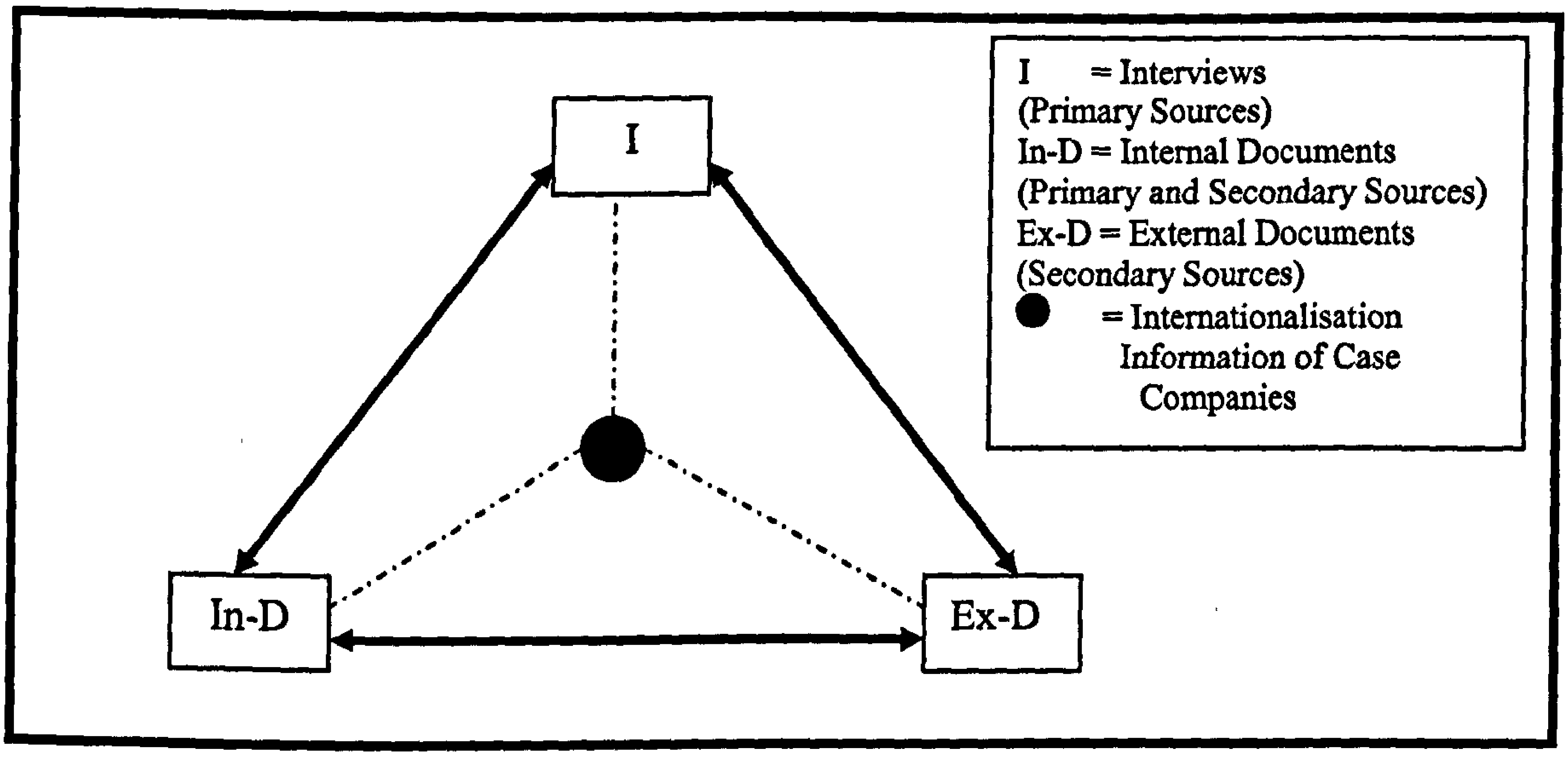
vi. Source of Ownership Advantages: Business Network Connections

vii. The firm's future Firm Direction Towards International Expansion

All the issues were derived from the two empirical questions proposed for this thesis. To test the content validity of the interview schedule, it was reviewed thoroughly and pre-tested with the research supervisor and changes were made, including rephrasing unclear statements, changing confusing words and vocabulary, and re-arranging questions so that the questions were more comprehensive and most importantly covered the aims and objectives of the study. Copies of the interview schedule were distributed to some respondents in the selected MNCs in May 2004 via email to gain feedback; before the final version of the interview schedule was developed.

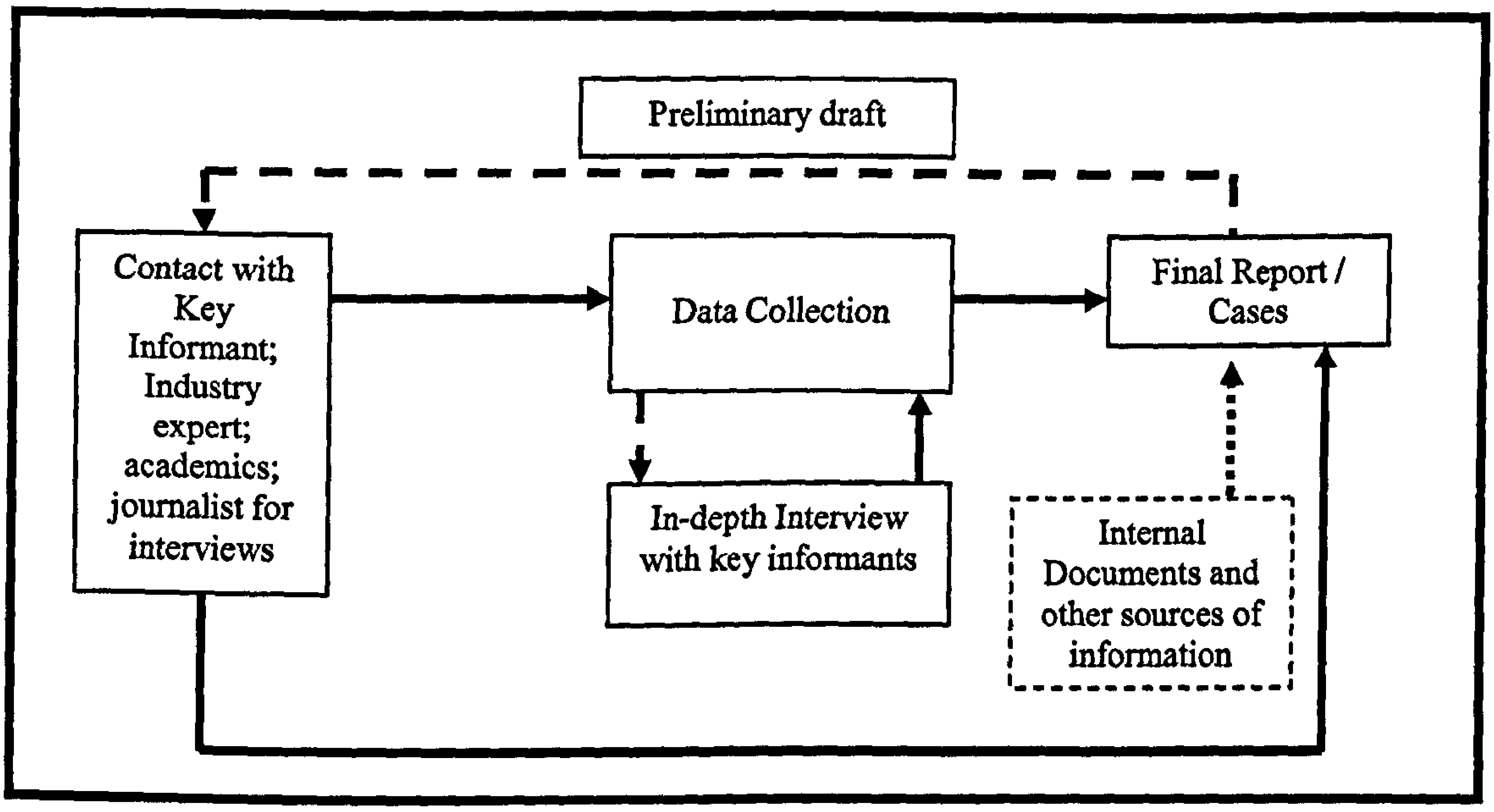
In conducting case studies, relying on a single source of information is inappropriate. Therefore multiple sources of evidence, both primary and secondary data, including internal unpublished documentation, internal brochures, archival records, internet web sites, company annual reports, company newsletters, newspaper clippings, magazines and other sources (published and unpublished materials) (Punch, 1998; Yin, 1989) were also collected in order to construct the cases and to increase validity. In addition, these supplementary documents and materials were used to acquire a more complete and balanced picture of the cases, as summarised in Figure 5.4. This triangulation of data is important in order to increase the quality of research, and enhance the validity of findings (Punch, 1998; Bryman, 2001; Oliver-Hoyo and Allen, 2006). Most of the information related to the firms was kept in company archives. With data triangulation, information from multiple sources could be corroborated to help construct a chronological chain of historical development for each firm (Yin, 1994).

Figures 5.4: Data Sources on the Internationalisation of the Firm



Another way to increase the validity was concerned with establishing causal relationships, whereby certain conditions were shown to lead to other conditions so as to build explanations about the case when analysing the evidence (Yin, 1989). Yin (1989) mentioned that moving back and forth between a proposition and the empirical evidence is a characteristic of the building of explanation. Using a variety of sources and maintaining a chain of evidence were the two key methods employed in collecting data. Moreover, a preliminary draft of each case report was sent to key informants at each firm to be reviewed to allow them to provide feedback before the final report was produced, in order to ensure the accuracy of the information gathered. The development protocol for data collection followed the structure illustrated in Figure 5.5. It maintained a chain of evidence to support the validity of quality data and information collected for this thesis.

Figure 5.5: Protocol for Data Collection



The Field Study Process

Before conducting the field research, the researcher was aware that the research environment in Malaysia requires much attention to be paid to confidentiality. Blaxter et al. (1996) emphasise the importance of context and advise that the choice of research strategy should be based on the ground realities in which the research is being conducted. Conducting a field study within the Malaysian context is significantly different from doing so in the Western culture. In Malaysia, the cultural setting, which is not research oriented, imposes a number of constraints and limitations. During the preliminary phase (in November 2003 – February 2004) of interviews for instance, some government officers were reluctant to participate, particularly in a study which they feared might criticise Malaysia's business policies towards its multinational corporations. They advised the researcher to obtain formal letters from the authorities concerned indicating approval for conducting research in the organization. Keeping these considerations in mind, the researcher prepared adequate materials for the field study of the selected multinational corporations during the second phase of the empirical study.

Before the research travelled, letters explaining the research project and requesting interviews with key informants were sent to selected Malaysian-based multinational firms. In TM Berhad and Petronas, the researcher benefited from personal contacts made during his visit to conduct a preliminary study in November 2003 – February 2004. These personnel advised on the proposed key respondents to be interviewed. In TM Berhad, for instance, the Human Resources Department manager provided a list of suitable candidates.

In the first phase of interviews with the two multinational corporations, a total of 17 interviews (12 in Petronas, and 5 in TM Berhad) were conducted between October 2004 – January 2005. In the second phase of interviews in May 2005 – June 2005 in Sime Darby Berhad, a total of 4 key respondents participated. In this second phase, the same process and procedure of requesting permission for interviews were used to access information. Approaching Sime Darby was not an easy task. During the first visit, they refused to take part. However, on being shown a personal support letter from the former Prime Minister of Malaysia, H.E Tun Dr. Mahathir Mohamad, (attached in Appendix 4) they became willing to participate. All of the respondents interviewed were persons who had direct participation in the formation of international expansion strategy or were involved directly in international business activities. The profiles of the selected key personnel/informants involved in the in-depth interviews can be seen in Appendix 3. Sime Darby Group Chief Executive

Office gave the names of the four key respondents. Most of the interviewees were the top-level management in the corporations concerned, such as the Non-Executive Director, Chief Executive Officer, General Managers and executives of the organisations. In virtually all cases, the key executives contacted for interview were identified to be the persons in charge of and most knowledgeable about, and indeed, key decision makers of high status in the international operations of their respective firms.

The field study process having been explained, the next section looks at the research interview procedures.

The Research Interview Procedures

As mentioned in section 5.4.2, interviews were conducted during several field trips. Those interviewed included company executives, academics, governmental officers, and industry experts. In-depth interviews were preferred to the survey method. An interview was described as "a conversation between the researcher and the subject" (Thursfield 2000: 73). Interviews allowed the researcher to probe more deeply into the research issues and are considered a very useful tool of investigation. Kerlinger (1981) suggests that interviews can supplement and validate other research methods, such as a questionnaire, as they allow the researcher to go deeper into the attitudes of respondents by asking for the reasons behind the responses. Respondents were also encouraged to talk about the topic from their own perspectives. The interview schedule was open-ended and semi structured in nature. The assumptions of this research during the interviews were as follows:

a. all participants or interviewees were familiar with their work and operations.

b. the responses of the participants or interviewees reflected their perceptions and feelings.

c. the views of the participants or interviewees represented and corresponded to those of their organisation.

All interviews were carried out in respondents' offices in the selected multinational corporations. Each interview lasted between one and a half and two hours. Respondents were asked both factual matters and their opinions on the business strategy in their international ventures. In some cases, several interviews with the same respondent were conducted to clarify certain issues, especially on the information about the firm's strategic history and about the evolution of its competitive advantage. As most interviews were conducted on condition of confidentiality, interviewees are not identified throughout the text of the thesis.

During the interview process, the interview schedule was used as a guide and to prevent the discussion from becoming incoherent. This is because interviews are expensive and time-consuming (Thrusfield, 2000). In the process of interviewing, confidentiality was assured to each respondent. A tape recorder was used during conducting the interviews. This was to ensure that none of the important points during the interview process was omitted, and to enable the researcher to recall the nuances of the discussion by listening to the recordings. Authors such as Saunders et. al., (1997) have debated the veracity of material generated when the interview is taped, and in particular, whether the presence of a tape recorder inhibits the interaction between interviewer and interviewee. A flavour of those debates is given in Table 5.2.

In the current research, the use of the tape recorder as an additional tool for keeping information depended on the consent of the respondents.

Table 5.2: Advantages and Disadvantages of Tape Recorder Interview

Advantages	Disadvantages
Allows interviewer to concentrate on questioning and listening	May adversely affect the relationship between interviewee and interviewer (possibility of 'focusing on the recorder)
Allows questions formulated at an interview to be accurately recorded for use in later interviews where appropriate	May inhibit some interviewees responses and reduce reliability
Can re-listen to the interview	Possibility of technical problems
Accurate and unbiased record provided	Disruption to discussion when changing tapes
Allows direct quotes to be used	Time required to transcribe the tape
Permanent record for others to use	

Source: Saunders, Lewis, and Thornhill (1997)

In the case of this thesis, all officials agreed to be recorded, without restrictions. In fact, some of the key respondents were very supportive and showed no reluctance to use a tape-recorder. Overall, the interview process was conducted successfully. The researcher then prepared a transcription of the interviews based on his notes and the tape recordings.

5.6 Data Analysis

Data analysis proceeded simultaneously with data collection, data interpretation, and narrative report writing, in an iterative manner. The researcher read the transcripts several times to familiarise himself with the content and to locate the main 'themes' of responses.

The voluminous information collected was then arranged into patterns, categories, and themes closely tied to the research questions, and then this information was interpreted by using schema in order to do 'explanation building'. Causal links were sought and plausible explanations explored in order to build a conceptual model of the case.

In the case study research, the data analysis was not to claim that the findings are representative of the entire population, but to observe whether the finding of the case was congruent with the theoretical propositions that had been developed. Therefore, the general strategy in analysing the cases was to rely on the thesis's principal theoretical proposition - the preferred data analysis strategy for case study research (Yin, 1994: 105-9). This proposition was that the combination of internationalisation knowledge and experience, technological competence, and business network relationships can serve as a unique (potential) source of ownership advantages for Malaysian-based firms to grow domestically and expand internationally.

5.7 Conclusion

This chapter has outlined the methodological concerns in conducting this study. In conducting any research, the use of the appropriate research strategy is key to successful achievement. Having realised the importance of selecting a suitable research methodology, the researcher chose to follow a case study as a research strategy in this thesis. It was argued at the beginning of this chapter that the exploratory nature of the research questions, dynamic aspect of the subject matter, and the contemporary, real-life context of the events made case study the preferable methodology. In addition, the selection of the approach was due mainly to the specific nature of the subject, which merits further study. Having justified the research methodology, this thesis will now move on to present the findings from the case study companies in chapters 6 – 8 on the emergence and internationalisation of Malaysian-based corporations.

CHAPTER SIX

PETROLIAM NASIONAL BERHAD (PETRONAS)

"The Petronas corporate vision is to become 'A Leading Oil and Gas Multinational of Choice'" (Tan Sri Mohd Hassan Marican, President and Chief Executive, Petronas)

Petroliam Nasional Berhad at a glance:

Year of incorporation	:	17 August 1974
Operating Revenue in 2005	:	RM137,046 billion (US$36,070.0 billion @ RM3.80)
Industry	:	Oil and Gas Business
Current Overseas Investment	:	35 countries
Company Status	:	Government-owned Corporation

6.0 Introduction

Because of its extensive international activities in over thirty-five countries and its being Malaysia's only Fortune Global 500 company, the Petronas group has often received the accolade of being a role model as one of the most successful multinationals from a developing country. Although the firm is still an 'infant' where the oil industry is concerned, it has managed to take on the veteran multinational oil and gas giants both at home and abroad. Petronas has managed to become a versatile, diversified, fully integrated and global player. When the group first embarked on its internationalisation strategy at the turn of the 1990s, its objectives were to augment Malaysia's crude oil reserves, add value to its core business, and provide new challenges for its young employees, while at the same time contributing to the well-being of the nation and the people of the respective host countries where it operates (Bowie, 2001). Nowadays internationalisation has become a key element and new dimension for the firm's growth strategy (Interview 1(B): 15 September 2004, Interview 1(D): 13 September 2004). Its status as a 'National Oil and Gas Corporation' and being fully owned by the Malaysian Government, led to the transformation of the firm from its humble beginnings in 1974, to its present day status. The Petronas group is often seen as a leading representative from Malaysia (UNCTAD, 2003, 2005), and by any corporate measure, it is the country's greatest success story, and a true testament to Malaysian capability (Interview 1(G): 22 October 2004).

Utilising the internationalisation process and developing-country multinational corporation literature, a case study research methodology is employed in this thesis to chart the domestic development and international expansion of Petronas as the Malaysia National Oil Corporation (MNOC). Data was obtained from in-depth interviews with several top level key executives in order to present the international expansion process of this firm.

The Petronas group was chosen as a case study in this thesis for the following primary reasons: (a) it is the only Malaysian-based corporation ranked among the Top Fortune Global 500 companies; (b) the group managed to grow rapidly in the domestic market and is clearly among the most active Malaysian firms investing internationally; (c) the firm is the dominant corporation in the oil and gas industry in Malaysia; and (d) its status as a wholly-owned Malaysian government corporation draws attention and raises the question as to how the group's international growth and development has benefited from its relationship with the government, as a wholly-owned corporation or from its professional management skills and capabilities in managing the organisation.

The chapter is divided into five main sections constructed in the following order. First, to provide an understanding of the overall structure of the case, section 6.1 introduces the general background of the petroleum industry in Malaysia. Section 6.2 presents the historical background of the Petronas group both at home and abroad, and explains its internationalisation development. Sections 6.3 and 6.4 then analyse important factors behind the group's domestic and international expansion. Finally, section 6.5 presents the conclusions of the case study.

6.1 Malaysian Petroleum in Perspective: An Industry Overview

The oil industry in Malaysia has the distinction of being one of the earliest industries, besides tin and mining (Bowie, 2001). The industry is more than 100 years old. Official records indicate that oil was first found in 1882 in the Miri area in the East Malaysian State of Sarawak. Commercial exploration activities that followed in the area eventually led to the discovery of the onshore Miri field in August 1910 by the Anglo-Saxon Petroleum Company (now known as Sarawak Shell). The Miri oil strike marked the beginning of the Malaysian petroleum industry (Noor, 1984).

In the early days, these exploration activities were conducted under a concession system. Under this system, large areas were made available to oil companies under very generous terms and the government played a minimal role, merely as a collector of taxes and royalties from the operating oil companies (Arjun, 1985). The global oil crisis of 1973, however, proved to be a turning point for the Malaysian petroleum industry, and awakened the country to the precious and strategic nature of its oil and petroleum resources (Ahmad, 2001). The oil embargo, in which several Arab oil producing states decided to stop oil shipments to certain countries, especially the United States of America in retaliation for their support of Israel in the conflict, made several oil-producing countries of the world, including Malaysia, realise the importance of controlling their own petroleum resources. To achieve this objective, the Petroleum Development Act (PDA) was introduced to oversee and manage the development of the country's hydrocarbon resources and the setting-up of Petroliam Nasional (Petronas) in 1974. Petronas was incorporated to serve as the Government's instrument to take charge of petroleum matters and to exercise, on behalf of the country, its sovereign rights over its own oil and gas resources (Interview 1(B): 15 September 2004)

Under Petronas' stewardship, the Malaysian petroleum sector grew from the status of tax collector to that of a fully integrated petroleum industry. Among the initial steps undertaken by Petronas in its early establishment was the conversion of the concession system (Balakrishnan, 2002). The concession system, which favoured the oil companies, was replaced with Production Sharing Contracts (PSCs) in 1976[1]. The alteration was made in order to ensure a more equitable partnership between Malaysia and multinational

[1] See www.petronas.com.my for details of the concession system and PSC terms and conditions.

oil companies, and to fulfil its obligation to disseminate the wealth derived from this indigenous petroleum to the people of the nation in line with the New Economic Policy and National Petroleum Policy (Interview 1(A): 28 October 2004). The PSCs provided an increased share of revenue to the government, which enabled the government to implement an accelerated programme for the long-term development of the Malaysian petroleum industry, to spur and support the nation's economic growth (ibid). As such, petroleum replaced rubber as the country's main earner of foreign exchange in 1980. In 1985, new and more attractive PSC terms were introduced. As a result, many more companies were attracted and new contracts were signed. In 1987 alone, seven PSCs were signed. The number of PSCs has increased considerably and in the event of empirical research in Petronas, there are 53 PSCs in operation, the highest level for the last 29 years (Interview 1(B): 15 September 2004). Two of the PSCs are for ultra-deepwater blocks covering water depths of up to 4,000 metres.

The petroleum industry in Malaysia can be described as oligopolistic in nature, with various foreign and domestic oil companies involved in the business, namely, ExxonMobil, Shell, British Petroleum, Caltex and Petronas. The large capital investment needed to operate a petroleum company limit the involvement of many other corporations (Interview 1(D): 13 September 2004; Interview 1(B): 15 September 2004). In addition, the Petroleum Development Act 1974, which gave Petronas the entire ownership of, and exclusive rights, powers, liberties and privileges in exploring, exploiting, winning and obtaining petroleum whether onshore or offshore, constituted an entry barrier. By virtue of the Act, Petronas remained the sole concessionaire of petroleum resources in Malaysia (Ahmad, 2001).

With the development of Petronas, the country's petroleum and gas industry has now grown rapidly and Malaysia has been identified as an important market for the oil and gas sector with its 85.20 trillion standard cubic feet of natural gas reserves and its net oil exports of over 300,000 barrels per day (Petronas Financial Highlights, 2005). Now that the country's petroleum industry background has been given in brief, the next section looks at the domestic and international growth and development of the Petronas group in greater detail.

6.2 Petroliam Nasional Berhad (Petronas): Business Background, Domestic Development and International Expansion

The Petronas group has been one of the most successful and discussed domestic business groups in Malaysia. With consolidated revenue in the year 2005 of RM137,046 billion[2] (US$36,070.0 billion)[3] and profit before tax of RM58,030 billion (US$15,273 million), the Petronas group ranks top among Malaysia's largest and most profitable corporations (Petronas Financial Highlight, 2005; Malaysian Business 16 October 2005). From a firm capitalised at a mere RM10 million in 1974, Petronas has now become a giant RM100 billion (US$38.0 billion) oil and gas company with assets in excess of RM239 billion

[2] The group achieved exceptionally strong financial results, the best in its 30-year history

[3] This value based on the exchange rate of 1.00 Ringgit Malaysia equivalents to 3.80 US Dollar. The exchange rate was pegged in 1997 due to government restriction as a result of Asian Economic Financial 1996/97 crisis.

(US$62.9 billion), thanks to well-structured, professionally managed, and carefully thought out domestic and international operations, and of course, higher and more volatile crude oil prices (Interview 1(B): 15 September 2004, Financial Highlight, 2005). The group total shareholder's fund are currently RM129,383 billion (US$34,053 billions); total assets are RM239,077 billion (US$62,923 billions). With net cash of RM22.4 billion, the group is one of the richest companies in the country. Since its inception, Petronas has grown to be a fully integrated oil and gas company engaged in a broad spectrum of petroleum and related value-adding activities with business interests in thirty-five countries, mostly in developing nations, and with more than 33,000 staff worldwide (Annual Report, 2005). More than 90% of the staff is Malay. As a result, the company is always seen as a showcase of specifically Malay achievement - providing a convincing demonstration of Malay's capability to manage a large, sophisticated, high-tech industry (Interview 1(A): 28 October 2004). During an interview, an advisor of Petronas, was quoted claiming:

> A successful growth and development of Petronas is an example of *bumiputera* leadership and management capability in managing a multinational corporation. This is resulted from the achievement of our New Economic Policy in developing the Malay ethnic group (Interview 1(A): 28 October 2004).

Petronas was recognised as one of the truly Asian national oil companies (New Straits Times, 3 July 2004). The holding company – Petroliam Nasional – is not a publicly listed company. However, its three subsidiaries, namely, Petronas Gas Berhad (PGB)[4], Petronas

[4] Petronas Gas was incorporated on 23 May 1983 under the Companies Act, 1965 as a private limited company and commenced business on 1 April 1984. The Company was converted into a public limited company on 28 March 1995.

Dagangan Berhad (PDB)[5], and Malaysia International Shipping Corporation Berhad (MISC)[6] were listed on the Malaysia Stock Exchange (MSE) (formerly known as Kuala Lumpur Stock Exchange). Given its status as National Oil Company (NOC), and its strategic importance in developing Malay involvement in business activity, Petronas would lose its strategic objective if it were listed on the MSE (Interview 1(A): 28 October 2004). As at the end of March 2004, the group comprised 93 wholly-owned subsidiaries, 19 partly-owned outfits and 55 associated companies (Petronas Financial Highlights, 2004). In terms of business and operations, the group is engaged in a wide spectrum of petroleum activities, ranging from the domestic and international upstream exploration for and production of oil and gas, to downstream oil refining, marketing and distribution of petroleum products, trading, liquefied natural gas, gas processing and liquefaction, gas transmission pipeline network operations, petrochemical manufacturing, shipping and property investment (Annual Report, 2005).

This section looks at the group's domestic and international development from its inception until the present and is divided into three primary stages: the turning point and the formation of Petronas (1973 - 1974), domestic growth (1974 - present), and international exposure and expansion (1975 - present).

The Turning Point and the Formation of Petronas (1973 - 1974)

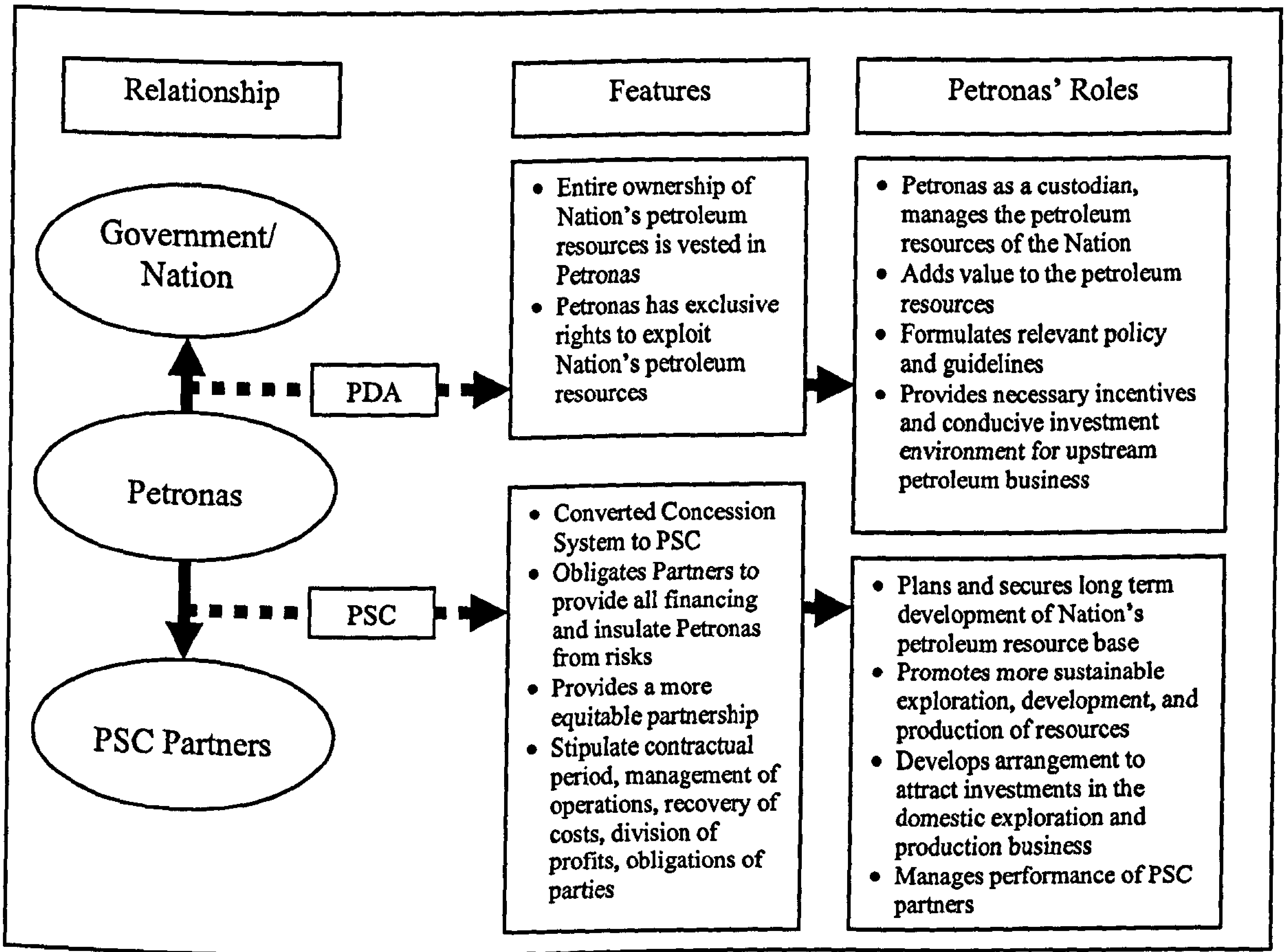
[5] PDB was incorporated on 5 August 1982 and converted into a public limited company on 21 August 1993.
[6] MISC was set up in November 1968 as a joint venture between the Government of Malaysia and a group of private entrepreneurs in shipping with the view of helping the country develop into a maritime nation.

The origin of Petronas can be traced back to 1973, when the world faced an oil crisis due to the Arab-Israeli War. Bowie (2001) explained that:

> The firm was born due to the economic crisis and political drama during that time, and a late Malaysian Prime Minister 1971 – 1976, Tun Abdul Razak initiated the development of the company.

The experience and impact from the crisis caused the Malaysian government to begin to take a more dynamic and proactive role in overseeing and managing the country's petroleum resources in the best interests of the nation and its people. To achieve these objectives, Petroliam Nasional Berhad (Petronas), was created and incorporated as a business entity on 17 August 1974, under the Companies Act 1965. "It was the energy crisis of 1973 that made the governments of developing nations realise that they had to better manage their own vast oil and gas resources" (The Star, 17 August 1999). This decision was not a surprise, considering the fact that similar approaches were also taken by governments of other countries, for instance, in Indonesia, Saudi Arabia, Nigeria, Venezuela and Norway, which all nationalised their newly-found oil to form state-owned corporations (Ahmad, 2001). In this way, they sought to protect their own petroleum resources for both political interests and economic objectives. Like many other national oil companies (NOCs) in the world, the primary objective of Petronas is to strike an appropriate equilibrium between commercial and social obligations such as maximising production versus the conservation of oil and gas reserves, maximising export as opposed to diverting crude to manufacture for domestic consumption, and sacrificing profitability in order to bring a wider range of products to the general population (Interview 1(A): 28 October 2004). This led to the promulgation of the Petroleum Development Act enacted in Parliament on the 1 October 1974. The introduction of the PDA provided the legal form of Petronas to exercise control over the petroleum industry (Interview 1(F): 17 September 2004). Under the Act, the entire ownership in, and the exclusive rights, control, powers, liberties and privileges of, exploring, exploiting, winning and obtaining petroleum in the country whether onshore or offshore are vested in Petronas (Interview 1(C): 11 October 2004; Resources Magazine, 1996). This new arrangement envisaged Production Sharing Contracts (PSCs) to replace the previous concession system, which granted exploration and production acreages to the private oil companies on the most generous of terms, under leases of up to 40 years or more, and subject to minimal control. If oil or gas is discovered and commercial production commences, Petronas and the PSC contractors share such production in accordance with the terms of the governing PSC (Interview 1(B): 15 September 2004). Realising the national interests, strategic reasons and economic objectives, the group was structured with government interest and control through interlocking stock ownership (see Chapter 4). However, unlike other NOCs, it is incorporated in the private sector as a profit oriented organisation with the objective of ensuring that Malaysians enjoy the fullest benefits from their indigenous petroleum resources (Interview 1(A): 28 October 2004). This is one of the unique features of the Malaysia National Oil Corporation (MNOC), compared to NOCs in other countries (Interview 1(G): 22 October 2004; Interview 1(A): 28 October 2004). Figure 6.1 shows the group's reporting structure: the relationship between Government, Petronas and Product Sharing Contractors.

Figure 6.1: Petronas Reporting Structure as Government-owned Corporation



Unpublished Source: Petronas

As a government-owned corporation, Petronas is directly responsible to the Prime Minster, and also reports to the National Petroleum Advisory Council which was established under the Petroleum Development Act to advise the Prime Minister on all matters concerning energy, including petroleum. By reporting directly to the Prime Minister's office, the firm is able to make decisions fast and to adapt to changes in the market and need not go through the tedious procedure of the Government, which would mean going through Parliament for any major operating decision (Interview 1(A): 28 October 2004). By virtue of the PDA 1974 Act, the company is the sole concessionaire of petroleum resources in the country. Petronas acts on behalf of the Malaysian Government as the owner and manager of Malaysia's petroleum resources.

Petronas Domestic Growth (1974 - present)

Being involved in the domestic oil and gas industries, the primary business activities of the group can be divided into two: upstream activity and downstream activity (Petronas, 1988). Petronas' upstream activity and operation are focused on enhancing and sustaining oil and gas reserves by promoting exploration and production (E&P) activities within the country and securing new acreages overseas. Although in its early operation, Petronas' role was limited to the supervision of contracts with companies like Shell, Esso and Elf Aquitaine in their E&P activities, and the approval of their expenditures and work programme, by 1978 Petronas started to grow by venturing into exploration and production too. This activity is undertaken and managed through production sharing contracts (PSCs) with a number of established international oil and gas companies as well as with the group's subsidiary - Petronas Carigali Sendirian Berhad (PCSB) which was incorporated in 11 May 1978 as Petronas' E&P arm. The exploration efforts of Petronas and its contractor have led to the discovery of oil and gas fields with significant reserves. The strategic moves made by PCSB have marked the growth of the group as a successful National Oil Corporation (Interview 1(B): 15 September 2004). Currently, the group has 53 producing oil fields and several others under development. These oil fields produce five high quality blends of crude[7], namely, Tapis, Tembungo, Labuan, Miri, Bintulu, and

[7] All these blends are of high quality and generally command a premium price over benchmark Brent crude on the world market. It is of premium quality and fetches higher prices than Arabian Light.

Dulang. At the start of 2005, Malaysia's reserves were estimated at 5.24 billion barrels of crude oil and about 87.0 trillion standard cubic feet of gas (Petronas Financial Highlights, 2005). At the current rate of production, Malaysia's oil reserves are expected to last another 19 years, while the average life for gas reserves is 33 years (Annual Report, 2005).

In the downstream operation, the activities consist of oil business (refining and marketing activities), gas business, petrochemical business, logistics and maritime business. Early in its life, Petronas ventured into downstream activities to achieve integration as an oil company and to ensure that in times of crisis and shortage, it would have greater assurance of supply of petroleum and its products (Malaysian Business, 1 March 1994). It first entered the retail petroleum products market in 1977 with the supply of aviation and bunker fuel. In 1979, in response to a domestic shortage of kerosene and diesel, Petronas began to operate retail outlets known as skid tank stations (Interview 1(F): 17 September 2004). Two years later in 1981, Petronas commenced operation of service stations to cater to the growing market for automobile fuel and other products. Nowadays, the group aims at maximising value creation by expanding the value chain of its business and strengthening the integration of its operations. The group is very active in the retailing of various petroleum products through its subsidiary and public-listed company, Petronas Dagangan Berhad (PDB)[8]. As a marketing arm of the group, PDB carries out specialised marketing functions and distributes a wide range of petroleum products at airports, seaports and a network of service stations and LPG outlets throughout the country.

[8] Prior to the incorporation of PDB, domestic marketing of petroleum products was undertaken by a division within Petronas.

Currently there are 729 service stations across the nation and this number continues to expand yearly (Petronas Financial Highlights, 2005). Although the market for petroleum products is very competitive, with some other major oil companies involved in the business, Shell, ExxonMobil, British Petroleum, and Caltex to name but a few, the group has successfully maintained its leading position as the largest supplier in the country with 40% market share. As one of the key executives commented:

> We continue to create distinctiveness in the market place to attract and retain customers through on-going branding initiatives (Interview 1(H): 14 September 2004):

A total volume of 73.2 million barrels of petroleum products, LPG and lubricant was sold in 2005. Petronas owns and operates two refineries in the country (in Melaka and Kertih) with a current combined capacity of 356,500 barrels per day (bpd) to supply petroleum products. The refined products are exported as well as marketed domestically. The group has enjoyed a wide market acceptance and customer confidence, as evidenced by its rapid growth and development (Interview 1(B): 15 September 2004). A significant development in Petronas' refining and marketing business was its acquisition of the entire holding in Engen Ltd, a leading South African oil company (Interview 1(C): 11 October 2004). The acquisition of Engen will allow the group to further build its strategic position to make further inroads into the growing Southern Africa and Indian Ocean rim markets.

Petroleum products remain the highest contributors to the group's revenue and other products are on the rise, thanks to the government's action through the Automatic Pricing Mechanism in controlling and putting a ceiling price on such commodities (see Table 6.1).

Table 6.1: Petronas Revenue Breakdown by Product, 31 March 2005 (in RM million)

	2004	2005	Percent Increase
Petroleum Products	32,862	44,485	35.4
Crude Oil	22,212	32,699	47.2
LNG	16,819	21,747	29.3
Petrochemicals	7,949	12,053	51.6
Natural Gas	1,358	2,027	49.3
Shipping	5,054	8,058	59.5
Processed Gas	4,205	4,937	17.4
LPG	2,415	3,535	46.4
Properties	1,436	1,951	35.9
Others	3,202	5,554	73.5

Source: Petronas Annual Report, 2005

In the manufacturing sector, Petronas has embarked on various world scale projects to add value to the nation's abundant gas resources and to spearhead the development of the gas and petrochemical industries, specifically LNG production and gas processing, refining and petrochemicals. Manufacturing contributes 57% of the total group's revenue income of RM78.2 billion (US$20.57 billion) (Financial Highlights, 2005). The group has gone into joint ventures with several well-known entities in refining and the manufacture of petrochemicals. The process led to the inflow of most of the foreign direct investment to the country in the past ten years.

To carry out its role and strengthen its position domestically, the group began diversification into non-petroleum enterprises when it invested in the maritime and logistics business (Malaysian Business, 1 September 2002). Petronas invested in shipping through a series of asset transfers and acquisitions involving Malaysia International Shipping Corporation Berhad (MISC) in August 1997 and Konsortium Perkapalan Berhad (KPB) in March 1998. The group holds 62.4% in the national shipping line MISC from 29.3%. Many critics have claimed that the group's investment in KPB was intended to 'rescue' the company from its losses – one estimate of these was RM1.7 billion (Far Eastern Economic Review, 19 February 1998) – and they feared that the decision made could deplete Petronas' reserves. However, the move was to protect Malaysia's strategic and sensitive industry and in addition these acquisitions were relevant to Petronas' business (Interview 1(B): 15 September 2004). There were undeniable synergies to be achieved by buying into shipping companies that boast oil tankers as part of their fleet. Commentators who were once sceptical about Petronas' shipping investments are now beginning to see the merits of the deal (Interview 1(H): 14 September 2004; Malaysian Business, 16 August, 1999). MISC's 13 LNG tankers have a solid revenue line from carrying Petronas LNG[9] to markets in the Far East. Petronas is able to benefit from its stronghold in shipping, as it needs to use vessels to export its oil and gas products to the region. The purchase of MISC allowed the group to conduct rationalisation activities so as to achieve economies of scale for its operations in LNG, crude oil and petroleum product exports (New Straits Times, 1997). As was pointed out by the group's Chairman, the late Azizan, the NOC is one of the major users of sea transportation and he had always considered shipping as part of its core business (Bowie, 2001). MISC, having acquired Petronas' entire shareholding in Petronas Tankers, together with the other acquisitions, has become the largest shipping company in Malaysia and the biggest single LNG tanker operator in the world (Malaysian Business, 1 June 2005).

The best known, yet most controversial diversification decision made by the group in its domestic expansion was in early 1985, when the group injected capital into Bank

[9] The LNG business accounts for 70% of MISC's earnings (Petronas Financial Highlights, 2005)

Bumiputera Malaysia Berhad (BBMB) (whose name changed to Bumiputera-Commerce Bank Berhad after the merger with Commerce Bank Berhad, on 1 October 1999) to save the state-owned bank from collapsing (Malaysian Business, 16 August 1999). The deal attracted controversy mainly because it appears to have been a departure from the group's pattern of business activities. In 1989, Petronas injected another RM982.4 million (US$258.5 million) into BBMB after the bank had chalked up losses of RM1.06 billion that year. The government contended that the move was important because a bank set-up to assist *bumiputera* businesses could not be allowed to fail (The Star, 27 November, 2003). The rescue was seen, then, as a call to national service (Interview 1(G): 22 October 2004). Petronas subsequently increased its stake in BBMB to 100%, although in 1991, it sold the entire bank back to Ministry of Finance Incorporated for RM1.15 billion (Malaysian Business, 16 August 1999).

Petronas' next wave of diversification into non-core activity was in property development. In 1988, the group acquired the Dayabumi Complex in Kuala Lumpur for RM445 million. In 1992, it invested RM681 million for a majority stake in the company developing the world's tallest buildings, now called the Petronas Twin Towers (Malaysian Business, 1 September 2002). These towers have now become the head office of the group, which is not just a national landmark but also a top tourist attraction. On the surface, these investments may look totally unrelated. However, on closer analysis, these diversifications are partly derived from the group's commercial commitment and partly from its duty as a national company (Interview 1(E): 14 September 2004). In addition, the investment was also driven by value creation. As stressed by the late Azizan:

> We are creating a national capital and it is vital for Petronas to be a leading participant in the national development (New Straits Times, 17 January 2000).

The continuing growth and diversification of Petronas' operations has attracted the backing of rating agencies and this has resulted in the strong financial standing of the group, with an 'A1' rating by Moody's Investors Services, Inc. and 'A+' by Standard & Poor's Corporation (Business Times, 29 November 2005). Petronas' good ratings reflected the group's control of Malaysia's oil and gas reserves, its low-cost position, asset quality and capital adequacy, extensively integrated operations, strong financial profile, a capable and experienced management team, and links with the Malaysian government (Business Times, ibid). The rating sends a signal to investors that Petronas has credit quality and financial strength (Interview 1(B): 15 September 2004; Business Times, 10 May 2004; 29 November 2005). As the only Malaysian firm to make the Fortune 500 list of global companies, Petronas was the twenty-eighth most profitable corporation in the list, sixth in terms of return on revenue, and twenty-sixth in terms of return on assets. Among its peers in the petroleum industry, as shown in Table 6.2, Petronas is the ninth most profitable, in a field dominated by giants such as ExxonMobil and Royal Dutch/Shell in the top two positions (Fortune 500, 2004).

