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## **An exploratory study of internationalization strategies of Malaysian and Taiwanese firms**

Ah Ba Sim

*University of Wollongong*, [absim@uow.edu.au](mailto:absim@uow.edu.au)

J Rajendran Pandian

*University of Newcastle*

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### **Keywords**

taiwanese, firms, strategies, study, malaysian, exploratory, internationalization

### **Disciplines**

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# AN EXPLORATORY STUDY OF INTERNATIONALIZATION STRATEGIES OF MALAYSIAN AND TAIWANESE FIRMS

Dr. A. B. Sim

School of Management, Marketing & Employment Relations  
University of Wollongong

Dr. J. Rajendran Pandian

Graduate School of Business  
University of Newcastle

*There is as yet limited empirical research on the internationalization processes, strategies and operations of Asian MNEs from countries at different levels of development. Drawing on primary data from matched case studies of emerging Taiwanese and Malaysian MNEs in the textile and electronics industries, this paper examines and analyses their internationalization characteristics and strategies within the IDP perspective. The findings indicate that the emerging Taiwanese and Malaysian MNEs, while exhibiting characteristics such as that described in extant theories also suggest some differences. The empirical findings, limitations and areas for further research are discussed.*

## Introduction

Research on multinational enterprises (MNEs) have traditionally focussed on western firms. Compared to western MNEs, the rise of non-Japanese Asian international and multinational firms is a more recent phenomenon and has attracted limited empirical research attention (Pananond & Zeithaml (1998), Luo (1999)). The early 1980's saw the emergence of foreign direct investments (FDI) from the developing countries. A number of studies investigated FDI of these Third World multinational enterprises (TWMNEs), particularly contrasting their characteristics with the traditional MNEs from the western developed countries (for example, Lall (1983), Wells (1983), Kumar & McLeod (1981), Khan (1986), Monkiewicz (1986), Aggarwal and Agmon (1990), Tolentino (1993)). The phenomenal growth of East Asia (World Bank (1993)) in the late 1980's and early 1990's has resulted in increased intra-regional direct investments (Dobson & Chia (1997)). This has been depicted as a "wild flying geese pattern", with direct investment processes and activities transferring from one level of economies to another, starting from Japan, followed by the NICs (Korea, Taiwan, Hong Kong and Singapore), and then by the rapidly growing economies such as Indonesia, Malaysia and Thailand (Toh & Low (1994), Guisinger (1991)). Firms from these Asian capital exporting countries were internationalizing and multinationalizing their business activities and have emerged or are emerging as Asian multinational enterprises. In recent years, research interest was beginning to focus on these Asian enterprises and their direct investment activities (Yeung (1994, 1997), Ulgado, Yu & Negandhi (1994), Ting (1985), Pangarkar (1998)).

While the literature on Asian MNEs is growing, knowledge of the nature, organisation and operations of Asian MNEs is still limited. For example, are the Asian MNEs really different from the western MNEs? Are differences in

characteristics and performance of MNEs from different Asian countries due to differences in the levels of development in these countries (such as NICs and LDCs) as predicted by the IDP, the investment development path thesis (Dunning (1993))? Ulgado, Yu & Negandhi (1994) is not conclusive in that Asian TWMNEs resemble Japanese MNEs more than they resemble U.S. MNEs while some of these TWMNEs were found to imitate certain aspects of developed country MNEs. Hoesel (1999) and Dunning et al.(1998) contends that the MNEs from the Asian NICs constitute the second wave of FDI which are different from the first wave of the TWMNEs. Since comparative empirical research on MNEs originating from different Asian countries are limited (Luo (1998), Sim & Ali (1998)), further research comparing MNEs from different Asian countries are needed.

The purpose of this paper is to contribute to this research area by examining the internationalization characteristics and strategies of emerging Asian MNEs from Malaysia, representing a rapidly developing country, and Taiwan, an NIC. Empirical data of 4 matched case studies are presented and used to analyse and compare their internationalization characteristics and strategies, and to examine their position in relation to the IDP from a firm-level perspective. Our empirical findings will be discussed in relation to prior research findings on MNEs from developed countries. The next section cover the theoretical foundations of MNEs and their relevance to Asian MNEs, followed by research methodology and findings. Implications for further research are discussed.

### **Theoretical Perspectives On Asian MNEs**

Theories on the internationalization (or expansion across national boundaries) of firms are largely based on western MNEs. Starting from Vernon's (1966, 1974) product life cycle model through the Uppsala model (Johanson & Weidersheim-Paul (1975), Johanson & Vahlne (1977)) and the more recent works of Dunning (1977, 1988, 1993, 1995) on his Eclectic paradigm and the Investment Development Path (IDP) (Dunning, 1981 & 1986) were all largely based on western multinationals. More recent works which examined Third World (including Asian) multinationals included Dunning (1986), Tolentino (1993), Dunning & Narula (1996), Lall (1996), Dunning, Hoesel & Narula (1998). Review of all these research clearly indicate that further research examining MNEs from countries at different stages of development especially from Asia would be required to understand how these Asian multinationals may be different from their Western counterparts (Lall, 1996).

