

The
internationalisation
process of sime
darby berhad
economics essay



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This study will describe and analyse the internationalisation process of a leading Malaysian-based MNC called Sime Darby Berhad (SDB). The assignment will identify the structure and actions of this company in forming its expansion processes including the motivations for international investment, competitive strategies, and selection of foreign entry approaches.

CASE COMPANY: SIME DARBY BERHAD (SDB)

The following are reasons why Sime Darby was chosen as a case sample:

It was the first multinational corporation in Malaysia is one of the largest corporations in the whole of Southeast Asia.

The company has a long history of international trading activities and is one of the most internationally integrated companies.

The company, which has focused concentration on how the management gained internationalisation knowledge and experience when operating the organisation, has been a Malaysian multinational from its foundation as it became a Malaysian unit through acquisition by the Malaysian Government in 1977.

The group is widely diversified with interests in almost all economic sectors as well as plantations, energy, heavy equipment, motor vehicle delivery, travel and tourism, healthcare, and property development, both nationally and internationally.

Sime Darby Berhad consequently represented the country's leading business organisation as a diversified corporation.

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THEORETICAL PERSPECTIVES ON DEVELOPING COUNTRY MNCS

It has been realised that theories on the internationalisation of companies are mainly based on Western multinational corporations.

Starting from Vernon's product life cycle theory, (1966, 1971) through the Uppsala international expansion stage model (Johanson and Weidersheim-Paul, 1975; Johanson and Vahlne, 1977) and the more recent works of Dunning on his eclectic paradigm theory (Dunning, 1993, 1995). However, the model does appear to be relevant in the early stages of internationalisation, however, the model is unreflective on issues regarding strategic elements, situational contingency, considerably still and competitive forces. In addition, as the trend of outward investments from developing countries began to increase in the 1990s (United Nation, 1988, 1993) the body of literature concerning these latter investments and entry modes has been developed and enlarged notably.

Referring to the scholars on developing country MNCs, ownership advantages of these businesses vary, and there are two separate "waves" of development:

Differing as regards historical background, nature of business, extent of the role of government in operations and transactions, geographical direction, and mode of internationalisation activity.

Scholars have described developing country MNCs in the 1980s as those more anxious with cost competitiveness or their competitors (van Hoesel,

1999). On the other hand, developing country MNCs in the 1990s placed bigger stress on the development and direction of business strategies in reaction to the changing forms of world business structure brought about by trade liberalisation and economic globalisation (Dunning et al., 1997). They also resulted in more stress on technological capability as the source of competitive advantage (Pananond and Zeithmal, 1998). The gradual growth of skills, technological and information effort has led in growing the sources of ownership advantages for developing country MNCs.

Such views are reliable on the internationalisation process literature (Johanson and Wiedersheim-Paul, 1975). Known now as the 'Uppsala Internationalisation Model', this literature discusses the importance of internationalisation knowledge and its process throughout a firm's internationalisation expansion. The model outlines that lack of knowledge of foreign markets generates an obstruction to internationalisation, and that this knowledge can only be obtained by experience of international markets. The Uppsala school spread the idea of incremental international development to the whole process of a firm's internationalisation from exporting to foreign direct investment (FDI). Considering the fact that Malaysian MNCs are new and emerging to the international field, mainly in terms of outward investment, internationalisation theory is of value in explaining the appearance of these corporations.

BUSINESS DEVELOPMENT OF THE COMPANY

The structure of the group, the product and geographical diversification is a process which is complex and overlapping. However it can be categorised by four chronological periods: the early development where it transformed from <https://assignbuster.com/the-internationalisation-process-of-sime-darby-berhad-economics-essay/>

a plantation based to a trading business (1910-1929), then came its domestic expansion which was in 1929-1950's. Next came conglomerate diversification (1950's - present day), and finally the company's international expansion (1970's - present). It is vital to be aware of the group's history because this then offers knowledge about the organisational development and provides us with insight that may act as a basis for decisions about the future (Eisenhardt, 1989; Gummesson, 1991).

