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A comparative case study of the internationalization strategies of Malaysian, Singaporean and Taiwanese firms

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Keywords

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A Comparative Case Study of the Internationalization Strategies of Malaysian, Singaporean and Taiwanese Firms

By

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Abstract

Comparative empirical research on the internationalization strategies of Asian multinational enterprises (MNEs) from countries at different levels of development is lacking. This paper examines and analyzes the internationalization characteristics and strategies of MNEs from three Asian countries at two different levels of development. Primary data from matched sample firms from Malaysia (a fast developing economy) and Singapore and Taiwan (representing newly industrialized economies) in the textile and electronics industries are used for this study. The findings indicate some differences among the Malaysian, Singaporean and Taiwanese MNEs. These differences and their implications are examined. The empirical findings, particularly the contextual aspects of internationalization, and propositions for further research are discussed .

Key words: Internationalization strategies, Malaysian, Singaporean and Taiwanese firms

Introduction

Multinational enterprises (MNEs) have emerged from developing economies to challenge the dominance of MNEs from the advanced countries. The phenomenal growth of East Asia in the late 1980s and early 1990s included the emergence of MNEs from countries such as Korea, Taiwan and Singapore. Researchers' interest in Asian MNEs has been increasing (e.g., Yeung 1997; Pangarkar 1998; Mathews 2006; Luo and Tung 2007). Recently greater attention has been given to foreign direct investment (FDI) and MNEs from other emerging economies such as Brazil, Russia, India and China (UNCTAD 2005). For example, considerable attention has been given to FDI from China (Buckley et al. 2007; Warner et al. 2004).

While the literature on MNEs from Asia and other emerging countries has grown considerably, a consensus on the explanations for their success has not been reached. Luo & Tung (2007) advocate a springboard perspective to explain the unique features of MNEs from emerging markets which include using international expansion to quickly acquire strategic resources and to reduce their institutional and market constraints at home. Similarly, Buckley et al. (2007) point out that amendments to the general theory of the MNE are required to explain Chinese overseas FDI. Hennart (2009) highlights the need to include the role of complementary local assets in internationalization theories.

Further research is required to fully understand the behavior and dynamics of MNEs from Asia and other developing economies. Luo & Tung (2007) suggest that research be conducted on what emerging market MNEs can learn from the NIE MNEs, implying that these two types of MNEs may be different. In fact, comparative research on internationalization strategies among Asian MNEs (particularly from emerging economies) is limited. Hence, further empirical research comparing MNEs from different Asian countries, particularly at different levels of development, will be instructive and fill an empirical gap.

This paper presents comparative empirical research and examines the internationalization characteristics and strategies of Asian MNEs from Malaysia, a rapidly developing country, and Singapore and Taiwan, which are categorized as newly industrialized economies in this paper.

Empirical data of six matched case studies are presented and used to analyze internationalization characteristics and strategies. The findings will be discussed in relation to other MNEs in general. The next section covers the theoretical foundations of MNEs and their relevance to Asian MNEs. This is followed by the research methodology, findings, discussion and implications for further research.

Literature Review

The eclectic paradigm (Dunning 1988) has been widely used to explain the international expansion of firms. Dunning states that the extent and pattern of international production is determined by the configuration of three sets of advantages: a) Ownership or firm-specific advantages, such as proprietary technology, products, expertise and skills; b) Locational advantages of host and home countries; and c) Internalization of these advantages across national boundaries to overcome market imperfections or failures, reduce transaction costs and maximize economic returns (Buckley and Casson 1976). These “OLI” variables explain why internationalization occurs but neglect the dynamic process of internationalization. The investment development path (IDP) thesis provides the eclectic paradigm with a dynamic dimension by relating the net outward investment of a country to its stage of economic development (Dunning 1981, 1986).

At a low level of economic development (stage one), there is little inward or outward investment. As the country develops (stage two), inward investment becomes attractive, particularly in import substitution projects. Some outward investment might take place, for example in neighboring countries at lower stages of development. Most developing countries (including Malaysia) with some outward investment are at this stage. With further economic progress (stage three), net inward investment declines, while outward investment increases (relative to inward investment). Outward investment tends to increase, targeting countries at lower IDP stages to overcome cost disadvantages in labor intensive industries and also to seek markets or strategic assets. The NIEs (e.g., Taiwan and Korea) are said to be at this stage. At stage four of the IDP, net outward investment becomes positive with production being multinationalized. Most developed countries are at this stage.