The most widely accepted explanation of international production is probably the Eclectic Paradigm. Drawing on received theories, Dunning's (1977,1988,1993,1995) Eclectic Paradigm stated that the extent and pattern of international production is determined by the configuration of three sets of advantages:

- i) Ownership or firm-specific advantages, such as proprietary technology, products, expertise and skills,
- ii) The internalization of these advantages across national boundaries to overcome market imperfections or failures, reduce transaction costs and maximize economic returns (Buckley & Casson (1976)), and
- iii) Location advantages of host and home countries.

These OLI variables explain why internationalization occurs but neglects the dynamic process of internationalization. The Investment Development Path, IDP,

(Dunning (1981, 1986)) provides the Eclectic Paradigm with a dynamic dimension by relating the net outward investment of a country to its stage of economic development. At low level of economic development (stage 1), there is little inward or outward investments. As the country develops (stage 2), inward investment becomes attractive, particularly in import substitution projects. Some outward investment may take place, for example in neighbouring countries at lower stages of development. Most developing countries with some outward investments are at this stage. With further economic development (stage 3), net inward investment declines while outward investment increases (relative to inward investment). Outward investment tends to increase to countries at lower IDP stages to overcome cost disadvantages in labour intensive industries and also to seek markets or strategic assets. The NICs (eg. Taiwan and South Korea) are said to be at this stage. At stage 4 of the IDP, net outward investment becomes positive with production being multinationalized. Most developed countries are at this stage. In the final stage 5, a convergence of outward and inward investment flows take place as the result of the shift from advantages based more on factor endowment to those based on internalizing international markets.

Research on Third World (including Asian) multinationals have given general support to the IDP concept (Dunning (1986), Tolentino (1993), Dunning & Narula (1996), Lall (1996)). Dunning and Narula (1996) acknowledges that the specific IDP pattern of a country may vary depending on country factors, such as resource endowment, home market size, industrialization strategy, government policy and the organization of economic activities. Revisiting the Third World Multinational Enterprises, Dunning, Hoesel & Narula (1998) found that the second wave of TWMNEs is different from the first wave described by research in the early 1980s (e.g., Lall (1983), Wells (1983), Kumar & McLeod (1981)). While the first wave were from developing countries, the second wave consists mainly of East Asian NICs (including Taiwan). The MNEs from these countries have improved and augmented ownership advantages (e.g., innovatory capabilities) and made more strategic seeking FDI (for technology and marketing) in advanced industrial countries via higher equity and control modes (e.g., M&A). These outward investment activities were fostered by economic liberalization and restructuring in the country, greater export orientation, shift towards more global markets and the supportive role of governments. The authors argue that the second wave is consistent with the IDP explanation (stage 3) and represent an intermediate stage between the first wave of TWMNEs and conventional (Western) MNEs. Differences in the pattern of the IDP between Taiwan and South Korea were also reported by the authors. While generally supporting the IDP concept, Lall (1996) stated that it should be extended and modified to take into account the different sub-patterns of countries. The IDP concept still remains vague about the precise relationships between the underlying advantages (factors) and the pattern of inward and outward FDI or stage of IDP (Hoesel (1999)). The precise nature of the ownership specific advantages of the Asian MNEs from NICs remain unclear and how different are they from MNEs from countries less developed than the NICs? More research is needed in this area. This research will examine at the micro or firm's level the characteristics of MNEs from a fast developing country, Malaysia, and an NIC, Taiwan, to shed further light on these Asian MNEs, particularly within the IDP perspective.

A similar concept to the IDP is that relating the internationalization of firms to that of distinct patterns of national development based on the level of economic development, resource, size of domestic market and development path pursued

(Tolentino (2000), Cantwell (1997)). An earlier model for explaining the dynamic nature of international trade and investment is the Product Life Cycle model (Vernon (1966, 1974)). This model hypothesizes that new products are introduced and produced in developed or high income countries. With product maturity and standardization, the location of production move to less developed countries to benefit from lower labour cost. This model has also been applied to TWMNEs (e.g., Wells (1983, 1986)). This model has lost its appeal as innovations are originating from countries other than the home country in the MNE network. Also the model does not apply to FDI which are resource-based, efficiency-seeking and strategic asset-seeking. However the Product Life Cycle is still useful in explaining MNEs from developing countries that invest in other less developed countries.

The dynamic process of internationalization of individual firms is explained by the Uppsala model (Johanson & Weidersheim-Paul (1975), Johanson & Vahlne (1977)). This model of gradual incremental steps to international business expansion is based on a series of incremental decisions, whose successive steps of increasingly higher commitments are based on knowledge acquisition and learning about the foreign market. The steps of foreign activities start with export to a country via independent representative/agent, followed by the establishment of sales subsidiary and eventually production in the host country. The internationalization of the firm across many foreign markets is related to psychic distance (in terms of differences in language, education, business practices, culture and industrial development). Initial entry is to a foreign market that is closer in terms of psychic distance, followed by subsequent entries in markets with greater psychic distances. In terms of entry mode, the incremental expansion of market commitment means that the initial entry is typically some form of low commitment mode (e.g., minority JV) and followed by progressively higher levels of commitment (e.g., majority JV and wholly owned subsidiary). Similarly, commitments in terms of the level of ownership in different markets is correlated with their psychic distance. The Uppsala model has received general support in empirical research (e.g., Welch & Loustarinen (1986), Davidson (1980, 1983), Erramilli, Srivastava, & Kim (1999)) and its largely intuitive nature and evolutionary learning perspective makes it an attractive model

