

**THE MOTIVATION, PROCESS AND STRATEGY OF
INTERNATIONALISATION BY MALAYSIAN FIRMS INTO THE UNITED
KINGDOM**

By

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**To my Mother,
In Memory of my Grandparents,
For my Children**

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ABSTRACT

This thesis considers the case of foreign direct investment into the developed country, by examining the internationalisation of Malaysian companies into the United Kingdom. The study on FDI by companies from the developing countries has been under-presented in the literature of international business and especially not to the extent of those that have been conducted on western countries' multinationals. There is also lack of thorough investigation on the influence of company's characteristics on FDI practices of developing countries' transnational corporations.

This study was pursued using a qualitative approach where data was obtained via semi-structured interview as well as documentary information. A preliminary search of the database Financial Analysis Made Easy (FAME) found 180 Malaysian companies in the U.K. which correspond to 80 parent companies in Malaysia. This was later scaled down to 45 companies that actually have active operations in the U.K. The companies broadly fall into three types: conglomerates, Chinese family firms and government-linked companies (GLCs). A total of 19 companies in Malaysia and 8 companies in the U.K. finally agreed to participate in the research. Interviews in Malaysia took place in July to October 2003 and those in the U.K. were conducted in November 2003 to January 2004.

Generally, the International Business (IB) theory can be used to explain foreign direct investment by Malaysian firms into the U.K. As such, the motivation of Malaysian firms investing in the U.K. is still enveloped within resource seeking, market seeking, efficiency seeking and strategic asset seeking types of FDI. However, there are other factors that are not clearly explained in the mainstream IB theory, especially with regards to the characteristics and types of the companies that influence FDI motives and strategies such as Chinese family business, conglomerate firms and GLCs. This study found that Chinese family businesses undertake FDI to increase shareholder value, that is, the family wealth or family capital accumulation. The motive of conglomerate firms is either to create new core competence in the hierarchy, to strengthen the existing core competence and/or

risk hedging. For the GLCs, the goal to help support the Malaysian government policy on transfer of technology has driven them to undertake similar investments in the U.K.

Other specific factors have also driven the investment namely the entrepreneurship and opportunistic behaviour of the business actors i.e. the major shareholder in the Malaysian companies. The strategy of investment has a strong tendency towards 'emergent strategy' rather than 'deliberate strategy'. The study also shows that Malaysian companies prefer wholly-owned subsidiaries where the parents are in control of finance and determine the business directions. There is, however, limited direct involvement of parent companies' personnel in the running of the subsidiaries.

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ABBREVIATION AND GLOSSARY OF TERMS

ASEAN	Association of Southeast Asian Nation which consists of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Singapore, the Philippines, Thailand and Vietnam.
CHAEBOL	Refers to a large, family-owned conglomerates comprised of firms that operate in different sectors of the Korean economy
EU	European Union
FAME	Financial Analysis Made Easy Database
FDI	Foreign Direct Investment involving a long-term relationship and reflecting a lasting interest and control of resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investors (UNCTAD, 2000)
FMM	Federation of Malaysian Manufacturers
FSA	Financial Services Authority
GLCs	Government-Linked Companies
GNP	Gross National Product –refers to the total market value of all the goods and services produced by a nation during a specified period
GDP	Gross Domestic Product – refers to the total market value of all the goods and services produced within the borders of a nation during a specified period
IDP	Investment Development Path
JV	Joint Venture
Keiretsu	A network of businesses that own stakes in one another as a means of mutual security, especially in Japan, and usually including large manufacturers and their suppliers of raw materials and components
LDCs	Less Developed Countries
LSE	London Stock Exchange
MIDA	Malaysian Industrial Development Authority
MITI	Ministry of International Trade and Industry, Malaysia
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
NAFTA	North America Free Trade Agreement
NEP	New Economic Policy – refers to Malaysian government policy on redistribution of wealth among ethnic group
NICs	Countries that are obtaining a considerable level of industrialisation, the switching of primary business from agricultural to industrial economies.
OCFB	Overseas Chinese Family Business
R&D	Research and Development
SOEs	State-Owned Enterprises
TNCs	Transnational Corporations: Incorporated or unincorporated enterprises comprising parent enterprises and foreign affiliates (UNCTAD, 2000)
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
U.K.	The United Kingdom of Great Britain and Northern Ireland [i.e. England, Northern Island, Scotland, Wales]
U.S.A.	United States of America