Research on multinationals from emerging countries has given general support to the IDP thesis. Dunning and Narula (1996) acknowledge that the specific IDP pattern of a country may vary depending on country factors such as its resource endowment, home market size, industrialization strategy, government policy and the organization of economic activities. According to Dunning, van Hoesel and Narula (1998), the second wave of MNEs from third world countries (TWMNEs) is different from the first wave, as described by research in the early 1980s (e.g., Lall 1983; Wells 1983; Kumar and McLeod 1981). While the first wave firms are from developing countries, the second wave encompasses firms mainly from East Asian NIEs. The MNEs from these countries have greater ownership advantages (e.g., ability to innovate) and use FDI more strategically for technology and marketing in advanced industrial countries via higher equity and control modes through, for example, mergers and acquisitions. Dunning, van Hoesel and Narula argue that the second wave is consistent with the IDP explanation (stage 3) and represents an intermediate stage between the first wave of TWMNEs and conventional MNEs. While generally supporting the IDP concept, Lall (1996) states that it should be extended and modified to take into account the different sub-patterns of countries.

The IDP concept remains vague about the precise relationships between the underlying advantages or factors, the pattern of inward and outward FDI, and the stage of IDP (van Hoesel 1999). The macro nature of IDP studies has contributed to this knowledge gap. The precise nature of the ownership-specific advantages of the Asian MNEs from NIEs remains unclear. In addition, there is inadequate research into differences between these MNEs and those from less developed countries.

Another popular approach used to explain the dynamic process of internationalization by an individual firm is the Uppsala model (Johanson and Weidersheim-Paul 1975; Johanson and Vahlne 1977). This model of gradual steps to international business expansion is based on a series of incremental decisions, whose successive steps of increasingly higher commitments are based on greater knowledge about a foreign market. Foreign activity starts with export to a country via independent representatives and is followed by the establishment of a sales subsidiary and eventually production in the host country. The internationalization of the firm across many foreign markets is related to psychic distance (differences in language, education, business practices, culture and industrial development). Initial entry is aimed at a foreign market that is closer in terms of psychic distance, followed by subsequent entries into markets at greater psychic distances.

In terms of entry mode and level of ownership, the incremental expansion of market commitment means that the initial entry is typically some form of limited commitment such as a minority joint venture (JV) followed by progressively higher levels of commitment culminating in a wholly owned subsidiary). The Uppsala model has received general empirical support (e.g., Welch and Loustarinen 1986; Davidson 1980, 1983; Erramilli et al. 1999) and its largely intuitive nature and evolutionary learning perspective lends itself to being an attractive explanatory model. Recently, Johanson and Vahlne (2009) modified the model to incorporate a network perspective in which internationalization also involves reducing the liability of being an outsider in the relevant cross-country business networks.

The above concepts and theories explain the internationalization of MNEs from NIEs and developing countries but do not provide a complete account of MNEs, particularly Asian MNEs. The TWMNEs and Asian MNEs exhibit characteristics, motivations and internationalization paths that vary from those of MNEs from developed countries. Li (2003) contends that extant MNEs theories need to be modified and enhanced to explain all MNEs, including Asian MNEs. Mathews (2002, 2006) postulates that emerging Asian firms can achieve accelerated internationalization by leveraging their contractual linkages with other foreign firms to acquire resources and new capabilities. He indicates that this explanation can complement the OLI framework in explaining the rise of latecomer firms which he dubs "dragon multinationals."

The extent of state involvement in Asia differs from the developed country context where the role of the state is benign and indirect. In the Asian context the state often plays a direct and active role in the internationalization of its MNEs. Theories on internationalization tend to overlook the active role played by the state and neglect the institutional or contextual perspective in the internationalization of Asian firms (Yeung 1999; Zutshi and Gibbons 1998). For example, from the early 1990s the Singapore government played a key role in the promotion of outward FDI through its regionalization programs (Pang 1995; Tan 1995; ESCAP/UNCTAD 1997). In Malaysia, the government very actively promoted the internationalization of Malaysian firms by providing tax incentives and overseas investment guarantee programs. In Taiwan, government policy targeted and encouraged selected strategic industries such as the computer information industry for development and internationalization.

Asian MNEs should be examined within the context of their institutional and socio-cultural embeddedness. While national cultural characteristics have been found to influence different aspects of internationalization in Western MNEs (Johanson and Vahlne 1977; Kogut and Singh

1988; Shane 1994; Barkema and Vermeulen 1997), these cultural factors are essential in explaining Asian internationalization which tends to be organized through social and ethnic networks. The values and beliefs comprising the "spirit of Chinese capitalism" (Redding 1990) underpin the way Chinese business and cross-border operations are conducted (Yeung and Olds 2000). Personal relationships and networks (Chen 1995, 2004; Hamilton 1996; Luo 2000) form the basis of the internationalization of Chinese and Asian firms. Therefore, the internationalization of Asian MNEs reflects both their institutional and cultural contextual embeddedness. It is imperative to combine these contextual perspectives with the economic perspective normally used to explain the internationalization of MNEs from developed countries. Such differences are being recognized in the literature as reflected in Peng, Wang and Jiang (2008) and Luo and Tung (2007).