A related view in terms of learning is that TWMNEs build up their advantages through the accumulation of technology and skills. Lall (1983) viewed this in terms of the localization and adaptation of technology to suit local markets by TWMNEs. Tolentino (1993) emphasized the accumulation of technological competence in the expansion of firms from developing countries. This view is consistent with the resource-based view of building competitive advantage in strategic management. Pananond & Zeithaml (1998) found that the accumulation of knowledge and competence (particularly its knowledge of developing markets and not so much its technology) by the CP Group in Thailand was the key to its internationalization. Differences between the CP Group and Western MNEs were observed by Pananond & Zeithaml in their research.

The above theories and concepts provide understanding and explanation of the internationalization of MNEs from NICs and developing countries. However by themselves, they are by no means complete explanation of MNEs, particularly Asian MNEs. The TWMNEs and Asian MNEs did exhibit characteristics, motivations and internationalization paths which varied from those of Western MNEs from developed countries and which are not fully explained by extant theories of MNEs. Li (2003)

contends that extant MNEs theories need to be modified and enhanced to explain all MNEs, including Asian MNEs.

Western theories on internationalisation have overlooked the active role played by the state and neglected the institutional or contextual perspective in the internationalization of Asian firms (Yeung (1999), Zutshi & Gibbons (1998)). In the Asian context the state often plays a direct and active role in the internationalization of its MNEs. For example, the Singapore government played a key and direct role in the promotion of outward FDI, particularly from the early 1990's in its regionalization programs (Pang (1994), Tan (1995), ESCAP/UNCTAD (1997)). In Malaysia, the government took a very active role in promoting the internationalization of Malaysian firms. Investment promotion missions abroad were organized and often lead by the Prime Minister. The government provided incentives including tax abatement in 1991 and subsequently full tax exemption in 1995 for income earned overseas and remitted back to Malaysia. An overseas investment guarantee programs was instituted. The government's role can work the other way too. To mitigate the impact of the effects of the 1997 Asian financial crisis, the Malaysian government even "instructed" firms to defer non-essential overseas investment. In Taiwan, government policy had been to target strategic industries (e.g., computer information industry) and to encourage development and internationalization of Taiwanese industries. The Taiwan government did assist firms in their internationalization activities, but for political reasons imposed constraints on Taiwanese FDI to China. Restrictions on travel and direct investments (particularly by stock market listed companies) to China led many Taiwanese firms (including our sample firms) to invest in China via third countries. The government even initiated a "go south" policy in 1993 to encourage Taiwanese firms to diversify their investments away from China towards Southeast Asia. In the Asian context, the state has played a very active and direct role in promoting the internationalization of its national firms. This is unlike the western context where the role of the state is benign and indirect.

There is a need to examine Asian MNEs within the context of its institutional as well as socio-cultural embeddedness. While national cultural characteristics or differences have been investigated and found to have influences on different aspects of internationalization in Western MNEs (e.g. Johanson & Vahlne (1977), Kogut & Singh (1988), Shane (1994), Barkema & Vermeulen (1997)), these cultural factors are essential in explaining Asian internationalization. Asian internationalization tend to be organised through social and ethnic networks. The "Spirit of Chinese capitalism" (Redding 1990) with its sets of values and beliefs underlies the way Chinese business and cross border operations are conducted (Yeung & Olds (2000)). Personal relationships and networks (e.g., Chen (1995), Hamilton (1996), Luo (2000)) form the basis of the internationalization of Chinese and Asian firms. Hence the internationalization of Asian MNEs need to be seen in its contextual embeddedness (both institutional and cultural). It is our view that it is imperative to combine these contextual perspectives with the economic perspective normally used to explain the internationalization of Western MNEs. Our research will endeavour to examine these characteristics and their role in the internationalization of Malaysian and Taiwanese firms within the context of IDP and other explanations of MNEs.

Hence more empirical studies on Asian MNEs are required to provide further data on the applicability of extant theories on the internationalization of MNEs from Asian countries at different levels of development. Hoesel (1999: 35) stated that "What is seriously lacking at present, are new empirical findings that will enable us to

make theoretical statements and hypotheses more concrete". Towards this end, this paper provides further empirical data on two Asian countries at different development levels, Taiwan and Malaysia.

