Internationalization of Malaysian firms and the effects of major external economic crises

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Keywords
effects, firms, malaysian, crises, internationalization, economic, external, major

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Internationalization of Malaysian Firms and the Effects of Major External Economic Crises

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ABSTRACT

This paper examines and analyzes the internationalization of international firms from Malaysia over two time periods of major external economic crises, the Asian financial crisis and the global economic crisis based on a study of four case firms. The findings indicate variations and changes in strategies during early and continued internationalization over the 11 year time studied. These findings and their research implications are examined and discussed.

Key words: Internationalization, Major external economic crisis, Malaysian firms,

INTRODUCTION

Substantial research attention has recently been on foreign direct investment (FDI) and MNEs from large emerging economies, such as the BRIC countries (Brazil, Russia, India and China; UNCTAD, 2005). For example, considerable focus has been given to FDI from China (Buckley et al., 2007; Peng, 2012; Warner et al., 2004). However there is a dearth of research on internationalization of firms from the other smaller developing countries. Internationalization of firms from other rapidly developing countries may be different and deserves more research attention. While the literature on MNEs from Asia and other emerging countries has grown considerably, full consensus on the theory and explanation of these firms has not emerged. 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) and Peng (2012) points out that the special explanations within the general theory of the MNE are required to explain Chinese
overseas FDI. Hennart (2009, 2012) highlights the need to consider the role of complementary local assets in internationalization theories as not all country specific assets are freely available to all firms. Cuervo-Cazurra (2012) argues for the extension of extant theory by analysing the unique conditions of developing countries MNEs. Further research, knowledge and data are required to fully understand the behaviour and dynamics of MNEs from Asian and other developing economies. In their paper, Luo & Tung (2007) focus their discussion of the springboard perspective on MNEs from the NIEs, and suggest that research be conducted on other emerging market MNEs. Research on internationalization strategies from MNEs originating from other smaller emerging economies in Asia is limited. Hence further empirical research on MNEs from other Asian countries will be instructive and fulfil an empirical gap.

In particular, emphasis on the progress and continued internationalization of firms after their initial efforts seem to be neglected. Liesch et al., (2007) and Melen & Nordman (2009) points to this research gap in their studies of internationalization of firms. The effects of major external economic crises on the internationalization process of such firms have not received much empirical attention. Most research has been on the macro effects of these external economic crises on investment flows. Empirical research on their effects at the firm’s level is required.

This paper aims to contribute to this research area by presenting a study of the internationalization strategies of four case studies of international firms from Malaysia, a rapidly developing country. This preliminary research paper examines the progress and continued internationalization of these case firms in two time period of major economic crises, the Asian financial crisis (AFC, 1997/98) and the global financial crisis (GFC, 2007/09). A brief review of the relevant literature is followed by research methodology, findings and discussion. Implications for further research are also discussed.
BRIEF LITERATURE REVIEW

Extant theories to explain the internationalization process of firms are based largely on evidence from the developed countries. These include the Uppsala model (Johanson and Weidersheim-Paul, 1975; Johanson and Vahlne, 1977) of incremental internationalization based on the learning perspective. In a recent paper, Johanson and Vahlne (2009) incorporate a network perspective to the model in which internationalization also involves the reduction of the liability of being an outsider in the relevant business networks (e.g., cross-country business networks). Other researchers have applied or extended the learning perspective to different types of knowledge acquisition (e.g., Barkema & Drogendijk, 2007), accelerated internationalization of firms (e.g., Melen & Nordman, 2009; Weerwardena et al., 2007) and networks (Zain & Ng, 2006; Dunning & Lundan, 2008).

Another perspective to explain the internationalization of firms is the eclectic OLI’s paradigm (e.g., Dunning, 1988, 1993) postulating that the extent and pattern of international production is determined by the configuration of ownership or firm-specific advantages (such as proprietary technology, products, expertise and skills), locational advantages of host and home countries, the 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 (or expansion across national boundaries) occurs but do not explain the dynamic process of internationalization. The international development path, IDP (Dunning 1981, 1986) provides the eclectic paradigm with a macro and dynamic dimension by relating the net outward investment of a country to its stage of economic development.

