Motives of internalization and strategic advantages and traits

Internationalization can be defined as the desire to be a member of the international society by satisfying a certain standard, or strengthening the influence of a nation on other nations. It becomes the process where multinational enterprise (MNE) engaging, it is very important for these companies to penetrate international market if they want to be accepted and remain successful. (Sreenivasan Jayashree and Sahal Ali Al-Marwai). The internationalization process helps MNEs in maturate their operation in foreign market and enhance their competitive position abroad.

According to Hedman (1993), three main alternatives for distributing the enterprise’s product exist, that is, indirect export, direct export and alternatives to export. When distributing indirectly, the different distribution activities are assigned to one or several intermediaries in the home market. When distributing directly, the producer itself conducts the distribution activities, such as distribution to a foreign importer, which in his turn forward the products to another intermediary or the end customer. (Molnar, 1990) the third alternative, alternatives to export, can take place through, for instance, own production in the target country, or licensing (Hedman, 1993).

The rapid changes in today’s business world call for new models of internationalization (Fillis, 2001; Meyer and Gelbuda, 2006), especially to be able to capture the early phase of internationalization in a better manner than the traditional models (Johanson and Vahlne, 2003). In contemporary research, Coviello and McAuley (1999), in line with Leonidou and Katsikeas (1996), have pointed at three theory directions that are preferable for studying internationalization, namely Foreign Direct Investment (FDI)-theories (a. k. a., the theory of the Multinational Firm), Stage models and

Network theory. Even though these are different theory directions, they are seen to be complementary views where a combination of views is preferred since it is difficult to capture the internationalization concept using only one theoretical framework (Bell et al., 2003; Björkman and Forsgren, 2000; Coviello and Munro, 1997; Meyer and Skak, 2002). Network theory is increasingly being combined with stage theory in order to understand and explain the rapid internationalization of the firm (in Bell et al., 2003; Johanson and Vahlne, 1990, 2003; Meyer and Skak, 2002).

The process of internationalization has been the subject of widespread theoretical and empirical research (for example, Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977; Bilkey 1978; Cavusgil 1980; Turnbull 1987; Welch and Loustarinen 1988) and finds a general acceptance in the literature (Bradley 1991; Buckley and Ghauri 1993; Leonidou and Katsikeas 1996). The internationalization process is described as a gradual development taking place in distinct stages (Melin 1992).

Internationalization processes in emerging markets, as in international markets in general, take place in a stepwise manner (Jansson, 2007). Companies commit themselves through a gradual learning process. Learning is incremental and takes place by doing. Firms learn about doing business abroad, for example, learning about the conditions in particular markets. Companies tend first to establish themselves in geographically and culturally proximate markets and increase their commitment, starting with agents, and passing through sales companies to manufacturing companies (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975).

Within the last decades, the business world has changed drastically through globalization and internationalization -creating a new and fierce business environment for companies. We can now see a third wave of internationalization of firms in which companies domiciled in mature Western markets establish themselves on a large scale in emerging markets such as Central and Eastern Europe (CEE), Russia, China and India (Jansson, 2007).

A recent phenomena of firm from Asian capital exporting countries were internationalizing and multinationalizing their business activities and have emerged or are emerging as Asian multinational enterprises (World Bank, 1993). They started the internationalizing activities and investing and setting up operation in other countries since mid-1980. Research interest which focus on these Asian enterprises and their direct investment activities arise in recent years (Ting, 1985; Ulagado et al., 1994; Yeung 1994, 1997). Foreign direct investment (FDI) started on the early 1980s. According to studies done by Lall, 1983; Well, 1983; Kumar and McLeod, 1981; Khan, 1986; Monkiewicz, 1986; Aggarwal and Agmon, 1990; Tolentino, 1993, FDI of Third World multinational enterprises (TWMNEs), slightly different with the traditional MNEs from the western developed countries in term of their characteristic. The growth of East Asia (World Bank, 1993) in late 1980 and early 1990, has increased intra-regional direct investment. The directed investment process from Japan , followed by Korea, Taiwan, Hong Kong and Singapore and the activities transferring from one level of economies to another in Malaysia, Indonesia and Thailand has been depicted as " wild flying geese pattern". (Toh and Low, 1994; Guisinger, 1991). As a result, these Asian capital exporting countries' firm internationalizing and multinationalizing their business activities and have emerged or are emerging as Asian multinational enterprises (World Bank, 1993).