### Research Methodology

Since this is an exploratory study, a case study approach was utilized. This approach was used to collect comprehensive and holistic data (Yin (1994), Eisenhardt (1989)) about firms which have internationalized their operations over time. This will provide data for more extensive subsequent research and testing of propositions and hypotheses as part of an ongoing research on Asian MNEs. The focus here is on MNEs from Taiwan and Malaysia, countries at different level of development in line with the stages of the IDP. The data is primarily drawn from field interviews with the CEOs or top executives responsible for the international operations of the firm at the home country in Taiwan and Malaysia. As our focus is on the internationalization and strategies of the parent firms, overseas subsidiaries were not interviewed. The field trip and interviews in Taiwan and Malaysia respectively were carried out by one or the other researcher. This process was the outcome of resource and time constraints. The potential bias of individual researcher in the field work was recognized, but minimized by the two researchers working closely and jointly before and after the field interviews. All interviews were taped. The two researchers worked jointly on the transcription, coding, checking (including clarifying follow-ups with the responding firms), analysis and interpretation of the data results. 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 published sources, including published materials in business and professional periodicals and journals and internet web sites were used to supplement the primary material. This use of data from various sources will also allow us to cross check and verify data and to ensure validity.

This study focuses on the internationalization of firms from Taiwan and Malaysia in the textile and electronics industries. These two industries were among the most internationalized sectors in the two countries and would have substantial number of firms that have overseas operations to allow us to study their internationalization. The use of the two industries would also allow for comparative analysis by industrial sectors, which share some similarities (e.g., use of OEM strategy) and differences (e.g., different technological levels). Two electronics firms and 2 textile firms from Malaysian 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 research was encountered by the researchers and is a common problem of research in Asian counties.

As indicated earlier, the data were jointly collated and analyzed by the two researchers. The tapes of the interviews for each case firm were transcribed by the researcher responsible for the interview and then checked and verified by both researchers. Together with data from other sources, case notes were jointly prepared, tabulated and analyzed for each case firm. The evidence was examined case by case for replicative effects. Across-case analysis to detect similarities and differences were undertaken using various tabular displays (along the lines indicated by Miles & Huberman (1994)) of data by case firms, by country, by industry along such dimensions under study such as internationalization spread, timing, motives, entry



strategies, networks, etc. These results were also compared with findings from published literature on Western and Asian MNEs. Summary tables are presented in the Appendix for discussion here.

### Case Study Findings

The findings on internationalization characteristics and strategies of our case studies are presented and discussed here. These findings are also discussed in relation to prior research findings on other Asian MNEs as well as Western MNEs.

#### *Size And International Spread*

Our case firms varied in size from very small (US\$26m in sales) to large (US\$900m). (See Appendix for summary of all case studies). As expected our Taiwanese sample firms were larger than the Malaysian firms in both the electronics and textile sectors. Compared to Western MNEs from developed countries, our case firms are much smaller in size. They are representative of MNEs in general from Taiwan and Malaysia reported in the literature. In both Taiwan and Malaysia, small and medium sized firms play a key role in internationalization. The prevalence of small and medium size firms in FDI in China and Southeast Asia is a characteristic feature of Taiwan's (Chen, Chen & Ku (1995)) and Malaysia's (Rogayah (1999)) FDI. For example, between 1986-91, about 90% of Taiwanese projects in Southeast Asia were estimated to be undertaken by SME's (Chen (1998)).

Our case firms tend to concentrate in the Asian region and have fewer overseas locations in terms of international spread (as indicated in the appendix tables). Our Taiwanese textile firm had 8 locations (in Asian countries and Canada), while the Malaysian firm had one (Sri Lanka). In electronics the Taiwanese firm had operations in Thailand, China, U.K. and Mexico, while the Malaysian firm invested in China and Australia. Hence the Taiwanese firms were more internationalized than the Malaysian firms, which seems consistent with the IDP thesis. Our case firms while concentrating in the Asian region have begun to move to the developed countries. This is also observed by Hoesel (1999) for second wave NIC investors. This is particularly so for our Taiwanese case firms in both sectors with investments in U.K and Canada for strategic asset seeking motives. It is interesting to note the early foray into Australia by our Malaysian electronics firm for technology reasons, which was subsequently closed after 2 years.

The size of our case firms as well as that of Asian MNEs in general has a constraining effect on the geographical spread of their internationalization. With limited resources, such firms tend to extend their current products and technologies to nearby countries with similar economic and cultural environments. The choice of proximate country in the initial stages of internationalization is consistent with the internationalization processes of the Uppsala School (Johanson & Vahlne (1977)). This is also similar to patterns of internationalization by small and medium enterprises (SMEs) in western developed countries as well (Bilkey & Tesar (1977), Cavusgil (1980), Holmlund & Kock (1998), Riel (1998)). Among the small Taiwanese MNEs in general, the spread is usually bi-national rather than multinational (Chen (1998)).

Our case firms are generally late movers in internationalization, or more accurately termed as late comers (Mathews (2003)). In the textile sector, the Taiwanese textile firm started early in foreign production in the mid 1960's, but only

stepped up overseas activities during the late-1980's in other Asian countries followed by Canada in 1995. The Malaysian textile firm went overseas only in 1993. The setting up of overseas manufacturing by our Taiwanese electronics firm came only in 1991, followed by 3 investments in 1995, 1997 and 1998. The Malaysian electronics firm went to China in 1995 followed by an Australian acquisition in the same year.