With the emergence of multinationals from developing countries, considerable debate and attention have been focussed on the applicability and relevance of extant MNE theories to these firms, which exhibit some unique characteristics that are not adequately accounted for in the extant theories. Theories on internationalization tend to overlook the active role played by the state and neglect the institutional, contextual and socio-cultural perspectives in the
internationalization of Asian firms (Yeung, 1999; Zutshi and Gibbons, 1998; Luo, 2000; Peng, 2012). Asian internationalization tends to be organized through social and ethnic networks. Chinese culture and business practices with its own sets of values and beliefs underpin the way Chinese business and cross border operations are conducted (Yeung and Olds, 2000). Personal relationships and networks (e.g., Hamilton, 1996; Luo, 2000) form the basis of the internationalization of Chinese and Asian firms. Hence the internationalization of Asian MNEs needs to be seen in its contextual embeddedness (both institutional and cultural).

It is imperative to combine these contextual perspectives with the economic perspective normally used to explain the internationalization of MNEs from developing 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 large emerging BRIC countries has prompted research into the motivation, behaviour 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. Similar perspectives were provided by Mathews (2006), Buckley et al., (2007) and Peng (2012) in their analysis of Chinese outward FDI also indicate that traditional theory can be refined to take account of their special characteristics such as capital market imperfections, special ownership advantages and institutional factors of Chinese outward FDI. Hennart (2009, 2012) argues for the need to incorporate complementary local assets in explaining the rise of such MNEs as the country specific advantages are not freely available to all firms (particularly foreign ones) and therefore confer significant advantages to local firms to enable them to compete effectively. These monopoly powers can be used to obtain firm-specific advantages which they lack to compete with MNEs from developed countries in the local and international markets. Cuervo-Cazurra (2012) proposes that extant theories can be extended based on the unique characteristics of the MNEs from developing
countries. While these are recent contributions to the study of MNEs from large emerging markets, there is limited empirical research examining MNEs from other smaller emerging economies, particularly in Asia. Further research is required in order to have a fuller and complete picture of MNEs from emerging economies.

The impact of major external economic crises on the internationalization of firms from the smaller developing countries has not received much empirical research attention. During the period of rapid internationalization of firms from the developing Asian countries since the 1990s, there have been two major economic crises. These were the Asian Financial crisis (AFC) in 1997/98 and the global financial crisis (GFC) in 2007/2008. The AFC was largely an Asian phenomenon that severely affected and shook the currency and financial markets in many Asian countries, including Malaysia. Currencies were devalued and financial markets collapsed with very adverse economic consequences for countries like Thailand, Indonesia, Philippines and Malaysia. The Malaysian government imposed capital controls and pegged the Malaysian Ringgit to at MYR3.80 to a U.S. dollar in 1997. The GFC was an economic contagion originating from the developed countries with the collapse of financial and related institutions (e.g., Fannie Mae and Freddie Max, Lehman Brothers, etc) had world-wide consequences and impact. There as nearly a year’s time lag before the GFC really hit Asian countries. A great deal have been written about the AFC (e.g., Johnson et al., 2000; Jomo, 2001; UNCTAD, 1998) and the GFC (e.g., Dass, 2012; Green, 2010; Hill & Jongwanich, 2009; UNCTAD 2009) at the macro and policy levels and their impact on aggregate investment flows. However there is an empirical research gap in terms of research on the effects of these external economic crises on the internationalization of international firms from the developing countries, particularly at the firm’s level. For example, while the macro impacts of the two economic crises have been studied in the Malaysian context (e.g., Jomo, 2001, 2003; Ismail, 2002; Athukorala & Wagle, 2011; Goh & Wong, 2011), reporting of their effects at the firm’s level is lacking.
This paper presents empirical data on a sample of case firms from Malaysia (a fast developing economy) using a longitudinal study spanning 1999 to 2010. Based on these preliminary findings, research propositions are suggested for more rigorous research investigation and testing.