Problem Statement

During these extremely competitive times, the international business environment is one that is normally full of immense uncertainty, volatility as well as a high rate of failure when it comes to international expansion The research on the nature, organization and operations of these emerging Asian international and multinational enterprises are limited. This is because research in international business and trade has been dependent largely upon economistic and western-centric theories developed predominantly in industrial and institutional economics (Buckley and Casson, 1985; Dunning, 1988, 1993). A study shown internationalization is the crucial factor for a firm to grow and develop economically and technologically (Syed Zamberi Ahmad and Fariza Hashim, 2007). Hence, it is very important for multinational companies to conduct a comprehensive examination of the various important factors that could influence the type of strategy that is to be selected for international market entry.

1. 3 Objectives

This research is dedicated to all local Malaysian companies who are looking at ways and means to internationalize their operations to a foreign market and would be of tremendous assistance to them in determining the correct strategic path and improve the understanding of the Asian MNEs' characteristic.

1. 4 Research Question

According to the problem statement above, the author has formulated some question to meet the research objective. The question are :

What are the key characteristics and success of their foreign ventures?

What are the motives for internationalization?

What are the entry strategies?

What are the strategic advantages and traits?

Research Contribution

Government: Through this study, government can carry out some government policy to lead more firm success in their international proses in expanding their business.

Firms: This study provides information to provide better understand characteristic and strategy for the purpose of internationalization which can increase the net profit of the firm.

Economic: This study enable economist to better understand how development of economic on a country can help MNEs in their internationalization process.

1. 6 Summary

This study proposal consists 3 chapters. Chapter 1 provides the overview of the recent phenomena of internationalization, the problem statement, objectives, and question. Chapter 2 displays literature review by past research, followed by concept and theories, and research framework. Chapter 3 describes the research methodology, sampling technique, data collection, data analysis and research planning that use to analysis the finding in Chapter 4.

CHAPTER 2

LITERATURE REVIEW

2. 1 Introduction

This chapter reviews the past studies about the concept and theory which included internationalization process, entry notes and process, eclectic explanation, foreign direct investment, regional and global internationalization processes, Uppsala model and Asian context. After that it follows by the research framework.

2. 2 Concept and Theory

2. 2. 1 Internationalization processes

Internationalization processes in emerging markets, as in international markets in general, take place in a stepwise manner (Jansson, 2007). Companies commit themselves through a gradual learning process. Learning is incremental and takes place by doing. Firms learn about doing business abroad, for example, learning about the conditions in particular markets. Companies tend first to establish themselves in geographically and culturally proximate markets and increase their commitment, starting with agents, and passing through sales companies to manufacturing companies (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). Research on the exports of mainly North American companies has reached similar results

(Bilkey, 1978; Cavusgil, 1980; Czinkota, 1982; Reid, 1981). Such process theories are highly useful especially when studying international 66 H. Jansson, S. Sandberg / Journal of International Management 14 (2008) 65-77 business in CEE. Learning processes are essential since the company needs to adapt to an emerging and different business context, such as exists in the CEE (Meyer and Gelbuda, 2006).

As noted by Sharma and Blomstermo (2003b) a basic assumption in internationalization process theory is that knowledge accumulation is continuous and dependent upon the duration of foreign operations. The longer firms have been involved in foreign operations, the more knowledge they accumulate about such operations. There is a relationship between knowledge accumulation and risk so that the more knowledge a firm has, the less uncertain they perceive the foreign market to be. Firms that lack knowledge about foreign markets even tend to overestimate risks. This corresponds to what Jansson (1989) found concerning establishment processes in a regional perspective, namely that the pace of investments in Southeast Asian countries accelerated, the more experienced the firms became in an area. Johanson and Vahlne (1990) stated that Uppsala model of internationalization indicated firms reveal an evolutionary process in internationalizing through a series of evolutionary ‘ stage’.