Early Development: from Plantation-based to Trading - based business (1910 – 1929)

The company Sime Darby was established in 1910 by two British planters, a Scottish man, William Middleton Sime and Henry Darby, got together and formed a company so they could manage 500 acres of Radell Rubber estates in the state of Malacca. This would bring them a capital of US\$20, 000. The company was first known as Messrs Sime Darby & Co Limited (Malaysian Business, 1 September 2003). As it was a managing agent for several plantation companies, it then began doing general trading as the demand for the rubber estates goods and services grew.

The company then set up a branch office in Singapore in 1915 and with its increasing volume of trade, it soon became an agency that did many general trading activities. These included acting as selling agents for various different firms and manufacturers, importing and exporting businesses and supplying a wide variety of consumer products both domestically and internationally. They then set up an office in London as a network branch to market the company's rubber. They then bought more plantation land from the profits they were making from the rubber. The company then bought the

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British competitor R. G. Shaw & Co in 1926 and also began discounting, insurance brokering and money brokering (Utrecht, 1981).

Domestic Expansion (1929 – 1950s)

Due to the success of the plantation based business, the group had their first wave of expansion particularly in the rubber, cocoa and palm oil plantations. In 1929 the company acquired the Sarawak Trading Company which owned a franchise of Caterpillar equipment and this proved to be a huge milestone for them. The land they were frequently purchasing needed heavy earth-moving equipment for its development. Sime Darby began entering other lucrative business fields such as engineering, electronics and management services after the Second World War in 1952 (Allen and Donnithorne, 1957). After years of hard work, the company grew to include activities such as finance, supply, sales and shipping products for several plantations and by 1954 the company had a total of 18 offices in Malaysia, Singapore, Brunei and the British North Borneo and managed over 80, 000 acres of rubber land. Then in 1946 they purchased Ewart & Co.

Conglomerate Diversification (1950s – present)

Due to their success, by the late 1950's, the company had become large enough to have a holding company in London known as Sime Darby Holding Limited. Naturally the company decided to extend their activities from just trading to manufacturing. In 1971 Sime Darby had been established as a major force in the plantation industry through the acquiring of Seafield Amalgamated Co. and Consolidated Plantations. Even prior to Malaysian independence, Sime Darby gained multinational status due to its rapid growth and extensive diversification. (Ragayah, 1999).

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Because of this strategic significance as an MNC, and to guard the national interest whereby various critics viewed the largely British management of the company as a painful reminder of imposing utilisation, the Malaysian Government through its trust agency Pernas or National Corporation acquired the company in the mid-1970s.

Sime Darby became among the first Malaysian multinationals in the country through this process. The company originally expanded within plantations but because of the group's desire to grow further into non-core activities they were led to major diversifications in many industries, starting in the early 1980s. These included motor vehicles, paint 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 subordination, Sime Darby diversified into a range of projects such as hospitals, housing expansion, manufacturing, gasoline and motor fuel circulation, shipping operations, shop lots, golf courses and various others.

Sime Darby's national growth was due to three major waves. The first wave of development was fixed in the plantations sector. The second wave was rooted in geographical growth of its trading business, and finally, the third wave covered a variety of diversified business strategies both upstream and downstream, such as oil and gas, financial services, property development, energy, and motor vehicle distribution. The group used a market sector

approach to enlarge its business operations both domestically and internationally.

International Expansion (1970s – present)

As Malaysia was the biggest producer of rubber and cocoa in the world during the 1970's, Sime Darby's global exposure began through international trading with the exports of commodity products such as the above mentioned. (Allen and Donnithorne, 1957).

The company's astonishing expansion, both geographically and sectorally began in the early 1970's with the purchase of China Engineers (Holdings) Limited, Harpers International Limited, and Amoy Canning Corporation (Hong Kong) Limited, which are all based in Hong Kong (United Nations, 1985). Each came with its benefits, Amoy Canning provided the production of canned food, China Engineers provided many things such as engineering, manufacturing, shipping activities and insurance. Harpers provided Sime Darby with the franchise for the distribution of Ford, BMW, and Mitsubishi automobiles (ibid).