**RESEARCH METHODOLOGY**

A case study approach was used to collect comprehensive, contextual and holistic data (Yin, 1994; Eisenhardt, 1989; Siggelkow, 2007) from Malaysian firms that internationalized their operations over the two periods of the major external economic crises. This will provide data for more extensive subsequent research and testing of propositions. The data is primarily drawn from field interviews with the CEOs or top executives responsible for the international operations of the firms in their home countries. In addition, the difficulty of accessing these overseas subsidiaries and financial constraints limited the scope of the study to home countries. Multiple sources of information are used to cross check and validate the information and data collected. In addition to interviews, annual reports, prospectus, presentation 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 web sites, were used to supplement the primary material. This use of data from various sources allows us to cross check and verify data and to ensure validity. Case notes were prepared, tabulated and analyzed for each case firm along the lines indicated by Miles and Huberman (1994) for each of the study time period.

Four case studies are used in this paper to report on their internationalization over a period from 1999 to 2010. These firms were originally interviewed in 1999 (Sim, 2005) after the AFC and again in 2010 after the GFC. These case firms are in the garment, electronics, consumer products and diversified sectors. They requested anonymity and confidentiality as a condition of continued participation and are accordingly disguised in the paper. The
reluctance of firms to participate in the research was encountered by the researcher and posed a common problem of research in Asian countries.

FINDINGS ON INTERNATIONALIZATION OF CASE FIRMS

Aggregate data on outward direct foreign investment from Malaysia indicated a rapid rise from the early 1990s onwards. The Malaysian government actively promoted direct investment abroad. Gross direct investment overseas rose from MYR1.31b in 1992 (Rogayah, 1999) to MYR10.72b in 1996, but decreased to MYR 10.46b in 1997 and MYR8.96b in 1998 (Bank Negara Malaysia, 2001) as a consequence of the AFC. Capital outflow was severely affected by the general economic conditions and the imposition of capital controls and restrictions. The Malaysian government reversed its previous position of promoting outward investment to one of actively discouraging them. Direct investment abroad began to pick up gradually from 2001 onwards and reached a level of MYR38.89b in 2007 and MYR50.19b in 2008 (Bank Negara Malaysia, 2011). In 2007 investment outflows surpassed that of FDI inflows and this trend continued in subsequent years (Goh & Wong, 2011). Due to the effects of the GFC, direct investment abroad fell in 2009 to MYR27.95b and then recovered to MYR42.63b in 2010 (Bank Negara Malaysia, 2011). The macro data indicated that the external economic crises had considerable impact on outflows of FDI from Malaysia. Did our sample case firms exhibit similar patterns?

Our four sample firms vary in size in terms of sales (2009/10 data) from MYR259 million to MYR56.1 billion with an average size of MYR4.5 billion (the exchange rate of MYR, Malaysian Ringgit is about MYR3.40 to the USD in 2009). The largest firm is a diversified firm (designated as DL), followed by one in consumer product (CP), electronics (ET) and garment and property (GP). While these firms are much smaller in size compared to MNEs from the developed countries, they are representative of MNEs from Malaysia (Rogayah, 1999). The attempt to internationalize started in the early 1970 by one of our case firm, DL, with a venture in Indonesia. However vigorous international activities for our case firms started only in earnest in the 1990s, as reflected in the macro data. In fact, most of our case
firms really began rapid internationalization in the early/mid-1990s. Hence most of our case firms are relatively late comers in internationalization. The Asian currency crisis (AFC) in 1997/98 stopped the frenzy of overseas expansion, with international expansion proceeding at a much more tampered and considered phase. Internationalization picked up in the early 2000s until the GFC punctuated their growth in 2007/08.