In recent years the phenomenal growth of overseas FDI from the rapidly emerging countries, such as Brazil, Russia, India and China (UNCTAD 2005) has prompted research into the motivation, behavior and strategies of MNEs from such emerging countries. Luo and Tung (2007) propose a springboard perspective to capture the special characteristics of these MNEs not adequately covered by the eclectic paradigm. These emerging markets MNEs try to overcome the disadvantages of being latecomers through aggressive acquisition of critical strategic assets and opportunities from advanced markets via rapid internationalization. They suggest a framework that takes into account the institutional, network and governance contexts of emerging market MNEs. Buckley et al. (2007) in their analysis of Chinese outward FDI also indicate that traditional theories can be refined to take account of characteristics such as capital market imperfections, special ownership advantages and institutional factors. While these are recent contributions to the study of MNEs from emerging markets, further research is required in order to have a more complete picture of MNEs from emerging economies, the NIEs, as well as the advanced economies. Towards this end, this paper presents empirical data on three Asian economies at different development levels, namely, Singapore and Taiwan (both NIEs) and Malaysia (a fast developing economy).

Research Methodology

I used a case study approach to collect comprehensive, contextual and holistic data (Yin 1994; Eisenhardt 1989; Siggelkow 2007) from firms that internationalized their operations over time. The selected firms are MNEs from Malaysia, Singapore and Taiwan, economies at different level of development in line with the stages of the IDP. The data was primarily drawn from field interviews with CEOs or top executives responsible for the international operations of the firms in their home countries. As my focus was on the internationalization strategies of the parent firms, overseas subsidiaries were not included. In addition, the difficulty of accessing overseas subsidiaries restricted the scope of the study to home countries which constitutes a limitation of this study. In addition to interviews, annual reports, prospectuses, presentations to security analysts and bankers, news releases and other publications were requested and collected from the firms visited. Data from other secondary sources, including published materials in business and professional periodicals, journals and internet sites, were used to supplement the primary material. Using data from various sources allowed me to cross-check data and ensure validity. Case notes were prepared, tabulated and analyzed for each case firm along the lines indicated by Miles and Huberman (1994). Summary tables of the case firms are presented in the appendix for discussion here.

The textile and electronics industries studied were among the most internationalized sectors in the three countries and had substantial numbers of firms with overseas operations over a period of time which allowed me to study their internationalization in progress. Only firms with international experience of about ten years were approached, and six firms that could be matched agreed to participate in the study. The use of the two industries also allowed for comparative analysis within industrial sectors which shared some similarities (e.g., use of OEM (original equipment manufacturer) strategies) and differences (e.g., different technological levels). Two electronics firms and two textile firms from Malaysia, Singapore and Taiwan were used for this exploratory study. These firms requested anonymity and confidentiality as a condition of participation and are accordingly disguised in the paper. The reluctance of firms to participate in the study is a common problem of research in Asian countries.

Research Findings

Internationalization Characteristics

The sample firms varied in size from small (US$26m in sales) to large (US$1.3b). As expected from the IDP thesis, the Singaporean and Taiwanese sample firms were larger than the Malaysian firms in both the electronics and textile sectors. Compared to MNEs from developed countries, the case firms were much smaller in size. However they were representative of MNEs in general from Malaysia, Singapore and Taiwan as reported in the literature. Small and medium sized firms played a key role in internationalization in Asia. The prevalence of small and medium sized firms investing in China and Southeast Asia was a characteristic feature of Taiwanese (Chen et al. 1995), Singaporean (Lu and Zhu 1995) and Malaysian (Rogayah 1999) FDI. For example, from 1986 to 1991 about 90% of Taiwanese projects in Southeast Asia were estimated to have been undertaken by small and medium sized enterprises (SMEs) (Chen 1998).

The degree of multinationalization is expected to be greater at higher stages along the investment development path. The case firms had overseas locations in a narrower geographic range (as indicated in the appendix tables) than MNEs from advanced countries and tended to concentrate in the Asian region. The Taiwanese textile firm had operations in eight locations (in Asian countries and Canada), the Singaporean textile firm had seven locations while the Malaysian firm had one (Sri Lanka). In electronics, the Singaporean firm was really global in scope, the Taiwanese firm had operations in Thailand, China, the UK and Mexico, while the Malaysian firm invested in China and Australia. Hence, the Singaporean and Taiwanese firms in both industries were more internationalized than the Malaysian firms, which seems consistent with the IDP thesis. While concentrating in the Asian region, the Singaporean and Taiwanese case firms had begun to move to the developed countries by investing in the US and Europe for strategic asset-seeking motives. This expansion pattern was also observed by van Hoesel (1999) among his sample of firms in Asia. It is interesting to note the early investment in Australia by the Malaysian electronics firm to acquire technology, but it subsequently divested after two years, probably indicating the lack of international experience of a stage two firm.