Table 6.2: Fortune 500 Industry Ranking: Petroleum Refining, 2004

	Ranking by Profit	Profit (US$ Million)
1	Exxon Mobil	21,510
2	Royal Dutch/Shell	12,496
3	British Petroleum	10,267
4	Total	7,951
5	Chevron Texaco	7,230
6	Petrobras	6,559
7	China National Petroleum	6,385
8	ENI	6,321
9	**PETRONAS**	**6,227**

Source: Fortune 500, 2004

Figure 6.2: Petronas's Domestic Growth

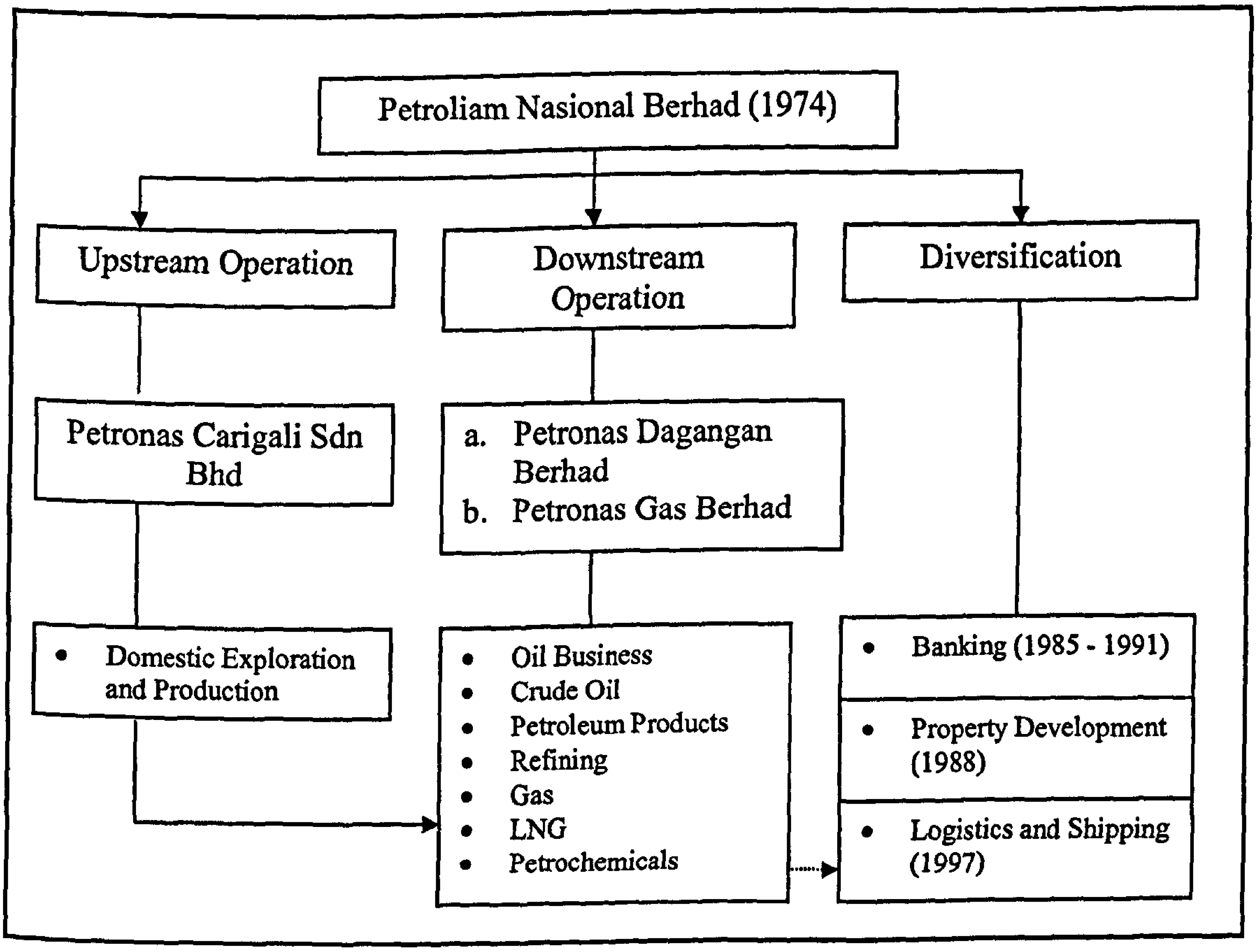


Figure 6.2 summarises the domestic growth of the group. Within a little more than a decade, the group has successfully established its presence domestically.

Internationalisation came next as the group's new challenge. The next part looks at Petronas' international exposure and expansion, from 1975 to the present.

International Exposure and Expansion (1975 - present)

Closely similar to its domestic operation, the group's international business activities also involved both downstream and upstream operations. Table 6.3 details the group's international investments. Currently, Petronas has ventures in 35 countries internationally. From the table, it can be seen that more than 90% of its international activity is focused on exploration and production. Joint-ventures with a foreign partner have become a main entry strategy for its internationalisation (Interview 1(H): 14 September 2004, see section 6.4 for details). A summary of Petronas' international operations will be given next.

Table 6.3: Petronas International Operations/Alliances (by country) 2004

Country and Company	Type of Operation	Major Partner	Investment Interest
Algeria	Exploration	a. Sonatrach, Gaz de France b. Amerada Hess (Operator)	• Interest in onshore Ahnet Block • Interest in onshore Block 401C
Angola	Exploration	Devon Energy (Operator) and Sonangol P&P	Interest in Deepwater Block 24
Argentina	Gas Pipeline Network	TotalFinaElf, CGC Argentina, Technint Argentina	Interest in Gasinvest S.A and Transportadora de Gas Del Mercosur S.A (status: Gasinvest S.A has a 70.58% stake in Transportadora de Gas Del Norte S.A which owns and operates a 4,300 km pipeline in northern Argentina)
Australia	Gas Pipeline Network	Australian Gas Light Company	• Interest in the Australia portion of the Papua New Guinea-Queensland Gas Pipeline (status: expectedto deliver gas to customers by early 2008) • Interest in Australian Pipeline Trust which owns over 7,000 km of pipelines and a 25% share of the natural gas market in Australia • Interest in Gasnet, a gas transmission pipeline company in Victoria
Bahrain	Exploration	-	Operates Block IV and VI, located south-eastern offshore Bahrain, under an exploration and production sharing agreement (EPSA)
Benin	Exploration	Kerr McGee (Operator)	Interest in Block 4
Brunei Darussalam	Compression Plant Construction	Nuovo Pignone SpA	Awarded contract by Brunei Shell Petroleum Company to design and construct an onshore compression plant
Cambodia	Retailing Petroleum Products and Petroleum Product Storage	-	• Operates service stations and markets petroleum products • Operates 7,000 metric tons of petroleum products storage since 1998
Cameroon	Exploration and Pipeline Installation	a. Philips (Operator) b. ExxonMobil, ChevronTexaco, Cameroon Govt and Chad Govt	• Interest in Block PH 77 through a PSC signed in November 2001 • Constructed 900 km of the 1,070 km pipeline from oil fields in Southern Chad to the coast of Cameroon (status: operational)
Chad	Production and Pipeline Installation	a. ExxonMobil, Chevron b. ExxonMobil, ChevronTexaco and Chad Govt	• Interest in Block H, Doba Basin • Constructed 170 km of the 1,070 km pipeline from oil fields in Southern Chad to the coast of Cameroon

continued

Country and Company	Type of Operation	Major Partner	Investment Interest
China	Operational	China Offshore Oil Donghai Corporation	• J-V in LPG terminalling, bottling and distribution in Jiangsu Province • Marketing of petroleum products in Hong Kong, Macau and Southern China
Egypt	Exploration and Production of Gas	a. Shell Egypt Deepwater (Operator) b. BG Group c. BG Group, Egyptian Natural Gas Holding Co., Egyptian General Petroleum Co., Gaz De France	• Interest in North east Mediterranean Deepwater (Nemed) Oil and Gas Block • Interest in West Delta Deep Marine Concession • Interest in Egyptian LNG project, involved in the development and operation of LNG liquefaction plant and the related infrastructure (status: under construction)
Equatorial Guinea	Exploration	a. Devon Energy and Vanco Energy Company b. Devon Energy (Operator), GEPetrol, Atlas Petroleum (Intl) Ltd, DNO ASA	• Interest in Block N, offshore Corisco Bay • Interest in Block P, Rio Muni Nasin
Ethiopia	Exploration	-	• Interest in Block G, Gambela Basin
Gabon	Exploration	a. AGIP Gabon SA (Operator) and Burlington Resource Ltd b. Amerada Hess Production Gabon (Operator) and Mitsubishi Petroleum Development Corp	• Interest in Mpolo, Chaillu and Meboun blocks, offshore Gabon • Interest in Moabi and Nguma Permits
India	Operational	Indian Oil Corporation Ltd	• J-V to import LPG at Haldia for marketing in East India

continued

Country and Company	Type of Operation	Major Partner	Investment Interest
Indonesia	Exploration, Production and Operational	a. ConocoPhilips (Operator)	• Interest in Ketapang Block, offshore East Java
		b. Amerada Hess (Operator) and PERTAMINA	• Interest in Tanjung Aru Block, offshore Kalimantan
		c. RIMS Energy Karapan Ltd (under joint operatorship)	• Interest in Karapan Block, offshore East Java
		d. PetroChina (Operator) and PERTAMINA	• Interest in Jabung Block, onshore South Sumatra
		e. Wirabuana Group	• Interest in Tanjung Jabung
		f. Kufpec, Premier (Operator) and Amerada Hess	• Interest in Natuna Sea Block A
	<u>Downstream</u>: Petrochemicals	i. National Dev Co of the Philippines, Thai Ministry of Industry, PT Pupuk Sriwidjaja and Temasek Holdings	• Interest in ammonia/urea plant in Acheh (status: operational)
	Gas Pipeline Network	i. Conoco Indonesia, SPC Indo-Pipeline Co. Ltd and Talisman transgasindo Ltd	• Interest in P.T Transportasi Gas Indonesia (TGI) through a J-V
	Product Retailing and Marketing		• Marketing of petroleum products

continued

Country and Company	Type of Operation	Major Partner	Investment Interest
Iran	Exploration and Production	a. NIOC (Operator) b. Total (Operator), Gazprom c. Edison International (Operator) and Lundin (Munir) Ltd	• Interest in Sirri A and E offshore oil fields • Interest in South Pars Gas Development project, phase 2 &3 • Interest in Munir Block
Mauritania	Exploration	a. Woodside Mauritania Pty Ltd (Operator), Hardman Resources Ltd, and Roc Oil	• Interest in Block 6 located Northwest of Nouakchott
Morocco	Exploration	a. Energy Africa (Operator), Taurus and ONAREP b. ONAREP	• Interest in Tiznit Block • Interest in offshore Rabat-Sale Haute Mer Block
Mozambique	Exploration	a. Empresa Nacional de Hidrocarbonetos de Mocambique (ENH)	• Interest in offshore Zambezi Delta Block
Myanmar	Exploration and Production	a. Nippon Oil, PTTEP, Myanmar Oil and Gas Enterprise	• Interest in Yetagun Gas project and Taninthayi Pipeline Co LLC • Interest in Block M-15, M-16, M-17 and M-18, offshore southern Myanmar
Niger	Exploration	a. ExxonMobil	• Interest in Agadem block
Pakistan	Exploration	a. Lasmo Oil Pakistan Lts and Government Holdings of Pakistan b. Orient Petroleum Inc, Zaver Petroleum and Government Holdings of Pakistan c. Total (Operator), OMV, Oil and Gas Dev Co. and Mari Gas Company Ltd	• Interest in onshore Mubarak Block, Sindh Province • Interest in onshore Mehar Block, Sindh/Balochistan provinces • Interest in offshore Indus Blocks G & H
Philippines	Operational	a. Alcantara Consolidated Resources Inc and Masalingan Inc.	• J-V in LPG terminalling, bottling and distribution in Mindanao

continued

Country and Company	Type of Operation	Major Partner	Investment Interest
Seychelles	Operational	a. Seychelles Petroleum Co.	• Terminalling facilities for distribution of petroleum products to the East African markets
South Africa	Exploration and Production Refining and Product Retailing		• Interest in Energy Africa Ltd, a subsidiary of Engen Ltd (status: involved in E&P of oil and gas in the North Sea, Congo, Gabon, South Africa and Sub-Saharan Africa) • Interest in Engen Ltd (status: Engen owns and operates a refinery in Durban and has more than 1,250 service stations in Southern Africa)
Sudan	Exploration and Production	a. China National Petroleum Corporation (CNPC), ONGV Videsh and Sudapet (Sudan's National Oil Company). Under J-V	• Interest in Blocks 1, 2 and 4 through J-V, Greater Nile Petroleum Operating company Ltd
		b. OMV and Sudapet	• Interest in Block 5A
		c. IPC Sudan Ltd, OMV and Sudapet	• Interest in Block 5B
		d. CNPC, Sudapet, Gulf Petroleum Corp and Al-Thani, under J-operatorship	• Interest in Blocks 3 & 7 through a J-V company, PETRODAR Operating Company Ltd
		e. Sudapet and High Tech Corp, joint operatorship by Petronas Carigali Overseas and Sudapet	• Interest in Block 8
	<u>Downstream</u>: Product Retailing and Marketing		• Operates service stations and markets petroleum products • Owns and operates bulk terminals, depots, aviation depots and bunkering facility

continued

Country and Company	Type of Operation	Major Partner	Investment Interest
Switzerland	Engineering	a. Red Bull Sauber Holding AG	• Interest in Sauber PETRONAS Engineering AG (status: develops the engine for the Sauber Petronas Formula One)
Thailand	Retailing and Distribution of Petroleum Products and Pipeline Operations	a. Nova Gas International	• Pipeline operation-managed and constructed a 260 km pipeline from the Yadana Field in Myanmar to Thailand (status: completed in 1998)
Togo	Exploration	a. Hunt Oil (Operator)	• Interest in Togo offshore Block
Turkmenistan	Exploration and Production		• Production sharing contractor for Block 1, South Caspian Sea
United Kingdom	LNG Terminal	a. BG Group and Petroplus	• Development of LNG terminal and related facilities in Milford Haven, Wales (status: the terminal is scheduled to start operation by 2007)
Vietnam	Exploration, Production and Operational	a. PetroVietnam Exploration & Production Company	• Developing Ruby, Emerald and Topaz oil fields
		b. PetroVietnam Investment and Development Company and PERTAMINA	• Interest in Blocks 10 and 11 through J-V company, Con Son Joint Operating Company
		c. Talisman (Operator) and PIDC	• Interest in Block 46-Cai Nuoc
		d. PVEP and Tasliman Vietnam Ltd. Under J-V operatorship	• Interest in Block 46/02 through J-V company, Truong Son Joint Operating Company
		e. PVEP under joint operatorship	• Interest in Blocks 01/97 and 02/97 through J-V company, Lam Son Joint Operating Company
	Downstream:	f. ATI Petroleum Inc (ATIP) and PIDC	• Interest in Blocks 102 & 106
	Operational	g. PetroVietnam Gas Corporation	• J-V in LPG terminalling, bottling and distribution – Thang Long LPG JV Co
	Petrochemicals	h. PetroVietnam Gas Corp and Tramatsuco	• Interest in polyvinyl chloride plant in Vung Tau under J-V Co, Phu My Plastics and Chemicals Co. Ltd
Yemen	Exploration	a. Ansan Wikfs and Yemen Corporation	• Interest in Block 52

Source: Petronas, 2005; Interview 1(B): 15 September 2004; Interview 1(G): 22 October 2004)

- *Export Activity*

The company's international exposure began on day one of its inception through its international oil trading activities and its joint venture company Malaysian Liquefied Natural Gas Sdn Bhd (MNLG), an exporter of natural gas (Interview 1(F): 17 September 2004). Malaysia's reserves of natural gas are currently estimated at 52 trillion cubic feet, which in energy equivalent terms, is three times larger than its oil reserves (Petronas Financial Highlights, 2004). The country is currently the third largest producer of LNG after Indonesia and Algeria. Its production now accounts for one fifth of the world's total LNG export.

The group's first exports of crude oil took place on 1 September 1975 when it began marketing its own crude with a first shipment of 358,000 barrels sent to Japan (Interview 1(F): 17 September 2004; Interview 1(G): 22 October 2004; Bowie, 2001). In January 1983, the first shipment of 57,000 tonnes of LNG was exported to the same country from the plant in Bintulu, Sarawak. Since then, crude oil has continued to be a significant contributor to the group's revenue, and made Malaysia an early player on the world scene. Business with Japan is now handled by three subsidiaries – MITCO Japan (Malaysian International Trading Corporation (Japan) Sdn Bhd), Petronas Tankers Sdn Bhd, and JAMALCO (Japan Malaysia LNG Co. Ltd) (Ahmad, 2001). Japan continues to be the country's largest LNG customer, taking up 61.0% of the total LNG exported. This is followed by South Korea with 22.9% and Taiwan with 11.8%. The group's export activities continued to grow in 1985, when it began to export fertiliser and liquefied petroleum gas.

- *From Export Activity to Foreign Direct Investment*

Having established its operations at home, and as part of its strategy to expand its oil and gas reserves base, the group embarked on the international route in 1990 (Interview 1(B): 15 September 2004). The group's upstream activity successes achieved on home ground motivated the firm to venture overseas. The decision of the Petronas group to go international turned out to be a step in the right direction, although it was questioned by many at the time. Among the arguments were a lack of skilled and experienced workforce, financially constrains, and limited resources to carry out research and development on oil exploration (Interview 1(D): 13 September 2004). The biggest hurdle was getting the stakeholders and employees to agree that going global was the way forward (ibid). Petronas was the first national oil corporation in the region to go international (Interview 1(B): 15 September 2004; Business Times, 3 July 2004). It was a decision borne out of the realisation that the firm could no longer depend solely on the small domestic market of Malaysia but had to venture beyond national boundaries to ensure its continued future growth and survival, as well as to increase the country's oil and gas reserves, which are currently projected to last 19 and 33 years respectively (Interview 1(C): 11 October 2004). Consciousness of the depleting nature of oil and gas resources, and the limited size of domestic market were strong factors in driving Petronas overseas to access alternative resources (Interview 1(B): 15 September 2004). The late Azizan, the group's chairman, posited the internationalisation plan of Petronas as 'global civilisation' (Bowie, 2001). Petronas' international ventures are focused primarily on its upstream activities, i.e. exploration and production, and undertaken by a wholly-owned subsidiary, Petronas Carigali Overseas Sdn Bhd (PCOSB), through various subsidiaries. Currently, the group is actively involved in the upstream sector in 25 countries (see Table 6.3).

The group made its maiden overseas investment in exploration when it signed a farm-out agreement with Idemitsu for a 15% stake in an onshore block in Myanmar in 1990 as an investor. However, the deal did not materialise. There were, of course, political sensitivities involved because of the US embargo, which caused the group to withdraw empty-handed (Interview 1(B): 15 September 2004). However, the attempt made Petronas the first national oil company to go abroad.

Petronas' failure in Myanmar did not deflate the group's morale regarding the possibility of expanding internationally. Vietnam is the first foreign country in which Petronas was both an investor and operator (Interview 1(G): 22 October 2004). This was in the late 1980s. It has brought home oil from the Dai Hung (Big Bear) well for which production began in October 1994. In Vietnam, PCOSB wholly owns Blocks 1 and 2 covering 12, 500 sq km off the southern coastal town of Vung Tau (Petronas, 2001). Discoveries were made in three wells namely Ruby, Emerald, and Topaz, beginning in 1994. The group is tied into a joint partnership with the Vietnamese State Oil Company, PetroVietnam. Although there was some local political interference and problems during its early ventures, the group managed to resolve the issue amicably (Interview 1(D): 13 September 2004). When asked how the company succeeded in Vietnam, one of the executives stressed that:

> Petronas goes for long-term ventures with moderate, consistent and sustainable returns rather than extreme, fluctuating results (Interview 1(C): 11 October 2004).

Vietnam provided a springboard to expand throughout Indo-China as one of the emerging markets, and also to Africa – a further and different environment.

A successful return to Myanmar was achieved in 1997 with the MOGE (Myanmar Oil and Gas Enterprise) project, through several agreements signed with its newly acquired associated company, Premier Oil Plc of the United Kingdom, to develop the Yetagun gas fields in the Gulf of Martaban, vacated by the US oil giant Texaco (Interview 1(H): 14 September 2005). This is an interesting project, bringing together for the first time three ASEAN National Oil Companies, namely, PTT of Thailand, MOGE, and Petronas. Under the agreement, Petronas, through a wholly-owned subsidiary, Petronas Carigali Sdn Bhd, acquired a 36.4% interest in Yetagun Gas Project from Myanmar Ltd, a wholly owned subsidiary of Premier Oil Plc (Balakrishnan, 2002). The Yetagun Gas Project comprises Blocks M-12, M-13, and M-14 in the Gulf of Martaban. Petronas also acquired a 42.4% stake in Block M-10 from Premier Petroleum Myanmar. In 2002, Petronas secured another four oil exploration contracts, making it the operator of offshore blocks M-15, M-16, M-17 and M-18, located in the Tanintharyi area off southern Myanmar and ranging from 13,500 sq km to 14,200 sq km.

In the early 1990s, Malaysia and Thailand formed a Joint Authority to develop the JDA (Joint Development Area) to exploit the hydrocarbon reserves in what would otherwise be the disputed zone covering an area of 7,101 sq km that straddles the Thai-Malaysian boundary in the South China Sea. The JDA was established to resolve the overlapping claims between Malaysia and Thailand over the hydrocarbon resources in the area (Interview 1(H): 14 September 2004). The area is divided into three blocks - Block A-18, Block B-17, and Block C-19, and is administered by both countries, each of which owns 50%. Through the Malaysian-Thailand Joint Authority (MTJA), both countries agreed to adopt Malaysia's model of PSC. The PSCs for Block A-18 are with Petronas Carigali (JDA) Sdn Bhd and the Triton Oil Company of Thailand, while for Blocks B-17 and C-19 they are with Petronas Carigali (JDA) Sdn Bhd and Carigali-PTTEP International Operating Company (CPOC). The JDA is a pacesetting ASEAN model of energy co-operation (Interview 1(C): 11 October 2004).

In South Africa, Petronas is not only a significant player in downstream and upstream activities, but has also become a showcase for modernising the country (Interview 1(B): 15 September 2004; Interview 1(I): 13 September 2004). Petronas entered into a commercial alliance with Engen in 1996 as a strategic partner. The takeover was phased, beginning with an equity interest in the company but leading to full acquisition. The group paid US$436 million (US$1 = RM2.48) for a 30% stake in Engen Ltd and became its single largest shareholder. The acquisition was to enable both companies to implement a shared growth strategy in Africa and the Indian Ocean Rim, while allowing the development of potential operational synergies between the two business entities (Interview 1(D): 13 September 2004); Padayachee and Valodia, 2002). From here, the group was to spread to Angola, Sudan, Libya, Tunisia, Algeria, Chad, Gabon, Mozambique, Botswana, Burundi, Rwanda and Cameroon – developing countries with growth business potential. South Africa would be the anchor operation for Petronas' long-term expansion in the African sub-continent (Interview 1(B): 15 September 2004). The acquisition should be viewed as a partnership to create new business opportunities, rather than a corporate manoeuvre (Business Times, 18 June 1996). On 12 November 1998, Petronas acquired the entire capital of Engen, for a consideration of US$775 million. Prior to this, Engen was listed on the Johannesburg Stock Exchange and the Namibian Stock Exchange. Engen, which has a 25% share of South Africa's petroleum products retail market, operates the country's second largest day-oil refinery, has an interest in upstream activities via a 60% stake in Energy Africa Ltd, and is involved in exploration and production in Angola, Congo, Gabon, Egypt, Equatorial Guinea, Mozambique, Namibia, the Ivory Coast, and the North Sea in Britain (Bowie, 2001). This was Petronas' biggest foreign investment to date and the first equity participation in a foreign listed company. It is believed that Petronas' successful venture in Africa was prompted by Mahathir's support for Nelson Mandela, who led his people to freedom from apartheid, and that there was government intervention in the deals (Interview 1(B): 15 September 2004; The Star, 3 July 2004). Given the disadvantage historically faced by South Africa's black population, Petronas have given the hope of a better future through the Black Economic Empowerment (BEE)[10] programme, which is similar to Malaysia's New Economic Policy and aimed at eradicating poverty and reducing the socio-economic imbalances between the ethnic groups (Balakrishnan, 2002). Its investment in Africa has become an important revenue earner for the group. In 2005, the revenue from upstream operation in Africa increased by almost 50% (Annual Report, 2005).

Petronas has also been particularly aggressive in its expansion in Islamic countries (Interview 1(B): 15 September 2004; Interview 1(D): 13 September 2004). The growing ties among Organisation of Islamic Conference (OIC) members paved the way for Petronas to strengthen its presence in several West and Central African

[10] BEE is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (see http://www.info.gov.za for more details)

countries. Petronas moved mostly into uncharted territories that the big oil and gas corporations avoided (Interview 1(B): 15 September 2004; Interview 1(C): 11 October 2004). Being a small player and knowing its limitations, the firm sought and carved out its niche and chose its geographical areas carefully. As the CEO of the group commented:

> There were two factors: first we were the new boys in the international scene. So, if we were to do it quickly and more convincingly, we had to go into uncharted areas, and second we needed to build our curriculum vitae if we wanted to be a serious player on the global scene (The Star, 3 July 2004).

Petronas went to markets which were not yet mature and to emerging economies where they could grow with their hosts, thanks to the group's management strategies and capabilities (Interview 1(D): 13 September 2004). They avoided the North Sea, the preserve of the super multinational oil corporations. In the Middle East, Petronas, despite threats of US-imposed sanctions against companies investing in Iran, has continued to participate in the development of two oilfields in the Persian Gulf (Interview 1(B): 15 September 2004). The US$600 million project saw Petronas Carigali buying a 30% stake worth US$180 million from Total SA of France, which was heading the five-year project to develop the Sirri A and Sirri E oilfields (ibid).

Despite facing numerous challenges such as political and weather uncertainties, Petronas took a major step by investing in Sudan in 1997. Petronas not only expanded its exploration activities, but also made significant inroads in downstream activities. The group's involvement in exploration and production activities is via Petronas Carigali Nile Ltd, a subsidiary of PCOSB. Petronas Carigali Nile holds a 30% equity interest in a consortium called Greater Nile Petroleum Operating Company (GNPOC) costing US$600 million (Bowie, 2001). The other partners are China National

Petroleum Corp (CNPC) with a 40% stake, Talisman (Greater Nile) BV of Canada (25%), and Sudan's National Oil Company Sudapet (5%). The consortium was awarded a 30-year exploration and production-sharing agreement (PSA) and a crude oil pipeline agreement (COPA) for upstream and downstream activities. Petronas has received important recognition as a result of its investment in Sudan. One of Petronas' executives reported: "We put in a 15,000 km pipeline and an export terminal. That put us on the radar screens" (The Star, 3 July 2004). Petronas made further inroads into Sudan's oil industry with the acquisition of Swedish Lundin Petroleum AB for the sale of Lundin's 40.4% participating interest in Block 5A in 2003. Block 5A is located in the Muglad Basin in Southern Sudan and consists of the undeveloped Thar Jaath field, which contains gross proven and probable oil reserves of 149.1 million barrels. Petronas also acquired Mobil Oil Sudan Limited, a petroleum product retailing and marketing company. By having activities in both the upstream and downstream sectors of the Sudanese petroleum industry, Petronas has further enhanced its presence and strengthened its brand position in Sudan.

The Petronas group's international investment in Formula One motor racing started in 1995. The reception was not entirely passive (Interview 1(E): 14 September 2004; Interview 1(I): 13 September 2004). Never before had the Malaysian national petroleum company obtained such a huge exposure within such a short time. Many doubted the company's ability to grasp the finer points of the world's pinnacle of motor sports. To its critics, this was a major waste of public funding (Interview 1(A): 28 October 2004). However, economically, the event had an important multiplier effect to stimulate local trade and tourism. This was part of an international branding exercise to promote Petronas as an integrated petroleum corporation through a sporting event with a high profile viewership (Interview 1(A): 28 October 2004). Petronas has gained worldwide media coverage from this event, which further enhanced its brand. The series receives coverage every year, all year round, with 16 races attracting television audiences more than 350 million from 120 countries. The sponsorship was principally aimed at making the Petronas brand better known internationally, so that the corporation could fully exploit business opportunities available in the world's fast-expanding oil and gas market (Interview 1(C): 11 October 2004). Although the initial intention of this partnership was to accelerate its global branding, Petronas' success has gone beyond branding. This venture has helped to build Petronas' position in automotive engineering – a feat not achieved by Perusahaan Automobil Malaysia Berhad (Proton), the national car company (Interview 1(H): 14 September 2004). The Petronas-Sauber partnership initiated in 1996 has benefited the firm further and it is now in the important position of developing many of the group's world-class engineers. Many Malaysian 'firsts' have been achieved via this joint venture. These include a high performance two-litre engine called the PETRONAS EO1 – dubbed Malaysia's first automotive engine. This engine was fitted into official cars at the first Petronas Malaysian Formula One Grand Prix in 1999 and it was successful. In addition to technological advances, the Sauber-Petronas partnership has provided the group with a vital test-bed for its products, especially fuels and lubricants (Interview 1(B): 15 September 2004). It has successfully developed the advanced fully synthetic Petronas Synthium engine oil as well as Primax, its own Formula One fuel. In this way, not only is technology itself transferred but so is the ability to translate the technology into practical commercial use which benefits the group business-wise (Interview 1(B): 15 September 2004). In short, Petronas' involvement in Formula One has brought far-reaching benefits and brand exposure, not only for the corporation but also for Malaysia, in the global arena. Another significant achievement by Sauber-Petronas Engineering AG is the 'FP1', Malaysia's first superbike. The superbike has been raced by the Foggy Petronas Racing Team (FPR) in the World Superbike Championship since March 2003. Petronas' foray into the production of the superbike and its entry into the World Superbike Grand Prix are just one example of how a branding exercise through motor sports sponsorships can produce other benefits to the company (Interview 1(H): 14 September 2004).

In describing the internationalisation expansion of Petronas, the Group Regional Manager, International Business Unit commented that "the overseas strategy of the group was properly developed" (Interview 1(C): 11 October 2004). The group has moved on from those first tentative overture forays in Myanmar and Vietnam. Many of its ventures were with other national oil companies. In 1995, the target of Petronas for its overseas ventures was to bring in 30% total revenue by 2005, but this was achieved by the financial year ended 31 March 1999. Petronas exceeded its own forecast (Interview 1(B): 15 September 2004); the contribution was 34% towards group revenues for year 1999, 32% in the financial year ended 2000, 37% in year ended 2003/2004. In the financial ended 2005, international business revenue, which comprises revenue from international operations and exports from Malaysia, accounted for 77.3% of group revenue (Annual Report, 2005).

Petronas prides itself as a company that helps contribute to the process of economic development (Interview 1(C): 11 October 2004). In Vietnam, for instance "it was Petronas' desire to see that the involvement in this country provide a meaningful contribution to overall development of Vietnam, while at the same time enhancing and strengthening bilateral relations between the two countries" (Interview 1(H): 14 September 2004; The Star, 5 January 2000). In Sudan, the group came to contribute to the economic development and wellbeing of the Sudanese people (Interview 1(H): 14 September 2004; The Star, 17 July 2000). Petronas, through the Greater Nile Petroleum Operating Company (GNPOC), has a Sudanisation programme. By 2006, 90% of the staff will be Sudanese. The group also funds a trustee, which runs Sakinah Institute, a hostel and school for underprivileged girls in Omdurman in Khartoum. In South Africa, Petronas has contributed to the national development and well-being of the people of South Africa.

The discussion in this part points out that Petronas' diverse investments in host countries were conducted in a similar manner to its domestic operation. This has made the group become a 'multinational of choice' in many countries. During the interviews, one of the key executives stressed:

> It is still far for us to become a number one oil company in the world, but we would be proud to become a leading oil and gas multinational of choice (Interview 1(F): 17 September 2004)

Within less than two decades of its establishment, Petronas has managed to compete successfully with the veteran multinational oil and gas giants both at home and abroad (Jayasankaran, 1999). The status of Petronas as a Fortune 500 company emphasises its proven ability to operate as a commercial and responsible state oil corporation. Since its incorporation 31 years ago, the group has rapidly grown from a mere regulator and manager of the upstream sector to become a fully integrated multinational oil and gas corporation with a presence in 35 countries internationally. While developing the upstream sector, the group at the same time expanded into downstream activities to add value to Malaysia's petroleum resources. The business background, growth and the group approach to internationalisation having been explained, the next section now turns to discussing factors that contribute to Petronas' domestic and international growth.

6.3 Building up (potential) Ownership-Specific Advantages and Business Strategies

Gaining secure access to oil and gas was often cited during the interviews as the reason for Petronas to move abroad (Interview 1(B): 15 September 2004; Interview 1(D): 13 September 2004; Interview 1(H): 14 September 2004). This view was similarly expounded by Dunning (1993b) and Root (1994): that firms may expand abroad to exploit natural resources in order to acquire resources for their own industrial operations and secure a continual supply of needed raw materials. This is because, although Malaysia is well endowed with petroleum and gas resources, their availability is limited (Interview 1(E): 14 September 2004). In searching for oil and gas resources, Acha (2002) argued that technological capabilities are regarded as an important factor in, if not a prerequisite to, commercial success for every petroleum company. He believed that performance of the firm in the petroleum industry is mainly based on the level of its technological capabilities, where the higher the level of technology, the better the performance of the firm in the market. Once a firm has built its technological skills, it can then move to search for superior asset positions such as in ultra-deepwater exploration.

Although it cannot be denied that the growth of Petronas in the domestic and international market followed a similar line to the that charted by Acha, Petronas' development does not stem only from its technological capabilities, but also from various other sources. The following discussion argues that the domestic and international expansion of Petronas also derived from its industry knowledge and experience; government policies in protecting the domestic market under the Petroleum Development Act; and the reputation of the firm as a government-owned corporation; as well as its technological competence.

Industry Knowledge and Experience

Prior to the establishment of Petronas, oil exploration in the country was carried out by multinational oil companies such as Shell[11], Esso, Elf Aquitaine, Oceanic, Conoco, and Mobil under the concession system (Balakrishnan, 2002). Some of these companies had been in the industry for more than 100 years and had gained much experience dealing and operating businesses in Malaysia. Realising its limitations at its inception, Petronas has acquired industry knowledge and experience through partnerships and alliance with these major oil companies (Interview 1(G): 22 October 2004). The first partnership was in 1976 with Esso Production Malaysia Incorporated when the first PSC was signed. Since then, the group has entered many PSCs with the established oil companies. When asked how the firm accumulated its internationalisation knowledge and experience and technological capabilities, the executive replied,

> Working with major oil companies has enabled our people to gain knowledge and achieve transfer of technology that let us go forward in

[11] The earliest oil dominator in Malaysia

> the development of our oil and gas resources. Also this relationship will assist Petronas to master petroleum technology sufficiently to offer its services elsewhere in the world through Petronas Carigali (Overseas) Sdn Bhd, its exploration and production subsidiary (Interview 1(F): 17 September 2004)

Benefiting from its strong relationships with the giant oil companies, the group has utilised their industry knowledge and technological learning process. Many Petronas staff ware sent abroad for training to gather the necessary skills and capabilities (Interview 1(B): 15 September 2004). For instance, Shell has allowed a number of Petronas staff to be trained in its exclusive training school in Holland, which is known as the Shell Training Center in Leeuwenhorst NL. Entering into joint ventures with the world's first-class players has promoted not only the firm, but also offered advantages to employees. The process by which individual learning is converted into institutional learning is part of the way for a firm to develop industry knowledge and capability over a period of time, especially for a latecomer such as Petronas. Learning from these foreign partners was a major contribution to Petronas' growth (Interview 1(H): 14 September 2004). This is because the established foreign multinational oil corporations have resources and expertise that Petronas needed. In the selection of partners, apart from synergies in the business operation, Petronas looks for common shared values such as loyalty, professionalism, integrity, cohesiveness, and the potential for growth. One of the key executives stressed that:

> Petronas' alliance partners must be able to match its abilities but need not be a mega corporation (Interview 1 (C): 11 October 2004).

Characterised by large capital investments, and being the only Malaysian National Oil and Gas Corporation, Petronas does not have any challenges from other domestic competitors. The group has expended without any major interference and managed to develop its industry knowledge and experience rapidly. The industry knowledge and experience gained has enabled Petronas to become a versatile business entity while maintaining the characteristics of a National Oil Corporation when expanding its operation internationally.

Petroleum Development Act, 1974 and Production Sharing Contract

In addition to industry knowledge and experience, Petronas' ownership advantage was also derived from the implementation of the Petroleum Development Act (PDA), 1974 by the Government, by which it vested the group with the entire ownership and control of petroleum resources in the country (Interview 1(B): 15 September 2004). Benefiting from the PDA, Petronas controls domestic market share, although some other oil companies had already long been established in the country. The group's monopolistic and dominant position in the local market gave it space to grow. In addition, the capital-intensive nature of the industry was a natural entry barrier that deterred new entrants and competition (Interview 1(H): 14 September 2004). A minimum of US$4 – 5 million is required to set up an offshore plant, making it difficult for new entrants (Interview 1(B): 15 September 2004). For instance, although there are no regulatory limitations on entry into the business of providing gas processing and transmission services in Malaysia, there are significant barriers to entry as the construction of a competing pipeline system would require substantial capital investment. In addition, as natural gas is produced offshore under the PSC arrangements, management believes it would be unlikely that there will be any new entrants to the gas processing and transmission market (Interview: 1(C): 11 October 2004). Being the only Malaysia National Oil and Gas Corporation (MNOC), the group rapidly achieved economies of scale through forward integration. Petronas successfully expanded its petrol stations with more than 729 service stations across the nation and strengthened its leadership position to a 40% market share. This served as one of the group's important strengths in the domestic market.

Petronas is one of the richest companies in Malaysia. Since its formation in 1974, the firm was given sole ownership of Malaysia's oil and gas reserves. It had RM22.4 billion in cash and bank balances at the last accounting. There are no companies in the country that can match the billions in profits that Petronas makes year after year. The company's strong financial standing is also supported by its strong relationships with foreign and local financial institutions (Interview 1(C): 11 October 2004). In many cases, it is easy for the Group to get finance for its operation domestically and internationally.

The practice adopted by Petronas in its Production Sharing Contracts (PSCs)[12] which was to ensure a more equitable partnership between Malaysia and foreign multinational oil corporations, also became a source of ownership advantage of the group (Interview 1(D): 13 September 2004). In a study of the development of PSC contracts in Indonesia, Machmud (2004) indicated that the results of the PSC system were remarkable compared to the concession system. Foreign oil and gas MNCs were in favour due to eligibility for access to a guaranteed share of oil or gas under a reasonable level of control in the field. The design of the PSC implemented by Petronas enables it not only to monitor petroleum activities, but also to acquire capabilities from other operators. Through the PSCs, Petronas requires contractual

[12] PSC are widely used in developing countries. Under a PSC, mineral resources are owned by the state, which brings in a foreign company as a contractor to provide technical and financial services for exploration and development operations. The foreign oil and gas company usually assumes the entire exploration cost risk, and receives a specified share of production as a reward for its initial investment, operating expenses and the work performed (Pongsiri, 2004).

relationships or partnership with established MNCs. Apart from the benefit in fiscal terms, Petronas benefited from this co-operation in terms of management skills and technological expertise which developed its capabilities to be an operator later on (Interview 1(I): 13 September 2004).

The Petroleum Development Act (PDA) has no doubt assisted the growth of Petronas domestically. It remains to say that the government has indirectly protected the company through legislation. Although some key executives during interviews (Interview 1(I): 13 September 2004; Interview 1(E): 14 September 2004) denied that the connection with the Malaysian Government has made Petronas become a domestic leading player, to refute this view would be unrealistic, given the status of the group as the Malaysian National Oil Corporation (MNOC). The next part will further look on how the group's status as MNOC contributes to the development of Petronas.

Status of the Group as the National Oil Corporation of Malaysia

In general, the competitive advantage of Petronas has also derived from its status as a wholly-owned government corporation with substantial interest and control (Interview 1(D): 13 September 2004). It is believed that the association will ensure the company continues to have a monopoly status and receive support when needed. It has been reported that:

> When seeking to secure overseas deals, size isn't everything. Political ties also play an important role. As Petronas is a state-owned company, many of the deals were done on a government-to-government basis. (Malaysian Business, 16 August 1999).

The approach of the group in following government-to-government bilateral trade relations has helped the expansion of Petronas. Many of Petronas' recent ventures have been in the wake of the country's widely travelled and internationally-minded premier (Bowie, 2001). It was in line with national policy to promote South-South co-operation and enhance bilateral trade relations. Not surprisingly, therefore, government-to-government cooperation has helped facilitate a number of major deals. Among these, a notable example of the group's investment was its acquisition of the entire holding in Engen Ltd, a leading South African oil company, and investment in countries under US embargo, such as Sudan and Vietnam (Interview 1(H): 14 September 2004).

In explaining how international expansion of Petronas took place and how the government assists the development of the company internationally, the former prime minister remarked:

> It is quite difficult to convince some developing countries, who were already familiar with the oil majors, but we have good relations with developing countries, which is part of our policy with the countries of the South. So they are willing to give Petronas a chance (Interview 1(A): 28 October 2004).

The *modus operandi* in most of the new global businesses was to seek joint venture arrangements with the host governments, with multinationals, or with other National Oil Corporations. This meant an initial period of negotiation in which political as well as commercial considerations played a part (Interview 1 (I): 13 September 2004). Nevertheless, Petronas has continuously denied that these privileges were granted through its links with the government. In the study of the internationalisation of Petronas conducted by Ahmad (2001), he revealed that there is evidence of government interference in and influence over Petronas overseas market entry decisions. According to him, expansion was driven basically by political rather than business and economic motives. Through the PDA and by virtue of the fact that the government holds more than 51% share equity, it is to be expected that any decision pertaining to Petronas' business operations and investment, should receive endorsement from its major shareholder so as to reflect its interest in the organisation (Interview 1(G): 22 October 2004). This argument may be true in the early expansion of the company as a consequence of a broad bi-lateral political and trade agreements between governments (Interview 1(B): 15 September 2004). With the Malaysian Government's support, Petronas chose to ignore international sanctions with which they did not agree. Notable examples are Myanmar, Vietnam and Iran, where Petronas has a presence, despite sanctions.

Apart from links with the government, the appointment of the former Malaysian Prime Minister, Mahathir Mohamad to join the group as honorary advisor increased the reputation of the company. A senior executive from the Corporate Planning and Development Division explained:

> Dr. Mahathir has in the past contributed many ideas to improve the company's operation. With 22 years experience as a Malaysian Prime Minister, his knowledge and experience cannot be denied either in managing the country neither the company. He is responsible for Petronas' overseas expansion (Interview 1(B): 15 September 2004)

In an interview, Mahathir admitted that among his roles, responsibility and function as an advisor is to advise the group in relation to any government policies and procedures to facilitate the development of Petronas (Interview 1(A): 28 October 2004).

Petronas has emerged as an 'agent for industrialisation', fostering directly and indirectly the establishment of other industries through a process of linkages with the petroleum industry as the focal point. Suehiro (1996), however, claims that political connections alone cannot always determine or guarantee the success of a firm, and therefore the rapid growth and expansion of specific business groups cannot be simply attributed to connections with the government or collaboration with foreign firms alone. Other factors have helped many domestic private firms to advance and develop, such as technological competence and management capabilities.

Strong Brand Name

Another type of advantage that has contributed to the domestic and international growth of Petronas is its strong brand name. At home, the brand name of Petronas ensures a reliable level of quality for its products and good services in shipping and maritime business (Interview 1(G): 22 October 2004). With more than 700 petrol stations across the nation, Petronas became a somewhat forced choice for many customers. As evidence, the group successfully maintained its leading position with 40% market share in its downstream operation. In the international market, many recognised the Petronas brand through the advertising of the name in Formula One racing (Interview 1(A): 28 October 2004). In addition, having its headquarters operating in one of the tallest twin buildings in the world the Petronas Twin Towers[13], enabled the group to reap the benefit of becoming known internationally (Interview 1(I): 13 September 2004).

[13] The 88-story Petronas twin towers are located at the North-west corner of the 100-acre development. The towers standing majestically at 452 metres have been acknowledged by the Council on Tall Buildings and Urban Habitat as among the tallest buildings in the world.

Technological Competence

As pointed out in Chapter 2, in terms of technological sophistication and skills, many developing country multinational firms lag behind those from developed countries. The developing country MNCs often use 'appropriate technology' which enables them to compete with local and foreign firms by occupying a niche market. The literature shows that this 'appropriate technology' is embodied in the form of locally adapted technology (Wells, 1982).

The above line of argument on developing country MNCs' technological expertise and sophistication does not seem to be applicable to the growth and expansion of Petronas. It is believed that the nature of the Petronas business in the oil and gas industry required the firm to have high-end technology and skills from its inception. Although Petronas was far from being handicapped as a newcomer, its technological skills were acquired through joint-venture relationships with established oil corporations from developed countries that reciprocally needed a local partner in order to penetrate protected markets. This sophisticated technology was then modified and adapted to the local market and various factor conditions such as product specification and design. Table 6.4 shows Petronas' key major foreign partners.

Table 6.4: Among Major Petronas' Joint Venture Partners

Country	Major Partners		
South East Asia	Talisman Pertamina Petrovietnam SPC Premier	PIDC Unocal Petro China Nippon Oil MOGE	ATIP Amerada Hess PTTEP Conoco Philips
Middle East and Asia	Edison TOTAL	Ansan Wikfs KOEC	ENI Pakistan Tyyco
Africa	Exxon Mobil Shell ONGC	Chevron Texaco Woodside CNPC	Amerada Hess Conoco Philips

Source: Interview 1(B): 15 September 2004; Interview 1(G): 22 October 2004)

The most evident area of the group's success in technological capability terms was in the Formula One industry. For instance, Petronas's partnership with Red Bull Sauber Holding AG of Germany allowed the group not only to learn in the field of automotive engineering, but also to develop performance oils and lubricants through the effective transfer of technology. Syntium was first developed as a performance lubricant for the Sauber-Petronas team for the use of the Formula One racing car. However, operating conditions in Formula One cars are different from those of a normal car and syntium lubricant is not suitable for use in a normal car. To commercialise this product, Petronas through its research and development units has developed a new formula of syntium lubricant for use in normal cars that meets and exceeds all international standards. It was the sophisticated technology and skill available to the firm that enabled Petronas to do this (Interview 1(D): 13 September 2004)

The ability to acquire foreign technology from its foreign partners, and the ability to turn that skill into generic organisational know-how, became a significant competitive asset for Petronas in its domestic and international expansion. As reported,

> The biggest asset of the group is the ability to pick the best technologies and management and operating skills from their various foreign partners and inculcate these positive things into their corporate culture (The Edge, 20 May 1998).

The CEO of Petronas, Hassan commented:

> If it were not for the technology it has acquired working with multinationals since it set up shop in 1974, among other factors, Petronas would not have had the confidence and capability to go abroad as an operator (New Straits Times, 26 February, 1997).

During the interviews, one of the key executives stressed:

> Business in exploration and production requires technologies and expertise; otherwise we are exposing ourselves to huge capital and investment loss. For instance, if we did not find oil, the losses that we would need to face would be very high. Therefore, we need to build human capital, technology and expertise and these assets are built over the years through the transfer of technologies. The expertise that we bring along through the whole spectrum of the business from upstream and downstream: those are the main and valuable assets that we have (Interview 1(C): 11 October 2004)

A similar view claimed by other key executives is that forming joint ventures with leading companies in specialised fields has no doubt enhanced Petronas' technological capabilities and managerial skills (Interview 1(F): 17 September 2004). Being a latecomer, Petronas had to look for the quickest way to acquire technological capabilities. One way was to learn from established corporations. One of the interviewees stressed that "Petronas always gives first priority to closing the knowledge and skill gap" (Interview 1(G): 22 October 2004). The group acquired and entered into joint venture arrangements with research-intensive and innovative foreign companies and eventually transferred some of the research findings and innovations back to Malaysia. One executive remarked:

> Alliances with foreign partners have several benefits. Among them are sharing business and operation risks, sharing capital fund, tapping local

> market knowledge and networkings, technical support, and as an entry strategy for market penetration (Interview 1(H): 14 September 2004)

The discussion in this part has explained that Petronas' competitive advantages have been derived from a variety of aspects: industry knowledge and experience, petroleum development act, its production sharing contracts agreement, strong brand name, technological competence and the status of the company as Malaysia's National Oil Corporation. The next section looks at how Petronas exercised these various advantages in its international expansion.