We will now report briefly on the internationalization of these four case firms and the effects of the two major external economic crises on their internationalization process. Our case firm GP is in garment, retailing and property development. Its original business was in garment manufacturing. Most of its garments were manufactured and exported, largely on an OEM basis for international garment labels. Its internationalization was motivated by the search for low cost bases and quota. It set up a manufacturing plant on a wholly owned basis in Sri Lanka in 1993 to supplement its factories in Malaysia. Another factory was open in 1996 there. Expansion slowed down during the AFC, but proceeded subsequently and by 2000, the firm had four factories there. However the AFC did have a severe impact on the firm’s domestic property business which it had diversified into a few years earlier. Firm GP’s garment business was more severely affected by the expiry of the multi-fibre agreement (MFA) and the end of preferential quotas in 2004. Demand for its garments fell and three factories in Sri Lanka were closed by 2006. By 2009 the remaining overseas factory and all Malaysian factories, except for one, ceased operations as the firm was no longer competitive in the global garment market. During the down turn in its garment business, the firm diversified aggressively into property development and retailing. By 2009, the garment business has fallen to only about slightly more than 10% of its turnover. Its international operation was confined to a joint venture (JV) in property development in Indonesia, which it has initiated in 2007 prior to the GFC. The GFC had limited impact on the firm’s international activities as it had previously scaled down its international businesses to concentrate on property development and retailing in the domestic market. According to the company’s spokesman, the GFC, while affecting general trading conditions, did not really have a “material effect” on the firm as it had a strong balance sheet, low gearing and its properties
were in well sought after locations. The firm was affected more by the AFC as it was more highly geared then.

In the food sector, firm CP has extensive businesses in flour processing and food products in Malaysia. Its internationalization into overseas production was basically to seek lower cost bases and to diversify its markets. It set up a subsidiary (100%) in Myanmar in the mid-1990s to manufacture labour intensive packaging bags. In 1998 a JV (52.5%) was started in Vietnam to manufacture flour for the local market. This JV was converted into a wholly owned subsidiary (WOS) in 2001 after the withdrawal of its two partners. The AFC in 1997/98 did not really impact its international activities, but its domestic businesses were affected with declines in its profitability from MYR98.8m in 1997 to MYR61.7m in 1998. Being a conservative and well-managed company, the impact was not onerous. In the mid-2000s, the firm was re-organized and some of its businesses (in edible oils) were sold to an affiliated company and the firm focussed on the flour and food products. As a result there was renewed impetus to grow via internationalization in the late 2000s. It started two joint ventures (both 40%) in Thailand in flour and feed mill processing in 2007 just as the GFC was beginning to emerge in the U.S. The GFC, with the collapse of its mortgage and financial institutions, only hit Asian countries in late 2008 (Dass, 2012). With the GFC hitting Malaysia, the sales of firm CP fell from MYR1.8b in 2008 to MYR1.5b in 2009. Profitability was affected, particularly as the result of hedging losses in international commodities used as its raw materials. However the firm was cash rich and was able to recover quickly. In 2009, it expanded its international activities in Indonesia with a 51% joint venture in the flour business and in 2010 with a 30% joint venture in packaging bag manufacturing. Hence the international activities were not severely affected by the GFC. In the Malaysian domestic market the firm is vigorously pursuing vertical integration moves along its value chain in terms of food processing and marketing.

The electronics firm ET is a disk drive and electronic components manufacturer, supplying to global customers on an OEM basis. With its precision engineering expertise
gained through decades of production experience, it grew and internationalized with the
global electronics industry. Its internationalization was largely to follow its major customers
for marketing opportunities and to use lower cost bases. A 60% joint venture was set up in
China in 1996. This was followed by two wholly owned plants in the Philippines in 1997 and
1999. A factory was set up in Thailand in 1998. The international activities of firm ET
continued during the AFC. The AFC did not have much “significant” impact on the
electronics industry in Malaysia (UNCTAD, 1998, p.221) and firm ET continued with its
international activities, albeit with caution. However it fortunes turned during the early 2000s,
particularly when it lost a few of its major customers and sales dropped to its lowest level at
MYR103m in 2002, with losses of MYR18m. The firm attempted to expand its customer base
and to diversify its product lines into related electronics products. To diversify, it made a 60%
acquisition of a related hard disk component manufacturer in Singapore in 2003 and this was
subsequently raised to 75% in 2006. In the same year, it raised its equity stake to 100% in its
joint venture in Thailand and to 90% in its venture in China. It started another factory in
Thailand in 2006.