In general, the sample firms internationalized in the 1980s and 1990s. While the Taiwanese textile firm started foreign production in the mid-1960s, it only stepped up its international activities during the late 1980s, first in other Asian countries then in Canada in 1995. The Singaporean textile firm followed a similar pattern but did not enter the developed countries. The Malaysian textile firm went overseas only in 1993. In the electronics sector, the setting up of overseas manufacturing by the Taiwanese firm began in 1991, followed by three more investments in 1995, 1997, and 1998. The Singaporean electronics firm ventured overseas in the late 1980s with an early entry in the US in 1988 for technology reasons. The Malaysian electronics firm went to China in 1995 and followed up with an Australian acquisition in the same year. In both industries the Malaysian case firms began internationalization later than the Singaporean and Taiwanese firms.

Strategic Motivations

The textile firms in this study were motivated to internationalize to lower production costs and circumvent quotas for textile exports. The Singaporean textile firm relocated all of its production to other Asian nations to reap locational advantages but made no specific moves to acquire strategic assets. The Taiwanese textile firms shifted operations to Southeast Asian countries initially, and then to China. In addition it invested in a JV in Canada to acquire technology and to backward integrate to ensure raw materials supply. It also moved downstream into departmental stores in Taiwan. This move to gain greater vertical control of its value chain and to capitalize on internalization advantages is indicative of movement along the IDP and is found in the second wave Asian MNEs (Dunning et al. 1998). Hence the Taiwanese firm had moved further along the IDP than its Singaporean counterpart. The Malaysian textile firm remained in its original posture as an OEM supplier, a reflection of its being at stage two in the IDP.

The Taiwanese and Singaporean electronics firms utilized and extended their OEM-based strategy of seeking low-cost manufacturing sites in Asia. They also invested in the US and Europe for strategic reasons and to position themselves to compete in the NAFTA and European markets. These locations also served as windows for new technology acquisitions in the US and Europe. The Malaysian electronics firm went to China and Australia mainly for market and R&D reasons. Technology acquisition was its motive for investing in Australia, but this move was very premature and ended after two years. The Malaysian firm probably lacked the experience to successfully transition along the IDP to stage three.

Collaborative Relationships

The role of networks, particularly ethnic networks, was critical in the recent growth of Asian MNEs. The IDP thesis does not specifically address ethnic networks. The sampled firms' internationalization was strongly aided by their ethnic and *guanxi* networks in the Asian region. All the case study firms reported using their ethnic and other networks in their foreign operations (see tables in appendix). A good case example was the Singaporean textile firm that initially expanded overseas via its extended family network in the region and capitalized on its network of ethnic (Chinese) associates in Asia to form an informal Asian grouping for all of its businesses. The Taiwanese textile firm went to Singapore based on family connections and has since developed an extensive ethnic network where it had operations in Hong Kong, the Philippines, Thailand, Malaysia, Indonesia and China. In addition, it used other collaborative modes and went into four joint ventures with MNEs from developed countries in upstream integrative ventures to protect its sources of supply and to gain large scale production technology. The Malaysian textile firm was linked to a large network of related businesses and suppliers in Asia with which it had closely associated over a long period of time. A number of these related businesses were owned by distant relatives of the key shareholder of the Malaysian firm.

All the electronics firms in the sample also utilized ethnic networks in Southeast Asia and China for their overseas operations (see appendix tables). The Taiwanese sample firm set up a venture in Thailand as a result of its association with a related Taiwanese partner in another venture (shoe manufacturing) that had operations there. Ethnic connection also facilitated its operations in China. The Malaysian electronics firm had ethnic partners in research and development in China and an extensive network of Japanese and other suppliers. The

Singaporean electronics firm had Chinese ethnic contacts in the electronics sector in the US, particularly around the Silicon Valley.

In the electronics firms, strategic alliances that involved both business and ethnic partners were used. The Singaporean and Taiwanese firms had elaborate subcontracting networks and built extensive global logistics networks and JIT hubs to ensure efficient and smooth supply and distribution. It was apparent that the electronics firms realized the need to build efficient global logistics and supply chain networks to complement the competitive advantage of their ethnic links and cost efficiencies. Hence a part of their network was not necessarily ethnically based, but based on industry relationships that were facilitated by the elaborate global network of suppliers and subcontractors in the electronics industry’s global OEM framework. The Singaporean and Taiwanese electronics firms in the sample made greater use of strategic alliances, licensing and partnerships with companies in technologically advanced countries.