2. 2. 2 Entry nodes and entry processes

Firms entering emerging markets face several barriers according to Meyer (2001). These barriers include a lack of information, unclear regulations and corruption. According to traditional research on internationalization processes, market entries either take place through intermediaries such as agents or distributors or through a firm's own representative in the exporting/importing country, mainly a subsidiary.

In terms of research in this area, scholars have found that relationships are at the core of the internationalization process (Axelsson and Johanson, 1992; Ford, 2002; Håkansson, 1982; Håkansson and Snehota, 1995; Hammarkvist et al., 1982; Jansson, 1994, 2007; Johanson and Vahlne, 2003; Majkgård and Sharma, 1998).

According to the network approach to internationalization, entries into local market networks take place through establishing relationships. The international marketing and purchasing of products and know-how through a direct exporter/importer network means that a vertical network in the exporting region (e. g. a supplier's supplier network) is indirectly connected to another vertical network in the importing region (e. g. a buyer's buyer network). This large vertical network will, in turn, be embedded in other regional and national networks, such as a financial network (Jansson, 2006, 2007).

From a network perspective, establishment points in foreign market networks are defined as entry nodes. There are various routes into these networks, or nodes by which a firm can enter a network. Entries through trade either take place H. Jansson, S. Sandberg / Journal of International Management 14 (2008) 65-77 67 directly with customers or indirectly through intermediaries. Direct relationships, dyads, can be established between buyer and seller in the respective countries. Indirect relationships, triads, involve an outside party or other type of entry node, usually an intermediary such as an agent, dealer or distributor. Dyads can also be established through the entry mode FDI (a subsidiary in the importing country).

Entry processes take place by building relationships to form networks in foreign markets. Irrespective of entry node, the development of international buyer/seller relationships tends to follow a five stage pattern (Ford, 1980, 2002; Ford et al., 1998). Each stage of the entry process can be described by a number of relationship factors, such as how the experience, commitment and adaptations of the parties increase across the stages and how the distance and uncertainty between them are reduced across the stages.

The first stage includes the taking-up of marketing/purchasing activities before a formal relationship begins. The next three stages show how direct buyer-seller relationships within networks are established: from their beginning and to their deepening. Experience indicates the amount of experience the respective parties have with each other. They will gauge their partner’s commitment to the relationship, e. g. by the willingness to make adaptations. Distance is multifaceted and it can be split into social, cultural, technological, time and geographic distance. Uncertainty deals with the fact that at the initial stages, it is difficult to assess the potential rewards and costs of the relationship. In the fifth and final stage, the relationship is extensively institutionalized and habitual, with commitment being taken for granted.

Based on Terpstra and Sarathy, 1991; and Baek, 2003, joint ventures with host governments and local partners in the host country were among the preferred entry strategies for international operational operation. Petronas in South Africa entered into a commercial alliance with Engen in 1996 as a strategic partner. 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 (Padayachee and Valodia, 2002).

2. 2. 3 Eclectic Explanation

Eclectic Paradigm is a proverbial known explanation of international production.

Dunning's (1977, 1988, 1993, 1995). Eclectic Paradigm stated that the extent and pattern of international production is determined by:

1) Ownership advantages (for example, proprietary technology, products, expertise and skill)

2) Internalization advantages (for example, transaction costs reduction, maximize economic return), and

3) Location advantages of host and home countries

These OLI (Ownership Location Internalization) variables listed above explain the reason internationalization occurs but overlook the dynamic process of internationalization. The Eclectic paradigm is provided by the Investment Development Path (Dunning, 1981, 1986) with a dynamic dimension, and relates the net outward investment of a country to its stage of economic development.

Five stages of IDP (Investment Development Path)

Stage 1: At low level of economic development, there is little inward or outward investments.