The GFC did have serious impact on the firm ET as it also lost several key customers. A
retrenchment and consolidation strategy with cost reduction program was pursued. A strong
balance sheet and prudent management policies helped. The CEO retired in favour of his
younger brother to try to inject new vigour into the company and as part of the succession
plan. Firm ET was able to successfully weathered the recessions in late 1990s and the global
financial crisis (GFC) in 2007, largely due to its prudent financial policy and resilient
management. An opportunity also presented itself to the company during the GFC as the other
minority owners of the subsidiary in Singapore were desperate to sell their stake to raise cash.
The company acquired the remaining 25% stake at an attractive price to make it a wholly
owned subsidiary. Total revenue for the firm fell in 2009, but it continued to be profitable.
Profitability improved in 2009 to MYR44.2m after two years of decline.
Our case firm DL is the most diversified of the case firms, with interests in retailing, steel, motor vehicles, property and plantations, and has grown via diversification and internationalization. Its first internationalization was an early move into Indonesia in 1972 to expand its metal works business. Its impetus into internationalization really began in the 1990s with operations in the U.S., Germany and Taiwan in computer related products. However its focus was in China where it entered in 1993 with food related products and then aggressively built up major businesses in motor vehicles and components, tyres, retailing, brewery and property. The company described this as their development stage in China. As a result of its rapid expansion, particularly in China, and high gearing, it was severely impacted by the Asian financial crisis in 1997. Group turnover fell from a high of MYR7b to MYR5.1b in 1999. The company incurred losses (MYR1.1b) in 1998 and for the next several years. Due to severe financial and credit crunch, the company was forced to undertake a group wide restructuring and rationalization scheme in the early 2000s. This involved capital restructuring, re-organization and a divestment plan of non-core assets. This group wide restructuring scheme (GWRS) was approved in 2003 by major creditors and all relevant bodies (including the government). It involved complex debt rescheduling and financing, inter-company financing, and a reduction in capital value of four key companies. The gearing ratio was to be reduced from 6.16 to 1.43 for the Group. Restructuring and rationalization of the Group organizational structure was implemented. All companies were reorganized under one overarching holding company and activities were divided into several business divisions (including steel, motor, tyre, retailing business, computer related business, plantation, property, and services). Non-core assets (about MR4.36b, including brewing, insurance and securities businesses) were to be disposed of over a period of time. It divested its international operation in Taiwan and Germany. In China divestment was in place for the motor, tyre and brewery businesses. There was ongoing internal rationalization and selective downsizing of personnel to reduce cost. While there were some changes in management personnel, the CEO and key Board members and executives remained in place.
As the result of its post-AFC experience and on-going rationalization, firm DL was not that badly affected by the GFC in 2007/08. However it did slowed down its expansion plans. No expansion was carried out in 2008/09. It shelved a plan for a steel project in Vietnam and a blast furnace plan in the domestic market and gave up its domestic motor car franchise. The tyre business was to be sold. Plan for expansion of retailing was scaled down (e.g., from 5 to 2 new outlets per year in China and plans for Cambodia expansion). Group turnover recovered and reached MYR16.2b in 2009/10. With some residual rationalization still in progress, the firm now intends to re-focus mainly on retailing, steel and property businesses. Its international emphasis is still on retailing in China (with 44 stores) and in Vietnam (6 stores), which it entered in 2005.