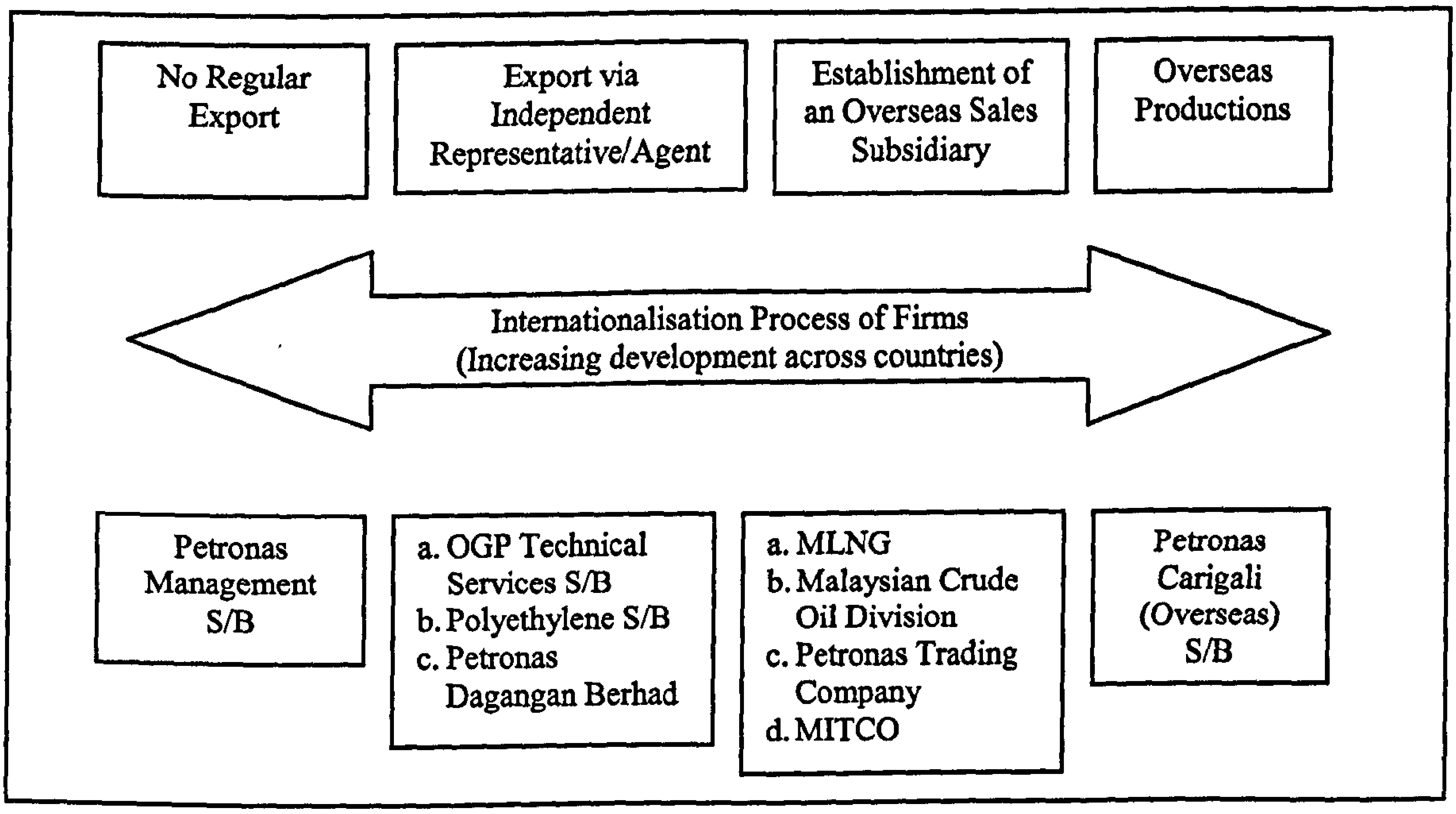
6.4 An Analysis of Petronas' Overseas Expansion: Internationalisation Pattern and Process, and Entry Modes Strategy

Internationalisation Pattern and Process

As presented in Chapter 2, commonly a certain sequence is identified to describe the broad path companies follow in becoming multinational. It begins with the assumption that initially, the firm is purely a domestic firm, and then begins to export its product abroad. To exert closer control and penetrate a distant market, the firm then sets up a subsidiary and finally engages in foreign direct investment. The international expansion of Petronas appears to have followed the sequential stages as proposed by the internationalisation literature (Ahmad, 2001). According to this author in his Ph.D thesis, the group's business activity started with the export of crude oil and LNG to Japan in 1975, followed by export via agents/distributors. Four main channels of exports via agents/distributors were used in its second stage of expansion, namely, Malaysian Liquefied Natural Gas Sdn Bhd (MLNG), Malaysian Crude Oil

Division (MCO), Petronas Trading Company, and Malaysian International Trading Company (MITCO) (Ahmad, 2001). Finally, the involvement of Petronas in foreign direct investment is through its exploration and production business operation by the group's subsidiary, Petronas Carigali (Overseas) Sendirian Berhad. Figure 6.3 illustrates the internationalisation stages of Petronas. It follows the stages of internationalisation process of firms as suggested by Johanson and Vahlne (1977, 1990)

Figure 6.3: The Internationalisation Process of Petronas



Source: Adapted from Johanson and Wiedersheim-Paul, 1975; Ahmad, 2001

In explaining the driving forces in moving abroad, existing literature on the international expansion of MNCs from developed countries has emphasised that searching for natural resources, markets, efficiency and strategic assets are the main objectives in their internationalisation (Dunning, 1993a). Because their primary objective is to utilise resources in order to maximise profit margins, MNCs from developed countries tends to expand by exploiting resources that they already possess, and they have always been portrayed as arrogant and insensitive to the needs of the host countries. This assumption may be true for established oil companies such as Shell or Esso (Interview 1(B): 15 September 2004). Given the lack of study of the MNCs from developing countries such as Petronas, the generalisation in the above statement is rather too simplistic. In the case of Petronas, although the group's international expansion was driven by the search for certain benefits as explained by Dunning (1993a), Petronas has an obligation to maintain its unique character as a National Oil Corporation. Wherever the group went internationally, they worked to the concept of shared value, a practice Petronas claimed that some western oil and gas multinationals may never follow (Interview 1(H): 14 September 2004). Petronas' international expansion in South Africa and Sudan is an appropriate evidence of this, through its loyalty and commitment to national responsibilities. Through Engen, Petronas has provided the opportunity for synergies in human resource development through cross-posting of staff. Without prejudice to its commercial agenda to transform Engen into a fully integrated oil and gas company, utilising its profit margin and protecting its shareholder investment, Petronas always balances its objective with its social obligation in developing the host country (Interview 1(B): 15 September 2004). In Sudan, Petronas has been seen as a role model in rescuing the country from economic isolation and supporting its transition to economic self-reliance (Bowie, 2001). This explanation may expand the literature that assumes that firms internationalise only to exploit resources that they already possess.

Regarding the primary motivations to invest internationally, most of the interviewees echoed that Petronas' consciousness of the depleting nature of oil and gas resources, the limited size of the domestic market, competition with major oil and gas companies, the emerging market in fast growing regions, and growing business with prudent portfolio management were strong driving forces (Interview 1(B): 15 September 2004; Interview 1(H): 14 September 2004; Interview 1(G): 22 October 2004). As the country's hydrocarbon reserves were limited, venturing abroad was the only way to secure more resources. Its financial strength and proven track record in the home upstream sector assisted Petronas' growth internationally. Having started venturing abroad in neighbouring countries such as Myanmar and Vietnam, the group then further expanded rapidly to Middle Eastern countries and the African continent. As explained in an interview,

> We knew that we were new and a niche player in an arena dominated by veteran oil and gas MNCs. Therefore we went to uncharted territory in which the established oil and gas companies do not have an interest. (Interview 1(C): 11 October 2004)

In its international expansion, among the critical factors for consideration by the group are political stability, government efficiency, infrastructure, industrial development, availability of advanced technologies and host government incentives and support (Interview 1(E): 17 September 2004). A feasibility study was conducted before each decision was made, to ensure that Petronas' foreign investment could provide a valuable return (Interview 1(C): 11 October 2004). As stated by one respondent:

> My unit have been given a responsibility to conduct a feasibility study of any new investment proposed by the group. As an international business unit in a corporate planning and development division, we will work closely with other divisions to provide the best information regarding business risks, constraints, and other related data before venturing abroad. Proper and continual assessment of risks in project investment decision is essential to minimise risk exposure (Interview 1 (C): 11 October 2004)

Petronas' enthusiasm to expand internationally comes not only from its response to the government plan and recommendation to encourage Malaysian companies to look beyond Malaysia shores, but also from the vision of the top management team especially from the late Azizan as Chairman, and Hassan as President (Interview 1(B): 15 September 2004). As echoed in the most of the interviews:

> The expansion of Petronas internationally came from a direction of the top management. Although there are many challenges and obstacles, it is a vision of our Chairman and President to steer for the internationalisation and make the move realisable. (Interview 1(D): 13 September 2004)

A similar view was also stressed by one of its key executives:

> We need to change the mindset of our staff and follow the mindset of our leader. The transformations are crucial in the facing the more challenging and competitive international business environment (Interview 1 (B): 15 September 2004)

The managerial capability demonstrated by its management teams shows that strategy alone does not account for the group's success. Strong management capabilities and the enthusiasm of its staff come next (Interview 1(H): 14 September 2004). As more than 90% of the staff is *bumiputera*, Petronas has been seen as a showcase of specifically ethnic Malay achievement in the business sector. Skills and competencies in management linked to technology may therefore be added to Petronas' list of winning strategies (Bowie, 2001). This scenario contrasts with the assumption in the existing literature on developing countries that the emergence of Asian multinationals stems only from the ethnic Chinese (see Chapters 1 and 3). With its strong management capabilities, and supported by the financial standing of its results, many National Oil Corporations (NOCs) looked to Petronas for guidance (Interview 1(B): 15 September 2004).

Regarding the destination of its international investment, the group went to emerging markets looking for potential, so that they could grow with the host country, and where, pragmatically, in many cases, pre-existing political ties gave them an edge (Interview 1(B): 15 September 2004). One of the key executives explained that: "among the primary choice host countries for investment is the developing world as they were most likely to find an affinity" (Interview 1(H): 14 September 2004). He further added that it was natural they should look near home first – to Myanmar and Vietnam, then further afield to the Middle East and other Muslim countries – and then to the African continent where they often shared a common colonial background and lastly to the Commonwealth of Independent States (CIS) countries. The markets Petronas chose to enter are other developing countries whose level of technology is still lower than that of Petronas. As may be expected, the monopolistic advantages developed by Petronas find only a small role in advanced industrial countries. By focusing on uncharted territory i.e. in other developing countries, Petronas could take full advantage of its technological capability and know-how in petroleum and gas without much fear of competition. Clearly, proximity and similarity in institutions and historical links have been important in determining where Petronas would invest. In the Indo-China region, the expansion was not only for reasons of proximity, but also mainly for the opportunities that would be released by the rehabilitation of the countries involved in the post-war period (Bowie, 2001). The group foresaw the enormous growth potential after so many years of economic stagnation. In South Africa, beside its business factors, the expansion was in support of the Black Economic Empowerment (BBE) process with the aim of capacity-building, job creation and economic growth of the South African country. The BBE programme, like the Malaysian NEP, aimed at eradicating poverty and reducing the socio-economic imbalances among ethnic groups. South Africa, was a natural choice, given Malaysia's historical relationship with the latter's long-standing opposition to the hideous regime of apartheid and its strong vocal support for the aspirations of the South African people (Interview 1(B): 15 September 2004). Petronas' South African venture was in line with national policy to promote South-South co-operation and enhance bilateral trade relations.

In sum, the acquisition of strategic assets was not the only reason behind Petronas' international expansion. The company was equally driven by its stated interest in contributing to the well-being of the people and the nation where it operates. As was remarked in one of the interviews:

> Many countries choose Petronas because it is a National Oil Corporation with a heart for human development and not an entirely profit making organisation unlike most of the multinational oil companies (Interview 1(F): 17 September 2004)

An overall analysis of Petronas' internationalisation pattern and process having been made, the next paragraphs further discuss the entry modes and expansion strategy of the group.

Entry Modes and Expansion Strategy

In the foreign entry mode literature, the amount of control is seen to increase as the firms' resource commitment increases. When faced with risk, however, firms tend to reduce their resource commitment (Aharoni, 1966). In the case of Petronas, because its business is a high risk business, it entails a large amount of capital, and requires a complex operation, the group could not go international alone (Interview 1(H): 14

September 2004). It needed joint ventures with foreign partners. Most of the group's international entry strategy is through joint ventures and partnerships either being as an operator or manager. A senior executive of Petronas, for instance, explained that:

> Drilling an oil well to find black gold (oil) is not an easy job. The cost involved is highly expensive and yet the chances to get the oil are very slim. Sometimes we expect oil, but we only get gas. However, it is a challenging task. (Interview 1(C): 11 October 2004)

In all Petronas' international projects, the company sought to find reliable local partners in specific fields (Interview 1(G): 22 October 2004). Among them is BASF - a specialised petrochemical company and the largest in the world in its field. The other is BP, one of the three surviving Sisters of the original Seven who dominated the oil world for so long, and UCC, the American petrochemical giant. Many criteria were used in selecting the right partners, such as strong financial standing, advanced technology capability, management expertise, and most importantly, the partner's willingness to share a similar vision of how Petronas develops and derives its business operations. As a key executive explained:

> In the international arena, the strategy could be slightly tricky. Petronas is depending on the joint venture arrangement. There is social technology involved, if it is to be a truly 'smart partnership'. It was described as mixed marriage with foreign partners, where cultural differences have to be bridged (Interview 1(G): 22 October 2004)

In its international expansion progression, especially in exploration and production activities, the pattern of Petronas' entry strategy can hardly be characterised as incremental in nature. Rather the pattern and choice of expansion strategy was made independently and based on specific international engagement (Interview 1(B): 15 September 2004). The interest of Petronas varies from one international project to another, depending on its resource commitment, type of business and the contribution the group can offer in its expansion. For instance in South Africa, the expansion of the group comprises downstream and upstream activities, while in Myanmar it is based purely on upstream activity. Its participation and commitment also varies, based on equity. For example, Petronas owned 85% equity in Vietnam, 50% equity in Egypt, and 35% equity in Chad. These expansions were undertaken in the context of favourable offers by the foreign partners and host countries (Interview 1(D): 13 September 2004). It is therefore more accurate to explain Petronas' direct investment as opportunity-driven attempts to seek new markets in other countries.

6.5 Conclusion and Implication of the Case Evidence

The purpose of this chapter in the thesis is to explain the emergence of Malaysian-based MNCs via a case study of Petronas. The evidence presented indicates that the firm gained its initial competitive advantage by combining its generic assets, developing its technological competence, building its brand name, and working closely with reliable local and foreign partners. Within the Malaysian context, through the Petroleum Development Act, Petronas has grown in a comfortable position without much competition, thanks to its status as national oil corporation. Its monopolistic position gave the group sufficient time-frame to accumulate its industry knowledge, experience and other related capabilities. Petronas' unique ties as a government-owned corporation have helped bring the group much benefit toward its growth and expansion which no other domestic companies enjoyed. This connection has proved to be of crucial significance towards the group development. With strong management capabilities and skills, the group embarked on a strategy of working closely with many parties. Business networks with government and foreign partners are important as they have helped the company to build up its core capabilities.

Petronas' attitude towards international expansion was led in a way similar to its domestic strategy by the intention to develop sophisticated technological advancement with established MNCs. Many international projects were conducted through partnership and joint ventures with foreign parties and working closely with national oil corporations in host countries. By applying these strategies, the group attempts to acquire technological superiority and equally minimise its investment risks. In addition, it has resulted in increasing the internationalisation knowledge and experience of the company.

With its domestic experience, the group's international expansion was initially directed to neighbouring countries with similar or lower economic condition. The group then extended its international investment in countries with greater psychic distance. Some of the group's investments are even in countries with high political and investment risks in which no other established oil and gas companies are prepared to participate. Being able to expand in uncharted markets avoided by other established oil MNCs has demonstrated its capabilities in the international arena.

From the experience of the first case study in this thesis, two primary conclusions can be drawn. Firstly, Petronas' domestic growth was mainly built on both technological skills as well as building up business network connections with various parties including the government. Through various government facilitations and supports, Petronas has been able to strengthen its position in the domestic market and expand successfully internationally. Secondly, the group business operations have been managed by professional management which comes from Malay ethnic society. This has showed that this ethnic group are capable of managing an established organisation

(Interview 1(A): 28 October 2004). The dominant representation of studies emphasising that only ethnic Chinese manage established corporations in the Southeast Asia region risks biasing their explanation of developing countries MNCs literature (see Chapter 1).

CHAPTER SEVEN

TM BERHAD (TM)

"Our long-term mission is to become an international telecommunications player in the telecoms industry" (Interview 2(A): 5 October 2004)

TM Berhad at a glance:

Year of incorporation	:	1 January 1987
Operating Revenue in 2004	:	RM13, 250.9 million (US$3, 487.1)[1]
Industry	:	Telecommunications
Current Overseas Investment	:	Eleven countries
Company Status	:	Government-linked Corporation

7.0 Introduction

Telekom Malaysia Berhad or TM Berhad[2] is no ordinary telephone company (telco). It is the largest telco in the country and the second largest in Southeast Asia. As one of the key state-controlled or Malaysian Government-linked Corporations (GLCs), TM has been hailed as a source of national pride. The growth of the firm has been regarded as a reflection of the country's increased level of industry and social development and an integral part of its economic performance. It is also seen to be a living example of a successful government privatisation programme, which has been implemented since the 1980s. When its main shareholder Khazanah Nasional Berhad[3], gave the mandate to all

[1] At an exchange rate of US$1 equivalent to RM 3.80. The Ringgit has been pegged to a basket of currencies, dominated by US dollars.
[2] In line with the Group's strategy to be more competitive domestically and internationally, Telekom Malaysia changed its name to TM Berhad in 14 April 2005
[3] Khazanah Nasional Berhad was incorporated in September 1993. It is the Malaysian Government's investment arm under the Ministry of Finance Incorporated. Their objectives are two-fold. One is to hold and manage the investments entrusted to it by the Government, while the other is to undertake new investments in sectors of strategic, high technology and of national interest and/or any other investments which meet the financial criteria as defined. The Malaysian Government owns extensive interest in a

the GLCs to expand internationally, TM already had overseas investments[4] in some foreign markets, and planned to make international investments a significant feature in its overall strategy, with particular focus on markets close to home (Interview 2(A): 5 October 2004, Interview 2(B): 11 October 2004). Prudent international expansion had become one of the five-pronged strategies in making the firm more profitable, market-focused and competitive, towards becoming the 'Communication Company of Choice' (The Sun, 14 October 2004). Despite the fact that some overseas investments by TM are debatable, international ventures have enabled the company to capitalise on its expertise and skills in developing and building telecommunications networks internationally (Interview 2(C): 8 October 2004). The company has claimed that its development in technological applications and system networks has enhanced its ownership advantages (Interview 2(D): 21 October 2004).

Although it is often argued that the rapid growth and development of the firm are mainly due to its relationships and connections with the Malaysian government, the company has grown into a corporate giant in its own right (Malaysian Business, 1-15 November 2001). TM is run strictly as a corporate entity under normal prescribed corporate governance. This presents interesting research questions: How did a firm, which has been seen as 'a government-owned giant', grow so rapidly at home and abroad? What are the key advantages of the firm in competing with rivals both domestically and internationally, especially after the liberalisation of the sector? What motivated the firm to expand

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number of companies via Khazanah and among them is TM. As at financial end 2004, the company holds 35.19% shares in TM Berhad and is the largest shareholder in the firm (Interview 2(A): 5October 2004).

[4] Worth over US$819 million

overseas? Finally, what lessons can be learned from the experience of TM as a GLC in its international expansion and operations?

Drawing primarily from in-depth interviews with key management executives in the organisation, and supported by the various secondary sources of information (published and unpublished) collected during fieldwork in 2004, this case study chapter will examine the development of TM domestically and internationally. It will also endeavour to explain the key forces that lie behind the firm's successful development to be positioned among the top 30 largest telcos in the world (UNCTAD, 2004).

TM was chosen as the second case study because: (a) the company is the country's pioneer telecommunication service provider, with a long history of development, and is one of the biggest public-listed corporations in Malaysia with a paid-up capital of over RM3.3 billion; (b) it has long had a gigantic presence in the domestic telecommunications industry, largely through its controlling hold on fixed-line services, with a lion's share of approximately 97%; (c) it is among the most active domestic telco firms in expanding operations internationally since 1995, with a strong determination in its long-term mission to become an international and world class telecommunications player in the telecoms industry; (d) the majority of the company's shares are owned by the Malaysian government (45.2%) and the *Bumiputera* (35.6%) through various trust and state agencies, representing Malay domination in the business sector; and finally (e) the company holds 'national status as a utility provider' and this has brought attention to how the firm has succeeded domestically, and what drove its operations internationally.

To analyse the case in further detail, the chapter will begin by providing a general overview of Malaysia's telecommunications industry in section 7.1. This is followed by the group's business background, domestic development and international expansion in section 7.2. Section 7.3 is a discussion based on the group's competitive advantages and business strategies, while the analysis on internationalisation process of the corporation is explained in section 7.4. Finally, section 7.5 presents the chapter's conclusions and lessons that can be learned from the firm's experience.

7.1 Malaysian Telecommunications in Perspective: An Industry Overview

The telecommunications industry in Malaysia had been fully controlled by the government and was in fact a public monopoly until some forms of liberalisation and deregulation were introduced in the early 1980s[5]. Liberalisation of the industry brought a dramatic change in the sector; it was transformed from a monopoly market to a more competitive and vigorous environment (Ure, 1995). The structure and organisation of the industry was undergoing major reforms, including shifts of ownership and control from the public to the private sector, and opening the sector to domestic and international capital markets (Harrington, 1995). Among developing countries, Malaysia was one of the first in the Asia-Pacific region to initiate reforms within its telecommunications sector (Salazar, 2004). As a result, a new dynamic era began and a new business environment

[5] Reform in the infrastructure sector began in the early 1980s throughout the Asia-Pacific region. The experience of twin deficits and mounting external debt during this period convinced the Malaysian government to embark on the strategy of promoting private sector-led growth and development. The Malaysian government considered privatisation to be a way to relieve its administration and financial burdens and at the same time improve efficiency in service delivery. In the telecommunications sector, reform began in 1983 when the government allowed the private sector to complement the Malaysia Telecommunication Department in the supply of terminal equipment such as telephones and teleprinters (Harrington, 1995; Zainal, 1996)

was introduced. The operational and regulatory functions, which had earlier been combined and controlled by Malaysia's Telecommunication Department (MTD) and received instructions directly from the Ministry, were now separated and undertaken by different bodies (Casey, 2001; Minges and Gray, 2002). Currently, the ministry responsible for telecommunication services is the Ministry of Energy, Water and Communications (MEWC), which was established on 27 March 2004. Following a cabinet reshuffle, the MEWC replaced the former Ministry of Energy, Communications and Multimedia. The regulatory function of the governing body is undertaken through its two regulatory bodies: the Energy Commission (EC), and the Malaysian Communications and Multimedia Commission (MCMC). While the roles and responsibilities of the EC focus on overseeing matters related to the country's energy supply activities under the energy supply law, the MCMC has the function of implementing and promoting national policy objectives for the communication and multimedia sectors.

The telecommunications industry in Malaysia has experienced significant growth (see Table 7.1). In comparison with other ASEAN countries, Malaysia has a relatively high level of service penetration, but compared to more developed countries such as Hong Kong and Singapore, Malaysia's level of service penetration is low (Ure, 1995).

Table 7.1: The Growth of Malaysia's Telecommunications Industry

	As at 31 December (in million)					
	1999	2000	2001	2002	2003	2004
Malaysian Population	22.7	23.2	23.6	24.0	25.0	25.5
Fixed-line Subscribers	4.4	4.6	4.7	4.7	4.9	5.2
Fixed-line Penetration* (%)	19.5	19.9	19.8	19.7	20.0	20.2
Mobile Subscribers	2.7	5.1	7.5	8.7	9.5	10.2
Mobile Penetration (%)	12.0	22.0	31.4	37.5	39.8	40.1

Source: Telekom Malaysia[6]

* Penetration refers to the total number of subscribers as a percentage of the total population

In line with the national aspiration to ensure the growth of telecommunications services, and its use of technology support in overall national development, the National Telecommunication Policy (NTP) was formed in May 1994. Essentially, the NTP contained a set of policy recommendations and functions as a catalyst towards the growth and development of the telecommunications industry in its efforts to become a sophisticated and modern sector (National Telecommunications Policy, 1994: 9).

The NTP foresaw competition as an important dimension for growth. Despite this emphasis on the importance of competition, the government did not subscribe to a totally *'laissez faire'* approach. The government is empowered to determine the number of competitors that are economically viable. The control of the industry is one means of achieving the NEP goal of increasing Malay levels of corporate ownership (Mesher and Zajac, 1997). The reformation of the sector and introduction of NTP ended the monopoly scenario and led to the rapid emergence of several local telecommunications firms in the early 1990s. At the beginning of 1996, fearing excessive competition in the market and duplication of telecommunications infrastructure, the government announced its direction

[6] The data was provided after previous interviews with several TM Berhad executives.

regarding rationalisation. Although the stated goal was to limit the number of international gateways and basic services operators in the telecoms market, the actual process appears to have resulted in promoting the emergence of 'full service' telecoms companies able to offer a broad range of services (Mesher and Zajac, 1997).

In 1999, the government introduced its 'equal access' policy. Equal access would allow telecommunications subscribers to choose which carrier network to use when making long distance calls. It was an attempt by the government to facilitate improvement in the quality of telecommunications services and to encourage price reductions as a result of enhanced operating efficiency (Malaysian Business, 16 December 1997). Before discussing the domestic development and international expansion of TM (in section 7.2), a brief introduction to the leading domestic telecom groups is presented in the next sub-section in order to provide the context of domestic competition.

The Leading Domestic Telecommunication Networks Operators

The telecommunications industry is typically considered as consisting of two main elements: the provision of services by network operators, and the supply of equipment. In the Malaysian telecommunications industry, the strongest and most influential domestic telecommunication firms are fixed-line and mobile network operators (Interview 2(B): 11 October 2004). Equipment manufacturers play a relatively restricted role compared to service providers. Japanese and European multinationals have dominated the domestic telecommunications equipment industry. Among the largest and best known are Motorola, Trisilco Folec, NEC, Hitachi, Fujitsu, Ericsson[7], Alcatel, AT&T, Siemens and Philips (Interview 2(E): 21 October 2004; Alavi, 1999).

In the development of the industry, network operators play a more significant role than equipment manufacturers. Many telecommunications companies emerged after the 1987 market liberalisation and industry reformation. However, the country's telecommunications sector has undergone consolidation with the original eight telco players subsequently being reduced to four companies, namely, Telekom Malaysia Berhad (TM), Maxis Communications Berhad, DiGi.Com Berhad, and Time dotcom Berhad. The consolidation was made due to the financial crisis that swept through Southeast Asia in 1996/97, when concerns over market saturation and infrastructure duplication with large-scale debt and negative equity hit the industry (Salazar, 2004). Consolidation was also made due to merger and acquisition of some firms to strengthen their position in the domestic market (Interview 2(A): 5 October 2004). Table 7.2 shows the current licence status of these telecommunication operators.

[7] Ericsson became a major supplier of exchange equipment, while Fujitsu and NEC emerged as major suppliers for transmission equipment (Onn, 1995)

Table 7.2: Malaysia's Leading Telecommunication Firms, 2004

Firms	Licence Status/Date of Licence	No. of Employees 2004	Profits (RM million) 2004	Operating Revenue 2004 (RM million)	Services
TM Berhad	Nationwide and International (1 Jan 1987)	27,000	3,172.8	13,250.9	Telephony (fixed-line), cellular (analogue and digital cellular service - ATUR 450 using NMT 450 MHz system, Digital Advanced mobile phone (AMPS) network, Global system mobile), telex, facsimile, payphone (rural), packet and circuit, switched data, ISDN, broadcast transmission, Internet, Traffic minutes (PSTN, VoIP, Interconnect), Narrowband & Broadband access etc.
Maxis Communication Berhad (Maxis)	Nationwide and International (1 March 1993)	2,900	2,015.3	4,680.1	Telephony (fixed-line), cellular (digital cellular service using GSM 900 MHz system), international gateway, telex, facsimile, packet and circuit, switched data, ISDN, broadcast transmission, video broadcasting, satellite, internet, etc.
DiGi.Com Berhad	Nationwide and International (18 Jan 1995)	1,500	201.5	1,713.5	Fixed line, cellular, international gateway, VSAT, internet services, etc.
Time dotCom Berhad (Time)	Peninsular Malaysia (1 Jun 1994)	1,900	794	7,986	Switched and un-switched voice data and video via fibre optics network along highways, designated roads and coastal areas throughout Peninsular Malaysia.

Companies Annual Reports, 2003, 2004

Along with TM (see section 7.3 for details), Maxis Communications Berhad (formerly known as Binariang Sendirian Berhad[8]; it switched names to build on the success of the Maxis brand name) commenced operations in August 1995, and became the third telecommunications operator in the country after the Cellular Communications Network

[8] The company was incorporated as a private limited company in Malaysia under the name Binariang Sdn Bhd on 19 December 1986. On 5 September 1997, the company was converted to a public limited company and changed its name to Binariang Berhad. The company assumed its present name, Maxis Communications Berhad, on 12 July 1999.

Berhad[9] (Celcom). The group has been granted a licence to operate a second cellular telephone service using Global System for Mobile communications (GSM network - 012) 900 Mhz system. GSM 900 is the nation's first completely digital service, and gives clearer transmission and reception.

The major shareholder of Maxis is Usaha Tegas (49%). Tycoon T. Ananda Krishnan[10] is the major shareholder of Usaha Tegas. British Telecommunications Plc acquired a 33.3% stake in Maxis Communications in October 1998 for RM1.8 billion (Malaysian Business, 16 February 2004 and 1 January 2005). Following the acquisition, the MEASAT operations were spun off as a separate entity known as Binariang Satellite Systems Sendirian Berhad. The company has been given a licence to operate the country's first satellite, the Malaysia East Asia Satellite (MEASAT-1), a domestic network and international gateway. With the advantage of owning MEASAT, the group has expanded rapidly and controls more than 50% of the country's cellular market share in terms of subscriber numbers.

The third leading domestic telco and the last firm to obtain a licence is DiGi.Com Berhad, which has been awarded several licences with tenure ranging between 5 to 20 years for the establishment, maintenance and provision of full telecommunications services in Malaysia (Salazar, 2004). The company was formerly known as Mutiara Swisscom

[9] Celcom was the first operating cellular and the second telecommunication operator to emerge in the country (Ure, 1995). On 17 April 2003, Celcom became a subsidiary of TM when the former took over ownership of TM Cellular Sdn Bhd, an existing mobile arm of TM, and retained the Celcom name in its domestic operation (see section 7.3 for details).

[10] T. Ananda Krishnan is a well-known entrepreneur and businessman in the country. He is one of the ten wealthiest men in Malaysia with assets estimated to be worth at RM12.3 billion (Malaysian Business, 16 February 2004). His close ties with the former prime minister, Mahathir Mohamad, gave him the opportunity to build his business empire (Ure, 1995; Salazar, 2004).

Berhad. It was founded in September 1994 and commenced operations in May 1995 under the brand name DiGi 1800. DiGi is Malaysia's first and only majority foreign-owned telecommunications service provider with Telenor Asia Pte Ltd, Norway's largest phone company, as its largest stakeholder. Although DiGi is the smallest cellular operator in the country, the company has the fastest growing subscriber base. The company was the first to launch the extremely popular prepaid mobile phone service in January 1998 and has capitalised on the low-usage prepaid market, making itself a niche player. The prepaid service was the primary driver in placing DiGi among the largest cellular players. There was a change in the group's shareholding structure after Swisscom AG decided to dispose of its 30% stake [11]. Later, Telenor International AS, a Norwegian telecommunications company, bought the stake at RM5.25 per share, totalling RM787.5 million. Its major shareholders now are Telenor International AS (30%), Berjaya VTCY Sendirian Berhad (17.63%), the head of Berjaya Group, Tan Sri Vincent Tan Chee Yioun (10.64%) and Inter-Pacific Capital Sdn Bhd (2.32%). Under a new directorship headed by Vincent Tan, a businessman and entrepreneur with varied interests in business, the firm is currently expanding rapidly (Malaysian Business, 16 February 2004 and 1 January 2005).

The last among the leading local telecommunication players is Time dotCom Berhad, which was incorporated as a public company on 11 December 1996 and a full suite of telecommunications licences is held by its subsidiaries: TT dotCom Sendirian Berhad, TIME dotNet Berhad and TIMEReach Sendirian Berhad. The company started out as an infrastructure provider by building an optical fibre network running the stretch of the

[11] The decision of Swisscom to dispose of its stake in DiGi Swisscom Bhd was because they were no longer interested in the Asian market, preferring instead to focus on Europe (Malaysian Business, 1 May 1999)

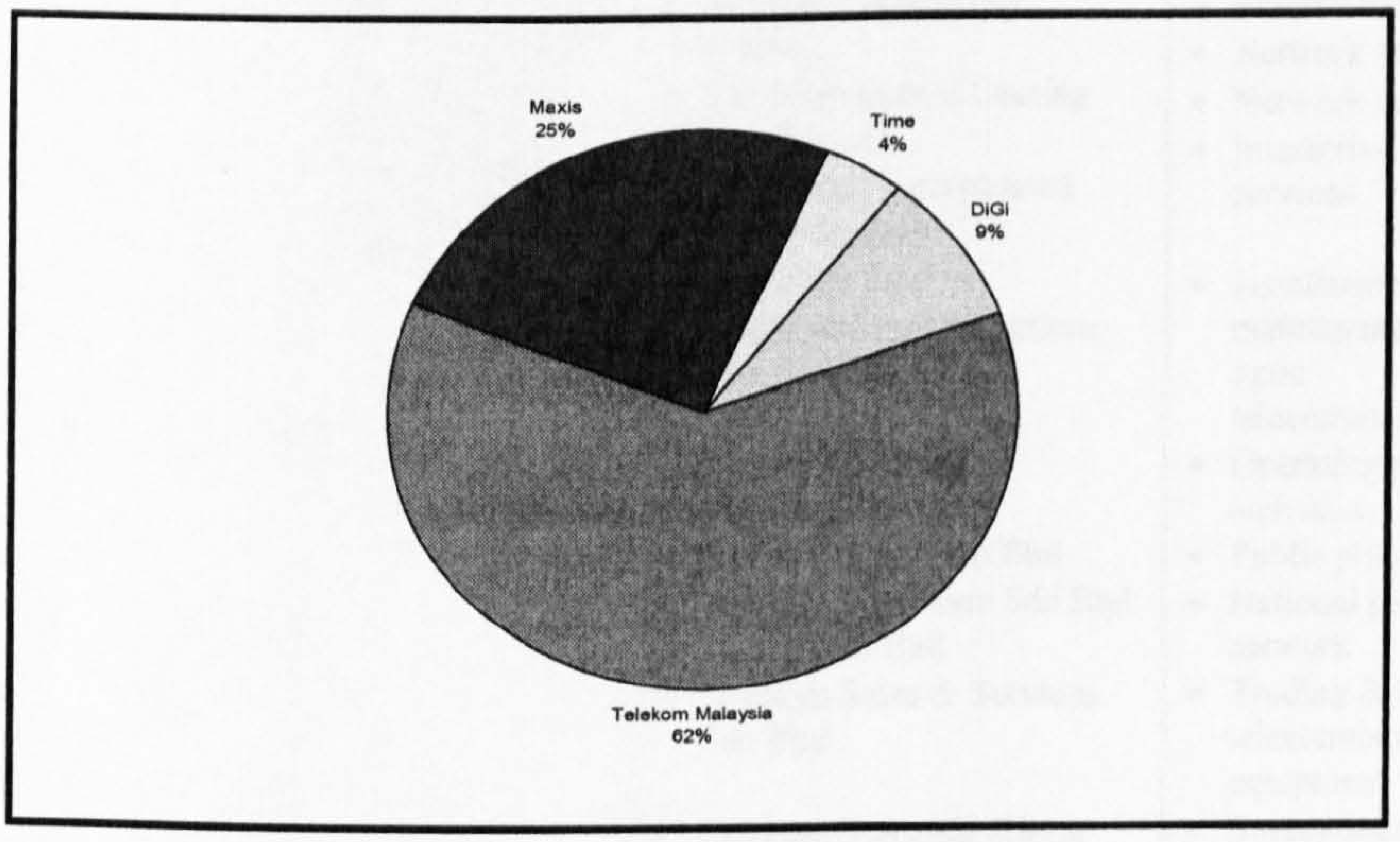
North-South Highway that spans the entire peninsula from Thailand to Singapore. In contrast to the other telcos, Time was originally not involved in cellular telephony, but in providing a basic network facility (Salazar, 2004). On 8 August 1995, a company called Sapura Telecommunications Sdn Bhd launched a GSM 1800 network known as ADAM (a personal communications network). In 1997, TIME paid RM750 million for a 75% equity interest from Sapura and in August 2000, the brand name was changed to TIMECel to reflect the consolidation of telecommunications activities within TIME dotCom companies.

Figure 7.1 illustrates the leading operator market share by revenue, while Table 7.3 presents a summary of the activities of these leading national telcos. From Figure 7.1, four leading telecommunications firms, namely TM Berhad, Maxis, DiGi.Com Berhad and Time dotcom Berhad, represent the telecommunications sector in Malaysia. The combined revenue of these companies was RM21.75 billion in 2004. This compares favourably with RM18.9 billion in 2003, reflecting a growth in aggregated revenue of 15% for the sector (Malaysian Communications and Multimedia Commission (MCMC), 2004). Market share in terms of revenue remains generally unchanged from the previous year as industry players compete intensely to maintain, if not gain, market share (ibid, 2004).

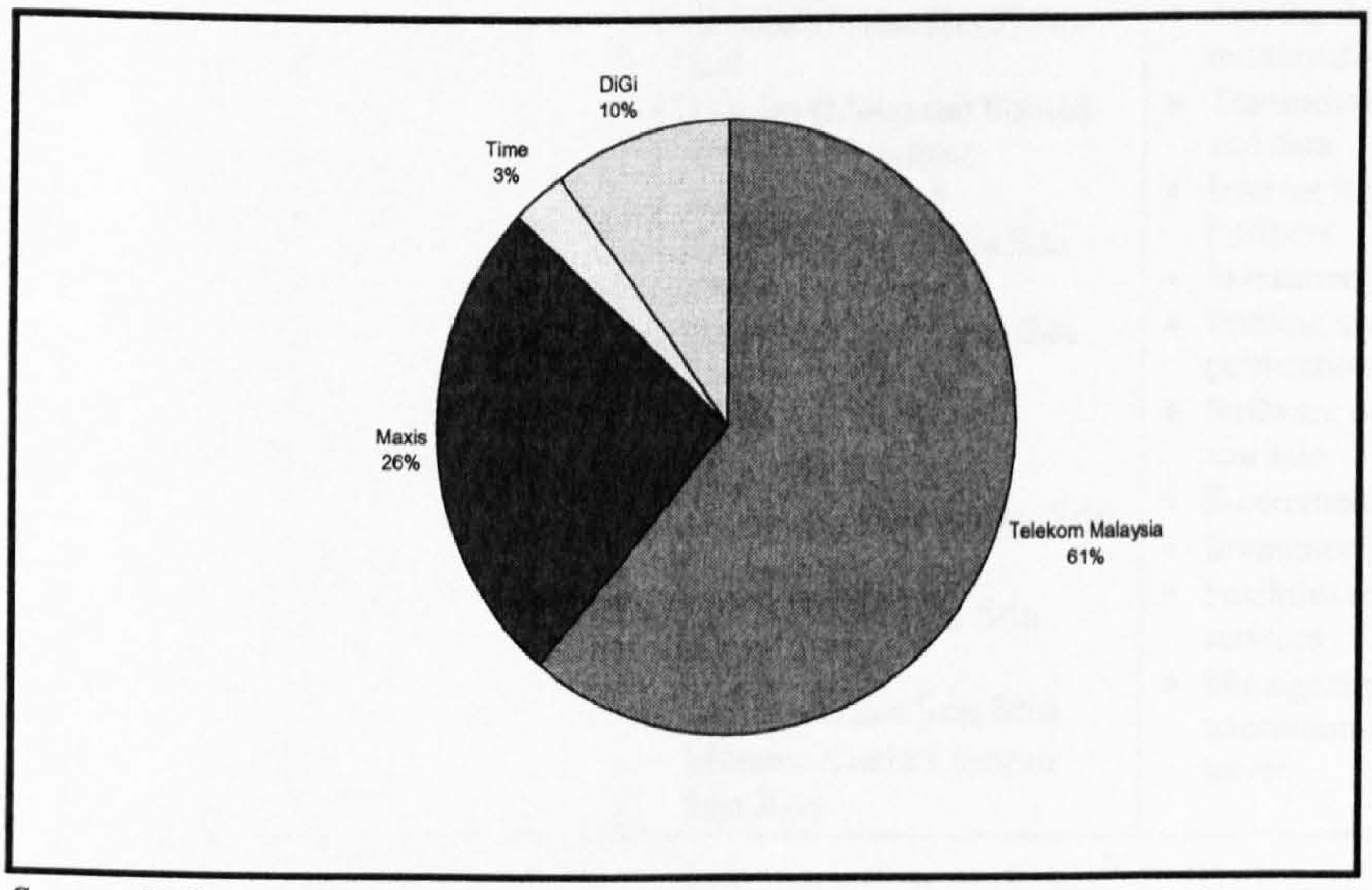
Among the four telcos, TM remains the most internationally active, with the furthest international reach. In 2004, TM Berhad had operations and financial interests in 11 countries namely Sri Lanka, Bangladesh, South Africa, Malawi, Guinea, Cambodia, Ghana, Thailand, and more recently in year 2004/05 is India, Pakistan and Indonesia (Interview 2(A): 5 October 2004; Interview 2(B): 11 October 2004).

Figure 7.1: Operator Market Share by Revenue, 2003/2004

Telecommunications Sector Revenue 2003



Telecommunications Sector Revenue 2004



Source: Malaysian Communications and Multimedia Commission (MCMC) Industry Performance Report 2004

Table 7.3: Summary of Leading Malaysian Telecom Companies and their Subsidiaries 2005

Firms	Substantial Shareholders (5% and above)	Key Subsidiary / Associated Companies	Type of Activity	Remarks
TM Berhad	Khazanah Nasional Berhad (35.19%); Employees Provident Fund Board (12.61%); Bank Negara Malaysia (7.43%); Cimsec Nominees (Tempatan) Sdn Bhd (5.46%); Temasel Holdings (Private) Ltd (5.00%)	• University Telekom Malaysia • Telekom Research & Development • Telekom Enterprise Sdn Bhd • Mediatel (Malaysia) Sdn Bhd • TM International (L) Limited • TM International Leasing Incorporated • TM Global Incorporated • VADS Berhad • GITN Sdn Bhd • Meganet Communications Sdn Bhd • Fiberail Sdn Bhd • mySpeed.Com Sdn Bhd • Telekom Payphone Sdn Bhd • Citifon Sdn Bhd • Telekom Sales & Services Sdn Bhd • Telekom Malaysia (Hong Kong) Ltd • Telekom Malaysia (UK) Ltd • Telekom Malaysia (USA) Inc. • Telekom Malaysia (S) Pte Ltd • Celcom (Malaysia) Berhad • Mobikom Sdn Bhd • TM Net Sdn Bhd • Telekom Multimedia Sdn Bhd • Telekom Publications Sdn Bhd • Telekom Applied Business Sdn Bhd • Telekom Technology Sdn Bhd • TM International Sdn Bhd • TM Facilities Sdn Bhd • Menara Kuala Lumpur Sdn Bhd	• Private university • R&D activities • Investment holding • Investment holding • Investment holding • Investment holding • Investment holding • Network services • Network services • Interactive multimedia services • Installation and maintenance of fibre optic telecommunications • Operating e-business activities • Public phone services • National payphone network • Trading & maintaining telecommunication equipment • International telecommunication facilities • Mobile, fixed and multimedia • Transmission of voice and data • Internet related business • Investment holding • Printing and publications • Software development and sale • E-commerce business • Investment holding • Facilities management services • Management of the telecommunication tower	Owned by government through various trust agencies and investment arms.

continued

Firms	Substantial Shareholders (5% and above)	Key Subsidiary / Associated Companies	Type of Activity	Remarks
Maxis Communication Berhad	Maxis Holding Sdn Bhd (16.18%); Cartaban Nominees (Tempatan) Sdn Bhd (6.81%); Wilayah Resources Sdn Bhd (5.44%); Besitang Barat Sdn Bhd (5.44%)	• Maxis Mobile Sdn Bhd • Maxis Broadband Sdn Bhd • Maxis International Sdn Bhd • Malaysian Mobile Service Sdn Bhd • Maxis Collection Sdn Bhd • Maxis Management Services • Maxis Multimedia Sdn Bhd • Rawa Utara Sdn Bhd • Castle Rock Equity Sdn Bhd • Advanced Wireless Technologies Sdn Bhd	• Operator of mobile telecommunications • Operator of national public switched network and internet service provider • International gateway • Mobile products and services • Revenue collector for the group • Management services • Multimedia related services • Investment property • Investment property • Wireless multimedia services	Major shareholder is Usaha Tegas (controlled by Ananda Krishnan, one of Malaysia's wealthiest individuals)
DiGi.Com Berhad	Telenor Asia Pte Lte (32.93%); Tan Sri Vincent Tan (16.34%); Telenor Asia Pte Lte (Digi) (14.07%); Telenor Asia Pte Lte (Digi/moratorium) (14.00%)	• DiGi Telecommunication Sdn Bhd • DiGI Services Sdn Bhd • Djuice.Com Sdn Bhd	• Telecommunications and related services • Property holding and related services • Dormant	Owned by Foreign and Domestic Private investors
Time dotCom Berhad	TIME Engineering Berhad (44.73%); Khazanah Nasional Berhad (30.04%); Kumpulan Wang Amanah Pencen (10.82%)	• TT dotCom Sdn Bhd • TIME Reach Sdn Bhd • TIMESat Sdn Bhd • TIME dotNet Berhad	• Voice, data, video and image communication services • Payphone services • Telecommunication facility • Internet and related services	

Sources: TM Berhad, Maxis Communication Berhad, DiGi.Com Berhad, and Time dotcom Berhad Annual Reports, various issues

The next section reveals the growth and development of TM Berhad from its foundation in 1946 until the present day. The focus of the discussion is more on the dynamic aspects of the firm's domestic growth and international expansion as this is the main focus of this thesis.