The longitudinal spread of our case firms is reflective of Asian MNEs from developing countries in general, with firms from the NICs ahead of the lesser developed Asian countries. The competitive catch-up processes become very important for Asian MNEs and some may be able to leap frog stages in the internationalization process (Young, Huang & McDermott (1996)). Oh, Choi & Choi (1998) in their study of globalization of a Korean firm, Daewoo Motor Company, indicated that Asian MNEs must simultaneously pursue both technological built up and internationalization at the same time to compete effectively in the global market. Taiwanese and Malaysian MNEs have been late comers in globalization. While these firms have gone international since the 1960s, the big impetus for internationalization only occurred during the late 1980s and early 1990s; but they seemed to have moved rapidly since then to capitalise on overseas manufacturing to enhance their competitiveness. This is also reflected in our sample firms. Mathews (2003) postulated that late comers firms can be successful in globalization by learning and building capabilities quickly and successfully.

### *Motives*

The motivations for the textiles firms in our case studies were basically the search overseas for low cost bases and quotas for textile exports (see tables in Appendix). The Taiwanese textile firms shifted operations to Southeast Asian countries initially, and then to China. In addition it invested in a joint-venture in Canada to produce feedstock (ethylene glycol) – a backward integrative motive to ensure raw materials supply. It also moved downstream in departmental stores in Taiwan. This move to vertical control of its value chain is indicative of the move along the IDP which is characteristic of the second wave Asian MNEs (Dunning et al. (1998)). The Malaysian textile firm remains in its original posture. In electronics, our Taiwanese electronics firm extended its OEM-base strategy of seeking low-cost manufacturing sites in Thailand and China. It also invested in Mexico and U.K. to meet local content requirements and to position for the NAFTA and European Community markets, respectively. They also served as windows for new technology in the U.S. and Europe. The Malaysian electronics firm went to China and Australia mainly for market and R&D reasons. Technology acquisition was its motive in the Australian investment, but this move was very much ahead of its time in internationalization and was disposed off 2 years later. Time and learning is probably required for such a move further along the IDP.

The internationalization of our Taiwanese and Malaysian firms as well as that of other Asian MNEs generally lie in their search for low-cost labour and market expansion. This differed from those of Western MNEs which are based on efficiency seeking motives of optimising their intangible assets and advantages. In the textile and electronics industries under study here, it could be argued that the motivation for the internationalization of the Asian firms resembled that of their western counterparts

in their initial internationalization process as the product life cycle (Vernon 1966, 1979) and investment development path (Dunning 1993) theses would suggest. Both these theses point to the location based advantages (such as low cost and protectionist factors) as motivators of the international expansion of production in the textile and electronics industries. There are similarities in these locational based motivators for Asian MNEs and Western MNEs during their early stages of internationalization as indicated by the IDP. In addition Asian MNEs have different ownership specific advantages (e.g., adaptive technology, better market knowledge) which allows them to compete in the developing economies. The ownership specific advantages for these Asian MNEs to compete in the developed countries may be different. Roger van Hoesel (1999) in his research indicated that the competitive advantages of his four sample Asian MNEs investing in the developed countries seem to move to accumulate new ownership advantages that resemble the Western MNEs, but their competitive advantages were still not very obvious. These were the second wave Asian MNEs (stage 3 IDP). Our Taiwanese sample firms seem to indicate support for this view. The experience of our Malaysian electronics firm to acquire technology in Australia may represent an early (but not so successful) bid to move to the second wave.

### *Strategic Advantages And Traits*

The competitive advantage of our case firms in the textile industry is based on a cost and outward looking export orientation. Low cost input largely for OEM manufacture underlies their internationalization advantage and strategy. The competitive advantage of our Malaysian textile firm is based on a cost and export orientation and a reputation for quality and reliability built over 30 years of operation in Malaysia. Its production in Malaysia and Sri Lanka are mainly for export to European and North America markets. To reduce dependence on textiles, it has diversified into retailing, trading and property development. Our Taiwanese textile firm, an integrated textile company, focuses its competitive advantage in terms of using low cost production as well as integrating backwards to ensure cheap and steady sources of raw materials. It has manufacturing operations in seven Asian countries, including a late entry into China, to ensure cost competitive positions. In addition, it integrated backwards with several joint ventures in Taiwan with foreign companies to produce textile and related materials such as PTA (pure terephthalic acid), nylon fibre, polyesters and industrial gases and a joint venture in Canada to produce ethylene glycol as feedstock for fibre. In Taiwan, it also integrated forward with investments in departmental stores. The company is diversifying outside textile into telecommunications and semiconductors and is becoming a conglomerate multinational, which may erode its original sources of competitive advantage as it moves away from its core competencies and business.