**DISCUSSION AND RESEARCH IMPLICATIONS**

As indicated in macro aggregate data, Malaysian outward FDI really gain momentum from the 1990s. This is also true for our case study firms as they internationalized their operations in the 1990s. The exception is firm DL which started overseas production early in 1972 in Indonesia. Many Malaysian firms, including our case firms, buoyed by economic growth in the late 1980s and early 1990s went overseas aggressively with the active encouragement of the Malaysian government. In the 1990s, firm DL was particularly aggressive in expanding its operations in China in its core businesses and newer businesses such as brewing and foods. Garment firm GP started in Sri Lanka in 1993 and expanded to 4 factories there by the late-1990s. Similarly, the other two case firms internationalize at around the same time. However the AFC in 1997/98 put a halt to the active overseas expansion as many Malaysian firms, including our case firms, have to rationalize and reorganize to overcome the adverse impact of the crisis and the subsequent recessions. Firm DL was the most severely affected among our case firms and made losses for several years. It was forced to undertake a group wide restructuring scheme and the disposal of assets, including businesses in Germany and Taiwan. It renewed its internationalization in the mid-2000s with expansion in its retailing business in China and new operations in Mexico and Vietnam (2005). The other case firms were not so severely affected. But international expansion was more constrained and measured.
Electronics firm ET started a second factory in the Philippines in 1999 and acquired a majority stake (60%) in a Singapore company in 2003 in its attempt to diversify its product lines. It also initiated a second factory in Thailand in 2006. In the 2000s there was no international expansion for firm CP and firm GP. In fact firm GP was beginning to reduce its overseas commitment as the adverse impact of the end of the MFA preferences begin to bite in mid-2000s. It had to close its 4 garment plants overseas. By 2010 its international operation is now confined to a JV in property development in Indonesia.

As a result of restructuring and rationalization in the aftermath of the AFC, the next external economic crisis, the GFC, which originated in the advanced countries, did not impact our case firms (as well as Malaysia in general) as severely. As such the global financial crisis (GFC) in 2007/08 did not have as much a severe impact on our case firms. In fact, firm CP expanded international operations into Thailand (2007) and Indonesia (2009/10) with two JVs each. Firm GP and firm DL did not embark on any new international ventures during 2008-2010. Firm ET increased its stake in its Singapore subsidiary to 100% (from 75%) when its partners were desperate to sell-out due to cash flow pressures. It appears that our case firms acquired much experience and knowledge in dealing with major external economic crises in their internationalization process over the time periods covered. More in-depth and large scale studies involving the application of learning theory will be instructive to provide better understanding of internationalization behaviour of firms from emerging countries.

The industry sector of our case firms seems to be an important determinant of the degree of impact of the external economic crises. Our case firm in the food sector was least affected by both the AFC and the GFC. In the electronics sector, the AFC did not seem to have major impact on firm ET as the global electronics industry was relatively buoyant in 1997/98. It was the industry downturn in the early 2000s that really hit firm ET. Our firm GP in the garment industry was affected more by the end of the MFA preferential quotas than by the AFC. This, plus rising cost in Malaysia, led the firm to close its overseas garment factories and nearly all its Malaysian factories and to re-focus its businesses on property and retailing. Our diversified
firm, DL, was most affected by both the AFC and GFC, being in such sectors like steel, motor, property and retailing which are most susceptible to any economic downturn. So being a very diversified firm proved to be a severe disadvantage for firm DL. As firm diversity correlates closely with firm size, our findings also indicate that the larger firms were more adversely affected by the economic crises.

The length of international experience (or age) of the case firm did not have a direct bearing on the degree of impact of the economic crises. All our four case firms really internationalized in the early 1990s. Firm DL with the most international experience (since 1972) was the worst affected by the two economic crises. But it is also its early involvement in China, particularly in retailing, that assisted it in the recovery process. In fact after the both economic crises, it expanded its retailing operations in China and Vietnam.

The ability of our case firms to withstand the effects of the two external economic crises also depends on its financial position (particularly its level of debt financing) and the type of management style. Firm DL had the highest debt leverage (with a gearing ratio of 6.16 during the AFC) compared to the very low levels of the other case firms. This was probably necessitated by the aggressive expansion (international and domestic) pursued by the firm. Hence it was the most severely impacted among our case firms during the economic crises. In addition, the other three case firms had very conservative and prudent management style and did not undertake excessive debt. As such the impact of the external economic crises on them was not as critical.