7.2 TM Berhad (TM): Business Background, Domestic Development and International Expansion

To map the growth of TM Berhad, it is worth outlining[12] its development since its inception in April 1946 as a unit within the Ministry of Energy, Telecommunications and Posts (METP) namely Malaysia's Telecommunication Department or Jabatan Telekom Malaysia (JTM). The progress and development phase of the group can therefore be divided into two primary stages: (a) 1946-1987: prior to privatisation, and (b) 1987 – present, the corporatisation era.

(a) 1946-1987: Prior to privatisation

Prior to privatisation of the firm in 1987, the country's telecommunication services were provided by MTD or JTM – a government department under the METP. Established in April 1946, JTM received instructions directly from the Ministry (Kennedy, 1990). During its early days, all matters relating to the country's telecommunications services and infrastructure were this department's responsibility and concern. The country's basic telecommunication services and infrastructure were established during the pre-war British colonial period. However, it was only after World War II that the importance of telecommunications was realised in view of the country's role as a trading nation, with tin mining and plantation industries, as its main economic activities. This realisation prompted the government to invest in extensive plans to lay telephone lines, primarily

[12] Knowledge of a company's history is deemed important as it may provide insights that can act as a basis for decisions about the future (Gummesson, 1991)

aimed at the business community (Ming, 1990). The swift development of the telecommunication industry really became apparent after the independence of Malaysia in 1957. More advanced technology was introduced during the 1970s, for example, the first international standard satellite to provide overseas telephony and television transmission was established in April 1970.

In 1975, the manual telex exchange was replaced with an automatic system and other new data transmission methods were introduced (Kennedy, 1990). Rapid advancements in technology underpinned the need for basic telephone services, and demand massively increased from the late 1980s (Moggie, 1988; Onn, 1995). In 1994, there were just 12 telephones for every 100 people. Currently, plans are in place for more than 40 telephone lines per 100 people by 2006.

The burgeoning demand was also supported by the country's increased level of economic development. With increasing urbanisation and the restructuring of the country's industrial and service sectors, the need for basic telephone services was raised further (Kennedy, 1990). Skyrocketing demand has affected the average waiting time for new phone lines, and it is reported to be between two to four years.

The increase in demand applies not only to the basic telecommunications facilities but also to other related types of telecommunications services, such as mobile phones, paging, and other data transmission methods. Given the resource limitations of the MTD, privatisation of the department was the only way to meet the target of achieving 'no waiting list' status by 1985. This would further speed the industry's development. According to Rodhiah (1995), the direct selling of the department by the government to the private sector was strongly opposed and received much criticism, especially from union workers. It is against the norms practised in developing countries (Lowe, 1994). However, it was regarded by the industry as the right decision to improve efficiency, increase competitiveness, coverage areas, quality of services and promote activity.

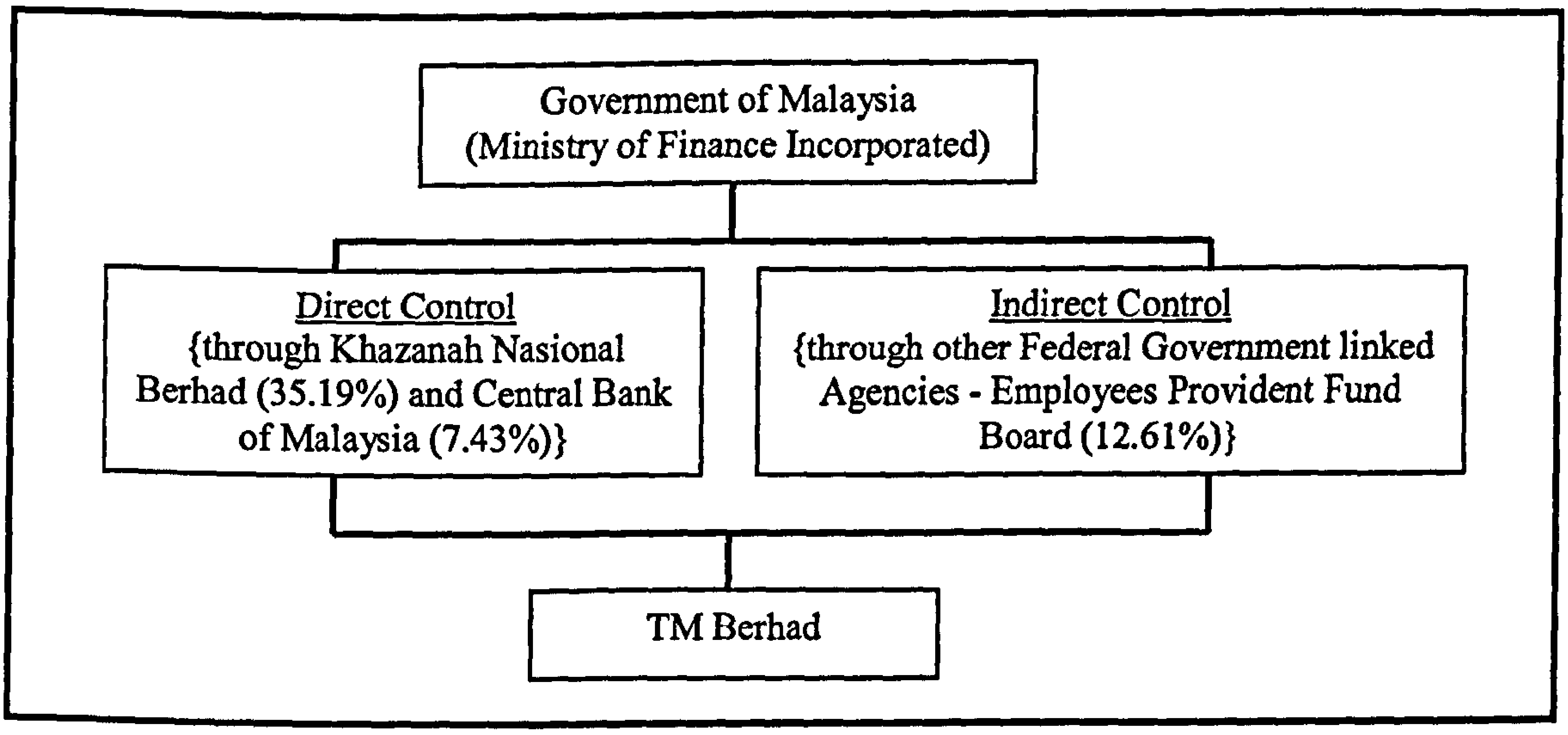
(b) 1985-present: the corporatisation era

Following these events, legislation enacted in 1985 established Syarikat Telekom Malaysia (STM) as the successor company to MTD, with paid up capital of RM10 million (US$4 million) transferred from MTD. Although several delays postponed the implementation of the privatisation policy, on 1 January 1987, STM began operation (Lowe, 1994). STM (later named Telekom Malaysian Berhad after being publicly listed when the government sold 25% of STM's equity to the public for RM 2.4 billion as a major source of capital), was formed to undertake the operational functions of providing, operating and maintaining telecommunications services. The decision was made to sell part of TM in line with the government's privatisation policy but its status as a government-linked corporation still remains (Interview 2(A): 5 October 2004; Annual Report, 2004). TM has been monopolising the industry, with 80% of its income coming from its fixed line service. Currently, TM has approximately 4.66 million fixed line subscribers, which represents almost 97% of the total fixed line market.

In the mobile sector, TM has four primary networks: the automatic telephone using radio ATUR NMT450 (Nordic Mobile Telephone – 011) launched in January 1995; TMTouch (a personal communications network – 013); Mobifon launched in June 1994 (Advanced Mobile Phone System (AMPS)/Digital Advanced Mobile Phone System (DAMPS) network – 018); and the Celcom-launched Global System Mobile (GSM – 019). TM acquired TM Touch (formerly known as Emartel, launched in June 1995) from the Malaysian Resources Corporation Berhad (MRCB) for RM640 million in August 1996 and later added Mobikom to its stable for a sum of RM182.7 million to enter the mainstream cellular market. In May 1998, it acquired the remaining 43.8% stake in Mobikom Sdn Bhd for RM182.7 million making it a wholly owned subsidiary. Celcom became a subsidiary of TM on 17 April 2003 when the former took over ownership of TM Cellular Sdn Bhd, an existing mobile branch of TM. Retaining the name Celcom, the merger propelled the firm to the forefront of the mobile communications industry in terms of network coverage, capacity and consumer base. It was the first mobile network operator to offer domestic roaming over its dual-band network. As one of TM's subsidiaries, Celcom benefits from Telekom's assets, including its reputation as a government-linked company; financial strength; management capabilities; and technological expertise and technical resources.

TM is one of the biggest public-listed corporations in Malaysia, with a paid-up capital of over RM3.33 billion. To date, the government continues to own about 70% of TM's equity through various agencies and interlocking ownership. In addition, a single unit 'golden share' or so-called, 'Special Rights Redeemable Preference Share', is owned by the Ministry of Finance, which entitles it to veto major decisions that have national interest implications. According to Lowe (1994), like the similar provision in the privatisation of British Telecom, the golden share allowed the government to veto TM's decisions, even if it ceased to be the majority shareholder. As a GLC, TM's current substantial shareholders as at 31 December 2004 are: Khazanah Nasional Berhad (35.19%); Employees Provident Fund Board (12.61%); Central Bank of Malaysia (7.43%); Cimsec Nominees (Local) Sdn Bhd (5.46%); and Temasek Holdings (Private) Limited (5.00%). Figure 7.2 shows the TM structure as a Government-linked Corporation (GLCs).

Figure 7.2: Structure of TM Berhad as a Government-linked Corporation



Sources: Adopted from TM Annual Report 2004

In the financial year ended 31 December 2004, the group comprised 65 subsidiaries and associated companies. They recorded strong financial performance with operating revenue and profit before tax of RM13,250.9 million and RM3,172.8 million respectively.

This is in comparison to RM11,796.4 million and RM1,810.5 million in financial year ended 2003 as shown in Table 7.4.

Table 7.4: TM Group Operating Revenue and Profit, 1999-2004

Year	Operating Revenue	Group Profit
1999	7,833.0	1,017.0
2000	8,815.7	1,250.8
2001	9,673.2	2,443.6
2002	9,834.1	1,530.4
2003	11,796.4	1,810.5
2004	13,250.9	3,172.8

Source: TM Berhad Annual Report, 1999-2004

With a total strength of 27,000 staff, TM has one of the largest workforces in the country. The company was recognised as being among the best employers in Asia and Malaysia in 2003 (Annual Report, 2004). In January 2004, TM issued a voluntary separation scheme to shed 10% of the group workforce, in a bid to bring down its operating costs from 2006 onwards. The company was placed ninth among the 20 Best Employers in Asia 2003 and third among the Top 10 Employers in Malaysia. These rankings were based on a Hewitt Associates survey of 84,000 employees from 300 companies in eight countries, conducted in association with the Asian Wall Street Journal and the Far Eastern Economic Review (Annual Report, 2003). In addition, TM also has been recognised as one of the 30 largest telecom MNCs in the world (UNCTAD, 2004) and second largest in Southeast Asia, after Sing Tel in Singapore. The company ranked 29th out of 30 in the list, with five foreign affiliates. With the latest company restructuring in year 2004/2005, the group has established six independent business units: wholesale, retail, cellular business, multimedia, international investments, and facilities management.

The next part of this discussion presents an operation review of TM Berhad in two main categories: domestic operations and international operations.

Operations Review: Domestic Operations

In the domestic market, the key operating revenue of the group is derived from fixed line businesses and cellular operations, followed by data services, Internet and multimedia. The contribution from the fixed-line segment was 45.7% or RM6, 052.4 million. TM Retail (formerly known as TM Telco), which began operations in July 2004, is a core business unit of TM. It has been given the responsibility for managing and operating fixed line telephony and data based products and services in the country. Revenue from fixed line services comprises that from business telephony (Integrated Services Digital Networks (ISDN), payphones, interconnect, international inpayment) and residential telephony. The cellular segment contributed 37.4% or RM4, 949.9 million (Annual Report, 2004).

In a bid to reinforce the group's position in the mobile cellular market, TM took over ownership of Celcom (Malaysia) Berhad on 17 April 2003. The merger of Celcom (as the country's pioneer cellular operator), and TM Cellular benefited both parties in strengthening their positions and enlarging coverage in the domestic market (Interview 2(A): 5 October 2004). It also provided a new capacity to help realise the group's vision of attaining at least 30% revenue contribution from the cellular business. Revenue from the cellular segment comprises rental, call charges, short message services, and interconnect charges terminating at the mobile.

Apart from building up its domestic expansion and being less reliant on the competitive local market, TM has spread its wings and invested in several international projects. The group has taken further steps to raise overseas investment to contribute to group earnings. The next section of the chapter in this thesis looks at the group's international expansion in more detail.

Operations Review: International Operations - TM International Sdn Bhd.

> As Telekom Malaysia's vehicle overseeing and managing its foreign ventures, TM International Sdn Bhd aspires to be an established, well-recognised, self-supporting and profitable company that serves as the flagship for the group's international investments (Christian de Faria, Chief Executive Officer, TM International Sdn Bhd)[13]

In line with TM's vision of becoming a global communications player, TM International Sendirian Berhad (TMI) was established on 12 June 1992, with a paid up capital of RM 903 million[14]. As an international investment branch for the group, its core business mission is to explore and manage the group's overseas investment activities. Having had its origin in the International Ventures Division, TMI has today made the successful transition from operating division to wholly owned subsidiary of the group. Its authorised share capital stands at RM500 million and its paid-up capital is RM30.5 million. With the

[13] During the interviews conducted in 2004, de Faria was the CEO to the TMI (from 2003-2004) before moving to become CEO in Execomindo, Indonesia, one of TMI's international subsidiaries

[14] In the past, international ventures obtained administrative services from the International Venture Division to implement Telekom Malaysia's strategy in expanding its reach globally through investing in emerging markets with a potential for high growth. The Division, formerly known as New Ventures, was renamed International Ventures in 1997 accurately to reflect the nature of its role within TM, which is to develop and manage the Group's offshore investments (TM Annual Report, 1998).

expansion of the division to 'company status' as provided by the Change Management programme in year 2001, four divisions, namely, Human Resource Strategy and Management, the Technical Services Support, Financial Control, and Strategic Business Management and Analysis were formed to provide the required strategic support services for overseas investments (Interview 2(B): 11October 2004). TMI has its own Board of Directors, and a Management Committee has been formed to ensure sound operational management of the company. By the end of 2004, TM International had made significant progress in completing the migration of some of TM's subsidiaries to TM International (L) Limited. In the preliminary stage, three subsidiaries were successfully migrated. These were MTN Networks (Pvt) Limited, TM International (Bangladesh) Limited and TM International Lanka (Pvt) Limited. The move was a consequence of TM's internal restructuring to facilitate future increases in the authorised capital of companies, as well as to improve tax efficiency and effectiveness.

With the establishment of TMI, TM has assurance in the effective management of its international investments, thus maintaining high standards of operation and management in the interest of value creation for the group. The executive claimed that:

> Prior to the birth of TMI, the international activities of the group was mainly based on overseas projects focusing on setting-up international networks, submarine cable, and other related international operations. With TMI, the group is now more focusing on its overseas investment. Handling all overseas activities of the group is now under our portfolio (Interview 2(D): 21 October 2004)

TMI aims to expand the group's international operations strategically and to capitalise on opportunities in selective investments within emerging markets, particularly in Asia and

Africa. The company was considered as a national player carrying out important international activities; its board and management structure were mostly of national composition (Interview 2(A): 5 October 2004). In an interview with a local magazine, the Chief Executive Officer of the Group, Abdul Wahid Omar stressed that:

> In the business world today, it is not sufficient to just focus on the domestic front. Overseas investment is no longer an option but it is essential to TM's future (The Edge Malaysia, 28 February 2005).

As pointed out by his key executive during the interview:

> TMI take a cautious approach. We only get into countries whose legal framework we are familiar with. We went to emerging markets looking for potential so that Telekom could grow with the host country (Interview 2(A): 5 October 2004).

Its expansion has been restricted to countries with which the Malaysian government has good or at least neutral relations (Padayachee and Valodia, 2002). TMI's strategy is to target emerging high growth markets with low penetration rates (Interview 2(C): 1 October 2004). Currently, TMI's overseas investments are worth over US$819 million. Most of Telekom's international investments were made in the mid-1990s. They were initially prudently restricted to markets nearer home. The relative proximity and in most cases a cultural affinity provides some comfort (Interview 2(A): 5 October 2004, Interview 2(B): 11 October 2004). To date, TMI has investments in South Africa, Guinea and Malawi in the African continent. Nearer in the region are Bangladesh, Sri Lanka, India, Cambodia, Indonesia and Thailand. Services provided include fixed-line, cellular telephony, including GSM900, GSM1800 and NMT900, data networks, public radio paging and value-added services. When asked whether any new technology was proposed for any of these countries, one of the key executives pointed out that:

> Most of our international ventures are to the less-developed economic countries where our telecommunications technology is much better and advanced then theirs. Their people are not prepared to accept new technology yet (Interview 2(E): 21 October 2004)

This evidence shows that the technology of TM consists of assimilating and adapting foreign technologies rather than pushing back the frontiers of knowledge. At the time of conducting the empirical research in the organisation, TM Berhad had investments in 11 countries. Table 7.5 shows details of TMI's international investments. Most of the projects initiated were in the region and in collaboration with the dominant local partners, thereby establishing a strong regional presence. TMI's presence in South Africa, Guinea, Malawi, Bangladesh, Sri Lanka, Cambodia, India and Indonesia is primarily in the fixed-line and cellular business.

Table 7.5: TM International Investment Ventures (Subsidiaries and Associate Companies)

Company	Country / Year Incorporated	Type of Investment / Business Networks	Initial Investment (US$)	Principals Activities	Partners / Alliances / Ownership (%)	Status
Société Des Telecommunications De Guinée (Sotelgui s.a.).	Republic of Guinea (Dec 1995)	Joint Venture (with local Government)	45,000,000	To run, operate, manage and supply telecommunication systems of all kinds by means of sounds, visual images and signals. To offer PSTN, cellular and Internet service	Strategic partnership: 40% - Government of Guinea to form Sotelgui s.a (national telecommunication operator); 60% - TM	Under 10-year licence since 1995
Ghana Telecommunications Company Limited (Ghana Telekom)	Ghana (Feb 1997)	Shareholder (with local Government and local partners)	38,000,000	Investment holding (Fixed, Cellular)	Purchase of equity: 70% - Government of Ghana 30% - TM	Ceased operation after 2001
Telkom SA Limited (TSA)	South Africa (May 1997)	Joint Venture (with foreign partners and Government of South Africa)	506, 921, 600	To run, operate, manage and supply telecommunication systems of all kinds by means of sounds, visual images and signals	Joint with US-based South Western Bell Corp (9%) via Thintana Communications LLC to acquired TSA (total 15%); 6% - TM	Awarded 5-year exclusive licence to provide domestic and international telecommunication service for the whole of South Africa which lapsed in 2002
MTN Networks (Private) Limited (MTN)	Sri Lanka (Aug 1993)	Shareholder	43,200,000	To establish, operate and maintain GSM cellular services on the 900MHz frequency band (Cellular, ISP)	TM majority shareholder in MTN Networks (Private) Ltd (100%)	Licence awarded for a period of 18 years until 2013; listed in year 2005
TM International (Bangladesh) Limited (TMIB)	Bangladesh (October 1996)	Joint Venture	2,902,273	To run, operate and manage GSM cellular mobile network 900 Mhz frequency band (Cellular, ISP) under brand name AKTEL	30% - AK Khan & Co. Ltd (a leading Bangladesh business group) 70% - TMIB	15 years nationwide GSM licence until 2012 renewable annually thereafter

continued

Company	Country / Year Incorporated	Type of Investment / Business Networks	Initial Investment (US$)	Principals Activities	Partners / Alliances / Ownership (%)	Status
Samart Corporation Public Company Limited (SAMART)	Thailand (March 1989)	Shareholder	86,314,138	To run, operate and manage systems integration, manufacturing, multimedia and wireless networks	Stake (19.57% of TM) in Samart Corporation Public Company Ltd.	
Cambodia Samart Communications Co. Ltd. (CASACOM)	Cambodia (May 1998)	Shareholder	18,000,000	Operate and provider of NMT900 and GSM cellular mobile services (Cellular Service)	Partnership with Samart Corp. Public Co. Ltd from Thailand (51% - TM)	Awarded a licence until year 2053
Telekom Networks Malawi Limited (TNM)	Malawi (February 1995)	Joint Venture	2,564,103	To provide GSM and packet data switched services (Cellular Service)	40% - Malawi Telecommunications Ltd 60% - TM	To operate GSM cellular services until 2016
Idea Cellular Limited (IDEA)	India (December 2004)	Joint venture	390,000,000	To provide GSM and packet data switched services (Cellular Service)	60% - Singapore Technologies Telemedia Pte Ltd 40% - TMI	
PT Excelcomindo Pratama (Excelcomindo)	Indonesia (December 2004)	Shareholder	314,000,000	To provide GSM and packet data switched services (Cellular Service)		

Source: Unpublished report. Some key data was granted by one of the key executives during the empirical study

TMI's first international investment began in 1995, when the group expanded its operations internationally in the Sri Lankan market. MTN Networks (Pvt) Limited[15] (MTN), was set up to establish, operate and maintain the GSM cellular services utilising the 900 MHz frequency band. It operates Dialog GSM, the country's largest mobile phone network. Dialog GSM is also a key player in ISP, Internet, and mobile satellite service provision.

The Government of Sri Lanka awarded the licensing agreement to the TMI in 1995 for a period of 18 years until 2013. MTN managed to emerge as the leading cellular company with a subscriber base reaching 1.539 million subscribers at 31 March 2005 – accounting for approximately 60% share of the country's mobile sector and 40% of total telecommunications subscribers. TM listed MTN Networks on the Colombo Stock Exchange in the 28 July 2005 (Business Times, 7 July 2005).

The success of the early international venture motivated the group to pursue its international expansion activities vigorously during 1995-1997. In December 1995, the group formed a strategic partnership with the Government of Guinea (GOG) to form Société Des Télécommunications De Guinée (Sotelgui S. A). Telekom Malaysia acquired 60% equity in Sotelgui S.A, amounting to a value of US$45 million, while GOG owns the remaining 40%. The investment is focused on Government-to-Government collaboration (Interview 2(B): 11 October 2004). Sotelgui S.A. is the national telecommunications operator and is the market leader with a 60% share of the cellular

[15] MTN Networks was incorporated in Sri Lanka pursuant to a joint venture agreement dated 27 August 1993, entered into between TMI and a Sri Lankan company, Sunpower. In 1996, MTN Networks became a wholly owned subsidiary of TMI.

market. It is also the sole provider of fixed-line and wireless services in the Republic of Guinea, with a customer base in excess of 143,000. The year 2003 marked important infrastructural achievements, with GSM being deployed in 19 towns in the provinces. It currently has a 10-year licence to offer PSTN, cellular and internet services. However, in December 2005, TM Berhad announced the withdrawal of its investment in Guinea in relation to a group strategy to focus more on ASEAN countries (Utusan Malaysia, 14 December 2005).

In the following year, TMI expanded its operation in Calcutta, India, holding a 37.7% share in Usha Marting Telekom Limited. Having begun its operation in September 1995, the group was given a licence to install and operate a GSM cellular network in the country under the brand name, COMMAND. It also operated a paging service, known as PageFirst, to seven cities in India. The stake, however, was sold in October 2000 for US$130 million, to Hutchinson. The main reason for Telekom's withdrawal from India was the restricted coverage given to it, which, as a result, would have capped its growth (Interview 2(C): 1 October 2004, Malaysian Business, 1 August 2004).

Another investment of TMI in the African continent is in Malawi. The group formed a joint-venture company with the Government-owned Malawi Telecommunications Limited (MTL) in 1996 to form Telekom Networks Malawi Limited (TNM). Telekom Malaysia holds 60% of the equity while MTL holds the remaining 40%. When it commenced operations on 15 December 1995, the initial paid-up capital of the company was only MK65 million (RM3.9 million). At the end of the 2004 financial year it stood at

MK350 million (RM23.5 million). TNM is the principal operator and was granted a 15-year licence until the year 2014 to operate GSM 900 cellular services throughout the country under the brand name CALLPOINT. The rationale for investment of the group is in line with the Malaysian Government's call to local companies to form strategic alliances with foreign parties (Padayachee and Valodia, 2002). In addition, the Malawi Posts and Telecommunications Corporation (MPTC) was privatised from the Telecommunications and Post Department of the Government of Malawi, and this has been made available to TMI, an opportunity to be the first foreign participant to enter into a joint venture in the country (Interview 2(B): 11 October 2004).

In 1996, the group further expanded its ventures to Bangladesh. In Bangladesh, TMI and A.K Khan Group (a leading Bangladesh Business Group) entered into a joint venture to form TM International (Bangladesh) Limited (TMIB). The former holds a 70% stake in this joint venture while the latter holds the remaining 30%. The company commenced commercial operations in November 1997 and was granted a 15-year licence, renewable annually thereafter, to develop and operate an extensive nationwide Dialog GSM cellular service on the 900 Mhz frequency bank in the country, under the brand name AKTEL.

The group's international ventures to Thailand began in 1997, when the company acquired a 24.99% stake in SAMART Corporation, a public listed company in Thailand. It also bought a 33.33% stake in Digital Phone Company (DPC), a Samart subsidiary, for US$135 million (RM337.5 million) with the commitment to buy new DPC shares at US$45 million (RM112.5 million) to bring its total stake to 40%. TMI's principal partner in Samart is the Vilailuck family, one of the country's successful entrepreneurs, with a 48.73% shareholding in the company. Samart is involved in providing value added telecommunications services, manufacturing TV antennas and satellite dishes as well as distributing telecommunications equipment. The partnership is the first step in creating a regional telecommunications infrastructure to rival all others in the global market (The Edge, 16 June, 1997). As at the end of 2004, TM had only a 19.4% stake in the company. DPC on the other hand is an operator and provider of PCN 1800 cellular services throughout Thailand under the brand name DPC HELLO. DPC entered into a contract to operate and provide cellular system radio with the Communications Authority of Thailand (CAT). Under the contract, it has the right to operate mobile phone services in digital PCN system for a period of 15 years. The group increased its shareholding to 48.99% in 1999. In 2000, there was a significant change in the shareholding structure in DPC as Samart Corp sold a large number of its shares to the Shin Corporation. The founder of Shin Corporation is Thailand's present Prime Minister, Thaksin Shinawatra. Like that in India, the group's investment in Thailand with DPC was disposed of in 2001 for US$245 million, resulting in an exceptional gain of RM827.8 million for the group. The disposal was made due to the nature of the competitive markets and restricted coverage given to TMI, which limited the firm's opportunities to expand in that country (Interview 2(A): 5 October 2004). The disposal was completed just a week ahead of the infamous September 11, and helped crucially in cushioning the adverse economic fall-out.

The major and most profitable international project made by the group was in South Africa. The investment took place in 1997. TMI invested in Telkom South Africa (TSA) through its consortium with South Western Bell Corporation[16] (SBC Communications Inc.) of the United States through Thintana Communication LLC. The purchase of a 30% stake in Telekom SA Ltd by TM is reported to be closely linked to the Malaysian utility's policy of investing in developing countries to overcome competitive pressures in its own domestic telecommunications industry. It is the largest investment in Africa by a Malaysian company (Business Report, 27 March 1997). The Vice President of Customer Network Operations TM, put it succinctly:

> We believe that Telekom Malaysia can contribute in a substantial way to South Africa's economic development and upliftment of disadvantaged groups (Quoted in Telekom Malaysia Press Release, 10 December 1996).

Similarly, the President of Johannesburg based Southwestern Bell International Development Africa (Pty) Ltd commented:

> SBC and Telekom Malaysia share not only a reputation for management and technical expertise, but a well-known commitment to employee training and high-quality technology for their local partners (Quoted in Telekom Malaysia Press Release, 10 December 1996).

TMI's investment in South Africa may be part of a strategy to penetrate the African continent further. Reports indicate that Telkom SA Ltd and TMI are seeking to expand in Africa, where telecommunications privatisations are under way in Uganda, Senegal, Cote d'Ivoire, Ghana, and the Democratic Republic of Congo (Business Day, 17 September 1997). As strategic equity partners, the two companies jointly hold a 30% stake in TSA. TSA was given a licence granting the company the exclusive right to provide public switched telecommunication services (PSTS) for a period of 5 years commencing in May

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[16] SBC is one of the leading diversified telecommunications companies and the second largest wireless communications company based in the United States. SB provides innovative telecommunications products and services under the Southwestern Bell and Cellular One brands. The company was rated by Fortune magazine as the most admired telecommunications company in the US.

1997, to the end of the financial year on 31 March 2002. TSA also owns 50% of Vodacom Group Proprietary Ltd ('Vodacom'), the leading cellular operator in South Africa, with approximately 9.7 million wireless subscribers. In return for the period of exclusivity, TSA is required to meet stringent rollout and service obligations to improve teledensity and accessibility in South Africa. On 18 June 2004, the company reported an exceptional gain of RM 640 million from the partial sale of its stake in Telkom SA South Africa. Thintana disposed of a 14.9% stake in Telkom SA, comprising 82.99 million shares for 6.06 billion rand (RM3.54 million). With the sale of this stake, Thintana's interest in Telkom SA has been reduced from 30% to 15.1% (Interview 2(C): 1 October 2004; The Star, 22 Jun 2004). Thintana is 60% owned by SBC and 40% by TMI. Therefore, Telekom's effective stake in Telkom SA Ltd was reduced from 12% to 6% (Interview 2(C): 1 October 2004). Telekom's portion of the sale was 33.19 million shares, amounting to 2.42 billion rand (The Sun, 21 Jun 2004). On 15 November 2004, TMI sold its remaining 6% to the South African Black Empowerment Consortium. The disposal resulted in an exceptional gain of RM1, 515.2 million for the financial year ending 2004, which contributed to the group profit. During the interview, one of the key executives claimed:

> The investment in South Africa gave us a great return and shows that our intention to move abroad and place the investment in this country in the early days was the right decision (Interview 2(B):11 October 2004)

When TMI first announced its intention to reduce its stake in the South African company, it raised some doubts, as the latter was achieving excellent results. However, it is believed that the move signalled a strategy to move away from a market reaching saturation point and reallocate investments to areas that promised higher growth potential. The partial disposal is in line with Telekom's move to consolidate its strategic investment overseas and focus on markets closer to Malaysia, especially in the Asia-Pacific region (The Sun, 21 Jun 2004). Moving to the Asia-Pacific region would be a positive step for TMI considering the good growth potential in those countries (Malaysian Business, 1 August, 2004).

Apart from South Africa, Malaysian Telekom also bought a 30% stake in Ghana Telekom in 1997. TMI was part of G-Com, a consortium[17] led by the Telekom group and the Government of Ghana (70%). The group acquired 30% equity in GT for US$38 million in February 1997 governed by a Stock Purchase and Sale Agreement. GT had been a profitable telecommunications provider even before its privatisation. The company recorded a profit of US$14 million in 1997 and US$3 million before the privatisation (Malaysian Business, 1 August 2004). In August 2000, TMI signed an agreement to acquire an additional 15% for US$100 million. The company, which is the national telecommunications operator, has a 20-year licence to operate telecommunications services in the country. The investments in Ghana, however, did not meet expectations, and in July 2001, only four and the half years after the start of operations, TMI lost management control in GT after the Government of Ghana 'unilaterally terminated' the employment contract of the managing director and appointed an interim management committee to oversee day to day affairs. Telekom's management of GT became a contentious issue during the elections and the contract was not renewed when it expired

[17] The consortium consists of the African Communications Group, Western Wireless and the Ghana National Petroleum Company

in February 2002. The new government under the New Patriotic Party led by John Kufuor had chosen Norway's Telenor to replace Telekom as the strategic investor to improve GT's network. In late 2002, Telekom withdrew its investment in Ghana, 'as it can no longer protect its investment' (Interview 2(C): 1 October 2004; Malaysian Business, 1 August 2004). The Telekom group is looking to retrieve a US$50 million deposit from the Ghanaian government and sell its stake in Ghana Communications. For the half year ended June 30, 2002, Ghana Telecom contributed RM22.9 million to TM's earnings. The disposal of the GT stake is Telekom's third exit from its strategic investments overseas after India and Thailand in 2001, due to the competitive nature of the markets in those countries.

As part of its plan to increase its revenue from overseas ventures and be less reliant on the domestic market, the group announced its entry into Indonesia and re-entry to the Indian market at the end of 2004, thereby establishing a strong regional presence. In 2004 TMI targeted new core investments in a bid to strengthen its presence closer to home. In Indonesia, TMI reached an agreement with the Rajawali Group, the principal shareholders of PT Excelcomindo Pratama[18] (XL), to acquire Indonesia's third largest mobile operator, which was duly completed on 11 January 2005. The transaction was structured as an initial acquisition of a 27.3% interest amounting to US$314 million in cash, together with the transfer of majority management and board control to TMI. The company intends to acquire additional shares to achieve a majority shareholding in 2005. The Chairman of Telekom stressed that:

[18] Excelcomindo was incorporated in the Republic of Indonesia as a limited liability company under the laws of the Republic of Indonesia on 6 October 1989, under the name PT Grahametropolitan Lestari. In 1995, Excelcomindo changed its name from PT Grahametropolitan Lestari to its present name.

> We are excited to acquire a substantial equity interest in XL and hope we can increase our stake further. This is clearly a major acquisition for us and is in line with our strategy to acquire mobile assets in low penetrated markets closer to home (The Sun, 9 December 2004).

With a subscriber base of 4.2 million, of which 99% is prepaid, it has market share of 16% as at the end of September 2004. It has 2,100 base stations covering the islands of Java, Sumatra, Kalimantan, Sulawesi, and Bali, an addressable market of 200 million people.

In India, the group revisited the country with renewed vigour when it formed a joint venture with Singapore Technologies Telemedia (STT) to buy equity shares in IDEA Cellular, the leading cellular operator in India, with a subscriber base of over 4.5 million (Utusan Malaysia, 27 November, 2004). Both parties have entered into a definitive agreement to acquire a 47.7% stake in IDEA Cellular for a total consideration of approximately US$390 million (US$1 = RM3.80). The joint venture with STT would further improve TMI's ability to compete in the increasingly competitive global mobile telecoms market (Malaysian Business, 1 August 2004). Under the terms of the agreement, the consortium will acquire the entire stake from Cingular Wireless, and simultaneously infuse additional capital into IDEA. The consortium is structured as 60% ST Telemedia and 40% TM International, and its three largest shareholders are Cingular Wireless, the Tata Industries and the Aditya Birla Group. The proposed investment is consistent with the objectives of ST Telemedia and TM International: to become significant wireless players in the Asian markets; and to participate in the growth opportunities in the Indian cellular market. It was stressed in an interview that the venture is:

> A promising area of growth. As a wholly-owned subsidiary of Telekom Malaysia, we are optimistic about the role that TM International can play in IDEA and the Indian cellular market (Interview 2(A): 5 October 2004).

In moving forward, Telekom has also indicated its interest in Pakistan telco, where the Government of Pakistan owns an 88% stake in Pakistan Telecommunications Corporation (PTC). According to various sources, TM is now currently in the process of conducting studies and extensive due diligence in considering this venture (Utusan Malaysia, 5 February 2005). Pakistan is being considered for TMI investment, as it is able to provide a window of opportunity into the Middle Eastern market (Malaysian Business, 1 April, 2005). With its latest acquisitions, TM Berhad is on course to become one of the largest mobile phone operators in South and Southeast Asia, with a combined market share of 17.6% from a customer base of 15.7 million subscribers (see Table 7.6).

Table 7.6: TM's Berhad Cellular Portfolio in Asia

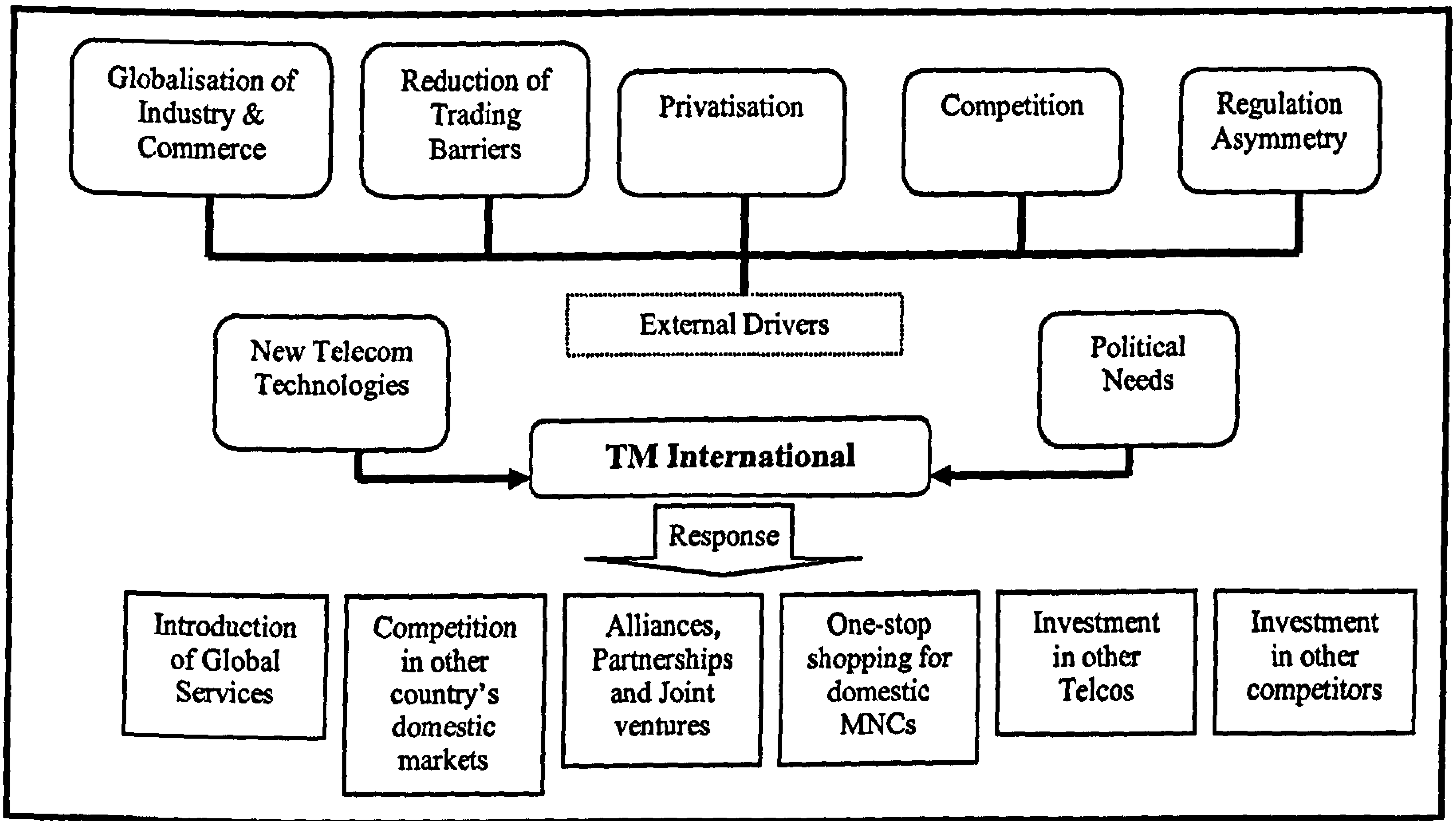
Country	Operator	Stake	GDP-PPP per capita (USD)	Population (mil)*	Subscribers (mil)*	Penetration**	Market share**
Malaysia	Celcom	100%	6,660	25	5.0	50.7%	38%
Sri Lanka	MTN	100%	3,356	20	1.2	9.8%	56%
Bangladesh	TMIB	70%	3,346	141	0.8	2.3%	25%
Cambodia	Samart	51%	NA	13	0.1	6.1%	13%
Indonesia	Excelcomindo	27.3->51%	3,540	235	4.2	11.5%	16%
India	Idea	19.1%	3,270	1,060	4.4	4.1%	10%
Total				1,494	15.7	6.0%	17.6%

* 2003 figures **as at Sept 2004 figure

Source: Telekom Malaysia

From the interviews, seven primary factors have been identified motivating the firm in its internationalisation: globalisation of industry and commerce, reduction of trading barriers, privatisation, competition, regulation asymmetry, new telecom technologies and political needs as illustrated in Figure 7.3 (Interview 2(A): 5 October 2005; Interview 2(B): 11 October 2004).

Figure 7.3: Key Factors of TM International Expanding Abroad



Source: TMI unpublished information

In the financial year ended 31 December 2004, TM's overseas investments contributed an operational profit after tax of RM419.1 million, compared to RM399.8 million the previous year. Tables 7.7 and 7.8 illustrate the revenue and profit contribution of TMI's operating companies.

Table 7.7: TMI's International Investments Profit/Loss Contribution to TM Berhad 1999-2004 (in RM million)

	1999	2000	2001	2002	2003	2004
TM Revenue	7,833.0	8,815.7	9,673.2	9,834.1	11,796.4	13,250.9
TMI Revenue	380.91	349.28	530.24	504.07	811.28	1,137.0
Percentage	4.86%	3.96%	5.48%	5.12%	6.87%	8.58%
TM Profit After Tax	889.5	578.7	1,775.1	870.7	1,444.2	2,676.5
*TMI Profit After Tax	(245.66)	(52.30)	85.53	136.37	385.22	419.1
Percentage	(27.61)	(9.03)	4.81%	15.66%	26.67%	15.65%
Percentage ↑↓ of TMI contribution to TM	-	-	-	60%	182%	-

Source: TM Unpublished Data

* TMI Group Consolidated Profit and Loss 1999-2004 (in RM million)

	1999	2000	2001	2002	2003	2004
Revenue	380.91	349.28	530.24	504.07	811.28	1,137.0
Total Cost	(255.95)	(247.31)	(347.54)	(298.57)	(491.19)	-
EBITDA	124.96	101.97	182.70	205.50	320.10	-
Profit After Tax (TM Share)	(245.66)	(52.30)	85.53	136.37	385.22	419.1

Source: TM Unpublished Data

Table 7.8: TMI Group Consolidated Revenue and Profit 2000-2004 (in RM million)

TMI Operating Company and Subsidiaries	Initial Investment (US$)	Paid up Capital (in RM)	2001 (RM million)		2002 (RM million)		2003 (RM million)		2004* (RM million)	
			Revenue	Profit	Revenue	Profit	Revenue	Profit	Revenue	Profit
Société Des Telecommunications De Guinée (Sotelgui s.a.), Guinea	45,000,000	141,499,892	19.62	(2.38)	91.59	3.06	173.17	(16.43)	166.25	(45.45)
Ghana Telecommunications Company Limited (Ghana Telekom)	38,000,000	94,688,400	39.55	20.3	380.31	30.20	-	-	-	-
Telkom SA Limited (TSA), South Africa	251,771,059	645,394,580	862.88	40.81	8,520.33	34.80	16,850.35	192.69	-	-
MTN Networks (Private) Limited (MTN), Sri Lanka	70,244,204	247,966,290	12.05	31.17	180.75	42.44	294.55	109.56	428.99	154.14
TM International (Bangladesh) Limited (TMIB), Bangladesh	6,402,273	22,581,325	8.84	17.28	135.68	47.50	201.08	72.76	410.71	219.24
Samart Corporation Public Company Limited (SAMART), Thailand	86,425,740	198,903,776	70.22	(0.02)	699.99	(14.21)	1,105.70	33.47	1,373.33	53.27
Cambodia Samart Communications Co. Ltd. (CASACOM), Cambodia	18,000,000	73,952,071	4.27	0.01	38.97	(3.97)	42.39	2.67	56.07	4.81
Telekom Networks Malawi Limited (TNM), Malawi	4,814,103	15,085,386	3.30	12.27	33.35	(0.31)	60.73	6.78	63.57	25.75

Source: TM Unpublished Data,

* Data was granted from an-email conversation with one of the key executive on the 24 October 2005

TM International Sdn Bhd is poised to expand its foreign investments with greater confidence and contribute further to the financial performance of the group. Internationalisation has made extra demands on the management (Interview 2(A): 5 October 2004). The target is for offshore investments to contribute 30% to group profits by the 2005. TM International will seek selective new markets abroad with teledensity below the average levels in the ASEAN and South Asian region. The company has now re-strategised its international investments to focus on regional markets closer to home (The Star, 12 December 2004). As pointed out by one of the senior executives:

> We feel we have the right formula for generating good investments in developing countries. They reflect our prudent financial management approach (Interview 2(A): 5 October 2004)

It can be seen as an adjustment to new international strategy. Potential new markets include those in Indonesia, Myanmar, Cambodia and Vietnam in South East Asia and India, Pakistan, Afghanistan, Iran, Bangladesh, Nepal and Sri Lanka in the South Asian region. The company's core focus in the international market will be on the provision of cellular and value-added services.

The discussion in this part focuses on revealing the process of growth of TM both at home and abroad. Although the group has been established since 1946, most of its growth and development, especially in the international business ventures, occurred in the mid-1990s. Having discussed the background of the group's growth and development, the chapter now continues by explaining how Telekom's domestic growth and international growth were achieved. The next part discusses the competitive advantages and business strategies of TM Berhad.

7.3 Building up (Potential) Ownership-Specific Advantages and Business Strategies

The resource-based view of the firm has long stressed that the ability of firms to survive and to compete successfully is largely determined by the extent to which firms develop distinct capabilities (see Chapter 2). According to Barney (1994) and Wernerfelt (1984), successful firms are those which develop firm-specific assets which cannot be imitated by competitors and provide the basis for their competitive advantage. Specifically, ownership advantages include firm-specific technology, brand names, superior management expertise, marketing expertise, product differentiation, financial and monetary strength. They allow firms to compete with both domestically owned firms and other multinationals abroad.