CHAPTER 1: INTRODUCTION AND RESEARCH BACKGROUND

“In March 2002, YTL Power International Berhad, a subsidiary of YTL Corporation Berhad completed its acquisition of a 100% stake in Wessex Water Ltd, one of the most efficient water and sewerage companies in the United Kingdom for total consideration of £1,239.2 million. YTL is one of many Malaysian conglomerates venturing in the overseas operation and among a few venturing into a developed market. YTL is 47% owned by the Yeoh family. It was founded by Yeoh Tiong Lay, and is now run by his son Francis Yeoh. This form of business represents a common phenomenon among Malaysian conglomerates which are typically Chinese controlled family companies. It is a highly diversified company with activities including property, financial services, information technology, power generation and utilities. The acquisition of Wessex Water took many by surprise since YTL was competing with many companies including from the developed countries in an open bid which it eventually won. Ironically YTL has no previous experience in water management except it has been involved in power generation activities in Malaysia and Australia. The Yeoh family has long had close ties with the U.K. It started as a small construction company in 1955, building ammunition depots and garrison for the British army when the U.K. still ruled the country. Francis Yeoh graduated from London’s Kingston University with an engineering degree. He works from a penthouse office that looks like a London club: mahogany-panelled walls, leather chairs and English landscape prints. In the reception room are photographs of him meeting the Queen and Prince Charles”

[Adapted from YTL (2002) and
Burton (2003)]

1.1 INTRODUCTION

The study on the evolution of multinational corporations (MNCs) has always been dominated by MNCs from industrialised nations. It is therefore not surprising that the development of the theory and framework of international business has always been a reflection of the behaviour and motivation of western style corporations. The widely cited ‘product cycle theory’ for example, is based on the evolution of international production of American firms in the 1960s (Vernon, 1966). Although the generalisation of this theory in the broader context of international production framework is quite limited (Buckley, 2002), it provided an early understanding of the firm’s internationalisation behaviour.

In contrast to the attention given to the study of MNCs from the developed countries, the evolution of MNC from the developing countries has only received attention in the last three decades. Among the writers who have brought this issue

forward are Ferrantino (1992), Lall (1983), Lecraw (1977), Wells (1983), and Yeung (1999). The context of their studies has been dominated by MNCs from Taiwan, South Korea, India, Singapore and Hong Kong in Asia and Brazil and Argentina in South America. Due to the lack of attention given to MNCs from developing countries, only a limited number of literatures have discussed 'third world multinationals' (Lall, 1983; Tolentino, 2000; Wells, 1983) or transnational corporations (TNCs)¹ from emerging economies (Yeung, 1999). As a result, the literature on third world multinationals and its framework of internationalisation has not fully developed as fast as the literature on western multinationals. In addition, the existing framework of third world multinationals has not rigorously looked into the structure of ownership and types of organisations that might influence their foreign investment practices.

For reasons above, the purpose of this study is to bring into focus TNCs from developing countries such as Malaysia into the developed countries i.e. the United Kingdom (the U.K.). Malaysia is a small economy within the ASEAN nations which also includes Singapore, Thailand, Indonesia, the Philippines, Vietnam, Myanmar, Cambodia, Laos and Brunei. There is however, no established convention for the designation of "developed" and "developing" countries. The World Bank has been using the term 'developing countries' to denote the set of low and middle income economies while developed countries refers to high income countries. It was based on Gross National Income (GNI) per capita in which low income is USD825 or less; lower middle income is USD826 - USD3,255; upper middle income USD3,256 - USD10,065 while high income is more than USD10,066. Based on the above income parameter, the World Bank classifies Malaysia as a developing country and the U.K. as a developed country (World Bank, 2005).

Malaysia was chosen because it is one of the developing countries that has had relatively substantial involvement in outward investment (UNCTAD, 2003). In

¹ The term TNCs will be used throughout this thesis to denote developing countries' multinationals. It refers to incorporated or unincorporated enterprises comprising parent enterprises and foreign affiliates.

2004, Malaysian outward stock was valued at USD13.8 billion which represents 1.3% of total outward investment from developing countries and 0.14% of global outward investment (UNCTAD, 2005a). Malaysian outward investment is small as a percentage of world's FDI, but it has grown in importance, particularly its investment in other developing countries (Ragayah, 1999). Similarly, Malaysian investment into Western countries is still limited, but the size of the investment by individual companies can be considered quite large. For instance, the acquisition of AET Tanker in the U.S.A. by Malaysian International Shipping Corporation (MISC) for USD1.1 billion, the acquisition of Wessex Water in the U.K. by YTL Group for USD1.765 billion (Bursa Malaysia, 2002²) and the acquisition of Lodders Crokiaan BV in the Netherlands by IOI Corporation Berhad for USD213.667 million (Bursa Malaysia, 2003a).