Discussion

The findings on the characteristics and strategies of the sample firms from Malaysia, Singapore and Taiwan seem to be consistent with the general pattern for firms from developing economies and NIEs suggested by the IDP approach. In addition their internationalization tends to be more regional in nature. In general the size of the sample firms has a constraining effect on the geographical spread of their internationalization. With limited resources, these firms tend to extend their current products and technologies to nearby countries with similar economic and cultural environments. In addition these countries provide locational advantages for the sample firms. The choice of proximate countries in the initial stages of internationalization is consistent with the internationalization processes theory of the Uppsala School (Johanson and Vahlne

1977). This is also similar to patterns of internationalization by SMEs in developed countries as well (Bilkey and Tesar 1977; Cavusgil 1980; Holmlund and Kock 1998; Riel 1998).

The timing of international expansion and longitudinal spread of the case firms is reflective of Asian MNEs in general, with firms from the NIEs internationalizing ahead of those from less developed Asian countries, indicating some support for the IDP concept. Being relative latecomers in internationalization, the competitive catch-up processes become very important for Asian MNEs and some might be able to leapfrog stages in the internationalization process (Young et al. 1996). In their study of the globalization of a major Korean motor firm, Oh et al. (1998) indicate that Asian MNEs must simultaneously pursue both technological build-up and internationalization to compete effectively in the global market. Mathews (2002, 2006) argues that latecomer firms can successfully globalize by learning and building capabilities quickly and successfully through leveraging their overseas linkages. Gubbi et al. (2010) provide some empirical evidence that firms can reap greater value creation through acquisition of strategic assets from firms in advanced countries.

In general, the internationalization of the case firms, like that of other Asian MNEs, results from their search for low-cost labor and market expansion. These goals differ from global MNEs which seek to optimize their intangible assets and other ownership advantages. In the textile and electronics industries under study here, it can be argued that the motivation for internationalization resembles that of firms from advanced countries according to the product life cycle (Vernon 1966, 1979) and IDP (Dunning 1993) theses. Both of these theses point to location-based advantages such as low cost and protectionist factors as spurring the international expansion of production in the textile and electronics industries. Asian MNEs and MNEs have similar location-based motivations during their early stages of internationalization.

In developing economies, Asian MNEs have ownership specific advantages (e.g., adaptive technology, better market knowledge) that allow them to compete with the larger MNEs from developed countries. However the ownership-specific advantages required for these Asian MNEs to compete in the developed and global markets will be different. Were the sample firms following the springboard prescription and developing such capabilities when they invested in developed countries? This does not seem to be the case for the textile firms, except for the Taiwanese firm. The competitive advantage of the case firms in the textile industry was largely based on low cost inputs largely for OEM manufacture. For example, the competitive advantages of the Malaysian and Singaporean textile firms were based on costs and export orientation and a reputation for quality and reliability built over years of operations in Asia. Their production was mainly for OEM export to European and North America markets. To reduce dependence on textiles, particularly in the face of the eventual abolition of the Multi Fibre Agreement, they diversified into retailing, trading and property development. The Taiwanese textile firm, an integrated textile company, initially based its competitive advantage on cost competencies. It integrated backwards to ensure technology and steady sources of raw materials, including several JVs to produce textiles and related materials such as PTA (pure terephthalic acid), nylon fiber, polyesters and industrial gases and a JV in Canada to produce ethylene glycol as feedstock for fiber. This firm moved along the textile value chain to internalize its ownership advantage as well as to acquire technological knowledge from its foreign partners. The Taiwanese firm's strategy was different from the Singaporean and Malaysian textile firms which did not seek to augment such competitive advantages. Hence the Taiwanese firm seems to be more oriented toward strategic asset-seeking than the Singaporean and Malaysian textile firms

In electronics, two out of the three case firms were more strategically oriented in their internationalization. The competitive advantage of the case firms in Singapore and Taiwan was initially based on strategies of OEM manufacturing. The Singaporean firm then progressed beyond this and expanded its competencies based on its technology and branded products. It moved furthest away from the low technology and cost-based Asian MNE model among the case firms. In addition to its low cost production bases in Malaysia and China, the Singaporean firm's competitive advantages included its niche technology leadership, brand recognition, distribution network and product line-up. Early in its internationalization, the firm deliberately moved to the US to acquire technology through acquisitions and collaborative arrangements. This could be seen as its early springboard move. It had since developed a leadership position in audio-visual technology for PCs. About 80% of its turnover was from North America and Europe. This firm resembled Acer of Taiwan (Li 1998) and other "dragon multinationals" (Mathews 2006).

The Taiwanese case firm moved production of its monitors to its venture in Thailand in 1991 and then to China in 1995 due to cost factors. However, its overseas locations spread beyond Asia to Mexico and the UK. The strategic positioning of the Mexican operation was to maximize its locational advantages (cost and proximity to the US) and to keep tabs on technology. The UK location provided both an entry into the European market and a base for its technology monitoring and global logistics network. Their investments in the developed countries were intended to identify and accumulate new competitive capabilities and advantages. The firm emphasized R&D in product development for its own design manufacturing (ODM), developed its own brand identity and produced some very innovative color monitors and LCD displays that were recognized by the industry. The Taiwanese firm extended its competitive ownership advantage beyond a low cost basis to one of greater differentiation based on innovation, distribution and reputation. The firm advanced further along the IDP, but to a lesser degree than the Singaporean case firm.