The internationalization of our electronics case firm in Taiwan is to a large extent based on strategies of OEM manufacturing. Initially this firm, as well as other Taiwanese electronics firms, capitalise on domestic low cost and flexibility to supply electronic components and products to the world markets, particularly on an OEM basis. When this source of competitive advantage was eroded by rising domestic labour costs, these firms seek to maintain their competitive advantage by shifting to neighbouring low cost countries to take advantage of locational advantages. Our Taiwanese firm, a manufacturer of monitors and telecommunication products, moved production of monitors to its venture in Thailand in 1991 and China in 1995. However, its overseas locations have spread beyond its Asian bases (Thailand and China) to Mexico and the U.K. The strategic positioning of the Mexican operation is

to take advantage of its locational advantage (cost and proximity to the U.S.) and cater to NAFTA markets. The U.K. location provides both an entry into the European market and a European base for its global logistics network. The Company is emphasising R&D in product development for own design manufacturing (ODM) with its own brand identity and has recently achieved some very innovative products in colour monitor and LCD displays which have been recognised by the industry. The company is trying to extend its competitive advantage beyond a low cost basis to one of greater differentiation based on innovation and reputation. Our Malaysian electronics firm relied on its own technical expertise and its ability to tailor advanced electronics displays to host market requirements. The company is conscious of its need for R&D and acquired an Australian firm for its technology and used its China's venture to tap technology developed and tailored to the Chinese market. It stated that its technology could match the best in the world (evident from its ability to win large projects through international competition), and yet at competitive prices. It has diversified into related value adding businesses such as system integration of telecommunication equipment and audio-visual multi-media. It has a conservative approach to internationalization and expand when its capacity can sustain them.

All our sample firms share similar competitive advantages and traits, though there are some variations, particularly by country. The majority of firms rely on advantages based on cost, responsiveness, and knowledge of the local market. Similar findings on other Asian MNEs have been reported by Luo (1999, 1998), Yeung (1994, 1997), Li (1994, 1998), and Chen (1998). However differences were detected between the Malaysian and Taiwanese firms in both the industry sectors in our sample. In the textile sector, while both firms relied on cost-based advantages, the Taiwanese firm was more internationalized and had moved towards greater vertical control of its value chain activities, particularly in an advanced country where technology intensive processes were required for large scale input manufacture. The Malaysian textile firm was largely confined to its cost-based OEM manufacture. Similarly in the electronics sector, the Taiwanese firm has upgraded to ODM, own brands and developing logistics networks (the transaction-type ownership advantages of Dunning (1993)) even in developed countries. Our Malaysian electronics firm is occupied with adaptation of technology for Asian markets, including cooperating with Chinese academics and scientists for technology applications and adaptations. Its acquisition in Australia for technology purposes was an attempt to move beyond its current situation, but was not successful and hence discontinued. The characteristics of our Malaysian and Taiwanese firms in both sectors is generally consistent with the first wave (stage 2) and second wave (stage 3) of the IDP. Our more forward looking case firms have moved to the developed countries to seek technology, strategic assets and markets, but their advantages are still different from those of advanced western MNEs which are largely based on some intangible assets (e.g., technological capabilities, organizational skills). Nevertheless they are augmenting their competitive advantages and moving towards resembling more like Western MNEs. This indicate general support for the IDP thesis.

#### *Entry Strategies*

Unlike MNEs from developed western countries, Asian MNEs exhibit a preference for joint ventures, which is similar to the behaviour of other MNEs from developing countries (Monkiewicz (1986), Ting (1985)). In our case studies, only the Taiwanese textile firm used joint ventures in its overseas operations, except for China where their two operations are wholly owned. Our other case firms showed a

different pattern. The Malaysian textile firm used WOS in its sole overseas venture, while the electronics case firms in both countries preferred WOS. The greater utilisation of WOS in the electronic sector is a reflection of the need for greater control to maximise manufacturing flexibility and technology advantage. These strategic motivations and need for global synergies have been found to be among key determinants of higher equity stakes in entry modes (Rajan & Pangarkar (2000)). The move towards greater equity control is also probably a reflection of the increased internationalization experience and the gaining of confidence in recent years by Asian MNEs.

### *Networks And Alliances*

The internationalization of our sample firms is strongly aided by their ethnic networks in the Asian region. All our case study firms reported using their ethnic and other networks in their foreign operations (see tables in appendix). A good case example is our Taiwanese textile firm. It went early in 1963 to Singapore based on ethnic connection and has since developed an extensive ethnic network in Asia (Hong Kong, Philippines, Thailand, Malaysia, Indonesia & China) where it had operations. It subsequently went into four joint ventures with Western MNEs in its upstream integrative ventures to protect its sources of supply. The Malaysian textile firm is linked to a large network of suppliers and related businesses in Asia to which it has closely associated with over a long period of time.

Similarly in the electronics firms in our sample, all had ethnic networks in Southeast Asia and China which they utilise for their overseas operations (see Appendix tables). For example, our Taiwanese firm set up a venture in Thailand as the result of association with a related Taiwanese partner in another venture (shoe manufacturing) which already had operation there. Ethnic connection facilitated its operations in China. Our Malaysian electronics firm had ethnic partners in research and development in China and an extensive network of Japanese and other suppliers. In the electronics firms in our case studies, the use of strategic alliances (which involve both business and ethnic partners) is also prevalent. Our Taiwanese case firm had elaborate sub-contracting networks and put in resources to build strong global logistics networks and JIT hubs to ensure efficient and smooth supply and distribution. It is apparent that our electronics firm, as well as other Taiwanese firms have realised the need to build efficient global logistics and supply networks to complement the competitive advantage of low cost production. Hence a considerable part of the network is not necessarily ethnic-based, but based on industry relationships. The presence of an elaborate global networks of suppliers and sub-contractors as part of the industry global OEM framework facilitated this. Our Taiwanese firm build up elaborate logistics networks in Europe. The Malaysian electronics firm in our sample made greater utilisation of strategic alliances, licensing and partnerships with companies in technologically advanced countries.