Apart from looking into their motivation and strategies for investing abroad, this study also seeks to find out some inside information on the Malaysian companies and the extent to which the nature of ownership and type of companies such as conglomerates, Chinese family-owned companies and government-linked companies (GLCs) are reflected in their internationalisation process. This study therefore hopes to contribute to, and fill in some of the gaps to better understand international business framework, especially with regards to FDI by firms from developing countries.

This research undertakes a qualitative approach mainly by analysing qualitative data from interviews with the Malaysian parent companies and their subsidiaries in the U.K., as well as data obtained from published and un-published documents from the respondent companies.

1.2 A STUDY OF MALAYSIA'S INVESTMENT IN THE U.K.

This study draws upon Malaysian investment into the U.K. as a case study for practical reasons. The researcher is of Malaysian origin and is based in the U.K.,

² Bursa Malaysia is the Stock Exchange of Malaysia. It was formerly known as Kuala Lumpur Stock Exchange (KLSE).

which makes it possible to gain access to information from these two countries. Although the U.K. is not the biggest recipient of Malaysia's foreign investment globally, in comparison with other western European countries the U.K. has consistently received high Malaysian investment over the last decades (further discussed in Chapter Four). This seems to suggest that there is a constant interest by Malaysian companies to invest in the U.K., for which the reasons are presented in this thesis.

As a small country that has constantly been the recipient of FDI, outward investment by Malaysian companies is relatively new compared with other countries in Asia such as Korea, Taiwan, Singapore and Hong Kong that had begun their outward investment in the 1950s and 1960s (Tolentino, 2000). The earliest figure of Malaysian overseas investment was for 1972, which involved a total value of RM 148 million (Ragayah, 1999). The value of Malaysian overseas investment was small because prior to the 1970s Malaysia had implemented an import-substitution strategy that made it more a recipient of FDI than an exporter of capital. In addition, low levels of domestic savings and higher demand for domestic investment discouraged any intention to invest abroad (Ramasamy and Viana, 1995). As pointed out by Tolentino (2000), this development course of inward FDI has been influenced by factor endowments in national resources and the level of development of the host country.

In the context of Malaysia's economic development, it has grown progressively in the 1980s and 1990s. During the same period, values of overseas investment have also increased which might reflect the notion of the Investment Development Path theory (IDP theory). The IDP theory postulates that the development of FDI by a country is related to the country's phase of economic development which is measured by the Gross National Products (GNP) to the level of inward and outward investment (Dunning, 1981). In the case of Malaysia, its gross investment overseas in 1992 grew to RM1310.20 million (USD344.7 million) and by the year 2002, it had increased to RM16424 million (USD4322 million) [see Appendix 1.1]. During the same period Malaysia's Gross Domestic product (GDP) experienced a constant

growth at 8.5% per annum between 1991 and 1997 (Economic Planning Unit, 2004).

Most of the investments by Malaysian companies in the early stages were concentrated in other developing countries such as Singapore and Hong Kong. It expanded into the industrialised countries from the 1990s onwards. Malaysian investment in the U.K. started in the 1970s when Malaysia's state-owned firms acquired British empire companies that were operating in Malaysia's rubber plantation and tin mining industries (Ragayah, 1999). While early investment was state-driven, further investments from the 1980s onwards were as a result of initiatives by the private sector. Malaysian investment flows into the U.K. makes up between 2.44% to 17.85% of total investment flow over the period 1992 to 2002 (see Appendix 1.2). The highest investment flow recorded was RM1.716 billion (USD 452million) in 1997, just before the Asian economic crisis (see Appendix 1.1).

At present, there is limited understanding on the internationalisation of Malaysian firms into the foreign market. Similar studies about multinationals from other countries in the region such as Singapore, Hong Kong and Taiwan multinationals are easier to find (Tolentino, 2000; Yeung, 1999). One is even less likely to come across a study on Malaysian investment into developed countries. For instance, Ragayah (1999) examined reverse investment (outward investment) by Malaysian companies, but she only looked at Malaysian reverse investment in general without looking at any particular host country. The only study about Malaysian investment in a developed country is by Gomez (2001) where he examined the intra-ethnic cooperation of Malaysian Chinese companies in the U.K. with other ethnic Chinese companies. The lack of study on Malaysian outward investment is probably due to the small amount of FDI originating from Malaysia.