On the other hand, the Malaysian electronics firm relied on market adaptation, using its technical expertise to tailor its electronics displays to meet host market requirements. It acquired an Australian firm and used its China venture to modify its technology for the Chinese market. It claimed that its adaptive technology could match the best in the world at competitive prices (evident from its ability to win large projects in Southeast Asia through international bidding). The firm diversified into related value adding businesses such as system integration of telecommunication equipment and audiovisual multimedia. Hence, the Malaysian electronics firm was much less sophisticated than the Taiwanese firm in its competencies and relied on its skills to adapt existing technology to local market conditions. It needs to acquire further capabilities to compete in developed countries and to progress further in its internationalization.

While sharing several basic competitive advantages, there are some variations among the sample firms, particularly by country. The majority of firms relied on advantages based on cost, responsiveness and knowledge of local markets. Differences in ownership advantages among the sample firms from the three countries in both industry sectors are evident. In the textile sector, while all firms relied on cost-based advantages, the Taiwanese firm was more internationalized and had greater vertical control of its value chain, particularly in an advanced country where technology intensive processes were acquired for large scale input manufacture. Its entry into a developed country also served to protect its competitive position in the face of the eventual elimination of tariff preferences. While the Taiwanese firms advanced technologically, the Singaporean and Malaysian textile firms were largely confined to their cost-based OEM manufacture. Similarly in the electronics sector, the Singaporean and Taiwanese firms upgraded to ODM and developed their own brands and extensive logistics networks (the transaction-type ownership advantages of Dunning 1993). As indicated previously, the Singaporean electronics firm was more global in its competitive advantage and scope than the Taiwanese firm. Hence the relative positions of the case firms from Singapore and Taiwan varied between the electronics and textile industries. The Malaysian electronics firm was preoccupied adapting technology for Asian markets, including cooperating with Chinese partners in technology applications. Its foray into Australia for technology acquisition was an attempt to move beyond its current situation, but was not successful. The characteristics of the Malaysian firms are generally consistent with stage two of the IDP, while the Singaporean and Taiwanese firms are reflective of stage three.

To become more competitive globally, the forward looking Taiwanese and Singaporean case firms entered developed countries to seek technology, strategic assets and markets. They were augmenting their competitive advantages and moving towards becoming more like MNEs from the developed countries. The Singaporean electronics firm in the sample is a case in point that also indicates that the motives for moving to advanced countries are to seek and acquire additional ownership advantages, rather than to exploit existing ownership advantages as the basis of internationalization as postulated in OLI explanation. The case firms' ability to leverage these newly acquired capabilities seems to have led to further growth and internationalization. While these observations have been articulated often, they need further substantiation and a research proposition for more rigorous testing is presented in the conclusion below.

The findings indicate the important role of ethnic networks in the internationalization of the sample firms. This supports other research on Asian MNEs and the utilization and role of ethnic networks in their internationalization (e.g., Yeung 1997; Kao 1993; Luo 2000; Zhou, Wu and Luo 2007). Cooperative activities in the case firms' networks are based on personal relationships that are usually ethnically linked. Similar cultural attitudes and heritage foster the development of trust and cooperative behavior. These ethnic networks and ties provide knowledge and access to local markets, distribution systems, connections around local bureaucracy and business systems, potential business partners and associates and even financing. The case firms, which are all managed by ethnic Chinese, share common dialects with Chinese businesses from Taiwan, Malaysia and Singapore and provide valuable links to form local networks which have aided their internationalization and performance. This finding is also supported by other studies (Chen and Liu 1998; Sim 2005).

Yeung (1998) also illustrates the economic synergy embedded in the complex business networks among the transnational enterprises from Malaysia and Singapore. Ethnic and cultural ties are behind the surge in Taiwanese and Southeast Asian investments and operations in China, particularly in Fujian and Guangdong provinces (Lu and Zhu 1995; Chia 1996). Lin (1996) states that the average size of Taiwanese investments in China is much smaller than those in Southeast Asia because the ethnic network effectively facilitates easier entry by smaller firms. Chen (1999) reports that production networks in the textile industry enhance the competitive determinants of flexibility, delivery and cost for SMEs in Taiwan. The existence of networks has been linked to the competitive advantage and performance of some Asian multinational firms (Park and Luo 2001; Tsang 1998). These networks allow firms to leverage their linkages and acquire technological and market knowledge to become more competitive (Hitt et al. 2002; Ordonez de Pablos 2005). However the direct relationship between such networks and the competitive advantage and performance of Asian MNEs, including the case firms, remains unclear and needs further empirical substantiation and research.