The utilisation and role of ethnic networks in our sample firms is not unlike that of other Asian MNEs reported in the literature (e.g., Yeung (1997), Kao (1993), Luo (2000)). These ethnic networks are characteristic features of Chinese businesses and their internationalization in Asia (East Asia Analytical Unit (1995), Hamilton (1996), Weidenbaum & Hughes (1996)). Cooperative activities in such networks are based on personal relationships (guanxi) which are usually ethnically linked. Their similar cultural attitudes and heritage fostered the development of trust and cooperative behaviour. These ethnic networks and ties provide knowledge and access to local

markets, distribution systems, connections around local bureaucracy and business systems, as well as potential business partners and associates and even financing. In Southeast Asia, overseas Chinese, who share common dialects with Taiwanese and Malaysian Chinese investors (both our Malaysian case firms are Chinese controlled), provide valuable links to form local networks for their businesses (Chen & Liu (1998), Sim & Pandian (2002)). Yeung (1998b) also illustrated that economic synergy is embedded in the complex business networks among the transnational enterprises from Malaysia and Singapore. Ethnic and cultural ties also result in the surge of Taiwan and South-east Asian investments and operations in China, particularly in Fujian and Guangdong provinces (Lu & Zhu (1995)). Lin (1996) stated that the average size of Taiwanese investments in China was much smaller than that in Southeast Asia because the ethnic network effectively facilitated easier entry into China. The attributes of manufacturing network structure has been empirically linked to the degree of internationalization in the Taiwanese electronics and textile industries (Fang & Hsiao (1999)). Chen (1999) found that manufacturing strategies of networks in the textile industry have enhanced the competitive determinants of flexibility, delivery and cost for the SMEs in Taiwan. The production network of Malaysian firms are not as well developed as that of Taiwanese firms, largely due to its earlier stage of industrial development.

However one could argue that our sample firms and other Asian MNEs are no different from Western MNEs which had made use of extensive global networks, particularly in the textile and electronics industries. Organizational networks have been extensively covered in the literature on organizational dynamics (e.g., Nohria & Eccles (1992), Pfeffer & Salancik (1978), Oliver (1990)). The textile and electronics industries with their extensive system of international OEM suppliers and contractors are well established patterns of networks, and Asian firms are usually part of this network (Ernst (2000)). Even in the internationalization literature on Western SMEs, recent attention has also shifted to using networks to examine and explain their internationalization (e.g., Chetty & Holm (2000), Holmlund & Kock (1998), Tavakoli & McKiernan (1999), Johanson & Mattsson (1988), Caviello & McAuley (1999)). Dunning (1988) has also seen the need to include the influence of alliance network in his MNE explanations. But these western networks are of a business type and not linked to the social context. Networks of Asian firms, including our Taiwanese and Malaysian case firms, are largely based on ethnic and cultural foundations, treading similar cultural values and attitudes in the pursuit of businesses. They are embedded in the social and cultural framework or context of these largely Chinese businesses. All our sample firms are Chinese owned and managed. Hence the ethnic and social embeddedness of networks and relationships (*guanxi*) is a distinguishing feature of Chinese and Asian MNEs and not well covered by conventional explanations of MNEs. Our proposition is that such contexts should be explicitly taken into account.

### Conclusion

Our Taiwanese and Malaysian firms, as well as other Asian MNEs, are still evolving and are expected to internationalize and globalize at a faster pace in the future. In response to the Asian financial crisis, our sample firms saw and articulated the need to improve their competitiveness and performance. All our firms were rationalising and consolidating their operations (see tables in appendix). China featured prominently in the plans of our sample firms to enhance their competitive cost advantage and tap the domestic Chinese market.

The internationalization strategies of our Taiwanese and Malaysian case firms were founded on cost-based competencies and other location-based advantages, brought together by an extensive web of ethnic networks and aided by government encouragement and institutional framework. Some differences between our Taiwanese and Malaysian case firms were found. For example, the Taiwanese firms showed more developed and elaborate production networks and greater ODM/OBM participation than the Malaysian firms. Increasingly, these Taiwanese firms are extending beyond their current competitive advantages to those which capitalise on differentiation benefits, such as technology, innovative product features and value. Our case study firm in the electronics sector are particularly active here. Some of our sample firms are moving outside their Asian bases to North America and Europe to strategically position themselves for new markets and technologies. The Malaysian case firms were less active in all these areas and indicated a lower level of internationalization. Hence they are more reflective of the first wave investors rather than the second wave of firms described by Dunning et al. (1998). Our findings here are consistent with prior research studies on Asian MNEs. As Taiwanese and Malaysian MNEs evolve and grow, particular attention needs to be paid to learning and accumulating new knowledge and expertise, particularly from their experiences as evident from our sample case studies. The need to develop existing capabilities and to accumulate new knowledge is becoming critical for Asian MNEs in an increasingly global market (Pananond & Zeithaml (1998), Tsang (1999)).