Despite this lack of visibility, a study of Malaysian investment into the U.K. could still be used as a basis for a better understanding of the internationalisation of firms from developing countries. Preliminary data collection conducted over the period October 2002 – January 2003, of Malaysian companies' investment in the U.K.,

revealed that Malaysian investment in the U.K. has mainly been carried out by companies with different characteristics and ownership structures, namely the conglomerates, Chinese family business and companies that are substantially controlled by the government or GLCs. These are elements that have rarely been explained within the context of an international business framework. Dunning (1999), for example, agrees that less attention has been paid to the type of internationalisation practised by conglomerates which is reflected in the international extension of a company's activities over geographical space. Study on these organisational elements could provide insight as to whether firms of different corporate structure and type of ownership act similarly or differently in their internationalisation process.

From another perspective, previous studies of developing country TNCs have also been biased towards manufacturing TNCs. In contrast, however, preliminary information obtained at the beginning of the research shows that Malaysia's investment in the U.K. tends to concentrate in the non-manufacturing sectors such as hotel, research & development (R&D), utilities, marketing, distribution and sales units. It appears that there are different motivations and strategies between manufacturing and services firms when they internationalise their operations. For example, the majority of Malaysian investment in the U.K. is undertaken via acquisition. In some cases, the transactions involved the acquisition of equity interest in a failing local company. Malaysian companies also tend to hold majority shares in their U.K. affiliates. It also appears that the strength of these companies comes from the ownership of large financial surplus together with the desire to explore new market potential.

The case of Malaysian investment in the U.K. thus provides a research opportunity in two areas of the international business circle. First, a study on the specific motivations of FDI, given the distance between the two countries, can be undertaken. In the context of host country, the U.K. is a developed country that enjoys a dominant position in Europe as an inward investment location (Invest.U.K., 2002). It also has a historical relationship with Malaysia, a former British colony. Second, given the varied ownership structures of Malaysian

companies investing in the U.K., such a study could also provide some indication as to whether there is any link between the type of companies involved and their internationalisation practice.

1.3 OBJECTIVE OF THE STUDY

Main Objective

The main objective of this research is to examine the motivation and strategy of direct investment by Malaysian companies into the U.K. The study seeks to provide a better understanding on the outward direct investment (ODI) by transnational corporation (TNCs) from developing countries, using Malaysia as a case study.

Specific Objectives

1. To examine the general factors that motivate Malaysian companies to undertake outward direct investment into the United Kingdom;
2. To examine the influence of specific factors such as firms, locations, costs and actors in the organisation, on the decision to invest in the United Kingdom;
3. To understand the entry strategy and factors that determined the choice of entry mode;
4. To consider the operational strategy and management relationship between Malaysian parent companies and their U.K. subsidiaries;
5. To consider factors that determined the motives of investment and operational strategies that are linked to the characteristic of Malaysian companies investing in the U.K., namely Chinese family businesses, conglomerate companies and government-linked companies (GLCs);
6. To consider the general implications of this study to the theoretical understanding of the multinational firm theory, developing countries' transnational corporations (TNCs), managerial capacity and with regards to Malaysian government policy.

In summary, this study aims to generate explanations concerning the process of internationalisation involving Malaysian companies and their investment in the

U.K, based on the firm's specific advantages, the FDI motive (Dunning, 1993), profit maximisation and transaction cost considerations. It is assumed that the common determinant of FDI could be the factors that explain Malaysian ODI. However, specific factors such as firm specific advantages, locational factors and the motivation of actors in the organisation will also have influence. For example, based on preliminary information available at the start of the study³, some of the Malaysian companies do tend to possess a competitive advantage, but it is unclear how they use this advantage within the context of their investment in the U.K. Since the practices and strategies of investment in a foreign country might be different from an internal domestic market point of view, this study also seeks to understand the motives and strategies of internationalisation by companies such as the conglomerate, Chinese family businesses and GLCs. For example, would Chinese family businesses, conglomerate firms and GLCs retain their operational characteristics in their subsidiaries, such as in the areas of control, decision making and management practices? In the context of Malaysian government policy, it is assumed that investment policy is favourable towards inward FDI rather than outward FDI. The capital control policy introduced by the Malaysian government after the Asian crisis in 1997 is also thought to have affected the flow of capital, hence Malaysian outward investment. Similarities and differences in the motivation and strategies of Malaysian TNCs with other developing countries TNCs are also explored.