Stage 2: Inward investment becomes attractive, especially in import substitution projects as the country develops. Some outward investment may take place in neighborly countries which at lower stages of development. Most developing countries with some outward investments are at this stage.

Stage 3: With economic development move forward, net inward investment declines while outward investment increases (relative to inward investment). Increasing of outward investment may take place in countries at lower IDP stages in order to overcome cost disadvantages in labour intensive industries and also to seek markets or strategic assets. Singapore, Taiwan and South Korea are said to be at this stage.

Stage 4: As production being multinationalized, net outward investment becomes positive. Most developed countries are at this stage.

Stage 5: The shift from advantages based more on factor endownment to those based on internalizing international market convergent outward and inward investment flows.

Empirical research on Third World (including Asian) multinationals has given general support to the IDP concept (Dunning, 1986; Tolentino, 1993; Dunning &Narula, 1996; Lall, 1996). Dunning and Narula (1996) acknowledge that country factors may influence the IDP pattern of a country, such as resource endownment, home market size, industrialization strategy, government policy, and the organization of economic activities. TWMNEs were smaller than their counterparts from developed countries and have limited number of overseas operations. The competitive advantages of TWMNEs were based on cost advantages (particularly labour cost) and greater responsiveness to host country needs which is different from western MNEs. They served market niches which were not covered by the traditional MNEs and so were not in direct competition with them. The major motivation for these FDI was protecting export markets rather than exploiting rent from proprietary technological know-how (or other ownership specific advantages characteristic of western MNEs) explained in theories, such as the eclectic paradigm of Dunning (1977, 1995). TWMNEs possessed first or second generation labour-intensive technologies and produced standardized products mainly for the domestic host country market which at stage 4 of IDP. Wells (1983) presupposes a “ pecking order” hypothesis to suggest that the TWMNEs’ technologies could fill the technological gap between the advanced technology of developed country MNEs and the rudimentary technology of less developed countries (LDCs) in a “ pecking down” order. Lall (1983) emphasized the flexibility and adaptability of TWMNEs’ technologies to be more suitable or appropriate to LDC situations.

2. 2. 4 Foreign Direct Investment (FDI)

It may seem surprising that there is significant number of foreign direct investments by some firms from developing countries because it is usually credited to more developed countries. A number of studies indicate that FDI flows not only from the industrialized or well-developed countries, as well as developing countries. Scholars such as Lecraw (1981, 1993), Wells (1977, 1981), Lall (1983a, and 1983b), Kumar and Lim (1984), Ulgado et. al., (1994) are only some of those who have carried out empirical studies and researched FDI flows from developing country firms in the 1970s and 1980s. Comparisons between the nature of international expansion of firms from developing countries and the nature of those corporations that originated from developed countries are made in most of these studies (Dunning, 1986; Vernon-Wortzel and Wortzel, 1988). In general, it has been depicted that the competitive advantages of MNCs from developed country are derived from advanced proprietary technology or other superior resources (Yeung, 1994). While ability to reduce costs of imported technology through ‘ de-scaled manufacturing’ or smaller scale of production is focus of the competitive advantage from developing country MNCs were derived from their 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).

Outward direct investment from developing countries started to grow rapidly to a sizeable magnitude during the mid-1980. This became the main tool of developing country multinationals in demanding that their constituent firms prepare for the drastically international competition that they were about to face(Kumar, 1996, 1997). The emergence of new technologies in the late 1980s somehow decreases the interest in outward direct investment from developing countries subsided (Kumar, 1996; Oh et. al., 1998; Pananond and Zeithaml, 1998; van Hoesel, 1999). Pananond and Zeithaml(1998) and van Hoesel(1999) recounted that aggregate analyses of developing country

MNEs conducted at the industry level get attention from scholars and yielded interesting results by the early 1990s. They concluded that there were marked differences in characteristics between developing country MNEs in the 1980s and 1990s. Scholars posited that these two groups of MNEs belonged to two different ‘ waves’ of development in term of their respective historical backgrounds, nature of businesses, extent of the role of government in operations and transactions, geographical direction, and mode of internationalisation activity. MNEs in the 1980s are more concerned with cost competitiveness with their competitors (van Hoesel, 1999). In contrast, developing country MNEs in the 1990s placed greater emphasis on the development and reset business strategies due to the dynamic changing patterns of world business structure brought about by trade liberalisation and economic globalisation (Dunning et al., 1997). Besides this, they put more effort on technological competence as the source of competitive advantage (Pananond and Zeithmal, 1998). 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).