The trend towards differentiation strategies based on technological and other capabilities by our sample firms seem to indicate a move towards the ownership (or firm) specific advantages specified by the Investment Development Path thesis. The findings here provide some support for the IDP. Whether the future strategies of our sample firms (and that of other Asian MNEs) will result in them resembling Western MNEs remain to be seen and warrant further research and discourse. There are other observable differences between our sample Asian firms and Western MNEs. In particular our findings indicate the key role government and ethnic network and relationships played in their internationalization. These elements have been neglected in conventional MNE theories. Our findings here reinforce the basic proposition that the social and institutional framework is a distinguishing feature of our firms as well as other Asian MNEs and need to be verified by further empirical research. For example, Li (2003) postulated several areas for such research.

This paper provided an exploratory and broad examination and discussion of the internationalization characteristics and strategies of Taiwanese and Malaysian MNEs, drawing specifically from 4 case studies, matched by industry. This empirical base is obviously limited and the use of case studies method here has its limitations. Our research did not capture the operational strategies at the level of the subsidiary or JV. The findings are not necessarily generalizable beyond our sample firms. As indicated there is still a wide empirical research gap on Asian as well as Taiwanese and Malaysian MNEs to be filled to provide further evidence and answers to many of the issues raised in the paper. Our ongoing research project on Asian MNEs from countries of different levels of economic development is expected to fill some of these research gaps and provide a more comprehensive test of the IDP and other MNE theories. Other potential areas of research include longitudinal studies of Asian MNEs to examine whether they will resemble Western MNEs as they evolve, the impact of ethnic networks on the performance of Asian MNEs, the role of the state in internationalization, and the issue of conglomerate diversification strategies so popular

among Asian MNEs. Research into these and related areas will provide a better and more comprehensive understanding of Asian MNEs.



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## Appendix

Table 1 Summary of Malaysian Case Studies

| Characteristics   | Electronics Firm  | Textile Firm   |
|---|---|--|
| <b>Product</b>  | Industrial electronics products   | Textile, Garments, & Property  |
| <b>Size (1998 sales)</b>                                    | US\$26m   | US\$88m  |
| <b>Overseas Production Locations &amp; Year Established</b> | China (1995)<br>Australia (1995- closed 1997)   | Sri Lanka (1993)   |
| <b>Entry Strategy</b>                                       | WOS<br>Acquisition  | WOS  |
| <b>Key Motives</b>  | Market expansion<br>R & D   | Low cost<br>Quota  |
| <b>Strategic Advantages &amp; Traits</b>                    | Technical expertise<br>Competitive pricing<br>Related diversification                   | Cost-based<br>Diversification to property, etc<br>Reputation & Quality   |
| <b>Networks &amp; Alliances</b>                             | R & D partners<br>Product Principals  | Member of regional grouping<br>JVs & established customers links   |
| <b>Future Plans</b>   | Looking for partners in China; Aim for 50% overseas business<br>Related diversification | Another factory in Sri Lanka; Overseas bases in Mexico & Middle East; High value segments; Consolidate property business |

Abbrev.:            mfg = manufacturing    WOS = wholly owned subsidiary  
                              JV = joint venture



Table 2. Summary of Taiwanese Case Studies

| Characteristics                                  | Electronics Firm  | Textile Firm   |
|--|---|--|
| Product  | Monitors<br>Telecommunication products  | Integrated company<br>textile  |
| Size<br>(1997/98 sales)                          | US\$400m  | US\$900m   |
| Overseas Production Locations & Year Established | Thailand (1991)<br>China (1995)<br>U.K. (1997)<br>Mexico (1998)                                     | S'pore (1963)<br>P'pines (1986)<br>Hong Kong (1986)<br>Thailand (1987)<br>Malaysia (1995)<br>Canada (1995)<br>Indonesia (1998)<br>China (1998) |
| Entry Strategy                                   | All WOS   | Mainly JVs<br>WOS (China)  |
| Key Motives                                      | Low cost bases<br>Market expansion<br>Tax incentives<br>Local content                               | Low cost bases<br>Supply of materials<br>Integration   |
| Strategic & Traits                               | Advantages<br>Cost & OEM-based production, ODM<br>R&D and Logistics<br>Emphasis on market expansion | Cost-based<br>Vertical integration<br>Unrelated diversification<br>Early movers in overseas mfg.(1963)   |
| Networks & Alliances                             | Sub-contracting outsourcing network)<br>Logistics network<br>Another factory in China               | & JVs (ethnic network)<br>Strategic alliances<br>Longterm contracting  |
| Future Plans                                     | Invest in global service network  | Increase FDI in China<br>Expand unrelated diversification  |
| Abbrev.:   | mfg = manufacturing<br>WOS = wholly owned subsidiary  | P'pines = Philippines<br>S'pore = Singapore<br>JV = Joint Venture  |