In terms of the spread of international activities, our case firms tend to concentrate their overseas operations in the Asian region, particularly in South-east Asia and China. They have limited number of number of overseas production locations, usually in two to four countries. The diversified firm DL has active operations in 5 countries, including the U.S., Mexico, China, Vietnam and Indonesia. Electronics firm ET is in 4 Asian countries. At the start of this research in 1999, ET was in 3 countries, but has since expanded their operations in the
Philippines and Thailand and acquired a new Singaporean subsidiary. Consumer products firm CP expanded their international operations from 2 countries in 1998 to 4 countries in 2010. Garment firm GP has ceased operations in Sri Lanka due to its lack of competitiveness in this industry following the termination of the MFA and increase in labour cost and has initiated a JV in property development in Indonesia. The size of our case 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 our sample firms. The choice of proximate country in the initial stages of internationalization is consistent with the internationalization processes of the Uppsala School (Johanson and Vahlne, 1977). The combination of cultural proximity, the existence of locational advantages in the neighbouring countries and the attraction of the large China market influence the regional character of our case firms. In addition the spread of our case firms in the Asian region was facilitated by the existence of ethnic (Chinese) business networks that our case firms can draw upon. These networks allow firms to leverage their linkages to acquire market and other knowledge to become more competitive (Hitt et al., 2002; Ordonez de Pablos, 2005). All our case firms are Chinese controlled and have ethnic and dialect links in South-east Asia and China. For example, firms GP, CP and DL have extensive ethnic networks of related or affiliated businesses and suppliers in Asia. As such, our case firms were and remain regional in scope and character over the two external economic crises studied. From the above, it seems that the two external economic crises did not alter the geographical scope of international operations of our case firms. Their market presence in emerging large economies like China in fact assisted them in coping with the impact of the two external economic crises, particularly the GFC. Our case firms’ presence in China increased as a consequence of the economic crises. The above findings indicate the importance of contextual and social characteristics in the internationalization and competitiveness of our case firms even during periods of economic crises. Further research into the relative importance and role of such contextual and social characteristics during periods of external economic crises can provide better understanding of the
internationalization and competitiveness of firms from developing countries and how they related to existing theories and the newer explanations like those of Hennart (2012) and Luo & Tung (2007).

The main motivations for the internationalization of our case firms were market expansion and the search for low cost inputs. This is also true of other Malaysian firms in general. The constraints of the domestic market encouraged Malaysian firms to seek overseas markets. Market expansion was a dominant motive cited by all our case firms. The search for low cost bases was particularly evident in the international expansion of firms GP, CP and ET. These two motivations for continued internationalization have not changed for our case firms over the time period of the two external economic crises studied. For firm GP, market expansion was the main motive for its recent moves to Indonesia and Thailand. This was particularly so as a consequent of the narrowing and rationalization of its business focus in food processing and retailing. Market motivation was the key to the move into Vietnam by firm DL in 2005 and by firm GP into property development in Indonesia. Similarly firm DL expanded its operation in China and firm ET in Singapore. Market expansion and diversity appears to be critical for internationalization as our findings indicate that expansion into economies not as adversely affected by the external economic crises, such as China after the AFC and GFC, assisted firms in their recovery processes. Technology acquisition as a motive was only mentioned by firm DL. Firm DL’s operations in the U.S. and Germany were to tap technology for its computer based business. As mentioned previously, these ventures did not prove very fruitful. Firm DL exited the German market. Other than these attempts in the mid-1990s at technology acquisition, no specific technology based acquisitions were subsequently attempted by our case firms. This differs from the more progressive MNEs from the more developed Asian countries that have augmented their technological and other capabilities suitable and required for global operation (Sim & Pandian, 2003; Mathews, 2006; Luo & Tung, 2007). Our case firms indicated that their emphasis was to learn how to operate successfully in the host country business environment and that their current technological enhancements were adequate. This apparent lack of foresight and long range planning in
terms of technology acquisition and development of ownership advantages required for global
competition is intriguing and presents opportunity for research. Is this applicable to other
firms from Malaysia and other Asian countries? This is a fertile area for study.

The sources of competitive advantage of our case firms are based on cost competencies and
adaptation to host country markets. The cost advantages are generally based on more labour
intensive processes, flexible production and appropriate technology. For example, the
competitive advantage of firm GP in the garment industry was based on a cost and OEM
orientation and a reputation for quality and reliability. To reduce dependence on textiles, it
had diversified into retailing and property development. In the consumer product firm in our
sample, location-based cost advantages are important. Firm CP has a packaging plant in
Myanmar, and has gone into a joint venture for flour production in Vietnam. These
investments are cost driven, though the local market for flour and noodles is also a key
determinant for investment in Vietnam. In addition it draws its strength as a member of a
Chinese based business group and network in South-east Asia and other parts of Asia. Cross
investments and transfers of local expertise takes place within this business network of
members.