This part of this thesis reports on the findings of competitive advantages of TM Berhad. Although the growth of TM group was built on various aspects of its ownership advantages, it is not based on physical capital alone. Knowledge of the telecommunication industry and its status as a Government-linked Corporation (GLC) were also strategic assets for expansion process. The following discusses the primary source of ownership advantages of the group.

Industry Knowledge and Experience Advantages as Pioneer Telco

The group continue to enjoy a monopoly in the fixed line section which is supported by a superior telecommunications network (Business Times, 7 Jun 1999). Even now, as shown in Figure 7.1 in section 7.1, TM still controls 61.0% of the domestic market by revenue. As a national pioneer telco, its long-term monopoly and dominant market position in the telecommunication industry has enabled the firm to continue expanding with no competition. Prior to market liberalisation in the 1980s, there were no competitors entering the market (Ming, 1990). TM's initial monopolistic position gave it plenty of time to accumulate industry knowledge and experience, and allow it to control the domestic market especially in the fixed line business. There is no doubt that the organisation's familiarity with the needs and behaviour of the local market is a major ownership advantage for TM (Interview 2(B): 11 October 2004). Teece (1998) proposed that knowledge-based ownership advantage is crucial to the firm. According to him, one of the ultimate sources of ownership advantage that are not tradable is knowledge assets in its employees. Knowledge assets are hard to imitate because of the complex and tacit nature of knowledge (Polanyi, 1966). This was stressed during the interviews with its key executives who claimed that the main ownership advantages derived from the organisation's industry knowledge, management capability, market intelligence and long standing brand name (Interview 2(C): 1 October 2004), thanks to its status as a pioneer telco in the country.

Key executives, who claimed that the group's knowledge was obtained from its expert and experienced staff, also expressed a similar view (Interview 2(B): 11 October, 2004; Interview 2(C): 1 October 2004). The General Manager of Human Resource further added that the group has many loyal and capable staff at various levels; it is this workforce that has developed the knowledge and skills in the organisation over time since the company emerged (Interview 2(B): 11 October 2004). This human resource capability is one of the key advantages the group has compared to other telco operators in the country, thanks to its serious investment in acquiring technical knowledge and expertise and in developing a highly educated workforce (Interview 2(A): 5 October, 2004). Through expanding abroad and in building international knowledge, TM International spent approximately RM349,094 in 2004 and has budgeted RM1,126,500 in 2005 for training and development of its human resources (Interview 2(B): 11 October 2004). Staff and skill development continues to be a priority in the firm's expansion. Moreover, an opportunity for on-the-job training was given to all levels of staff to help, encourage, and facilitate the improvement of their knowledge and experience. This forward thinking and ingenuity has helped the group expand its business operations both domestically and internationally. In other words, this advantage has become one of the resources that assisted the group's expansion (Interview 2(B): 11 October 2004).

Although TMI places strong emphasis on its human resource skills and knowledge, the firm has yet to reach the stage of having strong and influential knowledge, especially knowledge concerning internationalisation. Relatively little attention has been given to this area (Interview 2(B): 11 October 2004), the reason for this being that the firm's international expansion is a new phenomenon and only started in the mid-1990s. The pool of expert staff with internationalisation knowledge is still insufficient (Interview 2(B): 11 October 2004).

However, acquiring knowledge of internationalisation is a learning process, and it is accumulated by practice and experience (Interview 2(A): 5 October 2004). As explained in Chapter 2, knowledge of internationalisation is a key factor in a firm's expansion to foreign countries. TMI's policy of sending people abroad and rotating staff from one country to another has helped accelerate the process. This is one of the critical strategic areas to be focused upon in the future (Interview 2(C): 1 October 2004). As evidence, TMI's failure in Ghana showed that the group had yet to acquire the managerial skill and internationalisation knowledge needed to operate in certain foreign countries. Despite the group's claim that political instability and problems with the host government were the main causes of its failure of operation (Malaysian Business, 1 August 2004), this is only part of the reason; the real cause remains debatable (Interview 2(B): 11 October 2004).

Despite this limitation, the firm was still able to grow rapidly in some international markets. This implies that the group's ownership advantage lay not so much in its marketing and management skills, but more in its capability in cultivating and exploiting a broad range of contacts through government facilitation. Co-operation between developing countries through South-South co-operation is one of the methods used by TMI to expand internationally (Interview 2(A): 5 October 2004; Jomo, 2002). For instance, TM's presence in South Africa in 1997 is evidence of the use of government contacts. The group's investment in Telkom SA has dominated Malaysian involvement in the South African economy (Padayachee and Valodia, 2002). The same is broadly true in the case of its investment in Ghana, where the Malaysian Government facilitated the group's venture.

Overall Superior Network Quality, Customer Service and Premium Branding

The second factor that accounted for the domestic and international growth of TM is overall superior network quality, customer service and premium branding. TM has sought to optimise its network capacity, quality and performance in those areas where its target customers are located and where there is heavy subscriber usage such as high population density areas and principal traffic routes (Interview 2(C): 1 October 2004). The company's customer-focused culture is geared to performance-based, time-critical and responsive customer care and service. This focus has contributed to TM's recognition as an industry leader in Malaysia with respect to service quality, customer care and overall customer satisfaction (Interview 2(E): 21 October 2004). As evidence, in the annual survey by Superbrands Malaysia Magazine and Reader's Digest in 2004, TM received the Gold Award and was voted as one of the telecommunications industry Superbrands of the year (Annual Report, 2004).

The TM brand has been recognised as one of the leading brands in Malaysia. Although its name has yet to reach a global level of recognition, it can claim that it has reached a certain quality standard in the region (Interview 2(B): 11 October 2004). In an effort to strengthen its presence domestically and internationally, a new brand identity was launched on 14 April 2005. The new brand is not a mere cosmetic change. It encompasses a real change in the way TM provides its services and mission (Interview 2(A): 5 October 2004). It was built through consistently managed advertising, promotions and other image programmes built around TM's commitment to providing high quality and innovative communications services and on anticipating and meeting customer needs. TM has made a substantial investment in the development of its brand in order to achieve brand awareness and preference on the basis of network quality and customer service. TM has launched targeted advertising and image-banding campaigns to achieve improved brand presence and preference. There were three main reasons behind the re-branding exercise (Annual Report, 2004); first, to renew its image and refresh TM's brand identity after 15 years of being a public listed company; second, to reinforce the change efforts that are taking place; and third, in order to compete against key players in the telecommunication industry in the international arena, there is a need for a new brand identity that is international and universal (ibid).

The growth of TM was also based on its technological competence in domestic and international markets. The next part examines this aspect and looks at the reputation of the firm as a GLC as another source of ownership advantage.

Technological Competence

Technology is often designed for the place where it originated, and once transferred to another location, adaptation usually takes place to suit the local environment and maximise benefit from locally-sourced inputs (Dunning,1993b). The extent of adaptation undertaken by firms depends on the nature of the affiliates' operations. In developing countries, capital and technology have always been the underlying driving forces behind the evolution of the telecommunications sector (Hobday, 1990). According to Hobday, the telecommunication firms in developing countries accumulate their technological competence on a sequential basis, learning from their suppliers prior to operating the systems.

Telecommunications technology has always been the underlying driving force behind the growth of TM. The infusion of technology has enabled TM to grow from strength to strength to become one of the leading adopters of technology, especially in the telecommunications industry (Interview 2(E): 21 October 2004). TM's involvement is not limited to acquiring technology for adoption but also developing technology through research and development, system integration as well as promoting technology through its service. However, the research and development of the latest telecommunications equipment is not a priority, and TM cannot yet be labelled an innovator (Interview 2(B): 11 October 2004). This is because most of the technological advancement and skills were acquired from foreign experts through both equity partnership and contract-based ties (Interview 2(D): 21 October, 2004). The technology capability of TM is on a par with that of other international telecommunication players and is driven by customers' needs and requirements (Interview 2(C): 1 October 2004). To maintain its competitive edge, TM continuously invests in new technologies and works closely with its technology suppliers to improve its services. The group's strong financial standing allows it to purchase and acquire its technology equipment from established foreign suppliers such as Ericsson, NEC, Philips and AT&T (Interview 2(B): 11 October 2004). TM engineers will work closely with the suppliers' technical teams to gain a working knowledge of the network.

In the international market, TMI used and applied the same technology as in the domestic market. Since most of TMI's ventures are in less developed countries, the technology used was similar to that used at home and some was at a lower technological level. This has assisted in the ease of the group's expansion. An executive gave an example of the level of technology in some countries (Interview 2(C): 1 October 2004). In Sri Lanka, TMI used a basic telecommunication technology, as the country was not ready for advanced equipment. This enabled TMI to adapt its technological skills to the local environment. During the interviews, one of the key executive asserted that:

> In the international investments, one of the roles played by of our partners is to develop the business strategy as they are much in a better position in understanding the local market. TMI on the other hand contributes to management, network and technology expertise (Interview 2(E): 21 October 2004).

The ability of TMI to bring this technology is one of the ownership advantages the group has over its local partners. However, it is obvious that the technology available to the group is more suited to the local environment of developing nations. As explained in Chapter 2, Lecraw (1981) and Wells (1986), made a similar point in saying that the technologies of developing country MNCs were most often the result of an adaptation of an existing innovation or consisted of a renovated technology that had been forgotten or discarded in developed economies.

Reputation of the firm as a Government-linked Corporation

As pointed out in Chapter 4, a major characteristic of leading corporations in Malaysia is ownership by the government through its investment arms and trust agencies. These are known as government-linked corporations (GLC). In the case of TM Berhad, the Government of Malaysia owned more than a 60% share (see Table 7.3) in the company on behalf of the Malay ethnic group in concert with the goals of NEP (Lent, 1991). As a government-linked corporation, almost 90% of the staff and management team are drawn from ethnic Malays. This has shed new light on the literature which demonstrates the competence of ethnic Malays in managing an established corporation such as the TM group. The predominant assumption of the existing developing country literature, in claiming that only ethnic Chinese control corporations in East Asia generally and Malaysia in particular, limits the conclusion of these studies and overshadows the overall explanation. Like Petronas, as discussed in Chapter 6, this is another example of professional ethnic Malays managing a corporation in Malaysia.

Having the government as its major shareholder made the firm an influential and rather unusual organisation not just domestically but also internationally. The company has been seen to have an important strategic role in the economy in terms of the provision of rural telephony, the building of capital intensive projects, such as the RM 1 billion backbone for the Malaysia Super Corridor project, and also as an investment arm of the government, 'carrying the flag' in Asian and African countries (Salazar, 2004). Its strategic planning was synchronised with governmental plans for economic growth and development (Interview 2(B): 11 October 2004). Although the government does not participate directly in the day-to-day operation and management of the group in which it holds equity, it still oversees the operation of TM through its representation on the board of directors. Currently, the group has 14 non-independent and independent boards of directors to supervise the business operations (Annual Report, 30 June 2003). The board plays an active role in improving governance practices to ensure that the best interests of shareholders and other stakeholders are served by transparent disclosure policies. Most of the TM directors hold titles highly valued by the public, such as 'Tun' and 'Dato'. This status was helpful to the firm's growth, as the prestige conferred by a title is much sought after as a source of influence, connections, privileged access to information, and advantage in business networking (see also Chapter 4). However, having the status of a GLC did not always bring benefits. In some circumstances, TM was under pressure to bail out ailing telecommunication companies, as was the case with Emartel and Mobikom (Salazar, 2004). This was claimed, however, to be part of its 'national service' duties (ibid).

The reputation of the group as a GLC in the domestic business scene has attracted potential joint venture partners in the international arena. TMI has received offers to become a joint partner in its international expansion (Interview 2(A): 5 October, 2004). This reputation provided TMI with an opportunity to select its partners from a wide selection of the world's top telecom companies. Most of the joint ventures made by TMI are with other GLCs in other countries, and some with non-GLCs. For instance, in Guinea, TMI's joint venture is with the Guinea Government, where the former hold 60% of the stake and the latter owns the remaining 40%.

The status of the firm as a GLC also gives TM an image of stability, both financially and in terms of management capability (Interview 2(B): 11 October 2004). As a top blue chip firm, TM does not have any problem in financing its projects domestically and internationally. As it possesses a strong stand-alone credit profile, it has rarely been necessary for the government to provide financial assistance (Interview 2(A): 5 October 2004; Business Times, 7 Jun 1999).

An argument often heard by the group from the public and industry is that TM's development and expansion was entirely based on its vast connection with the government and the state agencies, due to the status of the group as a GLC (Malaysian Business, 1 November 2001). Although this may be an exaggeration, it would be unrealistic to deny the claim completely, given the highly politicised nature of the industry. The entire ownership and the company's strategic role in the economy's development has ensured it strong support from the government (Interview 2(A): 5 October 2004). In a study of the political economy of telecommunications in Malaysia and Singapore, Mesher and Zajac (1997) claimed that the creation of the New Economic Policy for increased Malay ownership in the business sector inspired the government to use its political power as a means to ensure that Malays dominated in the telecommunications sector. A consequence since the end of the NEP in 1990 has been that the entry barrier to non-Malay participation has been minimal (ibid).

In sum, the experience of the TM group in its expansion domestically and internationally reveals that the group has benefited from at least two types of business network. First, as a GLC status company, the group enjoys amicable relationships with the government and state agencies. This reputation is considered one of the group's strongest ownership advantages. The relationships not only apply in the domestic market but also internationally. Secondly, the group admits to having strong relationships with local financial institutions, which have helped improve its financial standing and international expansion (Interview 2(C): 1 October 2004)

Having explained the TM approach towards internationalisation, the next section of this case study discusses how the group exploits these ownership advantages and expands its operations internationally.

7.4 An Analysis of TM Berhad Overseas Expansion: Internationalisation Pattern and Process, and Entry Mode Strategy

Internationalisation Pattern and Process

In a review of internationalisation process models (Johanson and Vahlne, 1977; Bilkey and Tesar, 1977; Cavusgil, 1980, 1984; Czinkota, 1982; and Reid, 1983), knowledge and experience of internationalisation is seen to be a prominent factor in the internationalisation process of firms. The models rest on the assumption that firms have imperfect access to information and explain internationalisation as a process of increasing experiential knowledge. The firm increases its commitment incrementally as it learns about international markets. As explained in Chapter 2 on the theory of international expansion, first, the firm exports, and then a marketing subsidiary is established, followed by foreign production. Firms expand internationally only after having accumulated some form of ownership advantages based on higher technological capability or internationalisation knowledge and experience.

The international expansion of TM, however, does not quite fit the above explanation, and poses challenges to the internationalisation literature. First, it remains to be seen that the international expansion of the firm during 1994–97 is merely based on opportunistic impulse, primarily through South-South co-operation[19] and exploitation of bilateral trade relations rather than incremental investment processes led by exporting activities. Second, it has been seen that TM's knowledge about and experience of internationalisation is limited. Although the group's emergence was

[19] South-South Cooperation is a three dimensional collaboration among developing countries, which includes political, economic and technical expertise (see http://www.unesco.org for more details)

built on its vast knowledge of the telecommunications industry, its capability was more focused on its domestic market. Its first foreign direct investment only took place in 1995, and it initially expanded overseas via growing South-South economic links. Therefore, business network considerations appear to be a major determinant of TM's upsurge in foreign direct investment. Third, in selecting an entry mode strategy, TM prefers to have a majority ownership with management control rather than following a series of resource commitment stages as shown in the entry-mode literature (Anderson and Gatignon, 1986). Fourth, TM's status as a GLC in the home market invites attention to how the firm used its 'brand name and reputation' as a specific ownership advantage in the international market. All these present interesting research questions which will be discussed in this thesis.

On the first point, this thesis is based on the evidence that Telekom's international investment reflected an opportunistic attempt to reap the benefits of new market opportunities. When the telecommunication industry in the developing countries was opened up due to the pressure of globalisation and market liberalisation, the firm took the opportunity to invest internationally, in line with Mahathir's promotion of South-South relations (Interview 2(B): 11 October 2004). Through the Malaysia Government, TM has been invited to spread its business abroad, primarily to other developing countries. TM's status as a GLC was the driving force in its regionalisation activities. Although it is contended that all the decisions of TM to invest abroad were made independently, and not at the request of the government, the process was facilitated by the government. As stressed by one of the key executives, "some international investment was voted by the government" (Interview 2(B): 11

October 2004). Most of the early ventures relied on government-to-government arrangements. A key executive officer in the group admitted that:

> In those days, the investment of Telekom abroad was not based on strategies based but more on opportunistic goals (Interview 2(A): 5 October 2004).

Similarly in the interview, the former TM CEO explained:

> The risk will be very much reduced with a democratic system as it ensures some political stability. Developmental-minded governments present the opportunities for us to grow with them (The Edge, 18 August, 1998).

The quest for rewarding opportunities was evident in TM's overseas ventures. The group has announced that it intends to expand abroad almost all at the same time. Within the period 1995-1997, the group invested in five foreign countries, namely, the Republic of Guinea and Malawi (1995), Bangladesh (1996), Ghana and South Africa (1997). As suggested by Lecraw (1977), the desire to escape the constraints of a slow-growing domestic market motivated some developing-country firms to move abroad. Similar views were shared by one of the TMI's executives during the interviews. He stated that "the saturation of domestic market is one the reasons that motivated TMI to search new opportunities abroad, especially in other developing-country" (Interview 2(A): 5 October 2004). It is therefore more accurate to explain TMI's foreign investment as opportunity-driven attempts to seek new markets abroad, where overseas investment criteria include the presence of democratic and developmental-oriented governments. The core investment activities are focused particularly on providing cellular network infrastructure and fixed-line operations. The group has focused its investment activity towards those lines of business where it already possessed domestically derived skills and competencies (Interview 2(C): 1 October

2004). The company will also be open to new areas of investment such as in VoIP (Voice over Internet Protocol), ISP (Internet Service Provider) and its related businesses. It has used its technological expertise in this area to enhance its operational performance.

The rapid international expansion of TMI made it necessary for the group to select reliable joint venture partners in the countries concerned. Due to TMI's lack of internationalisation knowledge and experience, the selection of reliable local partners is extremely important with regard to providing local access, connections and knowledge of the local market (Interview 2(C): 1 October 2004). In selecting partners, the criteria differ from one to another, depending on the country where investment takes place. Among the most important criteria when choosing partners is that of having a similar business strategy to TMI, that is to say, they must be knowledgeable about technology, financially sound and able to add value to the venture which TMI lacks (Interview 2(A): 11 October 2004; Interview 2(D): 21 October 2004).

Like other national telcos, the group's reputation in the domestic market as a GLC carries great weight in regard to its international expansion. In explaining this situation, one executive remarked:

> One of the advantages that we have is the status of TM as a Government-linked Company. In the international expansion, if two companies from Malaysia enter the same bidding for a certain telecommunication project or contract, TM will be given an advantage to win (Interview 2(B): 11 October 2004)

This reputation reflects the group's business stability and strength in the telecommunications industry.

Entry Modes and Expansion Strategy

The literature on developing country MNCs has consistently shown evidence that joint ventures with minority equity shares have been the preferred mode of market entry (see also Donckels and Lambrecht, 1995; Lee and Beamish, 1995). This strong preference, however, does not necessarily apply to TMI's international expansion strategy. Some of the firm's foreign investments are through acquisition. For example, in January 2005, TMI acquired PT Excelcomindo Pratama in a quest to break into the Indonesian market. TMI also chooses to use joint venture with management control as an entry mode strategy for its international investment to sustain its long-term business strategy. The new acquisitions have provided TMI with a new scale of growth opportunities. Through acquisition, TMI may gain access to new market opportunities, and obtain a local network of distributors and suppliers (Interview 2(A): 11 October 2004). Acquisitions will also enable TMI to increase synergy potential from its regional network given high traffic flows of voice and data, potential to share assets, purchasing leverage and improved risk management (Interview 2(C): 1 October 2004). The firm sought local partners who could provide necessary capabilities, i.e. knowledge of local markets and connections to national authorities. TMI compensated for its lack of contacts in foreign countries by finding local partners with the necessary contacts. For instance, TMI's investment in countries such as Guinea, Ghana, Bangladesh, Thailand, Malawi, Pakistan and Indonesia was as a joint partner with government-linked companies in those countries. However, there are some cases where the partners in these countries were foreign telecommunication operators. For example, South Western Bell Corporation (SBC) was one of the partners in the South Africa investment, Samart Corporation of Thailand in the

Cambodia venture, and Singapore Technologies Telemedia Pte Ltd in the Indian project.

In recent years, the group has announced its intention to streamline its investment strategy abroad. During an interview, it was stressed that:

> We have restructured our business operations and are more focused now. We sell investments, which we think do not give us the returns we want i.e. in Thailand. It's a learning process. Business prowess is not acquired overnight and cannot be bought over the counter (Interview 2(C): 1 October 2004).

TMI wants to strengthen its position in the Asian regional market (Interview 2(D): 21 October 2004). This decision was driven more by market factors to search for emerging high growth markets with low penetration rates. The group announced that it would enter markets closer to home with similar economic and cultural environments. In an interview conducted by a business newspaper, the CEO stressed that:

> TMI's investment strategy remains to look at emerging markets, particularly with high growth potential, closer to home, thereby strengthening our regional presence (The Edge Malaysia, 28 February 2005).

By focusing on developing countries, the group could take full advantage of its know-how in telecommunications without much competition from either local or foreign competitors (Interview 2(A): 5 October 2005). Moreover, developing countries also offer more room for growth with a low penetration rate. For instance, a country like India was a promising area in which to invest. Compared to South Africa, the economic conditions in India are growing very rapidly (Malaysian Business, 1 August 2004). In explaining how the firm chose its entry mode strategy, its key executive stressed that the company often chooses joint ventures and greenfield operations as its main entry strategy (Interview 2(A): 5 October, 2004). It has been the company's policy to ensure that international investments are accompanied with active management participation and control. This is probably a reflection of increased internationalisation and knowledge experience and the gaining of confidence in its foreign operations in recent years. However, acquisition of strategic assets was not the only reason behind TMI's international ventures. The group was equally driven by its interest in targeting companies with listing potential (Interview 2(B): 11 October 2004). This way, it did not have to pay a listing premium. As firms commit resources in a foreign market, they accumulate experiential knowledge, and deepen their investment in that particular market. Although TMI's propensity to take large equity stakes has involved significant financial sums, these strategic entries have been found to be useful to the firm in order to help in grow rapidly.

The willingness of the group to focus on only a handful of investments demonstrates that a developing country MNC is willing to face greater business risk. This contradicts theories of internationalisation and developing country MNCs. TMI has not built up its international portfolio of investments gradually, as suggested by Johanson and Vahlne (1977), but in an aggressive manner of foreign direct investment. In doing so, TMI for instance, has formed strategic partnerships with major telecommunications companies in South Africa, Ghana and Guinea, Thailand, Sri Lanka, Bangladesh, Malawi, India and Indonesia. TMI sought reliable local partners, typically domestic telecoms carriers capable of providing knowledge and connections for their operations. Finding a well-connected local partner in each market has benefited the group, particularly, in adapting locally in circumstances where TMI may lack knowledge and experience. The partnerships also provide a way for TMI to familiarise itself with the local market, so that subsequent investment decisions can be made on a better informed basis (Interview 2(C): 8 October 2004). The status of the group as a government-linked corporation has given the firm an advantage in terms of reputation, thus, facilitating the search for partners. Most of TMI's strategic partners are also firms owned by the government in the country concerned. For example, in the Republic of Guinea, TMI formed a joint venture with the local government to form Société Des Télécommunications De Guinée. In Ghana, the group's strategic partner is the Government of Ghana. Relying on the local government would benefit the group in terms of gaining knowledge and expertise to operate in the chosen market. When asked what role is played by TMI in its international investments, a key executive of TMI stressed its contribution in technological expertise in maintaining networks as well as financial support and management capability. However, these commitments vary from one country to another (Interview 2(A): 5 October 2004). TMI claims that its technological skills, management capabilities, expertise and experience as a pioneer telco in Malaysia for more than fifty-five years were beneficial to its international joint ventures. TMI wants to be a strategic partner by bringing expertise that other partners may lack, as its investments are in the less developed countries, in addition to equity contribution. In order to continue maintaining its double-digit growth, the group plans to be more aggressive in its international expansion process (Interview 2(A): 5 October 2004).

Despite its aggressive international expansion, the group has encountered various problems. Among the obstacles are a lack of staff with international experience, host government policies and political instability, and regulatory frameworks (Interview 2(B): 11 October 2004). Although the group claims that it is no longer a government corporation and that the business is managed solely as a private-owned corporation, the group cannot deny that its management still remained under the control of the Malaysian government through its various agencies and relying on these gives the firm many advantages. Given the fact that the main shareholders are from various government investment arms and trusts, to change the perception of TM Berhad could be a difficult challenge (Interview 2(C): 1 October 2004). The next part discusses the future direction of the company's international investment.

7.5 Conclusion and Implication of the Case Evidence

The purpose of this chapter is to explain the emergence and internationalisation pattern and process of the leading Malaysian telecommunication company, TM Berhad. The case study of TM Berhad presented some interesting insights into the growth of the country's national telco from a domestic telecommunications firm into an international player. Having status as a government-linked corporation, the group's growth in the domestic market was partly based on business network connections with the Malaysian government; although the group wanted to claim its technological expertise was a major contributor. However, TMI's exploitation of its extensive relationships is understandable, given that the status of the company prior to privatisation was that of a government department within the Ministry of Energy, Telecommunications and Posts. Furthermore, the connections are significant in relation to control of the industry, as one means of achieving the New Economic Policy (NEP) goal of increasing Malay levels of corporate ownership and involvement in business activity.

The firm's international expansion, however, is based on its technological expertise, business networks with foreign partners, and knowledge and experience of developing-country markets. The group's reputation as a Malaysian national telco increased its credibility in the eye of its foreign partners. TM's primary motives for overseas expansions are to gain a market presence in searching for new opportunities and establish regional operational coverage. Regional economies which typically have high populations but low phone penetration rates are the main focus of its international investment (Interview 2(C): 1 October 2004). The group believes most of its ventures are located in important growth regions, which have the potential to become fast growing markets in the industry.

The international investment strategy of TM Berhad can be summarised as focusing on four main business policies:

(a) commercial viability – value objective focusing on financial strategic, political and economic viability; and extensive due diligence;

(b) core business – information and communication technology related business; and tapping into TM's competence and experience;

(c) business set-up – fully owned or joint venture company with majority ownership or at least management control; and selected value-adding partners; and

(d) countries – countries with good market potential; priority – South East Asia, Asia and Africa.

Some of the findings in this chapter contradict the prevailing misleading stereotypes in the developing-country MNC literature that corporations from developing countries are inherently weak, their advantages derived from conventional costs and labour intensive, unable to compete internationally, and their internationalisation follows an incremental process in nature. The evidence from the TM case in this thesis shows that the group's international expansion was facilitated through various types of ownership advantages such as knowledge and experience in the telecommunication industry, technological competence, reputation of the firm as a government-link corporation, and business networks with foreign parties. The firm's internationalisation process reflected opportunistic moves rather than being incremental in process and stages.

CHAPTER EIGHT

SIME DARBY BERHAD
(SD)

Sime Darby Berhad at a glance:

Year of establishment/incorporation	:	1910/1977
Operating Revenue in 2005	:	RM 18,645.7 million
Industry	:	Diversified (Plantation, Motor Vehicles, Heavy Equipment, Property, and Energy)
Current Overseas Investment	:	Twenty countries
Company Status	:	Private Enterprise with Government-control through various trust agencies

8.0 Introduction

The previous discussion in Chapter 2 on the internationalisation process literature has shown that the traditional path of international expansion of firms is one where companies originate locally and then expand internationally following sequential expansion stages. In the case of some of Malaysia's multinational firms, internationalisation came about quite differently. It took place through a nationalisation programme where the Malaysian Government acquired a foreign company operating in the country in order to increase Malay ownership and control of corporate capital (see also Chapter 4). To protect economic and political interests, the Sime Darby (SD) group has been acquired and controlled by the Malaysian Government through its various state and trust agencies. Being among the largest plantation companies and an industrial conglomerate, Sime Darby is considered as the first Malaysian multinational corporation, and one of the largest firms in the country (Annual Report 2005). In most studies of the country's foreign direct investment activity, SD has been included as one of the leading representatives from Malaysia (see United Nations 1985; United Nations 1988; Ragayah, 1997). With a comprehensive range of business activities, the group has been perceived as the country's 'mother of all conglomerates'. At the time of the field work, the group had more than 25,000 employees in over 300 companies in 20 countries. The company has been regarded as a 'proxy for the whole Malaysian economy' and 'flag carrier of Malaysian commerce' (Financial Planner, 1 August 1998; Annual Report, 2004).

This chapter reviews the emergence and evolution of the Sime Darby Group internationalisation strategies, the third case company in this thesis. Sime Darby was chosen as a case study based for the following main reasons: (a) it was the first Malaysian multinational conglomerate and is one of Southeast Asia's leading and largest corporations; (b) it is among the most internationally-oriented corporations with a long history of international business and trading activities; (c) the company has been a Malaysian multinational from its inception as it became a Malaysian entity through acquisition by the Malaysian Government in 1977, which has focused attention on how the management acquired internationalisation knowledge and experience when operating the organisation; (d) the holding company and some of its subsidiaries are listed on the Bursa Malaysia Securities (the Malaysian Stock Exchange), and Singapore Stock Exchange, and were also previously listed on the Hong Kong Stock Exchange and the International Stock Exchange in London, which shows the strong position of the corporation in the international arena; and finally (e) the group is aggressively and widely diversified with interests in almost all economic sectors including plantations, energy, heavy equipment, motor vehicle distribution, travel and tourism, healthcare, and property development domestically and internationally. This represents the country's dominant form of business organisation as a diversified conglomerate.

As far as this thesis is concerned, the main objective of this chapter is to examine and explain the internationalisation pattern and process of a third Malaysian-based Corporation, namely, Sime Darby Berhad, and to describe the key ownership advantages the group possesses to compete with its competitors. This chapter is divided into five main sections. After this introduction, section 8.1 provides an overview of SD's business in brief, followed by the group's business background, domestic development and international growth in section 8.2. The (potential) ownership advantages and business strategy are discussed in section 8.3, while section 8.4 gives an analysis of the international expansion activities of the group. Section 8.5 presents the chapter's conclusion and lessons that can be learned from SD's experience.

8.1 An Industry Overview: A Diversified Business Group

> One of the strengths of the Sime Group is the diversification of its sources of profitability (Ahmad Yahya, 16 October, 1988)[1]

Although Sime Darby has long been associated with plantations, the group has diversified widely into other business sectors. The group has become a major player in the motor vehicle distribution, heavy equipment distribution, property development, tyre manufacturing, general trading, travel and tourism, and energy industries. A closer look

[1] Quoted from Malaysian Business, 16 October 1988

at its profits as at financial year ended 2005 by sector shows that heavy equipment contributed most to group income, followed by the property sector, motor vehicle distribution, plantations, energy and general trading respectively. Table 8.1 shows an analysis of the group's net profit by business segment.

Table 8.1: The Group's Analysis of Profits by Business Sectors (RM million)

(Amounts in RM million)	**2005**	**Percentage**
Plantations	279.7	17.6
Property	328.2	20.8
Heavy Equipment Distribution	457.8	29.1
Motor Vehicle Distribution	300.9	19.1
Energy	193.0	12.3
General Trading, Services and Other	17.5	1.1
Total	1,574.1	100

Source: Sime Darby Annual Report, 2005

After its latest restructuring in early 2005, the group's core business activities were organised under five business groups, and its non-core activities under four business groups as illustrated in Table 8.2.

Table 8.2: Sime Darby's Berhad Business Activities as at April 1st, 2005

Sime Darby Berhad	
Core Activities	Non-Core Activities
Plantations Group	Manufacturing
Motor Group	Travel and Tourism
Heavy Equipment Group	Healthcare
Property Group	General Trading
Energy Group	

When asked during the interview the reasons for SD's regrouping of some of its business activities, one of the key executives pointed out that:

> Re-grouping or merging some of these companies and right-sizing certain operations would enable the group to concentrate on current core businesses which are viable. We will also diversify and acquire businesses which will be related to strengthening core businesses and we believed this approach will result in an even higher growth level for the SD group in future (Interview 3(A): 1 June 2005)

A similar view was also expressed by another key executive. According to him: "the businesses that we are looking into will be related to what we are doing now" (Interview 3(B): 27 April 2005). In order to provide an overall view of SD's businesses, the next paragraphs summarise several of the SD group's core operational divisions based on type of business activity.

Plantations: Plantation was the original core business activity. Currently, this business operation is led by Consolidated Plantations Berhad (Consplant) and mainly involved in the cultivation of plantations and processing of palm oil and rubber. The group holds equity interests and managerial control over 42 estates covering approximately 90,000 hectares of planted area and reserves mainly located in Malaysia, Thailand, and Indonesia. The planted area of 85,000 hectares has a crop mix of 91% of oil palm, 8% rubber and 1% fruit orchard.

Property Development: With experience in plantations, the group expanded its business into property development. Having begun with the purchase of a 32% stake in the United Estate Projects (UEP) in 1985, Sime UEP is, today, one of Malaysia's most distinct award winning developers (Sime UEP, 2005). Its principal activities include the design, planning and construction of the integrated townships in the country, and also the provision of property and project management services. Following its success as a single property developer having developed 728 hectares of land in the country, the group has moved into the Asia-Pacific region, namely Singapore, Indonesia, Vietnam, Australia and the Philippines (Malaysian Business 1 September 2003). Until now, this remains the core business of SD.

Heavy Equipment and Motor Vehicle Distribution: Accounting for approximately 29% of group profits, these business operations are headed by Tractors Malaysia Holding Berhad. The heavy equipment operation sells and services new and used Caterpillar construction equipment, material handling equipment, container handlers, engines, industrial gas, turbines, and yard tractors as well as a wide range of agricultural and industrial supplies. The group has exclusive Caterpillar distribution rights in the sale and rental of Caterpillar heavy equipment parts and service support in Malaysia, Singapore, Hong Kong, Brunei, The People's Republic of China (7 provinces), Australia and the Philippines.

Following the government's encouragement to national companies to support and promote the country's industrialisation process (see Chapter 4), the group expanded its business activity into motor vehicle distribution. This division is involved in the assembly, marketing, distribution and servicing of several well-known marques such as BMW, Ford, Hyundai, Peugeot, Land-Rover passenger and commercial vehicles and Scania trucks. Mazda and Suzuki vehicles are also assembled under contract.

Energy Group: With the success of its earlier business operations, and in order to provide vital support services to the development of new industries in the country, such as oil and gas, petrochemicals, power generation and transmission and other related industries in Malaysia and the region, the group decided to enter the power industry at the end of 1990s. Its activities comprise two main divisions, namely, power generation and engineering services. The power generation interests include Port Dickson Power Berhad, JanaUrus PDP Sdn Bhd, and Laem Chabang Power Co. Ltd (in Thailand).

A closer look at the industries in which the SD group participates shows that these activities emerged as a result of Malaysia's urbanisation and economic development process. The investments made by the company were adapted to the government industrial policy and synchronised with the national strategies (Interview 3(A): 1 June 2005). This is in line with the government's policy of encouraging *bumiputera* participation in industry (Abdulsomad, 1999). As a result, the group enjoyed a variety of privileges and incentives given by the government, which enhanced its competitive position in those industries.

To some extent, the group's business activities were oligopolistic in nature, with only a few players in the industry. Their businesses are often protected by some forms of entry barrier such as huge entrance capital, high business risk, and government protection. The business operations encompassed both upstream and downstream activities. For instance, through Tractors, SD has a lead over new players in the country due to the existence of heavy barriers to entry such as the requirement for heavy capital investment, a good distribution network for parts and services, and even brand loyalty for Caterpillar products. In addition the group also holds exclusive franchises of world-renowned brands such as New Holland UK, Kawasaki, Sakai, and Niigata. This has enabled the group to control the market and remain a dominant player. In some of its business activities such as plantations, SD controls more than 75% market share (Interview 3(A): 1 June 2005). Given this background, the next part looks at how the group has developed its business from its beginnings in 1910 until 2005.

8.2 Sime Darby Berhad: Business Background, Domestic Development and International Expansion

As explained in Chapter 4, SD was a foreign owned multinational operating principally in Malaysia and Singapore before it was bought by the Malaysian Government in the mid-1970s. Originally a British private enterprise, it has been, since 1977, a Malaysian-controlled corporation. The head-office was then transferred from Singapore to Kuala Lumpur and incorporation of the parent company, Sime Darby Holding Limited was transferred from the United Kingdom to Malaysia. Since then, the group has been seen as a leading national conglomerate, and perhaps one of the most successful corporations in Southeast Asia (United Nations, 1985; Ragayah, 1997). Sime Darby Berhad is the holding company for the group. With a total strength of more than 25,000 employees, and operating in 20 countries around the globe, SD generated a revenue of RM18,645.7 million (USD4,972.2)[2], and profits before tax of RM1,364.8 million (USD363.9 million) in the financial year ended 2005. Its shareholders' fund amounted to RM 8,005.1 million

[2] at the exchange rate of USD1.00 equivalent to RM3.75

(USD2, 134.7 million) while its total assets and paid-up capital were RM 11,271.2 million (USD3,005.6) and RM 1,195.0 million (USD318.6 million) respectively (Annual Report, 2005). The group's parent company is listed on the main board of Malaysia Securities Berhad with a market capitalisation in excess of US$3.69 billion. Its market capitalisation represents around 5% of the Bursa Malaysia. Apart from Sime, the group has three other entities listed on the Bursa Malaysia, namely, Tractors (M) Holdings Berhad, Sime-UEP Properties Berhad and Sime Engineering Services Berhad (formerly DMIB Berhad). Given the historical value and the national interest of the firm in increasing Malay ownership in the corporate sector, the Malaysian Government through its various trust agencies holds a controlling share in the company (see Table 8.3).

Table 8.3: Top 4 Sime Darby Substantial Shareholders 2005

Name of Substantial Shareholder	No. of Shares held	Percent of Issued Capital
Amanah Raya Nominees (Tempatan) Sdn Bhd - Skim Amanah Saham Bumiputera	905,545,732	37.78%
Employees Provident Fund Board	311,357,555	12.99%
Permodalan Nasional Berhad	72,928,000	3.04%
Lembaga Tabung Haji (Pilgrims Fund Board)	51,113,120	2.13%

Source: Sime Darby Annual Report, 2005

The group structure[3], product and geographical diversification of the SD group is a complex and overlapping process (see Figure 8.1), but it falls into four chronological periods: its early development: from a plantation-based business to a trading-based business (1910-1929), followed by domestic expansion (1929-1950s), conglomerate diversification (1950s-present), and international expansion (1970s-present). It is important to understand the group's history, as this offers knowledge about organisational

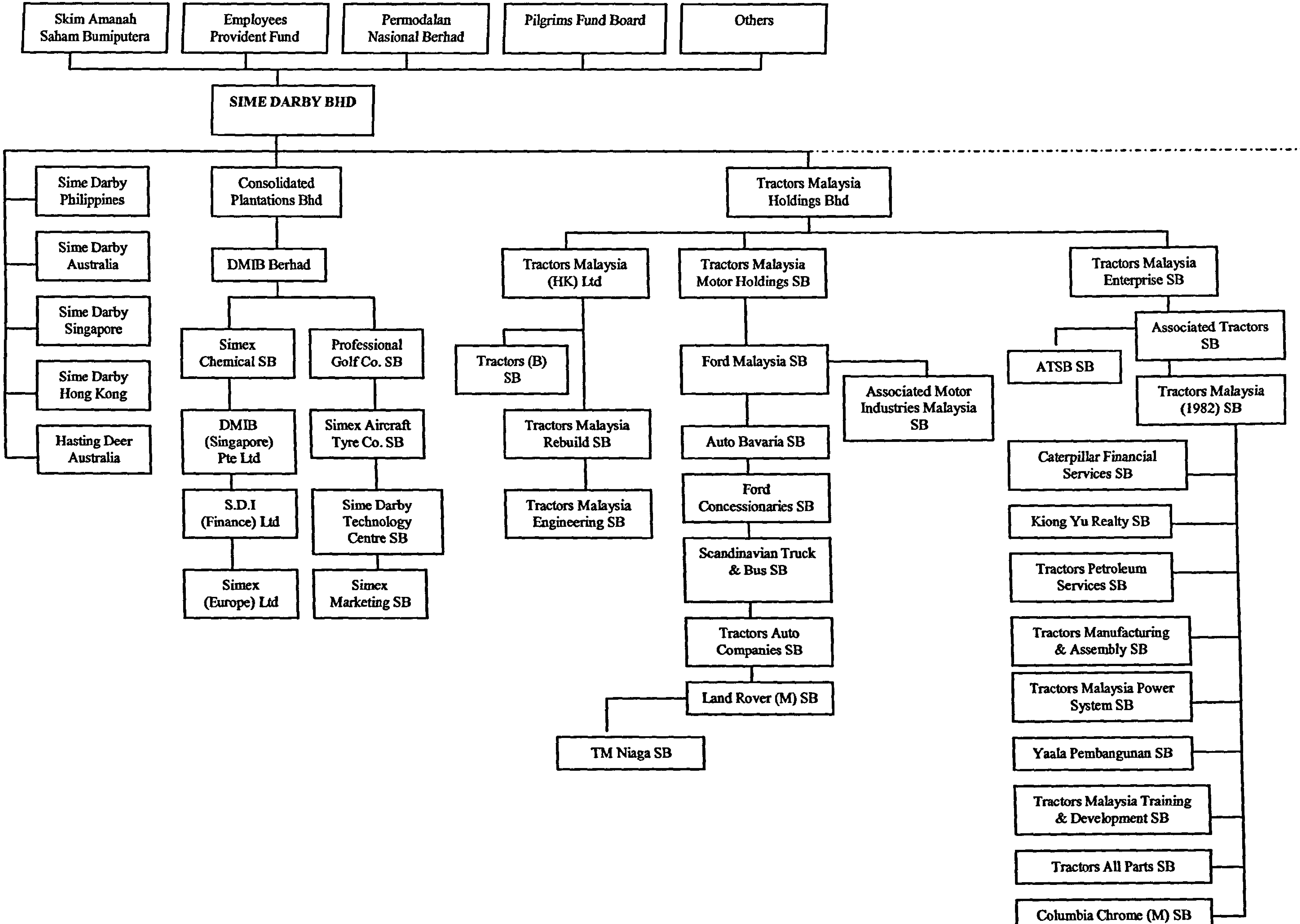
[3] The organisation structure of Sime Darby Group is very complex. Although a decision to move abroad is centralised at the head office level, some foreign investment was made by the subsidiaries companies (Interview 3(A): 1 June 2005). Due to the time constraint given to access information in Sime Darby, the explanation on internationalisation expansion is focused only at the holding level.

progression and is expected to provide insights that might act as a basis for decisions about the future (Eisenhardt, 1989; Gummesson, 1991).

Early Development: from Plantation-based to Trading-based business (1910 - 1929)

Sime Darby was founded in 1910, when two British planters, William Middleton Sime, a Scottish gentleman, and Henry Darby, an English gentleman, teamed up to form a company to manage 500 acres of Radell Rubber estates in the state of Malacca with a capital of US$20,000. The company was known as Messrs Sime Darby & Co Limited (Malaysian Business, 1 September 2003). Acting as managing agent for a number of plantation companies, it then moved into general trading as demand for goods and services for the rubber estates grew. In 1915, a branch office was set up in Singapore. With increasing volume of trade, it became an agency house which undertook many general trading activities including acting as selling agents for various firms and manufacturers, import and export businesses, supplying a wide range of consumer and other products domestically and internationally. A London office was set up as a network branch into market the company's rubber. The profits from the rubber were ploughed back to buying more plantation land. In 1926, it bought a British competitor, R.G. Shaw & Co and ventured into discounting, money brokering and insurance brokering (Utrecht, 1981).

Figure 8.1: Sime Darby Corporate Structure



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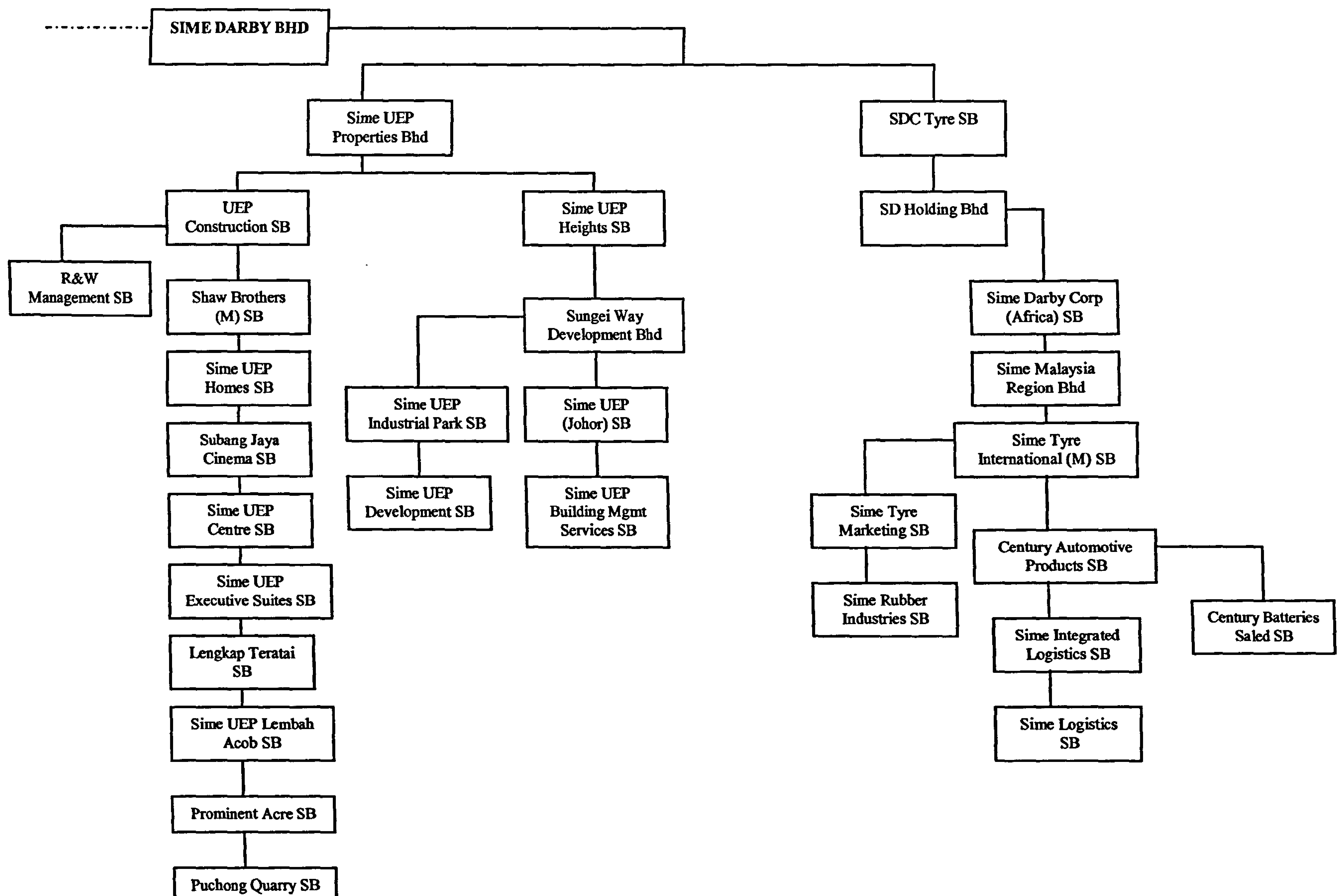


Source: Sime Darby Berhad

Domestic Expansion (1929 - 1950s)

The group's first wave of expansion was concentrated in the plantation-based business, particularly in rubber, palm oil and cocoa plantations. An important milestone in the company's growth was in 1929, when it acquired the Sarawak Trading Company which held a franchise of Caterpillar equipment (now known as Tractors Malaysia) (Cheong, 1989). As SD bought more land for its investment, the acquisitions were needed for heavy earth-moving equipment for opening new lands. After the Second World War, in 1952, SD started to enter other lucrative business areas, such as engineering services, electronics and management services (Allen and Donnithorne, 1957). Over the years, its activities grew to include supply, finance, sales and shipping of products for these plantations, and by 1954 it was managing some 80,000 acres of rubber land with a total of 18 branch offices in Malaysia, Singapore, Brunei, and British North Borneo (ibid). The development continued when the company acquired Ewart & Co. in 1946, which was later renamed Sime Singapore.