Sime Darby obtained the company Shaw and Co. in the United Kingdom which was involved in investment, shipping and trading with substantial investments in South Asia. With the acquisition of Clive Holding Ltd and Guy Butler & Robert Bradford & Co, Sime Darby moved into discounting, broking and insurance (United Nations, 1985). Having been successful market players since 1928 and the sole Caterpillar dealer in Malaysia for over 70 years, Sime Darby managed to penetrate the market in Singapore via tractors. Caterpillar is so successful, that 95% of Sime Darby's business in

the sector of heavy equipment comes from the sales of Caterpillar products. The company also worked closer to home by venturing in downstream processing activities by purchasing Edible Products Ltd which is a major vegetable oil refinery in Singapore. Organisationally, the international expansion of the Company can be categorised into four main regions.

Neighbouring Asian countries with similar cultural backgrounds were given priority. Sime Darby's international operations, like its domestic business activities, involved five core areas which were energy, property, heavy equipment, plantations and motors.

During the study, the group consisted of 185 additional and associated companies that were participating in various different business activities in the Malaysian market.

In regards to the companies international operations, the group collectively had 46 companies in Hong Kong, 9 in the Philippines, 72 in Singapore, 11 in Australia, 5 in Indonesia and 19 in other developing countries. Of these developing countries, the group had 12 companies in the United Kingdom, 2 in the US and 15 in New Zealand (Sime, 2006).

The major strength that Sime Darby has lies within the region of Southeast Asia with a smaller, restricted coverage in other areas of Asia. When looking at the group's gross revenue and pre-tax profits over the past four years, it can be noted that the overseas operations accounted for 60% & 35% respectively with Malaysia, Hong Kong, Singapore and Australia collectively, taking the lead for posting revenues in excess of RM 1 billion. Due to the fact

that Sime Darby has operations in 20 different countries, it is clear that <https://assignbuster.com/the-internationalisation-process-of-sime-darby-berhad-economics-essay/>

international business is one of the key sources of growth for the group. The following section will identify and explain how the company has built up its ownership advantages and its business strategy.

DISCUSSION: AN ANALYSIS OF SIME DARBY INTERNATIONAL EXPANSION

Normally, a company becomes multinational by undergoing three different stages. Firstly, the firm begins as a domestic company and acquires technological, management and marketing capabilities through the normal process of development, to become a domestic leader. Then, due to the limitation of the domestic market forces, the company is motivated to begin exporting abroad so as to increase its revenue. Finally, when these exports come under threat by tariff protection or competition, the company uses its competitive advantage and produces goods abroad which directly involve them in investment (United Nations, 1985; Johanson and Vahlne, 2003).

Following this inspection, a close look at Sime Darby's development as a national MNC, uncovers that the company was in fact internationalised prior to its emergence as a Malaysian conglomerate. Overnight, through the acquisition of a British firm operating in the country, the group became a Malaysian MNC. Up until the company's residence was transferred from the United Kingdom to Malaysia in 1979, Sime Darby had been a British controlled corporation. After consulting investment bankers Rothschild, the Malaysian government purchased several shares in the London Stock Market in line with the New Economic Policy (NEP) which increased Malay equity.

In 1977, Sime Darby's equity became Malaysian owned largely due to the efforts of Tradewinds & Sendirian Berhad. Sime Darby had international corporations in numerous countries before its foundation as a Malaysian MNC. This included offices in Singapore and London to further support their international operations.

The discussion presented here is that the procedures adopted by the Malaysian government via its state agencies indicated a revolution in the ways of internalisation and also went beyond traditional theories of FDI as illustrated by most scholars. However, it could be argued that the company had overcome important internal and ownership advantages created by nationalisation and favourable treatment by the Malaysian government as had been noted by Dunning's OLI theory (Dunning, 1993, 1995).

Nonetheless, the situation of SD outlines an attractive and appealing option to companies trying to become international by purchasing an existing MNC. Government intervention and nationalisation are in doubt to happen in all circumstances, but sometimes government can increase MNC development in different. The emergence of SD as a Malaysian MNC supports the theory raised by Oviatt and McDougall that the firm can be internationalised from its setting up. They may begin their international involvement directly from foundation instead. Nonetheless, this theory stresses that such companies gain ownership advantages even before to their establishment.