It should be stated that MNEs from developed countries also make use of global networks, particularly in the textile and electronics industries. Organizational networks have been extensively covered in the literature on organizational dynamics (Nohria and Eccles 1992; Pfeffer and Salancik 1978; Oliver 1990). The textile and electronics industries with their extensive system of international OEM suppliers and contractors have established patterns of industry networks. Asian firms are usually part of this network (Ernst 2000). Even in the internationalization literature on SMEs from advanced countries, attention has recently shifted to using networks to examine and explain their internationalization (Chetty and Holm 2000; Holmlund and Kock 1998; Tavakoli and McKiernan 1999; Johanson and Mattsson 1988; Caviello and McAuley 1999). Dunning and Lundan (2008) have began to explicitly include the influence of networks and institutional context in their MNE explanations. So it can be argued that the sample firms and other Asian MNEs are no different from firms from developed countries in the use of networks. But the networks of the MNEs from developed countries are largely of a business and commercial nature and not linked to the social context.

Networks of the sample case firms and other Asian firms are largely based on ethnic and cultural foundations. They are embedded in the social and cultural context of these largely Chinese businesses. Hence the ethnic and social embeddedness of networks and relationships (*guanxi*) is a distinguishing feature of Chinese-based Asian MNEs and is not well covered by conventional explanations of MNEs. These contexts should be explicitly taken into account. Whether Asian MNEs that are not Chinese possess and benefit from such ethnic networks is worth investigating. Do Japanese and Korean firms, which may be Confucian albeit not Chinese, benefit from such ethnic networks? And will the same effect apply to Asian firms of Indian, Malay, Indonesian and other origins that are not Chinese or Confucian? The role of ethnic networks in the internationalization of Asian firms is a fascinating area for empirical investigation. Comparative research on firms of different ethnic and cultural backgrounds will provide valuable insight into ethnic networks.

Conclusion and research implications

This paper provides empirical and comparative data on the internationalization strategies of Asian firms from three countries at different levels of development. The internationalization strategies of the Malaysian, Singaporean and Taiwanese sample firms were based on cost-based competencies and other location-based advantages, brought together by an extensive web of ethnic networks. Differences among the case firms were found and discussed. In general, the Singaporean and Taiwanese firms were more internationalized (consistent with stage three of IDP) than the Malaysian firms (stage two). They had more developed and elaborate production networks and greater ODM/OBM (own design manufacturing/own brand manufacturing) participation than the Malaysian firms. Increasingly, these Singaporean and Taiwanese firms are going beyond their current competitive advantages to rely on differentiation benefits, such as technology, innovative product features and value. The case study firms in the electronics sector were particularly active here, with the Singaporean firm being more internationalized than the Taiwanese firm. In the textile sector, the Taiwanese case firm was more internationalized than the Singaporean firm. The findings indicate that the case firms from Malaysia, a fast developing country, are less internationalized than their counterparts from the NIEs, which is consistent with the IDP approach.

The more internationalized and progressive sample firms from Singapore and Taiwan were moving outside their Asian bases to North America and Europe to position themselves strategically for new technologies and markets. The Malaysian case firms were less active in all these areas and indicated a lower level of internationalization and competitiveness. The move towards strategies of differentiation based on technological and other capabilities by the sample firms indicates the need to develop and focus on ownership- or firm-specific advantages and linkages acquired from the developed countries. Whether this move to acquire strategic assets from developed countries leads to greater internationalization and better performance needs to be verified via larger sample studies. The first research proposition arising from the above findings is:

P1: Asian MNEs that internationalize into more developed countries to acquire and leverage new technological and organizational capabilities exhibit better performance in international operations than those that do not.

The findings and discussion also indicate the key role ethnic network relationships played in the internationalization of my case firms. These elements have been previously neglected or downplayed in conventional MNE theories. The findings here reinforce the basic proposition that the social and institutional framework is a distinguishing feature of the case firms as well as other Asian MNEs and need to be verified by further empirical research using a large scale sample. Such comparative research can be structured to study ethnic Chinese firms, non-Chinese but Confucian-based firms and non-Chinese and non-Confucian firms in Asia and elsewhere. These are reflected in the research propositions for further investigation as follows:

P2: The greater the extent and depth of ethnic networks utilized by Asian firms, the better their overall performance is.

P3: Ethnic networks are more critical to and lead to faster and greater internationalization of Chinese or Confucian-based Asian firms than those that are neither ethnic Chinese nor Confucian.

P4: Ethnic networks are more critical to and lead to faster and greater internationalization of Asian firms than non-Asian firms.