2. 1. 5 Regional and global internationalization processes

In analyzing the early internationalization steps of smaller and less experienced companies, the internationalization process model by Johanson and Vahlne (1977) is regarded as a highly useful tool. In internationalization research, few studies have been conducted on “ higher level” internationalization where companies are established in several countries and have fully-owned businesses (Meyer and Gelbuda, 2006). The more countries in a region a firm exports to, the more extensive is the regional internationalization process. The more regions a firm exports to, the more global is the internationalization process.

New stages of internationalization are established when a firm extends its business from one major type of market to another or from one type of foreign environment to another. The main factor behind these stages is experiential knowledge, meaning that firms gradually build a knowledge base through operating in foreign markets. They learn from past experience by transforming this experience to useful knowledge. There are three types of such knowledge (Eriksson et al., 1997). Internationalization knowledge about how to perform international operations is an expression of a firm's current stock of knowledge in the form of its resources and capabilities. The more novel the foreign environment, the more difficult it is for the firm to apply its current stock of knowledge to that foreign market. This means that there is a gap between a firm's present internationalization knowledge and the knowledge the company has about how to do business in the specific foreign market, i. e. concerning its network experiential knowledge and institutional knowledge (Blomstermo et al., 2004).

Based on a firm's experiential knowledge process, internationalization processes are often divided into different degrees of internationalization. Johanson and Mattsson (1991) discuss the internationalization process for firms with various degrees of internationalization and propose that the process is mainly valid during the early stages of a firm's internationalization: inexperienced firms tend to follow a traditionally slow and gradual pattern, while the internationalization of a more experienced company is less slow and gradual.

2. 2. 6 Uppsala model

The Uppsala model (Johanson &Weidersheim-Paul, 1975; Johanson & Vahlne, 1977) provides an explanation of the dynamic process of internationalization of individual firms. The Uppsala model emphasize on the importance of gaining knowledge and experience about the characteristics of foreign markets along the internationalisation path, and helps MNEs reduced risks and levels of uncertainty in unfamiliar foreign environments before investing (Wiedersheim-Paul et al., 1978).

The successive steps of increasing highly commitment are based on knowledge acquisition. Foreign activities started with export to foreign country through independent representative or agent, after that establish sales subsidiary and finally start production in the host country. The internationalization of the firm across many foreign markets was particularly related to psychic distance which included differences in language, education, business practices, culture and industrial development. Firstly, enter foreign market which closer in term of psychic distance, followed by subsequent entries in markets with greater psychic distances. Same goes to entry mode of foreign market. The incremental expansion of market commitment meant that the initial entry was typically some form of low commitment mode and followed by progressively higher levels of commitment. Obviously, commitment of the level of ownership in different markets was correlated with their psychic distance. The Uppsala model had received general support in empirical research (Welch and Loustarinen, 1988; Davidson, 1980, 1983; Erramilli et al., 1999) and its largely intuitive nature and evolutionary learning perspective made it attractive as an explanatory model.

A related view regards learning was that TWMNEs built up their advantages through the accumulation of technology and skills. Lall (1983) emphasized on the localization and adaptation of technology to suit local markets by TWMNEs. Tolentino (1993) focused in term of the accumulation of technological competence in the expansion of firms from developing countries which was consistent with the resource-based view of building competitive advantage in strategic management. The accumulation of knowledge and competence especially its knowledge of developing markets and not so much its technology by the CP Group in Thailand was the key to its internationalization. There are also differences between the CP Group and Western MNEs (Pananond and Zeithaml, 1998). Mathews (2002, 2006) postulated that emerging firms could foster internationalization via leverage of their contractual linkages with other foreign firms to acquire resources and learning new capabilities. He indicated that this explanation complemented the OLI framework and could be used to explain the rise of such latecomer firms which he dubbed as “ Dragon multinationals”.