In the United Kingdom, the group bought Carboxyl Chemical Ltd, which manufactures wires, lubricants and defoamers.

Clearly, the international expansion of the SD group creates challenges to the internationalisation literature, which suggests that firms may minimise the risk of involvement when they first enter the international market and that it will assume a higher degree of involvement and resource commitment.

However, the group's common 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).

Another alternative for SD's participation in international expansion is joint venture with foreign partners. In some countries, the group decided to set up joint ventures with local partners in the host countries to the shared benefit of both sides. There are several reasons for SD to expand internationally and choose a particular country to be the recipient of its investments. Such as finding new markets, home government disincentives, higher returns on investment, diversifying risks cheap and abundant resources, competition to enter new markets, overcoming import restrictions and to exploit technological innovations and the production process better. These may be classified as 'push' or 'pull' factors. As with these views, SD's international growth was driven by its goal to hunt for growth continuously through entry into new markets abroad and to ease the export of products to another country, especially in other developing countries. This was the reason for the group to set up regional divisions in countries like Singapore, the Philippines, Hong Kong and Australia to maintain its business. This is because the <https://assignbuster.com/the-internationalisation-process-of-sime-darby-berhad-economics-essay/>

developing countries offered opportunities for growth and also shared some similar characteristics with which the group were familiar.

From the interviews of key executives in the company, there are three main reasons appear to be important for SD to invest abroad. The first is to take advantage of market opportunities. The second is to diversify risks. And, the third is related to motivations which consistently counts on diversification to escape high costs, labour, and other resource limitation 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.

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. 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.

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. 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).

Managerially, there are many lessons to be drawn from the case analysis. They include the following:

Managers need to avoid narrow or parochial views with regard to potential MNC development. There are many and diverse routes to such.

Strategic initiatives - such as joint venture - are not purely dependent on cultural criteria, but on competitive circumstances, government support or lack of it, technological innovation, capitalisation, and managerial skills and know-how.

The rationale for 'going abroad' relies on opportunism, risks aversion, and managerial motivation.

Strategies for entry will vary based on individual country criteria coupled with the three items mentioned above.

With regard to relevance and transferability to other Asian, national, company or cultural contexts, undoubtedly, new and old business models and modelling processes for FDI and internationalisation processes abound.

Few, however, have concerned Malaysian-owned, Malaysian-managed MNC's.

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CONCLUSION

This piece of work has studied both domestic and international development of the Sime Darby group, which is one of the largest Malaysian multinational corporations.

SD can be viewed as a new model of internationalisation process due to it being internationalised from its foundation through the takeover of foreign companies operating in the country. The company grew through expanding its capacity as a widely spread corporation. The group's different internal and external sources, such as extensive marketing, strong brand names and good management capabilities have resulted in gaining ownership advantages amongst other rivalries.

Also, Sime Darby's special relationship with the Malaysian government through its state agencies and trust played an important role in the group's development.

Its domestic and international development was also achieved by maintaining the group's ties with foreign partners in developing its technological capabilities.

SD is at the front line of Malaysia's drive into the international ground as one of Asia's leading corporation. SD's strongest ground is the Asia Pacific and its energy has mainly been directed to this area, but projects have also been made further for some of its investment, such as in the United Kingdom, the USA, Egypt and South Africa. Sime Darby has grown beyond the boundaries of the region and will continue to expand its perspectives in future FDI.

After acknowledging the need to become familiar to the confronts of internationalisation, the group has outlined the broad strategies that it believes are important for it to compete successfully in the international field. With these are:

Planning for continuous growth in related businesses through horizontal and vertical combination

SD's overall strategy is to keep its reputation as Malaysia's leading conglomerate, focusing mainly on the growth of the Asia Pacific region through products and services of excellent quality.

Consider a learning culture which supports the contribution of knowledge across geographical partitions and organisational limitations.

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