Conglomerate Diversification (1950s - present)

By the late 1950s, the company had grown large enough to establish a holding company, Sime Darby Holding Limited, in London. The company then naturally extended its activities from trading and management to manufacture in the late 1960s. In 1971, Sime Darby established itself as a major force in the plantation industry through the acquisition of Seafield Amalgamated Co. and the establishment of Consolidated Plantations. The rapid growth and extensive diversification of Sime Darby gave the company multinational status even prior to Malaysian independence

(Interview 3(A): 1 June 2005; Ragayah, 1997). Because of this strategic importance as MNCs, and to protect the national interest whereby many critics viewed the largely British management of the company as a sore reminder of colonial exploitation, the Malaysian Government through its trust agency Pernas or National Corporation acquired the company in the mid-1970s (Interview 3(C): 26 May 2005). According to Utrecht (1981):

> The SD take-over is a clear sign that the Malaysian government wants a greater say in producing and marketing its resources

One of the key executives explained during the interview:

> When the Malaysian government decided to have its own multinational corporation during that time, SD looked like our best choice as it operated domestically and internationally. We asked Rothchilds as our advisor, to provide the best possible idea and way to bring SD in and we managed to have it through buying a majority of SD shares in the London Stock Exchange (Interview 3(A): 1 June 2005)

The Malaysianisation of SD was completed when Tun Tan Siew Sin was elected as Chairman of the Board in 1976. Through this process, SD became among the first Malaysian multinationals in the country. Despite its current public status, *bumiputera* Malaysians remain the largest shareholders, controlling 67.48% of the company's equity. This is followed by non-Malaysians (23.27%) and other Malaysians (9.25%). In order to perform the NEP role in restructuring society (see Chapter 4), 80% of the SD staff is ethnic Malay (Interview 3(A): 1 June 2005). This evidence was clearly pointed out during an interview with the Deputy Chairman of SD Group:

> To attain the NEP goal, we have trained many ethnic Malays to become professional managers in managing the organisation. To date, more than 85% of the group's higher posts ranging from manager onwards came from this group, (Interview 3(A): 1June 2005)

SD initially expanded within plantations. The group's desire to grow further into non-core activities led to major diversifications into many industries, starting in the early 1980s. To name a few, these included motor vehicle, painting and tyre manufacturing in 1981, oil and gas in 1983, property and insurance in 1984, health and hospitality in 1990, travel and tourism in 1991, power generation in 1994, finance in 1996, hypermarkets in 2000, and retail petroleum in 2001. Through its own subsidiaries, Sime Darby diversified into a variety of projects including hospitals, housing development, manufacturing, gasoline and motor fuel distribution, shipping operations, shop lots, golf courses and many others. One of the key executives acknowledged this point by saying that:

> It is quite difficult for you to track down in details the group's business activities, its operation and its products as we are too big. We have more than 300 companies, and to put all activities in one chart would be a massive task. The diversifications of the businesses activities are huge and I can say that we are in almost every business in Malaysia. The best indicator of our international activities is our annual report (Interview 3(C): 26 May 2005)

Having a varied range of products and brands allowed the SD group to expand its market coverage. However, with a broad range of diversification strategies, it was unable to maintain satisfactory results in all of its business activities. Some sectors, such as general trading and services for instance, showed a poor performance in the financial year ended 2005. This is one of the reasons why it has now become a non-core activity of the group (Interview 3(B): 27 April 2005). Although plantations remain the core business of the group, revenue from other operations has been on the rise and continues to bring income to the group (see Table 8.1).

In brief, Sime Darby's domestic growth was made up of three major waves. The first wave of expansion was focused in the plantations sector. The second wave was based on geographical expansion of its trading business, and finally, the third wave covered a range of diversified business strategies both upstream and downstream, such as oil and gas, financial services, property development, energy, and motor vehicle distribution. This type of corporate structure is quite similar to that of Japanese *keiretsu* or Korean *chaebols*, which have diversified activities that feed into one another (see Chapter 3). It can be seen that the group's diversification strategies were incremental, rather than revolutionary within each specific industry. The group has used a market segment strategy to expand its business operations both domestically and internationally (Interview 3(C): 26 May 2005).

The most contentious diversification of the SD group was in the financial sector, when Sime Bank[4] was bought in 1996 from the publicly listed Datuk Keramat Holdings Berhad, owned by Mahathir's former political secretary, Mohd Noor Yusof. Sime Darby paid RM1.3 billion for the purchase and upgraded the capital base from RM333 million to RM 500 million. During the period that Sime Bank was under the Datuk Keramat Holdings group, numerous allegations had been made of financial impropriety, including the disbursement of questionable loans (Gomez and Jomo 1997: 56-9). In December 1997, for the first time in its history since it began operation, the SD group declared pre-tax losses of RM1.1 billion, most of which were attributed to Sime Bank. If Sime Bank's losses had not been consolidated in the group's account, Sime Darby would have registered a pre-tax profit of RM625 million, a 13% gain compared to the pre-tax profits registered the previous year (The Star, 8 March 1998). Eventually, the Sime Bank was divested by Sime Darby at a huge loss, to the politically well-connected Rashid Hussain, who controls the financial

[4] Incorporated as United Malayan Banking Corporation Berhad (UMBC) in 1959, Sime Bank became a member of Sime Darby Group after the latter's acquisition of a 60.35% interest in the bank in 1996.

conglomerate Rashid Hussain Berhad (RHB) group. Financial services are one area in which Sime does not have strength (Malaysian Business, 1 September 2003). Sime Darby's former Chief Executive Officer commented, "It's obvious to everyone that we're not very good at banking. We're good at making tyres and owning plantations" (Euromoney, 1 April 1998). During the interview, a senior executive revealed:

> The decision to invest in the banking sector in the early stage was not a one man decision. We cannot put blame on each other. Although we failed, it was a learning process for the group to be more focused in its core business activities rather than diversifying the business into areas where we are not specialised. The decision to forego the bank business was important in order to save the group from insolvency (Interview 3(A): 1 June 2005)

Ahmad Sarji, the group Chairman, expressed a similar view and pointed out that:

> Sime will actively acquire and invest strategically in five or six core activities, either in horizontal, upstream or downstream activities. For non-core activities, the emphasis is on turning around the loss making ones or divesting them (Malaysian Business, 1 September 2003)

Acknowledging the need to increase shareholder value and at the same time position the group for sustainable long term growth, SD has developed a strategies for moving forward. These include expansion of existing core business, development/acquisition of new core businesses such as power generation, review of non-profitable businesses with a view to consolidation/divestment, and improved productivity and efficiency of businesses (Interview 3(C) and 3(D): 26 May 2005).

Following this account of the domestic development of the group, the international activities are discussed in the next part of this thesis.

International Expansion (1970s - present)

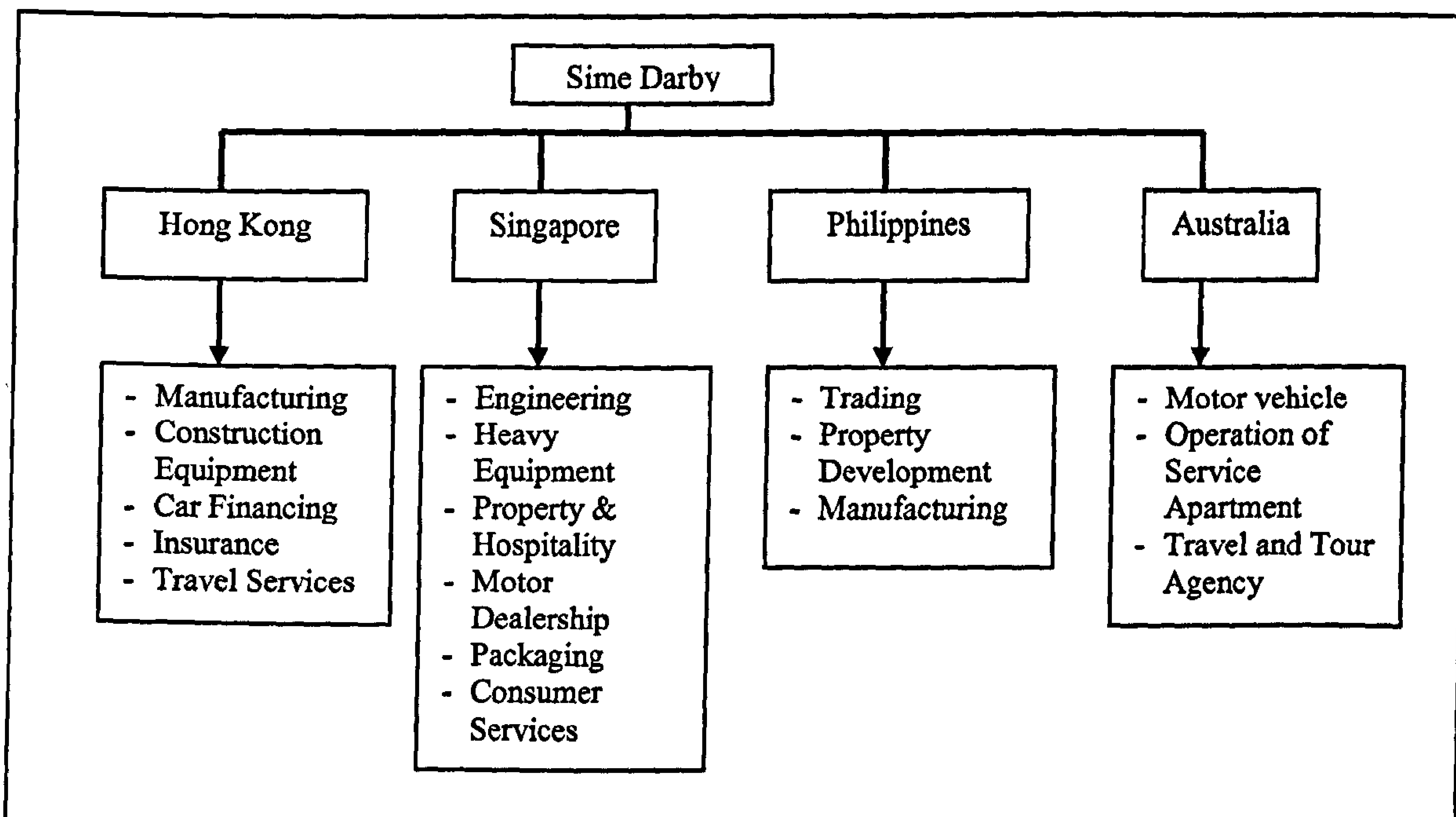
Sime Darby's international exposure began through international trading activities particularly exports of commodities products, as Malaya during that period was the biggest rubber and cocoa producer in the world (Interview 3(B): 27 April 2005; Allen and Donnithorne, 1957). It was in the early 1970s that the company experienced phenomenal expansion both geographically and sectorally. The expansion began with the purchase of China Engineers (Holdings) Limited[5], Harpers International Limited, and Amoy Canning Corporation (Hong Kong) Limited, all based in Hong Kong in the 1970s (United Nations, 1985). With Amoy Canning came the production of canned food, and with China Engineers came engineering, manufacturing, insurance and shipping activities. Harpers provided SD with the franchise for the distribution of Ford, BMW, and Mitsubishi automobiles (ibid).

In the United Kingdom, SD acquired Shaw and Co., a company engaged in investment, shipping, and trading with considerable investment in South Asia. SD also moved into discounting, broking and insurance with the acquisition of Clive Holding Ltd., Guy Butler and Robt Bradford and Co. Limited (United Nations, 1985). In Singapore, having been a market player since 1928, and the sole Caterpillar dealer in Malaysia for more than 70 years, SD, via Tractors, has managed to penetrate the Singapore market. In fact, 95% of Sime's business in Singapore's heavy equipment sector comes from the sale of Caterpillar products (Interview 3(B): 27 April, 2005). Nearer home, the company ventured into downstream processing activities with the purchase of Edible Products Ltd., a major vegetable oil refinery in Singapore.

[5] In February 1980, China Engineers (Holdings) Limited was renamed Sime Darby Hong Kong Limited.

Administratively, the group's international expansion can be divided into four main regions. Priority was given to neighbouring Asian countries with a similar culture (Interview 3(A): 1 June 2005). Like its domestic business activities, SD's international operations involved the group's five core areas: plantations, motors, heavy equipment, property and energy. Figure 8.2 lists the geographical locations of the group's international activities by region. SD acted on the assumption that the diversification of business based on geographical area would work well in reducing its business risks (Interview 3(B): 27 April 2005; Ragayah, 1997).

Figure 8.2: Sime Darby Major Business Regions for International Activities



Source: Sime Darby

At the time of the fieldwork, the group had 185 subsidiaries and associated companies involved in various business activities in the Malaysian market. In its international operations, the group had 46 companies in Hong Kong, 72 in Singapore, 9 in the Philippines, 11 in Australia, 5 in Indonesia and 19 in other developing countries. In the developed countries, the group had 12 in the United Kingdom, 2 in the United States, and 15 in New Zealand (Sime, 2005). Sime Darby's major strength lies within the Southeast Asia region, with only limited coverage in other parts of Asia. Overseas operations accounted for about 60% and 35% respectively of the group's gross revenue and pre-tax profits for the past four years - with Malaysia, Hong Kong, Singapore and Australia collectively, holding the prize in posting revenues in excess of RM1 billion (Interview 3(B): 27 April 2005). By virtue of the fact that SD has operations in 20 countries, international business is one of the key sources of growth for the group (Interview 3(C): 26 May 2005). Table 8.4 gives the breakdown of SD's profit by country.

Table 8.4: Sime Darby Profits by Geographical Segments, 2001-2005

	Financial Ends (RM Million)				
Country/Year	**2001**	**2002**	**2003**	**2004**	**2005**
Malaysia	657.9	659.0	822.5	847.5	909.5
Singapore	164.3	102.0	95.4	96.6	160.8
Hong Kong	149.8	107.5	133.3	83.3	79.0
People Rep of China	n.a.	28.5	15.9	17.1	(221.6)
Australia	106.6	134.4	158.7	157.9	343.3
Other Countries	71.0	52.6	42.4	135.9	100.7
Total	*1149.6*	*1084.0*	*1268.2*	*1338.3*	*1,371.7*

Source: SD Annual Report, various issues

Before analysing the internationalisation pattern and process of the Sime Darby in section 8.4, the next section explains how SD has built up its ownership advantages and business strategy.

8.3 Building up (potential) Ownership-Specific Advantages and Business Strategies

Strong Brand Name and Extensive Distribution Channels

With more than 95 years of corporate history and being involved in every line of business, the group has built a strong reputation in trading domestically and internationally from recognisable brand products through its franchises and dealership agreements with various foreign parties (Interview 3(A): 1 June 2005). For instance, in the group's motor business, brands such as BMW, Ford, Land-Rover, Peugeot, Caterpillar and Kawasaki, to name but a few, are among the well-renowned brands to which the group holds primary distributor rights in several countries (see Table 8.5).

Table 8.5: Summary of the Major Franchises Held by the SD Motor Group

Malaysia	Thailand	Singapore	Hong Kong	China	Australia	New Zealand
BMW Ford Land-Rover Alfa Romeo Hyundai Mini	Mitsubishi Mazda Volvo BMW	Ford BMW Peugeot Land-Rover Mini	BMW Rolls Royce Suzuki Mitsubishi Peugeot Land-Rover Mini	Mitsubishi BMW Peugeot	Peugeot	Kia Nissan Suzuki Mitsubishi Alfa Romeo Ferrari

Source: Sime Darby, Tractors, Malaysian Business 1 May 2005; Interview 3(B): 27 April 2005

Through recognisable brand names, SD has gained a reputation for the high level of quality and higher standard of its products (Interview 3(B): 27 April 2005). Consistent with this claim, for example in 1991, SD became the first company in the country to receive international quality accreditation in both its upstream and downstream operations in rubber manufacturing. Two of SD's companies – Atherton Latex Concentrate Factory and DMIB Berhad – were awarded the ISO 9002 Quality

Assurance Certificates for quality standards set in the production of latex concentrate and tyres (Sime, 1991). To encourage continued excellent quality and services among the group of companies, SD in 1999 launched the Sime Darby Quality Award. The award was introduced as a strategy further to enhance quality application throughout the company, improve SD's business competitiveness, and facilitate the sharing of information on successful quality strategies[6].

The broad range of quality products offered by the group, has not only enhanced SD's market power but would also compensate for any declining revenues from the increasingly competitive industry. For instance, in the automotive industry, the group suffered a setback when it lost its exclusive BMW automobile distribution franchise which was expected to have a significant effect on revenue (Interview 3(B): 27 April 2005). In June 2003, the German-based Bayerische Motoren Werke (BMW) group formed a 51:49 joint-venture company with Sime to take over wholesale distribution of BMW vehicles in the country. BMW invested about RM93 million in the venture (Malaysian Business, 1 September 2003). Losing its exclusive distributorship will have an impact on SD, as it is considered Sime's largest revenue contributor - at approximately 35-40% every year. It remains to be seen, however, the group's diverse range of automotive brands minimises its investment risks (Interview 3(C): 26 May 2005).

SD has employed an acquisition strategy since its early establishment, with the purchase in 1929 of Sarawak Trading, which held the Caterpillar franchise. Benefiting from this acquisition until now, the group has the sole distribution rights for

[6] Sime Darby internal unpublished publication

Caterpillar and this has contributed towards the growth of the group's business operations. As a result, SD enjoyed substantial advantages over newcomers, and consequently their industries became and remained oligopolistic (Interview 3(A): 1 June 2005).

In order to facilitate its marketing activities, the group continues to invest in the expansion of its distribution network and services facilities. With access to the group's marketing networks both domestically and internationally, customers could have confidence in accepting SD's products (Interview 3(A): 1 June 2005). In addition, recruiting its own staff to oversee day-to-day operations in all of its marketing networks ensures its quality meets international standards. This strategy has enabled the group to distinguish itself from other competitors in the same industry. According to one of the key executives:

> To further strengthen its marketing capabilities, the group has established its own strong sales network, and this is not only for trading activities but also for gathering market information (Interview 3(B): 27 April 2005).

It would be too simplistic, however, to claim that the group's ownership advantage derived from its reputation in selecting quality brands and extensive distribution marketing channels alone. The SD group's competitive advantages domestically and internationally were also derived from several other sources which will be discussed next.

Strong Management-orientation and Financial Standing

Relying on brand name alone is no longer sufficient in the competitive business environment nowadays. The group's competitive advantages in the domestic market were also derived from its strong management-orientation, excellent financial standing and adoption of a conservative business strategy. This point was echoed by most of the key executives during the interviews (Interview 3(A): 1 June 2005; Interview 3(B): 27 April 2005; Interview 3(C): 26 May 2005). As stressed by the Group Manager - Strategy Planning:

> For a firm to involve in diversification business, it requires the company to have vast financial and management resources. We have those resources and our strong financial position has made us emerge in most business activity in the country. On the other hand, our conservative business strategies saved us during the Asian financial crisis (Interview 3(C): 26 May 2005)

Having the Malaysian government via its state agencies and trust funds such as Skim Amanah Saham Bumiputera, Employees Provident Fund, Permodalan Nasional Berhad, and Lembaga Tabung Haji (Pilgrims Fund Board) as its major shareholder made Sime Darby rather exclusive in the corporate scene. One expert expressed the opinion that "by virtue of its status as a Government-controlled Company, Sime is a professionally and well managed company that is transparent in its ways" (Quoted in Malaysian Business, 1 September 2003). A similar view was also acknowledged by its former CEO who stressed:

> In any organisation, you will find codes of conduct and procedures, but such rules and regulations cannot really be substitutes for basic honesty, integrity and common sense. Sime Darby could not have become the corporate giant it is today without being professional in whatever it does (Nik Mohamed Yaacob, 1996)

Sime Darby's corporate strategy and management professionalism were guided by strong company values and its code of conduct. Hard work, honesty, integrity, professionalism, and entrepreneurship are some of the company's key principles, adopted at all levels of staff. The group's mission statement demonstrates the seriousness of its professionalism and commitment toward its image as a reputable Malaysian Corporation (Interview: 3(A): 1 June 2005). Similar to the other cases in this thesis i.e. Petronas and TM Berhad (see Chapters 6 and 7) Sime Darby is an another example of ethnic Malay achievement in managing a Multinational Corporation. For instance, apart from its first Chief Executive Office (CEO), all of its three CEOs since its emergence have been Malay professionals who come from various educational backgrounds. This scenario hardly coincides with the suggestion from developing-country literature that the only successful Southeast Asian MNCs were those which came from an ethnic Chinese background.

As well as its management orientation, Sime Darby's excellent financial standing was another source of advantage for group expansion (Interview 3(C): 26 May 2005). With a huge cash pile, SD has been seen as among the wealthiest domestic corporations (Interview 3(A): 1 June 2005). The links of SD with the country's major trust funds and state agencies have contributed towards its domestic and international expansion. PNB, for instance, is among the country's leading investment institutions with total funds of more than RM49 billion and having a 40.82% interest in the group. This is followed by Employee Provident Funds (EPF) with 12.99% interest and Pilgrims Fund Board with 2.13%. Chapter 4 has already explained the characteristics of the leading Malaysia MNCs and their relationship with trust and state agencies.

This has given the group an image and reputation for credibility that not many other Malaysian corporations have enjoyed. This privileged status made the group a preferred choice for foreign firms seeking a joint venture partner in the domestic market (Interview 3(B): 27 April 2005). Furthermore, SD's credibility also enhanced the group's relationships with financial institutions. SD has never had much difficulty in getting support to finance its operations and expansion. In an interview, the former group financial director admitted that:

> There is no problem for the group to finance its projects domestically and internationally as our relationship with local and foreign financial institutions is very good. Furthermore, our track record with them is excellent (Interview 3(B): 27 April 2005)

However, links with the PNB do not necessarily bring benefits, especially for the group's business strategy; which is considered conservative and too methodical (Malaysian Business 1 September 2003). The group's investment strategy is often described as 'conservative', focusing on exploiting incremental investment opportunities under the guidance of the holding company and its major shareholder. As an example, evidence of this was seen when the group took on a smaller player, IOI Corporation Berhad, in its bid to acquire Palmco Holdings Berhad in 2003, and lost its bid. For the record, Sime ended up with a 22% stake in Palmco and two board representatives, while IOI went to buy Loders Croklaan BV in the Netherlands (Malaysian Business, 1 September 2003). Many have suggested that with its huge cash pile, the group could have made better use of its money by acquiring Loders instead (ibid). When asked the reason for this 'conservative' strategy, one of the key executives explained:

> We don't want to create short-term excitement, having buyers flooding and then dumping, which is what has happened to a lot of stocks recently (Interview 3(A): 1 June 2005)

With regard to this, Nik Yaacob, a former group CEO, admitted in an interview that:

> I think it is true that people have the perception that we are conservative. But I would like to mention for the last six years or so, we have achieved very consistent growth (Malaysian Business, 16 July 1993)

Despite attracting criticism, the 'conservative' business strategy adopted by the group, however, proved to be an advantage and helpful in minimising the impact from the Asian financial crisis in 1996/97. Like most Malaysian firms, SD was burdened with the problem of its foreign debts and losses on its financial account. The group were in the red with a loss before taxation of RM70.7 million in 1998. However, in 1999 and 2000, the group made profits of RM1,018.2 and RM1,199.1 respectively (Annual Report, 2000), thanks to its 'conservative' investment strategy. As stressed by the group manager for strategic planning: "Our prudent and conservative investment strategy did help us to survive during the crisis" (Interview 3(C): 26 May 2005). The next paragraphs discuss how internationalisation knowledge and experience became another source of the group's advantages.

International Knowledge and Experience

The group's ownership advantages were not only based on its management skills in managing the organisation, but also on its knowledge and experience in international trade, and knowledge about the regional market. The ability to understand how developing country markets work was another important advantage of SD (Interview 3(B): 27 April 2005). The group's past experience in dealing and managing an international project and trading business in the region provided a useful advantage for the group's international expansion. By focusing its business operations on the Asian market, segmenting its business operation into several product groups, and geographically spreading into five main regions, SD was able to take full advantage of its management know-how in plantations and other businesses to tap those markets without much competition from either local or foreign competitors (Interview 3(A): 1

June 2005). The group's skills and strength in plantations contributed to other business operations. A senior executive clearly stated that:

> SD's strength lies in our knowledge of markets in Malaysia in particular and developing countries in general (Interview 3(B): 27 April 2005)

SD will do its homework in order to compete in the intensely competitive field of international trade. According to Ahmad, "whether a business plan will succeed will depend on the reliability and quality of the information in hand" (The Sun, 17 August, 1993).

Although SD is known for its international investment in 20 countries worldwide, including Hong Kong, Singapore, Australia, New Zealand, Macau, China, Qatar, the Philippines, Papua New Guinea, Thailand, the United Kingdom, Egypt, Indonesia, Solomon Islands, and New Caledonia, the focus of its business is on exports and international trading activity. Sime Darby's interest in foreign direct investment only began in 1990s, when the domestic market was becoming saturated and internationalisation was another way to expand (Interview 3(C): 26 May 2005). Although the group's export markets were spreading to various developed countries such as the United Kingdom, European countries, and the United States, the group's destinations for foreign direct investment were still mainly concentrated in nearby Asean member countries and the Pacific Basin region. A senior executive and former chief executive officer revealed:

> Our group knowledge about international expansion especially on direct investment is inadequate. Unlike investment in markets closer to home, we rely heavily on our relationship with foreign partners for investment in new markets such as in Europe and the United States. Our investment in those countries was mainly to obtain know-how rather than expanding our market share (Interview 3(A): 1 June 2005)

A similar view was also expressed by the same speaker in a session at a national conference when he admitted:

> Sime Darby is no source of expertise in this field (i.e. foreign direct investment) as past experience in selling commodities is not really valid in today's world of international trade. But on second thoughts in the kingdom of the blind at least SD's experience is current and on-going (YM Tunku Ahmad Yahya, Deputy Executive Chairman[7])

He added:

> Yes, it is true that as a plantation company, we have been selling our product overseas for close on a hundred years but in those days we were simply producing rubber and selling it in bulk with very little marketing without any overall sales strategy (ibid)

He then further stressed:

> We need good marketing people who are capable of operating in an international environment where consumer preference and choice is the key issue in sales and marketing. In a similar way, in our overseas operations, we need internationally-minded executives to take up key posts in the running of these companies (ibid)

Knowing its weaknesses, SD embarked on various attempts to modernise its managerial capability, especially toward an internationally oriented culture. Included among the methods tried are; offering group scholarships to excellent students and staff to pursue study at regional and overseas universities; recruiting local and international professional managers to join the group; and restructuring its current business operation to be more effective in international ventures (Interview 3(A):1 June 2005). Despite these attempts, the group is still far from being considered changed (ibid).

Business Networking and Technological Capabilities

[7] H. E. Tunku Ahmad Yahya retired as CEO of Sime Darby in 1993 and was now holding a position as Deputy Chairman and Non-Executive Director of the group.

To cope with a diversified business activity, business networking is an important mechanism for a firm's growth (Chow et al., 1997). Networking with partners and other players in the industry may help a firm to acquire resources, market information and accessibility or business opportunity, domestically or internationally. Most businesses now rely on business alliances and networking as a strategy, and Sime Darby is no exception. With the group's diverse range of business activities, it was unlikely that the group could succeed without having assistance from other players.

With regard to this, close ties with PNB and EPF certainly benefited the group's expansion. The group's close links with government trust agencies have actually been a source of its ownership advantage. Widely known as the first multinational in the country, that Sime Darby enjoyed close links with the government cannot be denied. Because of its strategic value and status as a national company, it was given access to the right places, since any failure could have negative implications (Malaysian Business, 1 September 2003). Links with the Permodalan Nasional Berhad gave Sime Darby a remarkable advantage, of access to some investment opportunities to which other industrialists did not have access (Interview 3(A): 1 June 2005). In addition to these connections, SD's close links with the government can be seen since its early establishment, inviting top-management officials in the civil service with extensive experience to join the group as advisors or full-time employees. These included a former Minister of Finance (1959-1974), Tun Tan Siew Sin, as the first SD chairman from 1976-1988; a former Bank Negara governor (1962-1980), Tun Ismail Mohamed Ali[8] as the second chairman from 1988-1998; and a former Chief Secretary to the

[8] Tun Ismail had served the government in various capacities from 1946 – with the Embassy of Malaya to the United States of America to executive director of the World Bank. Subsequently, in 1962, he become governor of the Malaysian Central Bank and in 1978, Chairman of PNB

Government as the third chairman (1998-present) (Malaysian Business 16 October 2002; Annual Report, 2005).

Links with the government alone were not enough for the group's development, however. The second necessary sources of the group's connections were joint ventures with domestic and foreign partners. Because the technological sophistication of developing country MNCs is not sufficiently advanced, a developing country's firms need to accumulate technological capabilities from suitable foreign partners (Bell and Pavitt, 1997). In the case of SD, the group has been able to form joint ventures and learned from its established partners in their respective industries in order to accumulate technological competence (Interview 3(B): 27 April 2005). For instance, when the group decided to embark on entry into the petroleum industry, SD made an acquisition of 60% of C. E Crest Engineering (M) Company, which provided engineering and construction services to the petroleum industry. The group's expansion into agro-genetic engineering is another example; it decided to team up with a California company, International Plant Research Institute, which specialised in the research application of genetic technology to tropical crops (United Nations, 1985). A similar case was the group's decision to diversify into petroleum retailing, when it formed a joint partnership with the Houston-based Conoco Incorporation (Business Times, 6 December 2001). Table 8.6 shows some of the group's technology partners.

Table 8.6: Some of Sime Darby's Technology Partners

Foreign Partners	Country of Origin	Activity	Form of Contract
1. Aero-Green Technology	Singapore	Aeroponic Farming	Joint venture
1. Caterpillar	USA	Heavy Equipment Distribution	Joint venture
1. Caterpillar Financial Services Corporation 2. Diamond Lease and The Bank of Tokyo-Mitsubishi	USA Japan	Hire Purchase and Leasing	Joint venture
1. Sembcorp Engineering	Singapore	Oil and Gas	Joint venture
1. BMW 2. Ford 3. Mitsubishi 4. Alfa Romeo 5. Suzuki 6. Land-Rover	Germany USA Japan Italy Japan United Kingdom	Motor Franchises	Joint venture
1. Rengo	Japan	Packaging	Joint venture
1. Kansai Paints Co Ltd 2. W & J Leigh Co	Japan United Kingdom	Paint	Joint venture
1. Inax	Japan	Sanitaryware	Joint venture
1. B.F. Goodrich Philippines	Philippines	Rubber	Acquisition
1. Amston Equipment Pte Ltd	Singapore	Filter Presses	Acquisition
1. National Oil Services Company of Vietnam	Vietnam	Bituminous products and electrical control panels	Joint venture
1. Tesco Limited	United Kingdom	Retailing	Joint venture

Source: Interview 3(A): 1 June 2005; Sime Darby

An observed from the SD case, forming a joint partnership with established foreign counterparts enabled the group to learn and accumulate technological skills. The group then make an effort to add more value and modify the technology it had acquired to suit local conditions and needs (Interview 3(A): 1 June 2005). SD claims that gaining technological competence has enabled the group to expand its operations in foreign countries. During the interviews, one of its key executives stressed that:

> We plan to establish more joint ventures with other countries in the near future. This time, we want to sell the technology we have learnt from others in the past to emerging markets like Vietnam, China and other South-South countries (Interview 3(B): 27 April 2005)

For instance, Sime Tyres International, which has a plant in Alor Star, Kedah has established a RM100 million Sime Darby Tyre Technology Centre in collaboration with Sumitomo Rubber Industries of Japan. With such facilities, Sime Malaysia has the resources to improve and upgrade its technology and consequently set up tyre factories in countries like Vietnam and China. On a similar note, Vernon (1979) explained that firms in the more rapidly developing countries would produce innovations responding to special conditions of their economies, and later export to, or invest in other developing countries which were behind in their industrialisation. Syed Tamin, the Director of Malaysia Region clearly stressed this point:

> Today, besides exporting our products, our main aim would be to export our technology as well[9]

In sum, the domestic and international growth of SD was achieved through a mixture of the factors discussed above. With a strong business reputation and track record, the company has managed to grow from a single company offering a single product and service in one country into a strong and dynamic international group with a comprehensive range of business activities domestically and internationally. The business networks of the group come not only from its connection with the government, but also from joint ventures and alliances with foreign partners. The limitations of its internationalisation knowledge were compensated for by its relationship with various parties for the group's expansion. The next section analyses the group's internationalisation pattern and process and entry mode strategy.

[9] Interview by Anita Gabriel, a reporter of Business Times on 28 August 1995.

8.4 Analysis of Sime Darby Overseas Expansion: Internationalisation Pattern and Process, and Entry Mode Strategy

Conventionally, a firm becomes multinational by going through three stages: it begins as a domestic firm and through the normal process of development acquires technological, management and marketing capabilities to become a domestic leader. Limitation of the domestic market forces motivates the firm to begin to export abroad in order to increase revenue. Finally, when exports are threatened by tariff protection or competition, it uses its competitive advantage to produce the product abroad and is then involved in direct investment (United Nations, 1985; Johanson and Vahlne, 2003b)

Following this view, a closer look at the development of SD as a national MNC, reveals that the company was internationalised prior to its emergence as a Malaysian conglomerate. The group became a Malaysian MNC overnight through the acquisition of a British firm operating in the country. Sime Darby was a British-controlled corporation until the company's domicile was transferred from the United Kingdom to Malaysia in 1979. In line with the New Economic Policy (NEP) to increase Malay equity, the Malaysian government, after consulting investment bankers Rothschild and through its state trading arm Pernas, bought a number of Sime shares on the London Stock Market[10]. As explained by one of the senior executives of the group:

> The take-over of Sime Darby was the brainchild of the then Central Bank Governor Tun Ismail Mohamed Ali with the support of Tengku Razaleigh Hamzah, the Finance Minister during that time. They developed a dynamic strategy and investment model which no one else expected (Interview 3(A): 1 June 2005)

[10] The stock was listed on the London Stock Exchange until 15 November 1996.

Through the efforts of Tradewinds (M) Sendirian Berhad, a Pernas subsidiary, Sime's equity became Malaysian-owned in 1977. Prior to its establishment as a Malaysian MNC, SD had international business in several foreign countries, and this included having offices in London and Singapore to support its international trading operations.

The argument proposed here is that the techniques employed by the Malaysian government through its state agencies, which allowed them to go on a massive acquisition drive, signified a new era in the method of internationalisation and in any case went beyond the traditional theories of FDI as suggested by most scholars (see Chapter 2). The experience of SD presents an interesting and appealing alternative to companies attempting to become international by acquiring an existing MNC. The emergence of SD as a Malaysian MNC, however, supports the theory raised by Oviatt and McDougall that the firm was internationalised from its inception. Oviatt and McDougall (1994) argued that firms may not need to follow the steps of internationalisation. They may, instead, begin their international movement right from their inception. This theory stresses that such firms have ownership advantages prior to their establishment.

In its international expansion programme, although the group's expansion seemed to commence as an international trading company, especially in its commodity products, those trading businesses were expanded through the acquisition of firms in domestic and international markets. For instance, about two years after the coming home of the firm, SD acquired BF Goodrich Pilipinas in 1981, and started its tyre business with the setting up of Sime Darby International Tyre Company (SIDITCO), which also invested in rubber, coconut, cocoa and coffee plantations. SIDITCO in 1988 changed its name to Sime Darby Pilipinas Incorporated to reflect the company's growth from a pure tyre and tube manufacturing concern to a diversified company with tyre manufacturing, agriculture and agri-equipment businesses (United Nations, 1985). In the United Kingdom, the group bought Carboxyl Chemical Ltd, which manufactures metallic stearates, wires, lubricants and defoaments. In Australia, the acquisition of Surfactant Services Pty Limited, which converts vegetable and palm oil into biodegradable detergent compounds, represented an effort to move downstream into processing activities (ibid).

The international expansion of the SD group poses challenges to the internationalisation literature, which suggests that firms may minimise the risk of involvement when they first enter the international market and that, as the firm acquires more internationalisation knowledge and experience, it will assume a higher degree of involvement and resource commitment. However, the group's frequent use of equity participation through acquisition of firms operating in the country and abroad seems contradictory to that proposition. This contradiction may result from narrow assumptions about developing country firms which have been portrayed as small, having limited resources and lacking in management capabilities (Yeung, 1994). As the group manager for strategic planning explained: "through acquisition, we can speed up the business and operation processes such as acquiring technological expertise, deciding business strategy, and structuring the organisation" (Interview 3(C): 26 May 2005).

Joint venture with foreign partners is another alternative arrangement available for SD's participation in international expansion. In some countries, the group chose to set up joint ventures with local partners in the host countries, to the mutual benefit of both parties (Interview 3(C): 26 May 2005). When asked how the group decided on selecting its entry strategy, the executive remarked: "it varies and would depend on the business strategy and reasons for the group's expansion" (Interview 3(B): 27 April 2005)

There are many reasons for SD to expand internationally and choose a particular country to be the recipient of its investments. In general, these may be classified as 'push' or 'pull' factors such as finding new markets, diversifying risks, home government disincentives, higher returns on investment, cheap and abundant resources, overcoming import restrictions, competition to enter new markets and to exploit technological innovations and the production process better (Interview 3(A): 1 June 2005; Interview 3(C): 26 May 2005). As with these views, SD's international expansion was driven by its goal to seek growth constantly through entry into new markets abroad and to facilitate the export of products to another country, especially in other developing countries (Interview 3(B): 27 April 2005). This was the reason for the group setting up regional divisions in countries like Hong Kong, Singapore, the Philippines and Australia, to support its business. This is because the developing countries not only offered opportunities for growth but also shared some similar features with which the group were familiar (Interview 3(A): 1 June 2005).

Specifically, from the interviews, three primary reasons appear to be important reasons for SD to invest abroad. The first is to take advantage of market opportunities, that is, regionalising to tap markets and growing consumer demand in the region. The second is to diversify risks, and the third is related to motivations which invariably revolve around diversification to escape high costs, labour, and other resource constraints in Malaysia. An equally important factor is the familiarity of the countries where the investment is directed, in the sense of common or shared experiences in history, culture, economics and even politics. From the point of view of location strategy, familiarity with the country and closeness to Malaysia will be the main criteria. The senior executive pointed out that:

> The business that we are looking into will be related to what we are doing now. Even though we intend to become a global market player in the long term, we cannot lose sight of the region which offers the best opportunities at the moment (Interview 3(C): 26 May 2005)

Diversifying risk is also an important determinant of the choice of overseas location. SD emphasises that the very nature of its organisation is to diversify risk by having a spread of products or geographically located businesses (Interview 3(A): 1 June 2005). The diversification strategy has worked for the group, since it may be that one business is declining but that it will be compensated for by the other businesses. The group's strategy in its investment is to be a long term player and try to make business work in every economic condition. In some countries, the group's business strategy was to start in trading; this then provided a window on opportunities, enabling SD to identify both new businesses and partners for establishing joint ventures (Interview 3(B): 27 April 2005).

With regard to its long-term strategy, SD wants to strengthen its position in the Asian regional market, and then the next logical step for SD is to be truly global. For this, it has to aim at inclusion in the Fortune 500 companies and thus must strengthen its presence in the European Community and the North American markets (Interview 3 (A): 1 June 2005). Although it has set up subsidiaries, joint ventures and acquisitions in the United Kingdom and the United States, these are still inadequate. Moreover, it needs to be rather more aggressive about growing the business that it already has, as well as establishing new ones (ibid).

8.5 Conclusion and Implication of the Case Evidence

This chapter has discussed the domestic and international expansion of the Sime Darby group, one of the largest Malaysian multinational conglomerates. Being internationalised from its inception through the reverse takeover of foreign companies operating in the country, SD has been seen as a new model for the internationalisation process. The group's growth was achieved through a combination of its capacity as a diversified corporation. Its ownership advantages were derived from various internal and external sources, such as strong brand names, extensive marketing and support networks, strong financial standing, good management capabilities, international knowledge and experience, and business networks with various parties. SD's unique ties with the Malaysian government through its trust and state agencies helped the development of the group, and gave the group a formidable image of credibility and reliability. Its relationships with foreign partners in developing its technological capabilities also played a significant part in its domestic and international expansion.

SD is at the vanguard of Malaysia's thrust into the international arena as one of Asia's leading conglomerates. The Asia Pacific region is SD's stamping ground and its energy has largely been directed to this area, but ventures have also been made further afield for some of its investment, notably in the United States, United Kingdom, South Africa and Egypt. To Sime Darby's way of thinking, it has grown beyond the boundaries of the region and will continue to broaden its horizons in future investment. The group plans to grow using internal resources as well as to expand via acquisition.

Having recognised the need to adapt to the challenges of globalisation, the group has outlined the broad strategies that it believes are vital for it to compete effectively in the international arena (Interview 3(A): 1 June 2005; Sime, 2005). Among them are:

a. a renewed focus on core competencies. This extends beyond the rationalisation of business units to leveraging the group's underlying strengths to build market leadership,
b. aiming for continuous growth in synergistic, related businesses through horizontal and vertical integration
c. fostering a learning culture which encourages the sharing of knowledge across organisational boundaries and geographical divides.

SD's overall strategy is to maintain its reputation as Malaysia's leading and most geographically diverse conglomerate, focusing primarily on the growth of the Asia Pacific region through products and services of impeccable quality.

With regard to SD's future international expansion, the group has started to look at the Chinese market as a new potential destination. To make a start towards this development, in 2003, SD Hong Kong Limited was renamed SD China Limited and its regional headquarters relocated from Hong Kong to Beijing, China. The move was undertaken to represent the presence of the group better and capitalise on growing business opportunities in China. Furthermore, as part of its plans to diversify and expand its investments in the People's Republic of China (the PRC), the group acquired 33% of the equity of the China Water Company Limited (CWC) jointly from Temasek Capital (Pte) Limited from Singapore and Hongkong Land Limited. Through CWC, SD will be able to make inroads into the PRC, capitalising on the potential growth of business related to water resources (Interview 3(A): 1 June 2005). Currently, the group has 26 subsidiaries and associated companies operating in China (Sime, 2005). As stressed during the interview with a key executive, "Operations in newly-emerging economies such as Vietnam, Myanmar, and China will be new profit sources in the group's regional activities" (Interview 3(B): 27 April 2005).

From the experience of a third case company in this thesis, three primary insights can be drawn. First, the acquisition method used by the Malaysian Government to acquire MNCs tends to prove a new method of internationalisation pattern and process of firms. Second, although Sime Darby could be considered as an established and successful MNC, without the proper investment strategy and skills required for its diverse activities, SD would have faced difficulties in expansion and would ultimately have led to potential losses in their investments at home and abroad. Finally, on international expansion, the group should capitalise its knowledge on international business in order to regain its international prominence in a more aggressive manner in the near future.

CHAPTER NINE

REVIEW OF FINDINGS IN THE CONTEXT OF RESEARCH AIMS AND OBJECTIVES

9.0 Introduction

The study at the base of this thesis arose from the limitations found in the literature on developing country multinationals and the internationalisation process, in particular previous research on firms from Malaysia (see Chapters 1 and 5). Although the importance of study of the international expansion of developing country firms is well recognised, Malaysian multinational corporations in particular, have received little empirical attention. Current research has a strong bias towards selected firms from well-developed economies and the newly industrialised East Asian countries, and tends to under-represent firms from the rest of Southeast Asia, including Malaysia.

Fundamentally, it is generally recognised that Malaysia's outward direct investment activities have increased considerably in parallel with the movement toward market liberalisation and economic globalisation (Okposin et. al., 1999). However, unlike FDI into Malaysia, not much is known about the direction, magnitude, motives and performance of Malaysian firms' foreign direct investments overseas. Outward direct investment continues to be a salient feature in the study of the internationalisation process of firms. Indeed, as has been explained in Chapters 1 and 5, the rapid growth of the country's outward investment raised many interesting questions about the nature and theoretical implications of this relatively new and dynamic phenomenon. The main objective of this thesis was to explain the emergence and evolution of the international expansion of Malaysia-based corporations. The study examines these issues with an empirical exploration of the approach taken to internationalisation by three case study companies namely, Petronas, TM Berhad and Sime Darby Berhad. Although these Malaysia-based firms are still small compared to their counterparts from developed countries, relatively new to some industries, and mere fledglings in the international market, their emergent development in cross-border economic activities appears to justify a potential adjustment of the conventional perspective. Their presence and growth are pressing concerns among competitors in the domestic and international arenas. The present study was designed to explore the internationalisation pattern and process of Malaysia-based corporations, their motives for international growth; their entry modes and expansion strategies; where these firms obtained their initial competitive advantages, despite the liability of being based in a developing country; and how they developed new ownership advantages.