Firm DL, a large conglomerate with businesses in steel, plantations, property, motor vehicles
and components, tires, food and beverages, retailing and financial services, has grown via
diversification and internationalization. While it has gone to other countries, its main focus is
in China, where it entered in 1993 and built up major businesses in motor vehicles and
components, tires, retailing, brewery and properties. The competitive advantage of firm DL in
China is its intimate market knowledge and extensive network built up over years of
development in China, particularly by its CEO. This firm stressed the importance of patience,
perseverance and a very long term view in developing the China market. Most of its
successful businesses in China were also built on competencies developed in the domestic
market such as retailing, motor vehicles and components. It also did well in the brewery
business in which it had no domestic competencies or business, but it brought in required
expertise for the China operations. This initial success was attributed to its market knowledge and networks, allowing DL to locate 9 breweries in different parts of China. However the brewery business was later disposed off. From a learning perspective, firm DL was successful in exploiting and leveraging its existing knowledge and capabilities, but not so successful in exploring new technology knowledge and businesses (Barkema & Drogendijk, 2007).

Over the period of this study over two period of economic crisis, the competitive advantage of our case firms has varied. The cost and preferential access based competitive advantage of firm GP in garment have vanished and it had to cease overseas production and curtail domestic capacity. Now it has diversified to focus on property development and retailing. Its only international activity now is a JV with its network partner in Indonesia. Firm ET worked closely with its global electronics customers to enhance and leverage its precision engineering capabilities. This, coupled with its own strong management capabilities, allows it to expand its international operations. Consumer product firm CP utilized its extensive ethnic networks to set up new and recent JVs in Indonesia and Thailand to capitalize its experience and skills in food processing. Firm DL which was severely affected by the recessions in the late 1990s and early 2000s rationalized its overseas businesses to focus on its core strengths of retailing and intimate knowledge of and networks in the China market. While cost competencies are still important, our case firms have expanded and utilize other sources of competencies to compete and grow. The experience of our case firms during the two external economic crises sharpens their need for viable and additional bases of competitive advantage. It will be instructive to conduct in-depth and large sample studies on the bases of competitive advantage for internationalization of MNEs from developing countries to extend the body of knowledge on MNEs theories as postulated by Cuervo-Cazurra.
CONCLUSION

This study provides new empirical research data on the internationalization of Malaysian firms over two time periods of major external economic crises, the AFC and the GFC. The effects and the response in terms of internationalization varied among our case firms as discussed in the paper. The AFC had more significant impact on our case firms than the GFC. Our case firm DL was the most affected among the sample firms. The nature of industrial sector of the case firms is an important determinant of the effects on the case firms. The two external economic crises did constrained internationalization activities of the case firms, but internationalization continued among the case firms after each of the two economic crises. In fact internationalization in the China market assisted in the recovery of the case firms. Hence the drive for external markets emerged as a more important internationalization motive after each crisis. Of particular interest is the lack of technology seeking motivation among our case firms. This is different from the prescription from recent studies (Luo & Tung, 2007; Mathews, 2006) that such knowledge acquisition can leverage accelerated internationalization for firms from developing economies. Research implications are canvassed in the paper.

This study reveals some interesting and different aspects on internationalization of our case firms over the 1999-2010 studied. How will our case firms evolve to learn from major external economic crises and will they follow conventional prescriptions of internationalization and growth? Knowledge on this will depends on further research undertaken in areas as indicated in the discussion section of the paper.

The above findings are preliminary in nature and the key limitations of this study should to be noted. The use of a case study method here 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 subsidiary or JV. Hence the findings are exploratory in nature and form the basis for our research suggestions, using large scale samples. Research into these and related areas will provide a better and more comprehensive understanding of emerging MNEs from developing countries.
REFERENCES