How relevant or useful are these ethnic networks when Asian MNEs invest in countries where a Chinese diaspora may not exist? While Taiwanese and Singaporean electronics firms (including the sample firms) have utilized Chinese- American firms in the electronics sector for joint ventures and other associations, the use of ethnic connections in such contexts should be investigated. How are the competitiveness and internationalization of Asian MNEs affected by the absence of ethnic networks, particularly in developed countries? Light can be shed on this question by comparatively testing the above propositions in the context of an Asian market area where ethnic networks exist, and in a developed market area where ethnic networks do not exist.

The findings also have policy implications that should be considered by policymakers. In the internationalization process, particular attention should be paid to accumulating new knowledge and expertise, particularly from developed countries. The need to develop and leverage new capabilities becomes more critical for Asian MNEs in an increasingly global market (Pananond and Zeithaml 1998; Tsang 1999; Mathews 2006). The IDP thesis predicts a shift to relying more on ownership advantages such as technological and managerial competencies than on locational advantages as firms move along the IDP path. For example, Asian MNEs that wish to progress beyond their initial internationalization should consider moving quickly to the developed countries to expand and leverage their competencies and capabilities that will match with the contextual requirements of the new markets. Ethnic and other networks should be cultivated to accelerate their internationalization. The IDP can provide a useful perspective for policymakers seeking to hasten the development of their countries or firms.

Finally the key limitations of this study should to be noted. The sample size is small—six companies, matched by industry. The use of a case study method has its shortcomings, such as the limited sample size and the danger of generalizing the findings beyond the cases. The research did not capture the operational strategies at the level of the subsidiaries or joint ventures. The findings are therefore exploratory in nature and form the basis for the above research propositions for further empirical study using large scale samples. Research into these and related areas will provide a better and more comprehensive understanding of Asian MNEs as well as MNEs in general.

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APPENDIX

Table1. Summary of Case Studies in Textile Industry

	MALAYSIAN FIRM	SINGAPOREAN FIRM	TAIWANESE FIRM
Products	Textiles, garments, & Property	Garments, property, hospitality	Textiles, garment, & property
Size	US$90m	US$340m	US$900m
Overseas Locations (Year Established)	Sri Lanka (1993)	Malaysia (1966) China (1975) Hong Kong (1970) Sri Lanka (1993) Cambodia (1988) Myanmar (1997) + other locations	Singapore (1963) Philippines (1986) Hong Kong (1986) Thailand (1987) Malaysia (1995) Canada (1995) Indonesia (1998) China (1998)
Entry Strategy	WOS	JVs (21-86%)	Mainly JVs, WOS in China.
Key Motives	Low cost. Quota.	Low cost bases. Quota.	Low cost bases. Supply of materials. Integration.
Strategic Advantages & Traits	Cost-based. Diversification to property, etc. Reputation & quality	Cost-based. Regional expertise. Diversification. Early movers in overseas mfg (1966).	Cost-based. Vertical integration. Unrelated diversification. Early movers in overseas mfg (1963).
Networks & Alliances	Member of regional Chinese network, JVs & established customers links	Asian grouping & JVs based on family & Chinese network. Licensing	JVs with Chinese partners in Asia. Strategic alliances. Long term contracting
Future Plans	Another factory in Sri Lanka. Overseas bases in Mexico & Middle East. High value segments. Consolidate property business	Consolidate as a regional company	Increase FDI in China. Expand unrelated diversification.

Notes: WOS = wholly owned subsidiary; JV = joint venture.

Table2. Summary of Case Studies in Electronics Industry

	MALAYSIAN FIRM	SINGAPOREAN FIRM	TAIWANESE FIRM
Product	Industrial electronics products	Multimedia software & hardware products for PCs	Monitors and telecommunication products
Size	US$26m	US$1.3b	US$400m
Overseas Locations (Year Established)	China (1995) Australia (1995- closed 1997)	Extensive global network in >80 countries (mainly distribution; production in 5 countries). US first (1988)	Thailand (1991) China (1995) UK (1997) Mexico (1998)
Entry Strategy	WOS and acquisitions	WOS, acquisitions, JVs	WOS
Key Motives	Market expansion. R&D.	Market expansion. Technology.	Low cost bases. Market expansion. Tax incentives. Local content.
Strategic Advantages & Traits	Technical expertise. Competitive pricing. Related diversification.	Technology leadership. Distribution network. Brand recognition. Product line-up.	Cost & OEM-based production. ODM R&D and logistics. Emphasis on market expansion
Networks & Alliances	R&D partners in China. Product principals.	Alliances & licensing. JVs with Chinese in Asia & US	JVs & subcontracting with Chinese partners in Thailand & China. Logistics network
Future Plans	Looking for partners in China. Aim for 50% overseas business. Related diversification.	Technology & product development. Internet based business.	Another factory in China. Invest in global service network.

Notes: mfg = manufacturing; WOS = wholly owned subsidiary; JV = Joint Venture.