2. 2. 7 Asian Context

Yeung (1999); Zutshi & Gibbons (1989) portrayed that western theories on internationalization have neglect the active role played by the state and overlooked the institutional or contextual perspective in the internationalization of Asian. Asians state always plays a direct and active role in the internationalization of its MNEs. For example, the Singapore government played a key and direct role in the promotion of outward FDI (e. g., growth triangles, industrial parks in foreign countries), particularly from the early 1990s in its regionalization programs (Pang, 1994; Tan, 1995; ESCAP/UNCTAD, 1997). Incentives and other programs for instance tax incentives, finance schemes, training also provided to foster the rapid development of local entrepreneurship in the regionalization efforts. In Malaysia, the government took a very active role in promoting the internationalization of Malaysian firms. Investment promotion missions abroad were organized and often lead by the Prime Minister. The government provided incentives including tax abatement in 1991 and subsequently full tax exemption in 1995 for income earned overseas and remitted back to Malaysia. An overseas investment guarantee program was instituted. Malaysian government " instructed" firms to defer non-essential overseas investment in order to reduce the impact of the effects of the 1997 Asian financial crisis. In the Asian context, the state has played a very active and direct role in promoting the internationalization of its national firms. This is much different with the western context, where the role of the state is benign and indirect.

2. 3 Summary

This chapter first discussed the internationalization process in terms of entry notes and process, eclectic explanation, foreign direct investment, regional and global internationalization processes, Uppsala model and Asian context. The following chapter discusses the research method, survey development, and sample selection

CHAPTER 3

METHODOLOGY

3. 1 Introduction

This chapter provides an overview of the research method. It starts by explaining the appropriateness of the research method. Then discusses the research design which consists of seven steps: questionnaire development, literature review, proposal, data collection, data analysis, discussion and conclusion, and write-up. Next the data collection and sample selection is discussed with reasons for each of the decisions involved. The next section discusses the statistical methods. Lastly, a Gantt chart will be use to estimate the times use in each activity.

3. 2 Sampling Technique

A case study approach will be using in this paper. It tends to provide in depth information and intimate details about the particular case being studied. This approach was used to collect comprehensive and holistic data (Eisenhardt, 1989; Internationalization Strategies of Emerging Asian MNEs 491 Yin, 1994) about firms that have internationalized their operations over time. The focus here is on MNEs from Malaysia (a fast developing country).

Case studies mean that the research investigates few objects in many respects (Wiedersheim-Paul, & Eriksson, 1991). Case studies are most suitable if you like to get a detailed understanding about different kinds of process (Lekvall & Wahlbin, 1987). The researches may, for instance, choose a line of business and an enterprise, and conduct an in depth investigation (Wiedersheim-Paul, & Eriksson, 1991). Yin (1994) states, that when the form of the questions is why and how, the case study strategy is most likely to be appropriate.

The research problem I have investigated was “ how the internationalisation process of a MNEs when entering to foreign market can be characterised” , which was divided into four research questions.

3. 3 Data Collection

3. 3. 1 Secondary data

Eriksson & Wiedersheim-Paul (1997) points out that secondary data is data, which already has been collected by someone else, for another purpose. Statistics, and reports issued by governments , trade associations, and so on, are some sources of secondary data (Chisnall, 1997). The annual report and the enterprise’s homepage, are another sources of secondary data (Wiedersheim-Paul, & Eriksson, 1991). Secondary data research should always be carried out before doing any field survey (Chisnall, 1991).

When I had defined the research area, I started to search for relevant literature. The databases that I have used to find relevant literature are EBSCOhost, Science Direct, Libris, ABI/INFORM, and Helecon. The keywords used when searching the databases were “ international business”, ” Malaysian MNEs”, “ internationalization”, “ strategies”, “ mode of entry”. These words were co