In order to explore the aim of this thesis and to explain the intricacies of this relatively new phenomenon of the international operations and activities of Malaysia-based firms, two specific empirical questions were discussed. The <u>first</u> is: *how to explain the internationalisation pattern and process of Malaysia-based multinational firms, the motives of international growth, the nature of their investment activities with regard to entry modes and expansion strategies?* The <u>second</u> is: *what are the (potential) sources of advantage of these corporations in growing their business domestically, and successfully expanding internationally, and how are these developing and progressing?*

The existing internationalisation and developing country literature lacks concrete and convincing answers to these questions. Therefore, a need was perceived to explore these contemporary issues in this thesis.

In this chapter, the findings of the preceding chapters (in Chapters 6-8) which resulted from the case studies are interpreted, compared, and analysed within the context of the key literature sources identified in Chapters 2 – 4. Based on the existing literature, a theoretical proposition was developed in this thesis (as explained in Chapter 5), which suggests that the international expansion of Malaysia-based firms is contingent upon several key dynamic aspects: internationalisation knowledge and experience, technological competencies, and business network connections with various parties. These are discussed and evaluated in relation to the three cases. In brief, internationalisation knowledge is knowledge of the firm's capability and resources for engaging in international operations. Experiential knowledge, on the other hand, refers to knowledge that firms accumulate by being active in the international market. Technological competencies are fundamental in increasing the ownership advantage of firms in a particular industry, and business networks are sets of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors (see Chapters 2 and 3). All these features could serve as (potential) sources of advantage to Malaysia-based corporations that can be applied across industries during their development either in domestic or international markets.

To begin with, section 9.1 discusses and compares the internationalisation pattern and process of the three selected cases of Malaysia-based multinational firms. Specific attention is given to the motives for the firms' international expansion and the nature of their investment activities. Section 9.2 compares the underlying (potential) sources of ownership advantage that contribute to the selected cases in their domestic growth and international expansion. Section 9.3 concludes the chapter.

9.1 Internationalisation Pattern and Process of Malaysia-based MNCs

A Brief Profile of the Three Selected Case Companies

Before this chapter proceeds with detailed explanations of the findings on the internationalisation pattern and process of Malaysia-based firms, and their (potential) ownership advantages, a review of some background information on the three selected cases is presented. These are among the biggest established corporations in the country. Petronas, for instance, is the major oil and gas corporation in Malaysia. Being established as a private-entity corporation and wholly-owned by the Malaysian government, Petronas has been given a mandate to manage the country's petroleum resources in the best interests of the nation and its people. TM Berhad on the other hand, is a pioneer and leading national telco. Holding a status as a Government-linked Corporation (GLC), TM has a gigantic presence in the domestic market through its fixed-line business activity, and is among the most active domestic telcos internationalising abroad. Finally, being recognised as a 'mother of conglomerates' in the country, Sime Darby, a Malaysian-government controlled company is among Malaysia's pioneer MNCs, with well-diversified business activities in the field of plantations, heavy equipment, property, motor, travel and tourism, healthcare, and energy. Table 9.1 summarises the profile of the three cases of Malaysia-based Corporations.

<u>Table 9.1</u>: <u>Case Assessment of the Malaysia-based Multinational Firms</u>

	Petroliam Nasional Berhad (Petronas)	TM Berhad	Sime Darby Group (SD)
Company Status	100% Government-owned Corporation (through Ministry of Finance Incorporated)	Government-linked Corporation (through Khazanah Holdings as its major shareholders)	Government-controlled Corporation (through Permdalan Nasional Berhad for Bumiputera Trust Fund as its major shareholders)
Industry	Oil and Gas	Telecommunications	Diversified
Ranking in Malaysia in term of Profit (2004/2005)	1 RM58,030 billion	2 RM3,172.8 million	3 RM1,574.1 million
Revenue as at financial year 2004/2005	RM137,046 billion	RM13,250.9 million	RM18,645.7 million
Number of Countries in which investments held	35 countries	11 countries	20 countries
Average Profit Contribution from International Investments	30%-40%	40%-50%	35%-40%

Among all the three Malaysian companies studied, Petronas was the fastest and the most aggressive in internationalising abroad, with a presence in 35 countries. This is followed by Sime Darby in 20 countries, and finally, TM Berhad, which has international investments in 11 countries. Briefly, in comparison, although SD was established much earlier than Petronas, its international movement was rather slower and less aggressive. This may perhaps be because of its business strategy and policy, which is perceived by investors as 'conservative' and too methodical. Furthermore, unlike Petronas and TM, Sime Darby's international expansion was more in the form of international trading business rather than foreign direct investment activity. The nature of the group's business operations, which cover property, plantations, heavy equipment and motor vehicle distribution, may not require the firm to be involved actively in FDI for most of its investments.

Following this brief recapitulation of the three selected cases, the next sub-section provides a detailed comparison of the three selected cases in terms of their internationalisation pattern and process.

(i) Comparison of the Three Cases: the Internationalisation Pattern and Process, and Market Selection for International Investment

The primary objective of this section in the thesis is to determine whether the international expansion of the three selected cases of Malaysia-based firms follows a similar pattern and process to that suggested by the existing developing country and internationalisation process literature. As was explained in Chapter 2, the internationalisation process of firms is generally conceived as a stepwise development which is evolutionary in process. According to internationalisation theory, the duration of international operations affects the development of knowledge and experience. In the process of accumulating learning, firms begin their international expansion with lower forms of market commitments, which occur in the following stages: no regular export activities, export via independent agents, creation of an offshore sales subsidiary and overseas production. A firm increases its commitment to a market incrementally as it learns about the markets that it is entering. In relation to this, firms are also expected to enter countries successively, in accordance with their resemblance to (psychic distance from) the home country. As was pointed out in

Chapter 2, firms may expand to nearby markets closer to home and than expand to countries with greater 'psychic distance' once the firms have upgraded their ownership advantage. Psychic distance has been defined as factors preventing or inhibiting the flow of information between businesses and markets, such as differences in the level of development between the home country and foreign market. It includes factors such as differences between the two countries in business language, culture, political systems, customs and legal systems, level of education or level of industrial development before exposure to other new foreign markets (Johanson and Valhne, 1977: 24). It was also postulated by Johanson and Valhne (1977) and Eriksson et al., (2000) that firms will only expand further to a new market when they have gained sufficient ownership advantages such as experiential knowledge about international markets.

Similarly, from the viewpoint of internationalisation process theory, developing country MNCs literature suggested that firms are expected to begin by first entering other developing country markets whose level of economic development is lower than that of the home country. One of the reasons frequently referred to in following this progression is that the ownership advantages of developing country MNCs were not based on some kind of innovational lead. As explained in Chapter 2, their technological capabilities and skills were only considered applicable and suitable to other developing countries whose conditions were similar to the home market. Developing country MNCs' competitive advantage lay in having products adapted to local conditions; in using local rather imported inputs; in conserving capital, for instance, by using imported second-hand machinery; and in employing labour-intensive rather than capital-intensive production methods (Ramamurti, 2004). Once this ownership advantage has been accumulated, only then will such a developing-country firm expand further to another developing country or to developed countries markets. Regarding entry mode strategy, developing country MNC literature proposed that these firms preferred to choose joint ventures with local or foreign partners rather than establishing wholly-owned subsidiaries. Among the reasons for selecting this entry strategy are: its lower risk and resource commitment, their lack of technological competence, and opportunities in the market abroad. Once developing country firms have accumulated sufficient experience, they may then choose a higher degree of entry involvement and resource commitment. As pointed out in Chapter 2, this is the conceptual basis for modelling entry modes as a continuum of increasing levels of resource commitment, risk exposure, control, and profit potential from export to wholly owned subsidiaries (Chu and Anderson, 1992).

Consistent with this argument, and based on the three cases, all firms began their expansion to nearby countries to minimise business risks, and further expanded as their internationalisation knowledge and experience broadened. The overseas investments of the three cases are directed towards neighbouring countries and/or ethnically related territories, whose level of development was similar to or even lower than that of Malaysia. These countries have become the most popular choice for international investment made by the three case firms. In the mid-1990s, Malaysian companies started to explore new locations, although only to a small extent. Based on the evidence of the three cases, they have gradually increased their presence in countries such as Japan, China, India, Laos, Cambodia, and the Middle East, as well as in the African continent as a new target site. These investments could reflect Malaysian exploration of the new international area. This, however, was done once they had accumulated sufficient ownership advantages such as internationalisation knowledge and experience and technological competence. The pattern and process of international investment activities made by these three cases is closely similar to the pattern of investment made by MNCs from developed countries where the FDI flows from countries with advanced economies to less economically-advanced countries, following the so-called 'flying geese' model, as explained in Chapter 4.

As explained in Chapter 4 and from the evidence of the three cases (in Chapters 6, 7, and 8), the international expansion of Malaysian corporations is a recent trend. Although SD and Petronas have been developing their international export experience since the 1970s, TM Berhad only began to internationalise in the 1990s. With regard to their first exposure in the international market, these corporations showed a strong preference for nearby geographical locations as their main target host countries. A sizeable portion of investment flows was sent to Southeast Asian countries, and particularly to various South-South cooperation countries. The most popular targets of investments by these three corporations were Thailand, Singapore, Indonesia, Vietnam, Myanmar, and the Philippines. Table 9.2 shows the host country of first FDI by each case company.

Table 9.2: The Host Country of First FDI

	Petroliam Nasional Berhad	**TM Berhad**	**Sime Darby Group**
Host Country of First FDI	Vietnam (1989)	Sri Lanka (1995)	Singapore (1970s)
First Export	Japan (1975)	none	Singapore (1970s)
Number of Subsequent Host Countries	35 countries	11 countries	20 countries
Overall Focus on International Investment Destination (FDI)	Regional, African Continent, Middle East	Regional	Regional

Petronas' first international foray was in Vietnam in 1989. It then moved further afield to the Middle East and other Muslim countries, then to the African continent, where they often shared a common colonial background, and lastly to the CIS (Commonwealth of Independent States) countries such as Turkmenistan. Likewise, TM Berhad's first exposure of international investment, in 1995, was in Sri Lanka, a developing country where the level of economic development is lower than in Malaysia. Next, TM gradually increased its investment portfolio into African countries, such as the Republic of Guinea and Ghana, and other developing countries. Similarly, SD's first international experience was in Singapore, a neighbour of Malaysia, followed by other countries such as the Philippines, Hong Kong, Australia and China. The main rationale behind this strategy is that, apart from some similarity in business culture and society, ownership advantages such as knowledge and experience in the international market, and technological competence are only applicable in developing countries whose economic conditions are lower than or closely similar to those of the home market. The internationalisation knowledge, experience and technologies used by TM Berhad for instance, in its international expansion, were a result of adaptation of existing technology used at home (Interview 2(E): 21 October 2004; see Chapter 7).

In addition to Southeast Asia, the three firms gradually increased their investment in other developing countries, and in fact companies such as Petronas and Sime Darby have directed part of their international investments to developed economies like the United States, United Kingdom, and European countries. Petronas, for example, started its export activities in foreign countries in 1975, when it began marketing its own crude with a first shipment of 358,000 barrels sent to Japan. Japan has become the country's largest LNG customer, taking up 61% of the total LNG exported. This is followed by South Korea with 22.9% and Taiwan with 11.8%. Detailed evidence for the geographical spread of Malaysia's outward investment was presented in Chapter 4, which showed that the ASEAN-4 countries, which consist of Singapore, Indonesia, Thailand and the Philippines, continue to be major recipients of investment from Malaysia by its multinationals. It also revealed Malaysia's investments in developed economies. However, such investments were exceptions rather than the norm; they were due to two primary factors, namely, they were opportunity-driven and strategic asset-seeking.

From in-depth interviews with key executives of the three selected cases, it is obvious that political stability is a major prerequisite in selecting the host countries for international investments (Interview 1(B): 15 September 2004; Interview 2(B): 11 October 2004; Interview 3(A): 1 June 2005). Other factors to be considered are: good infrastructure, availability of skilled labour, government efficiency, availability of advanced technologies and size and potential of the host country's market (ibid).

Concerning the sequence of international investment made by the three cases, findings from the case evidence show interesting results. As has been explained in Chapter 4, the international expansion of the three Malaysia-based corporations in many countries only occurred in the mid-1990s. Although companies like SD and Petronas had experience of international investment as early as the 1970s, activity during that period was more in international trading business rather than foreign direct investment. TM Berhad, for example, started venturing abroad from 1995. From the period of 1995 – 2000, TM rapidly expanded its operations in more than 10 countries. Similarly, Petronas' first direct investment was made in 1989, and since then, the group have expanded in more than 30 countries. SD also seriously looked for international expansion in the early 1990s and currently operate in 20 countries internationally. This rapid process of expansion made by all the three case companies was not incremental in nature but driven by industry- and firm-specific factors. A closer look at their strategy shows that, as explained earlier, they are ready to undertake some assertive and risky approaches such as management control with majority ownership and acquisitions in their investment. Although the pattern of international expansion made by the three Malaysia-based corporations followed the sequential model in their geographical spread (beginning closer to home), however in terms of international commitment and pattern of expansion, it can hardly be described as a sequential process, but is rather diverse and complex.

The internationalisation pattern and process, and market selection for international investments having been explained, the next section examines entry mode strategy for the three selected cases.

(ii) Comparison of the Three Cases: Entry Mode Strategy for International Investment

Entry mode strategy was among the key issues raised in this thesis. This is because selection of an appropriate entry mode and expansion strategy for a particular foreign market is one of the most critical decisions for a firm when choosing to internationalise (Terpstra and Sarathy, 1991; Baek, 2003). The purpose of this part is to determine whether the entry mode strategy of the three cases follows a sequential process as suggested by the developing country MNC literature.

Evidence from the three case studies showed that joint ventures with local partners in the host country were among the preferred entry strategies used for international operations. In most cases, the business partners were exclusively local businessmen or established domestic corporations in the respective host country. The selection of a joint venture as the main entry strategy was based on several main factors. Among them were government regulations, desire to detect market opportunities, market accessibility, acquiring new technologies, shared values, the purpose of a particular investment, the role of Malaysian firms in the joint-venture, and reducing business risk and other uncertainties. Entering the market in close partnership with local entrepreneurs thus frequently becomes a way for success as far as financing, marketing, and networking are concerned.

For example, given the Government of India's rules and regulations, which do not allow foreign firms to take up a 100% equity interest in any company in India, TMI used a local partner through the joint venture strategy to expand its operations in the country. Therefore, TMI in 2000 revisited its investment in India with a strategy where the group acquired the entire stake from Cingular Wireless, and simultaneously infused additional capital into IDEA Cellular. The consortium is structured as 60% (ST Telemedia) and 40% (TM International), and its three largest shareholders are Cingular Wireless, Tata Industries, and the Aditya Birla Group. In these joint ventures, the TM group will provide management expertise, and thus have *de facto* control of the company.

Likewise, in the case of Petronas, joint ventures with local partners in the host countries are important in order to reduce investment risks and uncertainties, such as political policy and conflict. The nature of Petronas' business, which is in the oil and gas industry, requires a huge amount of capital investment and the high risk of business ventures required the firm to find partners in most of its expansion. To reduce the business risks, the group's equity investment for its joint ventures varies from one project to another. For example, Petronas' equity participation in Myanmar was 40.9%, in Sudan for Block 1, 2 and 4 it was 30%, and in Indonesia (Jabung project) it was 45%. Moreover, the level of equity participation was also determined by the role played by the group in the joint venture i.e. as operator or manager of the project. In the case of SD, although its preferred entry mode was joint ventures and established it first a trading operation in foreign countries, the group sometimes used acquisition as its alternative strategy to speed up the operation process and business activity.

From the findings, although all three cases preferred to adopt joint ventures as an entry strategy, a clear trend was noted towards attaining majority ownership control or acquisition as entry strategy in some foreign investments. Among the firms, TMI and SD were the most stringent in this regard. On top of direct control via equity participation, TMI often negotiated for control over important positions in the joint ventures (Interview 1(B): 11 October 2004). Likewise, SD also preferred joint venture and acquisition in their international expansion. Petronas, on the other hand, prefers to become manager of a project rather than an operator (Interview 1(B): 15 September 2004). The approach adopted by Petronas, TM Berhad and SD on their entry strategy proved not to be consistent with the incremental entry mode strategy claimed in the developing country MNCs literature. Such literature describes the entry mode of developing country MNCs as incremental in nature; in high risk countries, developing-country firms are more likely to enter through the use of some form of export entry strategy than through the use of investment modes. The literature suggests that firms will only assertively expand their operations abroad once they have accumulated ownership advantages. Given the handicap of developing country MNCs in ownership advantages, this may limit their choices to low-risk forms of commitment in their international ventures, rather than being aggressively engaged in high resource commitment such as has been demonstrated in the Malaysian case companies. Table 9.3 summarises the entry mode strategies employed by the three selected cases.

Table 9.3: Entry Mode Strategies of the Selected Case Companies

	TM Berhad	**Petroliam Nasional Berhad**	**Sime Darby Group**
Preferred Entry Mode Strategy	Joint venture with management control	Joint venture, partnership	Acquisition and Joint venture operations
Control	High/moderate	High/moderate	High/Moderate
Commitment	High/moderate	High/moderate	High/Moderate

The comparison of the three cases in their internationalisation patterns and processes, their entry modes strategy and market selection having been explained, the motives for these firms to venture internationally will be discussed in the next part.

9.1.1 Motives for International Expansion of the Three Case Companies

The next issue to be explained which is considered to be important in the study of internationalisation is the motives for international investment by the three selected cases. According to Dunning (1993a), there are four primary motives for firms to invest abroad. These are: natural resource-seeking; market-seeking; efficiency-seeking; and strategic asset-seeking. The United Nations (1993) however, pointed out that efficiency-seeking FDI is the least common by developing country firms unless they are already extensively internationalised. Such investment is intended to maximise profits by minimising costs in such a way as to exploit fully the comparative advantage of the firm's operations in various host countries (Dunning and Narula, 1992).

Given the small-to-medium size nature of the Malaysian economy, the small size of its domestic market, stagnant growth, export experience, the need to secure critical raw materials to serve regional export markets, and the structural limits of the overall growth process are among the main reasons for firms to venture internationally. From the evidence of the three case studies, it is shown that the reasons for international expansion pursued by all three firms varied. Table 9.4 summarises the motives for international investments of the three case companies and an explanation follows.

Table 9.4: Motivation for International Expansion

	Petroliam Nasional Berhad	**TM Berhad**	**Sime Darby Group**
Motivation for International Expansion	Natural resource and strategic asset-seeking - petroleum reserves, market expansion, technological enhancement (Formula One, Fuel technology)	Slow-growing/Domestic saturated - increase market, share/penetration, react more quickly to business opportunities, growth region due to liberalisation of the industry	Market expansion, building direct relationships with local customers/serving clients Relationship based - to provide better support to customers/distribution networks Diversifying business risks

In the case of Petronas, for instance, consciousness of the depleting nature of oil and gas resources, and the limited size of domestic reserves were strong factors in driving the firm to access alternative resources abroad, hence for the firm to internationalise.

At the current rate of production, Malaysia's oil reserves are expected to last another 19 years, while the average life for gas reserves is 33 years. As the world demands for oil and gas keep on increasing, the need to seek for resources appeared to be a significant incentive for Petronas to move abroad. In addition to that, Petronas' expansion internationally was also driven by its motive to search for new technological development (see Chapter 6). In the case of TMI, the primary motive for its international ventures was that the domestic market for the telecommunications sector was already saturated and expansion abroad was deemed necessary. Given the liberalisation of the industry in some developing countries, the company expanded internationally to seek opportunities in new markets with lower penetration rates, and at the same time to increase its market shares. In contrast, for SD, which focuses most of its business activity on trading, expanding its business abroad was important in order to have direct access and have closer relationships with local customers in the host countries. It also enhanced the group's advantage by enabling it to provide better support for its products and services. Given the nature of its business as a diversified conglomerate, expanding internationally would also help in reducing the risk of its businesses.

The next part discusses the second question raised in this thesis: the (potential) sources of advantage of the three case companies in growing their business domestically, and successfully expanding internationally, and how these are developing and progressing.

9.2 Sources of Ownership Advantages of Malaysia-based Corporations

This section analyses the available information from the empirical study of three Malaysia-based MNCs to access the nature and source of the monopolistic advantages that they possess. As was pointed out in Chapter 2, the 'first wave' of developing country MNC literature suggests that the ownership advantage of developing country firms was not based on some kind of innovational lead. It was based on lower costs of production, more labour-intensive technology, and a smaller scale of investment (Lecraw, 1981; Wells, 1983b). The 'second wave' of the literature has extended the characteristics of the developing country MNCs as proposed by the 'first wave' scholars and it appears that the ownership advantages have changed considerably (Dunning et. al. 1997; van Hoesel, 1999). The result is more dynamic and contemporary. It is believed that developing country firms have been able to develop sustainable ownership advantages that allow them to compete internationally through a 'learning-by-doing' technology accumulation process. The central argument of scholars stressed technological capabilities in explaining the development of developing country MNCs. Although it appears that both views of the literature would enrich understanding and provide insights into the phenomenon studied, the literature was perceived as being too limited in explaining this complex process, static in nature and too deterministic to describe the diversity of how developing country multinationals emerge and grow in both the domestic and international market. Firms do not always start with occasional exports and end up with a production company abroad. It appears that the studies of developing country MNCs tend to explain the concrete contexts of their operations on the basis of production activities in a particular industry. Instead, some studies are theoretical, relying on 'pseudoconcrete' analysis such as the 'push and pull' factors framework. Few succeed in explaining how the developing country multinationals have actually internationalised. Existing studies fail to identify and explain the causal link between their explanations and firms' operations. Apart from technological competence, the international expansion of these firms has been drawn from a number of other factors such as internationalisation knowledge and experience, and also their business networking with other players in the industry. Evidence of this was found in all three cases in the study. This will be discussed next.

Internationalisation Knowledge and Experience

In this thesis, 'internationalisation knowledge' refers to the knowledge of the firm's capability and resources for engaging in international operations. Experiential knowledge, on the other hand, refers to knowledge that firms accumulate by being active in the international market. Firms start operations in domestic markets, accumulate knowledge and experience in this market and, thereafter, enter international markets. The growth of the three Malaysian MNCs revealed that they accumulated adequate knowledge and experience in the domestic market before expanding abroad. Petronas was established in 1974 and its first foray abroad was in 1989 after 15 years of accumulating experience in the domestic market. Petronas' monopolistic position in the oil and gas industry enabled the group to accumulate industry knowledge and experience. Similarly, TMI's first international expansion was after 49 years of experience in the Malaysian telecommunications industry. In contrast, SD was internationalised even prior to Malaysian independence in 1957. It became a Malaysian entity through acquisition of the company by the Malaysian

Government in 1977. The group's long presence doing business in the country and consequent knowledge of the domestic and regional markets has been an advantage for its international expansion.

Based on these criteria, all three case companies claimed that their experience of doing business in Malaysia, which is similar to other developing countries, allowed them to understand the needs of developing markets. Their close similarities helped reduce the business risks these firms might have faced operating in foreign countries, hence allowing them to adopt a more aggressive strategy in their international expansion. Table 9.5 summarises the knowledge and experience development process of the three cases in their international expansion.

Table 9.5: Internationalisation Knowledge and Experience

	Petroliam Nasional Berhad	TM Berhad	Sime Darby Group
Domestic Knowledge and Experience	**Year of Establishment** 1974	**Year of Establishment** 1946	**Year of Establishment** 1910
Internationalisation Knowledge and Experience	**First International Venture** 1989	**First International Venture** 1995	**First International Venture** 1990s
Gap From Domestic Experience	15 years	49 years	+/- 80 years

Apart from internationalisation knowledge and experience, technological competence is another source of ownership advantage for the firms in their domestic and international expansion. The next part looks at how technological competence played a crucial role in the internationalisation expansion process of the three selected cases.

Technological Competence

As explained in Chapter 2, the technological capability of developing country MNCs is developed by acquisition, adaptation and industrial learning. From the case evidence, learning from the foreign partners was a major source of accumulating a firm's technological competence. As shown in Chapters 6-8, the firms formed joint relationships with established leading MNCs in their respective industries to develop their own technological capabilities. These companies engaged in very active efforts to assimilate and adapt imported technologies. For instance, the technology partners of Petronas included companies such as Shell, Exxon-Mobil, British-Petroleum, and Dow Chemical. The selection of partners is based on various factors and among them is the strength of the partner in its technological capability and managerial know-how. For example, when Petronas embarked on its strategy to search for oil and gas resources in ultra-deep water, the group sought to find leading corporations such as Shell and Exxon-Mobil to become their technological partners. As indicated during the interview with one key executive of Petronas: "forming joint ventures with leading oil and gas companies in specialised fields no doubt enhanced the group's technological capabilities" (Interview 1(B): 15 September 2004).

Although TM Berhad prides itself on being a pioneering telco in Malaysia, the group acquired its technology from its foreign counterparts during its early establishment. As the firm grew, it purchased and acquired its technology equipment from established foreign suppliers such as Ericsson, NEC, Philips and AT&T. These partnerships with suppliers were no doubt important in enhancing the company's technological capabilities. Similarly, Sime Darby included among its international trading partners: Ford, BMW, Land-Rover, Mitsubishi, Alfa Romeo in motor vehicles; Caterpillar in heavy equipment; Agro-Green Technology in farming; Tesco in hypermarket operations; Conoco in petroleum products; and the Kansai Paint Company in paints. Table 9.6 illustrates the forms of technological competence of the three cases.

Table 9.6: Forms of Technological Competence for the Three Cases

	Petroliam Nasional Berhad	TM Berhad	Sime Darby Group
Form of Technological Competence	**Domestic Market** More sophisticated engineering practices **International Market** More sophisticated/advanced technological skill and needs of coordination e.g.. deep-water exploration	**Domestic Market** Toward more sophisticated technology i.e. 3rd Generation System **International Market** Basic telecommunication networks	**Domestic Market** Moderate sophisticated production/processing technological skill **International Market** Moderate sophisticated production/processing technological skill

Business Networks

Apart from the internationalisation knowledge and experience, and technological competence, the findings from the three cases also show that business networks played a crucial part in the domestic growth and internationalisation process. The firms rely on their business network connection with many parties in the industry. In particular, these firms tend to interact with three levels of business networks, as follows:

a. Business Networks with Foreign Partners

The findings highlight how two groups of foreign partners contributed to the emergence and expansion of Malaysia-based corporations. The first was that of foreign partners who played a leading role as technology providers; this role has already been explained above. The second group were foreign partners based in the host countries who provided information on local markets, business opportunities and political connections.

Foreign partners assisted the development of Malaysian corporations in terms of providing local market information, assistance with regulatory procedures, business and political connections. The three case firms were able to compensate for their lack of knowledge of business operation in host countries by selecting reliable partners who were well connected locally. TMI, for example, teamed up with A.K Khan Group, a leading Bangladeshi business group to form TM International (Bangladesh) Limited (TMIB). The former holds a 70% stake in this joint venture while the latter holds the remaining 30%. In Thailand, TMI's principal partner in Samart is the Vilailuck family, one of the country's successful entrepreneurs, with a 48.73% shareholding in the company. In the case of Petronas, most of the group's partners in its international ventures are with the respective Governments or the National Oil Companies in those countries. Among Petronas' joint partners are the Cameroon Government, the Chad Government, the Pakistan Government, the Indian Oil Corporation Limited, the Indonesia Nasional Oil Company Pertamina, and the China National Petroleum Company. The partner would compensate for lack of knowledge and experience faced by the three firms studied in their international ventures.

b. Business Networks with Home and Host Governments

It was previously said in Chapter 4, that among the common characteristics of the Malaysia-based corporations is that the Malaysian government and the Malay capitalist or professional bureaucrats groups own these firms. The second types of influential domestic firms that are also important in the country are corporations owned by Chinese business families. However, as explained in Chapter 5 of this thesis, due to the limited accessibility and unwillingness of the latter group of corporations to participate in this study, the research focuses only on the former group of companies.

The commitment to create a productive pattern of Malay capitalist development in the business sector was one of the challenges set out in the New Economic Policy (NEP). Chapter 4 has already pointed out that the emergence of some leading Malaysian MNCs such as Sime Darby was a result of the NEP's policy to reinforce Malay control in the corporate sector. Central to the execution of this task is the government: both taking direct control, and as the regulator of patterns of private economic investment. As expounded by Porter (1990:657), government strategy has many influences on the ways firms are created, organised, and managed. In connection with these roles, and as evidence from the case study in this thesis, the Malaysian Government has interests in all three case firms. There is no doubt that their growth is a combination of political will and objectives interfaced with corporate strategy.

As explained in Chapter 5, Petronas is a wholly-owned government corporation. TM Berhad and Sime Darby, on the other hand, are private corporations in which the government has direct and indirect access and interests. In order to increase Malays' ownership in the business sector, the Malaysian government through its trust and state agencies holds a majority share in TM and Sime Darby. Malay professionals group and some bureaucrats have been given the opportunity to manage the organisations (see details in Chapters 4, 6, 7, and 8). Moreover, 85% - 90% of the workforce in the case companies under study is managed by ethnic Malays. As pointed out in Chapter 4, this is in line with the New Economic Policy to develop and groom this group for the business sector.

The three Malaysian firms realise that having close ties with the government is crucial to their business operations. From the experience of these three case companies, links with the Malaysian government benefited the firms' development in terms of access to valuable business information, priority in government tenders and contracts, privileged access to foreign countries based on their expertise, and even protection of the industry from other competitors. For example, prior to its privatisation and market liberalisation, TM Berhad was given monopoly status to operate as the national telecommunication company in Malaysia. Entry to the telecommunication industry was controlled until the 1980s. TM was the first and the only licensee until 1987. Although the Malaysian Government finally liberalised the industry, TM remains the largest telco, controlling approximately 97% of fixed-line service (see Chapter 7). Similarly, Petronas was given monopoly status to operate the oil and gas business in the country. The advantage thus gained by the firm would enhance its position in the domestic market in that it would not receive much competition from others in the same industry. Sime Darby has a similar advantage. Having PNB as its main shareholder, SD is said to have access to the right places for government projects

(Malaysian Business, 1 September 2003, see also Chapter 8). Although this relationship has become a powerful advantage for the three case companies, as stressed by most of the key respondents in the respective firms during interviews, the ties with government might have been important during their early establishment (Interview 1 (C): 11 October 2004; Interview 2(C): 1 October 2004; Interview 3(B): 27 April 2005). The subsequent growth of Petronas, TM Berhad and Sime Darby especially in the international market had been stimulated by their own capabilities and skills in managing the organisation.

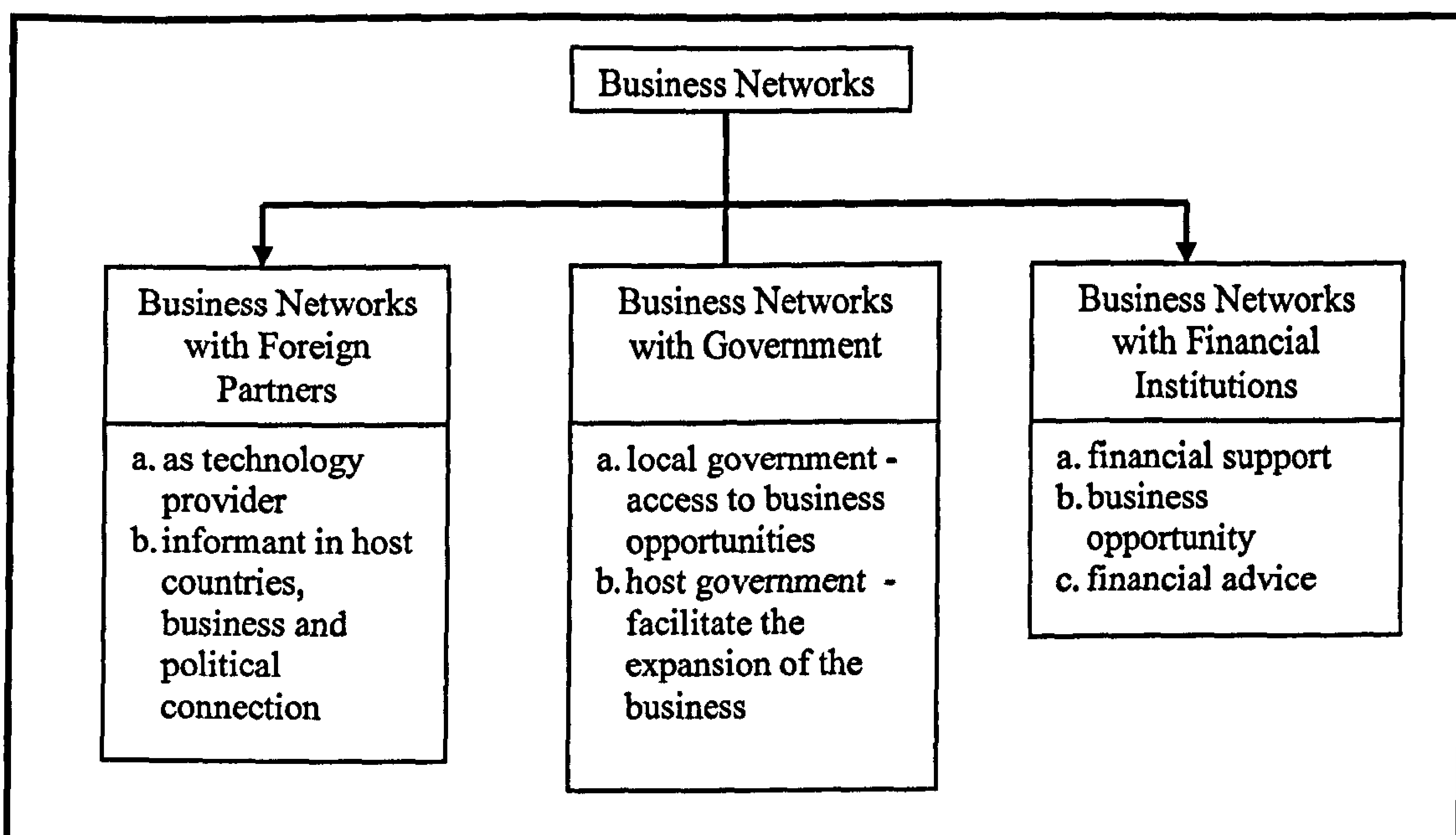
Apart from having close ties with home government, all three case companies also realised that having good relationships with host governments has helped to facilitate their business expansion process. Petronas, for instance, sought host government support in most of its ventures through inviting the host government or its national oil companies to participate in the venture. Similarly, TM Berhad invited Government-owned companies to participate when investing in Malawi. The group formed a joint-venture company with the Government-owned Malawi Telecommunications Limited (MTL) in 1996 to form Telekom Networks Malawi Limited (TNM).

The next part looks at the third type of business network connection which also seems to be crucial towards the firms' development.

c. Business Networks with Local Financial Institutions

Connection with local financial institutions also played an important role in the development and growth of the three selected cases. Apart from providing financial support in their expansion process, these relationships assisted all the case companies in obtaining market information, loan advice, and business opportunities. Evidence of this was seen during the interviews with all three case companies' key executives. They emphasised that having a good relationship and connection with local and foreign financial institutions helped business expansion (see Chapters 6, 7 and 8). Figure 9.1 summarises the role of each type of business network for all three case companies, before we proceed with an explanation of other sources of ownership advantages for the Malaysian case companies.

Figure 9.1: Business Networking for the three Malaysian Case Firms



Firm's Specific Competitive Advantages: Brand Recognition and Quality of Products and Services

Another type of ownership advantage that helps account for the growth of the three cases in the domestic and international market is brand name recognition and the quality of their products and services. The ambition to develop well-known brand names is part of a strategy to create differentiation among standard products. Petronas, for example, has positioned its brand name not only in the home market but also in the international arena. The involvement of the group in high technology Formula One Grand Prix Racing under the Sauber-Petronas joint partners has brought the significant advantage of promoting the Petronas brand name internationally. Moreover, having its headquarters in the Petronas Twin Towers, among the tallest buildings in the world, enables the group to reap the benefit of being known internationally. Similarly, TM Berhad promotes its brand name through sponsorship and organisation of an annual bicycle race, Le Tour De Langkawi in Malaysia. Through this sponsorship, the firm gains worldwide media coverage from the high profile event, which has further enhanced its brand. A good brand will normally come with a high quality standard of product and services. For instance, SD is the only company in Malaysia having an exclusive distributorship franchise for most motor vehicle brands such as Ford, Land-Rover, Porsche and Fiat. Through these recognisable brand names, SD has managed to differentiate its products and services through the creation of brand image.

In sum, the competitive advantage of the three selected cases is derived from a variety of sources, including the internationalisation knowledge and experience, technological competence and business networks connections. Table 9.7 summarises the sources of ownership advantage for the three cases.

Table 9.7: Source of Ownership Advantages for the Three Selected Cases

Company	Ownership Advantage (Domestic Market)	Ownership Advantage (International Market)
Petroliam Nasional Berhad	**Industry Specific:** - Strong brand names - Strong network distribution - Monopoly status (via PDA) - Industry knowledge and experience - Technological competence **Firm Networks:** - Direct ties with Government - Financial institutions	**Industry Specific:** - Internationalisation knowledge and experience - Technological competence **Firm Networks:** - Host Government connection - Other players in the industry
TM Berhad	**Industry Specific:** - Strong brand name - Pioneer position in the Industry - Dominant market position - Industry knowledge **Firm Networks:** - Government network - Financial institutions	**Industry Specific:** - Internationalisation knowledge and experience - Technological competence **Firm Networks:** - Host Government connection - Other players in the industry
Sime Darby Group	**Industry Specific:** - Strong brand names - Sole distributor - Quality products and services - Synergy strength as diversified company - Good marketing and distribution channels **Firm Networks:** - Government network	**Industry Specific:** - Understanding knowledge and need of developing market **Firm Networks:** - Other players in the industry

9.2.1 Comparison of the Case Companies: Internationalisation Knowledge and Experience, Technological Competence and Business Network Connections

This thesis has underlined the fact that the main ownership advantages for the three cases of Malaysian firms in their domestic growth and international expansion derived from various sources of advantage including internationalisation knowledge and experience, technological competence, and business network connections with various parties. Although these types of advantage have enhanced the three firms' competitiveness in their specific industries, other sources of advantage such as brand name recognition and quality of products and services are also important to the development of the firms. Table 9.8 summarises the comparison of the three selected cases. It is important to note that this table is based merely on the findings of the case studies and is not based on any absolute definitive or quantitative measures. It is a simply a schematic outline of the points of comparison between three case firms on their internationalisation knowledge and experience, technological competence, and business network connections, which is based on the case study evidence on their domestic growth and international expansion. Each firm's operations are divided into two sections: its domestic operation and international expansion. Three levels of significance are used as benchmarks in comparing the case studies. First, the ownership advantage is considered to be of 'high' significance when it is extremely critical to the firm's development and the firm would face major problems without having it. Second, if it is partly relevant, then it can be considered as of 'medium' significance. Third, when the significance of the contribution towards firm development is limited or slight, then a 'low' level of significance is indicated.

Table 9.8: Overview of Ownership Advantages of the Three Cases: A Comparison

	Development of the Three Case Studies of Malaysian Corporations					
Ownership Advantages	**Petronas**		**Telekom Malaysia**		**Sime Darby**	
	Domestic	International	Domestic	International	Domestic	International
Knowledge and Experience	High	High	High	High	High	High/ Medium
Technological Competence	High	High	High	Medium	Medium	Medium
Business Networks with						
a. Foreign Parties	High	High	High	High	High	High
b. Government	High	High/ Medium	High	High/ Medium	High	Medium/ Low
c. Financial Institutions	High	High	High	High	High	High

A closer look at the table of the ownership advantages of the three cases studied shows that knowledge and experience in the domestic and international market played a crucial role for each firm in its domestic and international expansion. Given that the companies in the study are among the leading players in their particular industries in the domestic market, and have always experienced much competition from other players, they need constantly to develop their knowledge and experience to compete with competitors. As in the domestic market, knowledge and experience is also crucial in their expansion. As competing abroad is different from operating in the domestic market, internationalisation knowledge and experience is important. However, for SD, as its business operations internationally focus merely on its international trading activity, its internationalisation knowledge and experience may therefore be considered as of high/medium significance depending on the investments.

The significance of technological competence as a main ownership advantage for the three cases studied varies from one to another. In the case of Petronas, the nature of its business required the firm to rely heavily on its technological capability in its domestic and international expansion. On the other hand, for TM Berhad, since its international expansion focused on countries whose level of economic development was lower that of than Malaysia, then the significance of technological competence is at a medium level. Closely similar to TM Berhad is SD where technological competence is also of medium significance, because the nature of SD's business does not require the group to be a technological innovator.

Finally, the continuous significance of business networks implies that the three Malaysian corporations relied on their business relationship with foreign partners, government and financial institutions in their growth and expansion in the domestic and international market. In the domestic market, all these three types of business networks were highly significant in the growth of the firms. In the expansion of the firm internationally, however, relationship with the host government varied between companies. In sum, in view of the fact that the companies selected in this study are among the most successful firms in Malaysia in their fields, it can be safely assumed that these findings may apply only to a limited number of firms.

9.3 Conclusion

The purpose of this chapter was to review the findings of this study in the context of the research aims and objectives. In so doing, the chapter has compared and contrasted the experience of the three cases of Malaysian firms with regard to the two main research questions raised in this study; first, the internationalisation pattern and process, motives of international growth, and the nature of their investment activities with regard to entry modes and expansion strategies; and second, the firms' sources of ownership advantages in growing their business domestically and successfully expanding internationally.

The assessment of the three cases confirms that the findings support the theoretical proposition developed in Chapter 5, that firms rely heavily on internationalisation knowledge and experience, technological competence and business network connections in order to grow in the domestic market and move aggressively in the international arena. With the combination of these advantages, firms could speed up their expansion within a short period of time and enhance their positions in their respective industries. This challenges the prevailing misleading stereotypes in the internationalisation process and developing country literature, which suggest that firms from developing countries are weak and slow in their development process, and that lack of strong proprietary technological advantages limits their growth in domestic and international markets.

Finally, the next chapter presents the conclusion of the study.

CHAPTER TEN

CONCLUSION

10.0 Introduction

Following the findings presented in Chapter 9, this chapter presents the overall conclusion of this thesis. After an interpretation of the research findings in section 10.1, section 10.2 explains the contribution to knowledge of the thesis. Strengths, limitations, and recommendations for future study are discussed in section 10.3. Finally, section 10.4 brings this thesis to an end by bringing all the study elements together, with discussions for the future direction of Malaysian outward direct investment, by focusing on the implications of the research for Malaysia-based multinationals and policy-makers.

10.1 The Internationalisation Process of Firms from a Developing Country: Empirical Study of Malaysia-based Firms - An Interpretation of the Findings

One significant change in the direction of international investment since the 1980s has been the growth of overseas investment by firms from developing countries. For researchers into MNCs, the emergence of developing country MNCs raises such questions as: how well do traditional theories explain the rise of these firms internationally? On what are their competitive advantages are based? How are they progressing? Although there has been a corpus of theoretical and empirical study of this new and dynamic phenomenon, little is known about outward investments made by Malaysian firms – which has become noticeable since the early 1990s. Driven by the lack of research interest in the international expansion of Malaysia-based firms, and dissatisfaction with the existing literature on developing country MNCs, which assumed a general homogeneity of strategy and structure across firms, the author of this thesis sought to address issues not covered in the existing literature. This thesis is an attempt to explore the underlying dimensions of competitive advantage for Malaysia-based firms, and reflect upon what can be learned from these corporations.

In this respect, the thesis has posed two specific empirical questions. The first was: how to explain the internationalisation pattern and process of Malaysia-based multinational firms, their motives for international growth, and the nature of their investment activities with regard to entry modes and expansion strategies. The second was: what are the (potential) sources of advantages of these corporations in growing their business domestically, and successfully expanding internationally, and how are these developing and progressing? Because the objective of this study is to contribute to the growing body of literature in explaining the emergence and evolution of Malaysia-based firms, and how they internationalise, it has been predominantly concerned with the factors and forces that lay behind the international expansion of the three case companies and not necessarily their business performance in overseas markets. Furthermore, to investigate their business performance activities would be beyond the scope of this study as most of their operations and investments are still in the early stages of development. Lack of relevant information limited the scope of research.

As indicated in the introduction chapter, in contrast with multinationals from the Newly Industrialised Countries (NICs) which were dominated by Chinese family business corporations, the multinational firms from Malaysia emerged from the nationalisation programme in which the Malaysian government acquired foreign firms operating in the country (see also Chapter 4). Building on the New Economic Policy (NEP) to increase the level of Malay corporate ownership, the development of its corporations was part of the national and political agenda to change Malaysia's business community, and supported the development and growth of the 'Malay *bumiputera* business' class alongside the long-established Chinese business group. Political connections with the government continue to be a key factor in determining who is selected to run the newly created organisations (Bowie, 1994). At the time of this empirical study, the corporations studied, namely Petronas, TM Berhad and Sime Darby Berhad are still directly under the control of the Malaysian Government either directly or indirectly. Although these organisations have adopted a professional management structure and are run strictly as corporate entities under normal prescribed corporate governance rules, the government still retains majority ownership through various trusts and state agencies. This conforms to the idea that the Malaysian government uses its political power as a means to ensure the growth of corporations from the Malay ethnic group. The majority of these corporations are leading players in their respective industries, have successfully conquered the domestic market, and are seeking new projects and challenges abroad. Although these firms are relatively new to the international arena, they have performed well in their international activities, despite constrained resources (UNCTAD, 1993). For that reason, an understanding of how these firms developed their business strategies and what constitutes ownership advantage in growing domestically and expanding internationally has been explored. When moving internationally, firms need to rely on many sources of ownership advantage. Apart from the 'conventional' success factors of firm-specific ownership advantages such as product differentiation, economies of scale, quality of services and success in developing a good brand name, the emergence of these corporations has been overwhelmingly attributed to a successful development of their internationalisation knowledge and experience, their technological competence, and building-up business network relationships with various parties. As evidence from the case chapters 6, 7 and 8, the experience of the three selected cases showed that their domestic and international expansion was equally dependent on these three primary mechanisms.

To investigate the issue in greater detail, the published data of Malaysia outward investments from the Central Bank of Malaysia and Department of Statistics were insufficient and this has imposed certain constraints on the present study in explaining the dynamics and contemporary issues of the international expansion of firms from Malaysia. As was indicated in the discussion of the outward investment analysis in Chapter 4, data with regard to Malaysian investment abroad are very scarce. Although the information available has helped in shedding some light on the geographical spread, sectoral distribution and magnitude of Malaysian overseas investment, it is still unable to explain in detail how these firms reached their current position and the mechanisms that led the Malaysian firms in their internationalisation attempts. As a result, the opportunity for measuring the firm-level determinants of outward investment was limited. In addition to the dearth of reliable data, there is no strict consistency and comparability between studies and data sources. The subject remains silent and unexplored. For this reason, the study in this thesis has adopted a case study research methodology to explore the emergence and international expansion of Malaysia-based firms further, namely Petronas, TM Berhad and Sime Darby Berhad.

According to Eisenhardt (1989) and Yin (1989), a case study offers the best prospect for advancing knowledge about organisational development process. Data were obtained from in-depth interviews with several key management executives from the three selected companies, ranging from directors and chief executive directors/officers to the managers of the organisations. Interviews are important and were the primary source of evidence in this study since most of them were conducted to explain the firms' behaviour and development. However, to strengthen and verify the findings, and overcome problems of the biased perceptions of the key executives interviewed, other sources of information such as company annual reports, brochures, magazines, newspapers and other related information were used to triangulate the information gained. With data triangulation, information from multiple sources can be incorporated into similar lines of inquiry for mutual corroboration (see Paton 1987).

An interpretation of the results on the internationalisation pattern and process of the three case studies provides several interesting insights. The findings highlight the importance of internationalisation knowledge and experience, technological competence, and business network connections as dynamic sources of ownership advantage enabling firms to internationalise. The cases also make a substantial contribution to the debate surrounding entry mode strategy and commitment in international markets. First of all, although there is a systematic trend of firms when choosing countries as investment sites to enter other developing countries where economic conditions are much lower than those of the home country, they did not necessarily enter psychically close countries first, and then expand to psychically distant ones following the conventional sequential stages. From the evidence of these three cases, it appeared that their preferred countries for investment could include even the countries with greater psychic distance. In fact, some of their investments were also in countries with highly political and economic risks e.g. under United States embargo.

Second, an examination of the three cases shows that the internationalisation pattern and process of these firms was not consistent with the incremental progression of international expansion as suggested by the internationalisation process and developing country literatures. The literature has suggested that firms have to accumulate their internationalisation knowledge and technological skills along the way of expansion. This process takes some time and progresses in a gradual manner from one stage to another. The finding from the case companies proved otherwise. Their extensive and rapid international expansion was even overenthusiastic and increased simultaneously within a short period of time. The time gap between the first international expansion and its subsequent progression abroad was short. The firms seem to have leapfrogged the stages of accumulation process. For instance, between 1990-2005, Petronas had foreign direct investment in 35 countries worldwide. Similarly, TM Berhad and Sime Darby had presence in 11 and 20 countries respectively in a short period of time. This was a result of the opportunistic attempts made by Malaysian firms to seek new markets abroad and enhance bilateral trade relations between Asian countries.

Third, evidence on entry-mode choice is interesting. The choice of majority control modes (joint ventures with majority control and acquisitions) as the preferred modes of choice for entry strategy reveals that these corporations were prepared to undertake substantial investments, with high risk and resource commitments. This is not consistent with expectations based on internationalisation theory, which tends to see resource commitment expanding to foreign markets on a gradual basis and being incremental in nature. Rather, the international expansion of Malaysia-based firms has been an extremely rapid and aggressive process. The majority joint venture with management control and acquisition of companies is the norm for these firms in their international expansion.

Fourth, the findings reveal that internationalisation knowledge and technological competence are crucial sources of advantage for firms in internationalising. However, lack of these advantages for Malaysia-based MNCs does not limit their international expansion. From the case studies, they have overcome disadvantages in these respects through business network connections with local and foreign technology partners. This relationship has enabled these firms to enhance their competitiveness by continuous learning of international knowledge, knowledge transition, technology acquisition, and gaining of experience. Links with foreign partners in the respective industries have enabled firms to enhance their firm-specific advantages and assist their growth domestically and internationally. To compensate for lack of advanced technology, building-up business network connections has been seen as an additional dynamic source of advantage for the three case companies.

The findings having been interpreted, the next section explains the contribution of this thesis.

10.2 Contribution to Knowledge of this Thesis

This research contributed to an understanding of how the internationalisation process of Malaysia-based firms has taken place and what are the (potential) sources of advantages for these corporations in strengthening their position domestically and in terms of international business expansion. The primary objective of this study was to provide new insights into the research agenda of competitive advantage and business strategy for multinational corporations specifically in Malaysia and to developing countries generally. For that reason, it is hoped that this thesis will partially bridge the empirical gap in the present literature of multinational corporations from developing countries. The specific contributions of this thesis could be described as follows:

The first contribution of this thesis is towards the body of knowledge of developing-country multinationals literature. The study challenges previous works on developing-country MNCs and internationalisation process literature, which tend to assume that firms from developing countries need to accumulate sufficient internationalisation knowledge and experience, and also technological competence prior to internationalising abroad. This thesis illustrates a different process. From the three cases, firms may leapfrog these stages by building-up successful business networks with various parties in order to grow domestically and expand internationally. The thesis has shown that firms' business and social relationships are important to explain their international engagement in certain industry contexts.

The second contribution is derived from knowledge-based theory to explain the internationalisation process of firms. This research emphasises a change from the 'conventional basis' of success factors of ownership advantage, i.e. scale, scope and differentiation for firms to internationalise in favour of knowledge creation and learning by experience in a dynamic environment characterised by diverse competitive pressures as sources of ownership advantage. In such an environment, the expansion of the three companies resulted from their understanding of core organisational capabilities.

The third contribution concerns new empirical evidence that the study has discovered. As explained in an introductory chapter, most of the studies on developing country MNCs were based in Asian Newly Industrialised Countries (NICs) such as Taiwan, Hong Kong, Singapore, and South Korea. Little work has been done on outward foreign investment by other developing countries such as Malaysia. Previous works tend to display a bias in their explanations, which imply that the representation of MNCs from a developing country came from only one location - Newly Industrialised Countries. From the three case studies, it was established that the emergence of Malaysia-based corporations in the international market cannot be denied and should be included in the literature. Their presence internationally has also contributed to the overall regional economic growth.

The final contribution of this study concerns the experience of growing firms from an Asian developing country which come from successful management by ethnic Malays. This is very much an outcome of the qualified individual entrepreneurship which resulted from the New Economic Policy, in which the Malaysian government has acted as a 'pseudo-entrepreneur' on behalf of this ethnic group. From the three case studies, none of these corporations have any particular relationships with ethnic

Chinese. This challenges previous assumptions that the emergence of Asian MNCs was largely due to the Chinese corporations. As pointed out by Yeung (1998a and 1998b), in most Asian countries, the concrete operation of international business activities takes place in business systems unique to major ethnic groups for example the ethnic Malays in Malaysia.

In sum, part of the originality of this thesis is its intention to refresh the existing literature on the internationalisation process of firms and developing country MNCs, and reconcile it with a new set of data and information from Malaysian corporations. Furthermore, this thesis extends what was previously known about developing country MNCs to those of Malaysia. There is, to date, no single study which traces how Malaysia-based firms have grown in the national market and expanded internationally in detail. Following this explanation of the contributions of the thesis, the next section discusses its strengths and limitations, and offers recommendations for future study.

10.3 Strengths, Limitations and Recommendations

10.3.1 The Strengths of the Study

This thesis has several strengths. First and foremost, the present study attempts to explain the rising trend of outward investment activity by Malaysia-based corporations. It has shed some light on the understanding of the firms' strategies and behaviour in their business activities domestically and internationally. Their business expansion strategies and plans differ from one another. The research has provided a clearer picture and a guide to other companies who intend to engage in international business to learn from their experience, thus opening the intellectual horizons to go beyond conventional studies on the internationalisation process of developed and other developing country multinationals. Other firms which intend to internationalise can learn from the operation and business strategies of these successful corporations.

Second, this is among the first scholarly attempts to study the internationalisation process of Malaysia-based emergent MNCs. The three case companies are among the leading and most respected players in the Malaysian economy. Utilising a qualitative research methodology, the primary data of the case studies was generated from in-depth interviews with key executives in the selected organisations. The researcher was fortunate in obtaining primary data from key relevant decision-makers in the selected organisations, which is hard to get due to their status in the organisation, thus strengthening the empirical findings of the research.

Third, the strength of such an attempt emerges from the fact that this study aims to link theory to practice. As suggested in the internationalisation process and developing country MNCs literature, internationalisation knowledge and experience, technological competence, and business network connections can serve as an important source of ownership advantages for firms to grow and expand. As seen in this doctoral thesis, the growth and development of these three cases resulted from the combined use of these advantages in their expansion process. The insights drawn from the case study should enhance the awareness of organisational behaviour in other Malaysian firms.

10.3.2 Limitations of the Existing Study and Recommendation for Future Research

As explained in Chapter 5, as with all research, the scope of the present investigation was necessarily restricted and this section intends to engage with this issue by acknowledging some of its potential limitations. Because this study was among the first attempts to study the internationalisation process of Malaysia-based multinational firms, it has inevitably been hindered by several weaknesses. Efforts were made to minimise these limitations, but some remain and must be acknowledged. Future researchers are advised to provide a clearer picture of these dynamic issues.

Firstly, owing to a lack of resources, and constraints on the small number of Malaysian corporations engaged internationally, only three case companies were selected as the sample of this thesis. In Malaysia, business policies and strategies are treated with great confidentiality. Although personal contacts were beneficial in overcoming this limitation, the researcher faced difficulties in obtaining important data and information. Interviews were primary sources, yet they remained difficult as the information needed was sensitive, being concerned with the business strategies of the respective firms. Furthermore, the growth of the Malaysia-based firms in the international arena is relatively new. Their overseas performance is still in the early phase, i.e. most international investments have been in operation less than five years operations. The relatively short international experience of the three firms makes it difficult to examine their overseas performance. Thus, this thesis only highlights the internationalisation pattern and process of three Malaysia-based corporations.

A second limitation of the present study is that it has identified an under-researched group of companies, namely, government-linked corporations, government-owned firms, and government-controlled companies. Future research should explore this further, in particular with the inclusion of Chinese and Indian corporations. They are also dominant players in the Malaysian market and in the international arena.

Thirdly, the case selection was limited to only a few industries, namely, telecommunications, oil and gas, and diversified business. Future research should consider extending the study to various other sectors of economic activity such as hotels, textiles, banking, insurance, manufacturing, and supermarkets. Other business sectors should be included in order to understand the general ownership advantages of these firms.

Finally, this study has focused solely on the internationalisation process of firms based in Malaysia. In order to provide a more general view of the internationalisation process of developing country MNCs, comparison with other developing countries should be conducted. In sum, all these limitations lead to opportunities for future research.

10.4 Future Direction of Malaysia Outward Investment

10.4.1 Implications for Malaysia-based Multinational Firms

In addition to inward FDI, outward investment is an important factor influencing a country's performance and has contributed positively to Malaysia's goal of transforming the nation into a country with a developed economy. Available data indicate that Malaysian investment overseas has increased substantially, with the Asian region being the top recipient of Malaysian investments (Malaysian Business 16 June 1996, 16 January 2003; UNCTAD, 2005). The outlook for Malaysian outward investment appears bright.

This study has two important implications for Malaysia-based MNCs. Firstly; leading Malaysian MNCs should work closely with other corporations in their respective industries to compete with larger global corporations in order to tap a global market. They could form a dialogue in relation to international trade and develop business networking among Malaysian corporations. As has been explained in Chapter 4, the ethnic Chinese are the dominant business players and control the economic activity in the country. Their business networks play a large part in the Asian business system. The ethnic Malay group on the other hand, control political power in the government. Their business networks are more centralised in the domestic market. However, each of these ethnic groups has its own successful international MNCs. International expansion through collaboration and business networks between both of these ethnic groups appears to be relevant in the expansion of Malaysian MNCs.

Secondly, although outward direct investment is still considered new by many Malaysian firms, investment abroad should be given serious attention. Relying on the domestic market is no longer a way to success for firms, especially in facing the challenge of market liberalisation and globalisation. With evidence from the case studies in this thesis and secondary data, it was shown that only a few Malaysian MNCs had undertaken outward direct investment activity and truly committed to international expansion. The importance of this activity should be given significant focus by other Malaysian firms.

10.4.2 Implications for Policy-makers

The findings reveal a number of key influences on the internationalisation process which can be effectively used by policy-makers. The direct implications for policy-makers are:

First of all, given that outward FDI can yield significant long-term benefits to the country, policy-makers, to a great extent, need to play a crucial role in shaping the structure of the country's outward investment. This is consistent with Ragayah's (1999) argument that Malaysia's outward investment has been part of the government's development scenario. As the government has required Malaysian MNCs to seek advanced technology, access raw materials, earn foreign exchange, and expand export activities; they need to continue to assist the development of Malaysia-based corporations. After all, outward FDI can be used as a vehicle to help strengthen the country's relationships with other economies around the world.

Policy-makers should identify and profile Malaysian companies with an international mindset and set policies that, for instance, reward profitable international companies. Although there are certain incentives given by the Malaysian government to Malaysian firms (see Malaysian Business, 16 June 1996), it is not sufficient to promote outward direct investment activity. Specific compensation such as deduction of tax generated from international business should be given in order to motivate successful Malaysian firms which are looking to international business as their main field of operations.

Policy-makers should encourage programmes of support for practitioners to set up and develop international networks for their international investments. Although the country has supportive government organisations such as the Malaysia South-South Association (Massa), the scope of their functions and objectives is too limited, being confined to promoting bilateral trade and investment ties with South-South countries.

A final implication for policy-makers, in relation to FDI, is that they should look not only at in-coming foreign investments, but also look closely to encourage outward direct investment activity by Malaysian corporations. Since the country's current balance of payments is strong, the government should aggressively resume the promotion of reverse investments and keep track of future developments. Steps should be taken to support these developments. The government should encourage companies to import their inputs from Malaysia, as this will increase the demand for exports and thus, help to reduce the country's trade deficit.

In sum, although the pioneering study of this thesis covers only three Malaysia-based companies, namely Petroliam Nasional Berhad, TM Berhad, and Sime Darby Berhad, it is hoped that it has contributed to a richer understanding of the dynamic aspects of the international expansion of Malaysia firms.

Appendix 1

Principal Markets for Selected Commodities (RM million)

(i) Manufactured Exports (RM million)

	1995	2000	2001	2002	2003	2004
ASEAN	**40,878**	**85,210**	**72,140**	**78,859**	**82,481**	**99,180**
Singapore	32,818	63,768	52,483	55,996	57,367	65,800
Thailand	4,292	10,166	9,816	12,355	13,553	17,500
Indonesia	1,933	5,064	4,983	5,629	6,291	8,944
Philippines	1,291	5,537	4,113	4,171	4,346	5,994
Brunei Darussalam	543	675	745	708	925	942
EU	**21,840**	**46,057**	**40,894**	**38,493**	**41,077**	**51,523**
United Kingdom	6,839	11,067	8,355	7,836	8,131	9,678
Germany	5,277	8,682	7,176	7,046	8,053	9,248
Netherlands	2,953	13,843	13,609	11,084	10,313	12,459
Others	6,771	12,465	11,754	12,509	14,580	20,138
United States	36,713	74,165	65,830	72,427	74,918	85,484
Japan	15,202	35,763	32,413	28,253	28,683	33,341
Hong Kong, China	9,149	15,795	14,327	19,031	24,717	27,482
Chinese Taipei	4,439	11,421	9,767	11,409	11,610	11,766
Korea	2,662	7,363	6,692	7,867	7,123	9,178
People Republic of China	2,348	7,979	11,266	13,994	17,376	22,134
Australia	1,900	7,054	5,862	5,906	7,116	9,531
Canada	1,384	2,900	1,977	1,991	2,132	2,754
West Asian countries	2,767	5,717	6,885	5,992	7,485	10,461
Latin American countries	1,965	4,169	3,436	3,022	2,939	4,154
Rest of the World	6,046	14,315	13,827	15,031	18,665	23,461
TOTAL	**147,253**	**317,908**	**285,316**	**302,275**	**326,950**	**390,449**

continued

(ii) Textiles, Clothing and Footwear (RM million)

	1995	2000	2001	2002	2003	2004
United States	1,693	3,253	2,938	2,823	-	-
Hong Kong	801	1,057	770	396	-	-
Singapore	763	859	744	678	-	-
United Kingdom	498	671	595	599	-	-
Japan	383	662	562	488	-	-
Germany	352	298	259	254	-	-
Chinese Taipei	239	364	257	238	-	-
Others	1,790	3,269	2,929	3,111	-	-
TOTAL	**6,519**	**10,433**	**9,054**	**8,587**	**-**	**-**

(iii) Electrical and Electronic Products (RM million)

	1995	2000	2001	2002	2003	2004
United States	27,604	59,736	52,117	56,766	61,639	70,046
Singapore	23,743	49,713	38,455	40,524	40,382	44,018
Chinese Taipei	2,150	7,289	6,520	7,602	8,056	6,873
Japan	9,564	25,307	22,709	18,814	17,223	18,815
Hong Kong	5,574	11,009	10,004	15,002	20,403	22,140
Germany	1,618	1,794	1,865	1,381	5,965	6,996
United Kingdom	1,067	1,601	1,435	1,388	3,393	4,477
Others	25,428	73,980	67,202	67,660	65,790	83,686
TOTAL	**96,748**	**230,429**	**200,307**	**209,137**	**222,851**	**257,051**

continued

(iv) Manufactures of Metal (RM million)

	1995	2000	2001	2002	2003	2004
Singapore	1,513	2,270	2,020	2,152	2,255	3,057
United States	357	687	644	489	706	1,269
Japan	392	755	736	601	833	1,070
Korea	221	-	-	-	430	581
China	-	445	476	669	1,015	918
Thailand	355	495	501	507	550	1,340
Indonesia	267	374	360	400	442	590
Hong Kong	-	310	240	368	-	-
Chinese Taipei	217	369	299	343	-	-
Others	1,334	2,913	3,416	3,298	5,011	7,315
TOTAL	**4,656**	**8,618**	**8,692**	**8,827**	**11,242**	**16,140**

(v) Rubber (RM million)

	1995	2000	2001	2002	2003	2004
European Union	**1,310**	**920**	**731**	**831**	**1,159**	**1,663**
Germany	275	282	274	320	488	690
Belgium	163	134	101	81	-	-
Italy	191	87	69	75	109	136
United Kingdom	187	92	58	65	83	112
The Netherlands	203	44	27	40	45	94
Others	291	281	202	250	432	629
China	159	247	195	346	784	1,358
United States	499	266	151	217	288	347
Korea	443	192	132	157	261	300
Iran	-	113	138	121	181	258
Turkey	164	79	55	64	94	112
Chinese Taipei	-	29	27	38	-	-
Japan	207	54	41	38	-	-
Others	1,256	671	416	680	339	506
TOTAL	**4,038**	**2,571**	**1,886**	**2,492**	**3,585**	**5,193**

continued

(vi) Palm Oil (RM million)

	1995	2000	2001	2002	2003	2004
China	1,722	1,148	1,288	2,650	4,045	4,822
India	1,170	2,277	1,951	2,281	2,668	1,578
European Union	**1,000**	**1,102**	**1,520**	**2,019**	**2,664**	**3,164**
The Netherlands	417	592	970	1,157	1,576	1,927
Italy	96	134	146	173	158	203
Sweden	84	85	94	138	171	194
United Kingdom	125	28	48	68	-	-
Others	278	263	262	481	758	839
West Asia	1.351	-	-	-	-	-
Middle East	-	1,311	1,166	1,977	2,828	2,927
Pakistan	1,601	1,206	1,078	1,446	1,786	1,429
Singapore	690	403	398	602	-	-
United States	-	200	196	592	373	510
Japan	495	396	357	368	695	781
Bangladesh	-	110	168	296	439	602
Korea	245	222	227	97	341	388
Myanmar	320	139	108	59	-	-
Others	1,803	1,434	1,419	2,451	1,689	746
TOTAL	**10,397**	**9,948**	**9,876**	**14,838**	**20,191**	**20,110**

Sources: Economic Planning Unit, Central Bank of Malaysia, Malaysia Department of Statistics and Ministry of Finance, various issues

Appendix 2

INTERVIEW SCHEDULE

Organisation : ____________________
Time / Venue : ____________________
Name of the Respondent(s) : ____________________
: ____________________
Position : ____________________

OPENING

Greeting to: Y.bhg. Tun / Dato'/ Mr / Mrs / Ms: ____________________

My name is Syed Zamberi Ahmad, a third year Ph.D student from the University of Hull, United Kingdom. I am now entering the empirical phase of my research, which requires depth interviews with key executives in selected Malaysian-based firms.

For your information, I am currently undertaking research entitled *"The internationalisation process of developing country multinational firms: empirical evidence from Malaysian-based corporations"*, under the supervision of Prof. Philip J. Kitchen.

Notable Malaysian-based firms have been selected as samples for my study on the international expansion of corporations, and your organisation: <u>(name of company)</u> is potentially one of the case companies.

Until now, very little empirical research has been done in examine the investment activities by Malaysian corporations abroad. The main concern of this research is to explain and explore the internationalisation process of notable Malaysian-based multinational firms. The overarching objective of this research is to empirically investigate the emergence of Malaysian multinationals. It intends to explore how the firms emerged from their domestic realm and undertook international expansion activities.

The study also aims to explore the following **<u>objectives</u>**:

a. to introduce new empirical evidence to the current international business literature about Malaysian firms;
b. to shed light on the dynamic aspects of the internationalisation process of Malaysian firms, and thus, develop new information on the international expansion of firms;
c. to reflect upon what can be learned from the experience of these firms in growing domestically and expanding internationally;
d. to understand the pattern of outbound direct investment activities of these corporations which is considered new in terms of the Malaysian economy;
e. to add to the knowledge of multinational firms from Malaysia in order to potentially improve policy-making and investment decisions.

Two main topics will be discussed:

a. how the firm carried out its international expansion; and
b. what were the most significant competitive advantages for the firm in their domestic growth and international expansion

Key questions to be addressed are:

a. how to explain the internationalisation pattern and process of Malaysian-based multinational firms, the nature of their investment activities with regard to entry modes and expansion strategies;
and
b. what the (potential) sources of advantage of these corporations in growing their business domestically and expanding internationally i.e. what they were based and how are these progressing.

How this research will be valuable to the company?

a. the present study attempts to explain the trend of outward direct investment activities by Malaysian firms, and thus, the findings may enable the company to improve investment decisions and business strategy;
b. a firm can learn lessons from how other Malaysian corporations have grown domestically and expanded internationally;
c. a firm can use the findings to examine current outward investment activity, and plan for future direction and growth;

Given your significant expertise and experience relating to the area of study, I would like to request your kind assistance and co-operation in providing and extending information on the developmental of the international expansion of your organisation.

Subjects of Interview Schedule

i. The Internationalisation Pattern and Process of Malaysian-based Firms
ii. Internationalisation Knowledge and Experience Knowledge
iii. Entry Modes and Expansion Strategy
iv. Ownership Advantages of Malaysia Multinational Firms
v. Source of Ownership Advantage: Technological Competence
vi. Source of Ownership Advantage: Business Networks Relationships
vii. Future Firm Direction Towards International Expansion

I would like to ensure you that information obtained from this interview will be treated as confidential, and for the purpose of this research only. A preliminary draft of each case report will be sent to the key informant for verification before I produce a final report.

I would also like to obtain a permission to use a tape recorder in this interview session.

START

Research Question A: how to explain the internationalisation pattern and process of Malaysian-based multinational firms, the nature of their investment activities with regard to entry modes and expansion strategies;

Objective: to determine whether the international expansion of Malaysian-based multinational firms followed the pattern suggested by existing works on the internationalisation process and on developing country multinationals.

1. Internationalisation Pattern and Process of Malaysian-based Firms

a. How would you describe the business currently:

[ ] national
[ ] international
[ ] multinational
[ ] global

- Please explain the response given
- Explore difference between international / multinational

b. When did your firm commence its international expansion?
c. Could you please explain what were the key critical factors motivating the firm to expand its activities internationally?
d. Please explain how the internationalisation pattern and process of your organisation took place?
e. Relating to the previous question (d), does the process your company followed resemble processes by other emerging companies? (if so, which)
f. Related to the above, why did the firm follow this process?
g. Which other countries did your company initially develop business in? and, why were these countries selected or chosen?
h. Would you consider your company to be an emerging or nascent multinational corporation? (please explain)

2. Internationalisation Knowledge and Experience Knowledge

a. To what extent was knowledge of internationalisation crucial for your firm in order to expand internationally? Please discuss
b. How did your firm acquire its internationalisation knowledge and experience?
c. How does your firm now develop management capabilities and accumulate knowledge about the process of internationalisation?

3. Entry Modes and Expansion Strategy

a. What types of entry modes strategy does your firm use in its international expansion? Please explain

b. Why does your firm use this strategy in developing their international activities?
c. How well did your firm know the target markets there were entering internationally?
d. How well did the firm know the other players of the chosen market?
e. What are the main criteria used in selecting target markets internationally?

<u>**Research Question B**</u>: what the (potential) sources of advantage of these corporations in growing their business domestically, and expanding internationally are on what they were based, and how are these progressing.

<u>**Objective**</u>: to identify how the (potential) key sources of ownership advantages contribute to the domestic growth and international expansion.

4. Ownership Advantages of Malaysia Multinational Firms

a. What are the (potential) sources of ownership advantages possessed by your firm in order to grow and compete with competitors:
   (i) domestically?
   (ii) internationally?

b. Could you explain how these (potential) sources of ownership advantages accumulated in your firm?

5. Source of Ownership Advantage: Technological Competencies

a. Please explain how technological competencies could be considered crucial to the growth of the firm internationally?
b. How <u>***did***</u> your firm accumulate its technological capabilities?
c. How <u>*does*</u> your firm accumulate its technological capabilities?

6. Source of Ownership Advantage: Business Networks Relationships

a. What kind of contacts and relationships did your firm have at the time of the commencement of its international activities, ties that were advantageous with respect to your business?
b. Do these contacts and relationships still have the same importance in the business? If so, please explain
c. Please explain how networking is an important strategic mechanism in the development of your business?
d. In your opinion, does the firm prefer to appoint ex-government or political figures as members of the board of directors? If so why?
e. What advantages do these directors bring in terms of business development?
f. Please explain how strong the relationship of your firm is with national/foreign financial institutions in enhancing the firm's ability to finance its numerous investment activities?
g. In what ways have intra- and inter-ethnic network relationships benefited the expansion of your firm?

h. Could you please explain how the firm goes about selecting business partners internationally? How important are the selection criteria used here? Explain.

7. Future Firm Direction Towards International Expansion

a. What obstacles have emerged by your firm in expanding and operating internationally?
b. How were these obstacles overcome?
c. In your opinion, how could your firm be more successful in terms of international business?
d. Given existing resource capabilities, what should be done in order to ensure that the internationalisation effort is carried out effectively?
e. How and in what ways do you see your firm becoming a leading player in the international market? Please explain

Appendix 3

- Brief Profile of the Key Respondents -

PETROLIAM NASIONAL BERHAD (Petronas)

Key Respondent	Interview Date	Position
Respondent 1(A): H.E Tun Mahathir Mohamad A Former Malaysian Prime Minister Perdana Leadership Foundation laila@perdana.org.my Tel: 00 603 88858900 Fax: 00 603 88891166	28th Oct 2004 10.00 a.m.	Advisor Petroliam Nasional Berhad
Respondent 1(B): Dr. Mohd Farid Mohd Amin faridm@petronas.com.my Tel: 00 603 23314613 Fax: 00 603 23312950	15th Sept 2004 10.00 a.m.	General Manager Corporate Information and Research Unit Corporate Planning and Development Division
Respondent 1(C): Ahmad Kamil Mohd Yusof kamily@petronas.com.my Tel: 00 603 5814625 Fax: 00 603 5811370	11th Oct 2004 3.00 p.m.	Regional Manager Middle East, Central Asia Africa, Europe, S. America International Business Unit Corporate Planning and Development Division
Respondent 1(D): Abd Aziz Othman azizot@petronas.com.my Tel: 00 603 23316972 Fax: 00 603 23312744	13th Sept 2004 10.00 a.m.	Head Strategic Planning Office of the Vice President Gas Business
Respondent 1(E): Jefry Mohd Johari jefrymo@petronas.com.my Tel: 00 603 23311720 Fax: 00 603 23312744	14th Sept 2004 3.30 p.m.	Manager Strategy and Business Development Office of Vice President Gas Business
Respondent 1(F): Zainal Rashid Abd Latif zainara@petronas.com.my Tel: 00 603 20517092 Fax: 00 603 20511635	17th Sept 2004 10.00 a.m.	Country Co-ordinator, Malaysia Trans-Asean Gas Pipeline (TAGP) Taskforce
Respondent 1(G) Dr. Rosli Ahmad rosliah@petronas.com.my Tel: 00 603 89295219	22nd Oct 2004 3.00 p.m.	Senior Training Specialist Petronas Management Training Center Bangi

continued

Key Respondent	Interview Date	Position
Respondent 1(H) Mr. Ed Osman Ridzwan osmanr@petronas.com.my Tel: 00 603 23314646 Fax: 00 603 23314694	14th Sept 2004 9.30 a.m.	General Manager Business Development Unit Corporate Planning and Devel0opment Division
Respondent 1(I) En. Abdul Rahman Ishak rahmani@petronas.com.my Tel: 00 603 23314664 Fax: 00 603 23312950	13th Sept 2004 3.00 p.m.	Manager System, Support and Service Corporate Information and Research Unit Corporate Planning and Development Division
Respondent 1(J) Ms. Natrah Mohamed Kalam nathra@petronas.com.my Tel: 00 603 20513832 Fax: 00 603 5812950	10th Feb 2004 10.00 a.m.	Investor Relations Corporate Information and Research Unit Corporate Planning and Development Division
Respondent 1(K) En. Abdul Rahim Hj Mahmood rahimma@petronas.com.my Tel: 00 603 23316750 Fax: 00 603 23312950	12th Feb 2004 9.15 a.m.	Head, Corporate Information Centre Corporate Information and Research Unit Corporate Planning and Development Division

continued

TELEKOM MALAYSIA
(TM International Sendirian Berhad)

- Brief Profile of the Key Respondents -

Key Respondent	Interview Date	Brief Profile
Respondent 2(A): Christian de Faria Chief Executive Officer TM International	05 October, 2004	French and joining TMI in February 2003 as CEO. Worked in Grunding world wide from 1985-1999: Grunding Portuguese (as a Financial Analyst), Grunding Trading activities for export market in Iran and Egypt (as a Financial & Market Analyst), Grunding Relocation Project from Malaysian Plant to the China Plant (as aChief Financial Officer). Between 2000-2003, he joined TRI/Celcom as Chief Financial Officer. While in tenure with TMI, Christian acquired the following investments: Pakistan, Idea India, XL Commindo Indonesia nad LankaBell Sri Lanka and divestment - Telekom South Africa. After the acquisition of XL Commindo in Indonesia in 2004, he is now heading the Telekom Set-Up Team in XL.
Respondent 2(B): Rosli Kamudin General Manager HR Strategy and Development TM International krosli@telekom.com.my Tel: 00 603 2240 2280 Fax: 00 603 7956 1008	11 October, 2004	Graduating from the Malaysian National University in Human Resource Study. Started as a banker's in Malayan Banking Berhad between 1981-89. In 1989, he joined the TM, and now is a Head of Human Resource and Strategy in TMI. Have worked and contribute extensively with TM and all its overseas ventures in the following: HR Senior Manager - industrial relations, HR senior Manager - Eastern Region TM, Head Regional Quality Consultant, promoted as the GM HR from 1998-2000 for TM's overseas subsidiary, from 2001 - managed the HR for International Ventures Division. For 2003 - with the spin-off of IVD to TMI, he has since been on multiple assignments at home and all TMI's subsidiaries.
Respondent 2(C): Aman Shah Osman Chief Financial Officer TM International	1 October, 2004	Born on the 21/5/64. Has an MBA/MBI from Eramus School of Business Monash. Working experience - started as an auditor for Enerst Young between 1988-91, 1992-97 worked with the Commercial International Bankers, 1997 - internship with Schroder & Co. Ltd London, 2001 become a CFO for Digital Phone Corp in Bangkok, 2002 - CFO International Ventures Division of TM. In 2003, with the spin-off of IVD into TMI, he was appointed as the CFO for the subsidiary. Has been the right man for CEO of TMI on all M&A and divestments activities.

continued

Key Respondent	Interview Date	Brief Profile
Respondent 2(D): Wan Faizal Wan Hassan Manager Business Analyst TM International wfaizal@telekom.com.my Tel: 00 603 2240 2298 Fax: 00 2241 2312	21 October 2004	Graduated in LLM in International Commercial Law from Nottingham University UK. Acquired his LLB from the University of East Anglia in International Trade Law. Previously was a researcher from 1995-97 in the Malaysian Research Center, and moved to be a banker in the Business Merchant Bankers as Investment Analysis in 1997-2000. From 2000-2003, he was the Policy Analyst in Industry Development in Malaysian Communications & Multimedia Commission. Joining the TMI in 2003 as the manager of Business Analysis.
Respondent 2(E): Aida Ahmad Daud Manager Business Development TM International adaida@telekom.com.my Tel: 00 603 2240 2284 Fax: 00 603 2241 2312	21 October 2004	Born on the 29/06/73 and graduated from the University of Exeter United Kingdom in Bachelor of Arts and Accounting. Started career as a management trainee in Telekom Malaysia. Was the Financial Analyst from 1997-2000. Involved in the development of the Mobile Service Costing Model for TM Cellular in August 2000. Has been appointed as the manager, business development ain 2003, and holding the position until present.

continued

SIME DARBY BERHAD
(SD)

- Brief Profile of the Key Respondents -

Key Respondent	Interview Date	Brief Profile
Respondent 3(A): Tunku Tan Sri Dato'Seri Ahmad bin Tunku Yahaya Tel:	01 June, 2005	YM Tunku Tan Sri Dato' Seri Ahmad, 76, a Malaysian, is a Non-Independent Non Executive Director and the Deputy Chairman of Sime Darby Berhad. He was appointed to the Board on 4th January 1979. YM Tunku Tan Sri Dato'Seri Ahmad is an honours graduate in Economics from the University of Bristol and a Certified Accountant. He joined Dunlop Malaysian Industries Berhad in 1962 and served as Managing Director from 1973 until 1978 when he left to join Sime Darby Berhad. He was a Director of the Malaysian Central Bank for 28 years before retiring in 1995. Other public companies in which he is a director are DMIB Berhad, Tractors Malaysia Holdings Berhad, Kuala Lumpur City Centre Berhad, Kuala Lumpur City Centre Development Berhad and Kuala Lumpur City Park Berhad. YM Tunku Tan Sri Dato'Seri Ahmad is a member of the Executive Committee and the Audit & Accounts Committee and chairs the ESOS Committee of the Board.
Respondent 3(B): Mr. Martin Giles Manen martingm@simedarby.com Tel: 00 603 27130137	27 April 2005	Mr. Manen, 47, a Malaysian, is a Non-Independent Executive Director and formerly the Group Finance Director of Sime Darby Berhad. Currently has assumed the new role of Director – Business Development based in Kuala Lumpur and reporting directly to the Group Chief Executive with effect from February 1st, 2005. He was appointed to the Board on 30th May 2001. Mr. Manen is a member of the Malaysian Institute of Certified Public Accountants as well as the Malaysian Institute of Accountants. He is also a member of the Malaysian Accounting Standards Board and the Chairman of the International Fiscal Association – Malaysia Branch. He joined Sime Darby Berhad in 1986 and served as Group Tax Controller and Group Secretary prior to appointment as Group Finance Director in April 2001. Other public companies in which he is a director are DMIB Berhad, Sime UEP Properties Berhad, Tractors Malaysia Holdings Berhad, Consolidated Plantations Berhad, Kuala Lumpur Golf & Contry Club BErhad, SD Holdings Berhad and several foreign public companies in the Sime Darby Group.

continued

Key Respondent	Interview Date	Brief Profile
Respondent 3(C): En. Hisham Hamdan hishamhh@simedarby.com phoebecsf@simenet.com Tel: 00 603 2691 4122 (2314) D/L: 00 603 27135935	26 May 2005 9.30 a.m.	En. Hisham Hamdan has been appointed as Group Manager – Strategic Planning, to head a newly-created Department at Sime Darby's Head Office. Reporting directly to the Group Chief Executive, En. Hisham will be responsible for the Group's strategy, Corporate Finance, Investor Relations, Communications and the analytics of Sime Darby's business units. En. Hisham was previously an Investment Banker with Dresdner Kleinwort Wasserstein (DrKW) handling Corporate Finance & Organisation for the past five years. Prior to DrKW, he worked as an Equity Research Analyst in various investment banks in Kuala Lumpur – Dresdner Kleinwort Benson, Sntander Research, Peregrine and Swiss Bank Corp/PB Securities. He had also worked in Malakoff's corporate finance department in 1999. Upon obtaining two separate Bachelors Degrees in Chemical Engineering and Industrial Management from Purdue University, En. Hisham worked as a process engineer in Arvin Industries, an automotive part supplier, in Columbus, Indiana, USA from 1990 to 1992.
Respondent 3(D) Tengku Zuhri Tengku Abdul Aziz zuhrytz@simedarby.com Tel: 00 603 2691 4122 (2314) D/L: 00 603 27135935	26 May 2005 9.30 a.m.	Assistant Manager Value Management, Group Strategy

Appendix 4

No. 1, Jalan P8H
Precint 8
62250 Putrajaya, Wilayah Persekutuan
www.perdana.org.my
Tel: 603 8885 8900
Fax: 603 8889 1166

PERDANA LEADERSHIP FOUNDATION
YAYASAN KEPIMPINAN PERDANA
(604642-U)

PLF(PENT)1003-00-03

5 Oktober 2004

Tuan Syed Zamberi
No. 13, Jalan Chempaka 3
Taman Chempaka
70450 Senawang
Seremban
Negeri Sembilan

Fax: 79561008

Tuan

Memohon Temujanji Untuk Berjumpa Dengan YABhg Tun Dr Mahathir bin Mohamad

Dengan hormatnya sukacita dimaklumkan bahawa Y.A.Bhg Tun Dr Mahathir bin Mohamad bersetuju berjumpa dengan tuan dan tarikh yang dicadangkan ialah pada ***28 Oktober 2004, jam 10.00 pagi di Tkt 86, Tower 1, KLCC, Kuala Lumpur.***

Sekian dimaklumkan. Terima kasih.

Dengan hormatnya

Datuk Badariah bte Arshad

TELEKOM MALAYSIA

TM INTERNATIONAL SDN BHD (242188-H)

MUTUAL NON-DISCLOSURE AGREEMENT

THIS AGREEMENT, made this ____ day of ________, 2004 ("Effective Date") by and between **TM INTERNATIONAL SDN BHD (242188-H)**, having a principal place of business at Tingkat 51 , North Wing , Menara Telekom , Jalan Pantai Baharu , 50672 Kuala Lumpur (hereinafter referred to as the " Company ")and **SYED ZAMRI AHMAD** , a PhD student , 200208867 University of Hull Business School , United Kingdom .

WHEREAS, both Parties intend to disclose to each other proprietary/company-confidential information for the purpose of reading his Doctorate Degree " THE INTERNALIZATION PROCESS OF FIRMS FROM DEVELOPING COUNTRY : AN EMPHIRICAL STUDY OF MALAYSIAN-BASED CORPORATIONS;

NOW, THEREFORE, in consideration of the mutual exchange of Information, and for other good and valuable consideration, the Parties agree as follows:

1. Proprietary/company-confidential information (hereinafter referred to as "Information") means any information, oral or written and all other materials (i) supplied by TMI or its subsidiaries (such companies including TMI being hereafter collectively referred to as the 'Group') in pursuance of this Agreement, (ii) relating to any invention, improvement, report, recommendation or advice given to TMI by the second party in pursuance of his/her obligations hereunder, and (iii) concerning the business, associations, transactions or financial arrangements of the Group with any other persons or bodies, including other technical or commercial cooperation agreements.
   Information relating to the disclosing Party's business operations such as its marketing plans, customer lists, pricing, and pricing methods, as well as its personnel and organizational data; and information such as documentation, materials, flow charts, codes, software, computer instructions, techniques, models, diagrams, know-how, trade secrets, data, and similar or related materials disclosed in connection with this Agreement. Information may include proprietary information or data supplied by organizations or persons not a Party to this Agreement, only to the extent that the disclosing Party has rights to disclose such information. Where possible, each Party shall identify any Information disclosed hereunder with an appropriate,

conspicuous legend (such as "Proprietary" or "Company Confidential"). When practical, non-tangible disclosures (i.e., discussions, briefings, etc.) identified as proprietary or company-confidential at the time of disclosure will be summarized in writing, identified with a legend as described above, and forwarded to the other Party within thirty (60) days of disclosure. Each Party's duty to protect such Information shall commence from initial disclosure.

2. Each Party shall hold each other's Information in strict confidence and shall use it only for the purpose of this Agreement. Each Party shall limit distribution of each other's Information only to those individuals within its organization who have a need to know such Information in connection with this Agreement. Neither Party shall disclose any of the other Party's Information to any other person, organization, or corporation without the other Party's prior written approval.

3. Each Party shall protect the other's Information in the same manner and with at least the same degree of care that the receiving Party uses to protect its own proprietary/company-confidential information (but in no event with less than a reasonable degree of care), including causing any of its employees, agents, contractors and/or subcontractors who render services under or in connection with this Agreement to execute non-disclosure agreements adequately requiring them to keep the Information secret. However, neither Party shall be required to keep confidential any information which:

   a) is or becomes publicly available, other than through the fault or negligence of the receiving Party;
   b) was known to the receiving Party, without restriction, at the time of receipt;
   c) is rightfully and lawfully obtained by the receiving Party from a third party rightfully and lawfully possessing the same without restriction;
   d) is independently developed by the receiving Party without having had access to the Information disclosed hereunder;
   e) is obligated to be produced under an order of a court of competent jurisdiction, providing that the disclosing Party is immediately notified by the recipient Party;
   f) is disclosed in any event, after the expiration of five (5) years from the date such Information was delivered to recipient Party.

4. All Information obtained by either Party hereunder shall remain the property of the disclosing Party and shall be returned to it, or destroyed, promptly upon request, together with all copies made thereof by the receiving Party. Upon reasonable request, a receiving Party shall promptly submit to the disclosing Party a certificate of destruction.

5. Except as specifically provided for herein, neither Party shall make use of the other Party's disclosed Information for its own benefit or the benefit of any third party. Each Party agrees to notify the other as soon as possible if it becomes aware of any misappropriation, misuse, or disclosure of the other's disclosed information by any of the recipient Party's employees, officers, agents, contractors, or subcontractors.

6. Neither the Information nor the act of disclosure thereof by either Party shall constitute a grant of any license of any kind either under any trademark, patent or copyright, or application for same, or otherwise, nor shall they constitute any representation, warranty, assurance, guarantee, or inducement by either Party with respect to the infringement of any trademark, patent, copyright, any right of privacy, or any right of third persons.

7. EACH PARTY IS PROVIDING THIS PROPRIETARY/COMPANY-CONFIDENTIAL INFORMATION "AS IS" AND MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, CAPABILITY, EFFICIENCY, MERCHANTABILITY, OR FUNCTIONING OF THIS INFORMATION. IN NO EVENT WILL EITHER PARTY BE LIABLE FOR ANY GENERAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL, EXEMPLARY, OR SPECIAL DAMAGES, EVEN IF THE OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

8. Each Party accepts the other's Information on the condition that it indemnifies and holds harmless each other (i.e., Board of Directors/Trustees, officers, agents, and employees) from any and all liability or damages, including attorneys' fees, court costs, and other related costs and expenses, arising out of its use of the Information irrespective of the cause of said liability.

9. This Agreement shall be effective as of the date first written above and shall terminate one (1) year thereafter, provided, however, that this Agreement may be terminated by either Party at any time by written notice of termination to the other Party. A Recipient's obligations herein shall survive the termination of this Agreement.

10. Points of Contact for all communication pertaining to this Agreement, and subject to change upon written notice:

For TM INTERNATIONAL SDN BHD:

TM International Sdn Bhd .
Tingkat 40,South Wing ,Menara Telekom,Jln Pantai 50672 Kuala Lumpur Malaysia
ATTN: ROSLI KAMUDIN
Title: GM, HR Strategy &

Development
Phone: 603-22402280
Fax: 603-79561008

12. This Agreement shall be binding upon the successors and assigns of the Parties and inure to the benefit of their successors and assigns. No oral agreement, statement, or representation shall alter its provisions.

13. This Agreement shall be governed and construed by the laws of Malaysia and the parties shall submit to the exclusive jurisdiction of the Courts of Malaysia, represents the complete and exclusive understanding of the Parties pertaining to the disclosure of Information. It may be amended only by a mutually executed writing.

14. If any provision of this Agreement shall be held invalid in a court of law, the remaining provisions shall be construed as if the invalid provision were not included in this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives.

SIGNED by]
Identity Card/Passport No
(721223 - 04 - 5143)

....
Name: **SYED ZAMRI AHMAD**
Designation:
Date: 3/11/2004
Address:

in the presence of:]
WITNESS

....
Name: **WAN [illegible] HASHIM**
Designation: [illegible]
Date:
Address:

WAN KAMALIAH MEGAT HASHIM
[illegible] MANAGER
HR STRATEGY & DEVELOPMENT
[illegible] INTERNATIONAL SDN BHD
LEVEL 40, SOUTH WING,
MENARA TELEKOM,
OFF JALAN PANTAI BAHARU,
59200 KUALA LUMPUR
TEL: 603 2240 2295
FAX: 603 7956 1008
EMAIL: wkamaliah@telekom.com.my

SIGNED for and on behalf of]
TM International Sdn. Bhd..

....
Name: ROSLI KAMUDIN
Designation: GM, HR TMI
Date:
Address:

Company Documents and Reports

Exim Bank Annual Report, various years
Petroliam Nasional Berhad Annual Report, various years
TM Berhad Annual Report, various years
Telekom Malaysia circulation to shareholders, and notice to EGM
Sime Darby Berhad Annual Report, various years
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Newspapers and Magazines

Far Eastern Economic Review
Malaysian Business Magazine, various issues
Petronas (2001), "Growing with the nation: Vietnam 1991-2001", Legal and Corporate Affairs Division, Petronas, Kuala Lumpur, Malaysia
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