1.4 RESEARCH FRAMEWORK

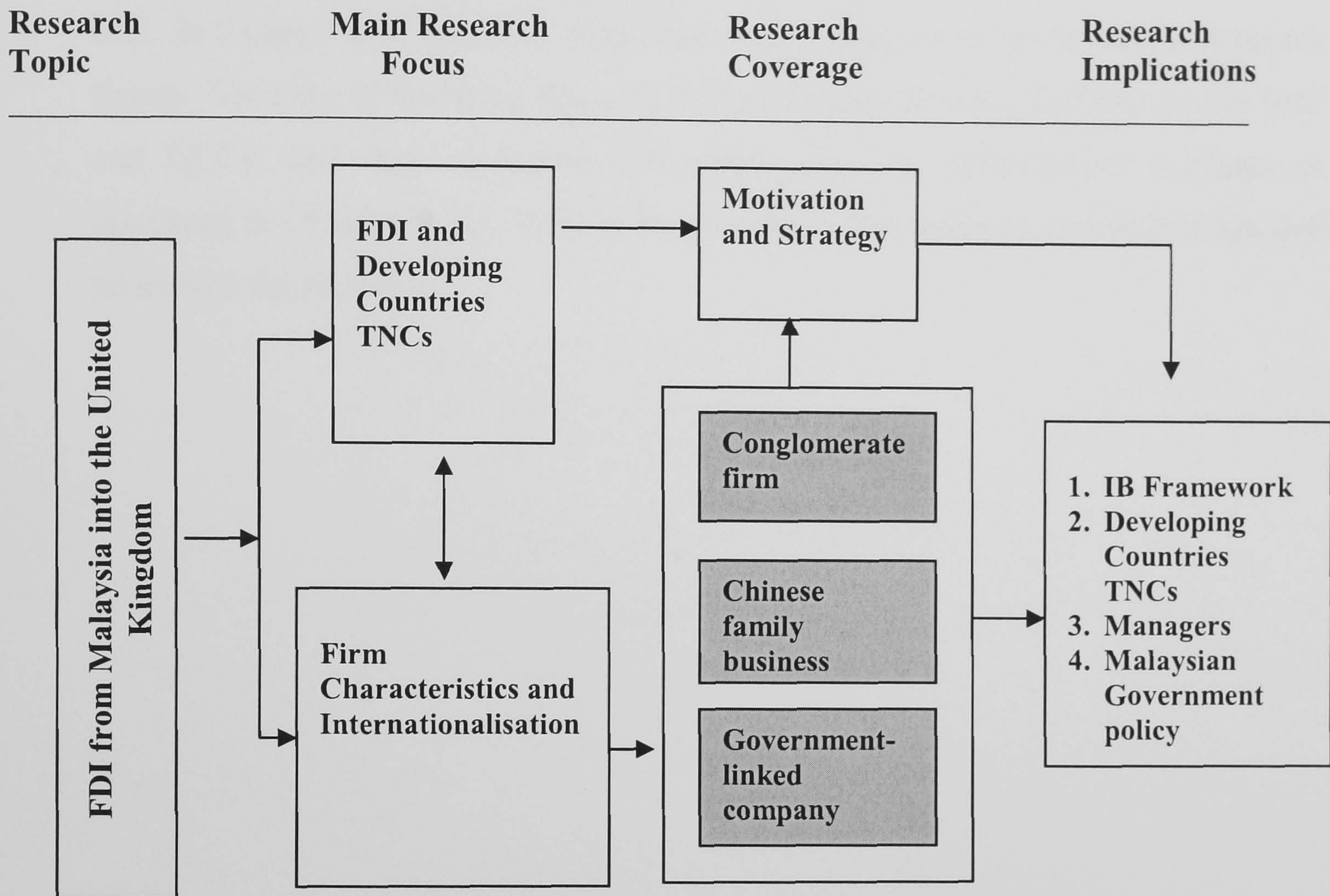
The overall framework of this research is depicted in Figure 1.1. The topic of the research is foreign direct investment from Malaysia into the U.K. and research on this topic is focused on three main areas. The first and second focus is to look at the motivations and strategies of such investment.

The third focus (under the Research Coverage in Figure 1.1) is to examine the companies' characteristics and the extent to which these are linked to their internationalisation process. The inclusion of company's characteristics in the

³ Information based on company reports and FAME Data Base.

research framework is to find the answer to the 5th objective in Section 1.3. The findings are then placed in the existing context of internationalisation framework and developing countries TNCs which is hoped will broaden understanding of these frameworks in general.

Figure 1.1: Research Framework



1.5 OVERVIEW OF THE THESIS

This thesis is organised along nine chapters. The thesis starts with the introduction chapter which explains the purpose of the research and provides the background to the research. An overview of the present theoretical underpinnings of internationalisation framework which forms the basis for understanding the reasons why firms operate in more than one country is presented in Chapter Two. Chapter Two also presents a discussion of the organisational structure of emerging countries' TNCs, another focus of the study, in addition to the motivation for their outward investment. Chapter Three looks at the underlying context of the research and presents an overview of Malaysian inward and outward direct investment with

special emphasis on Malaysian direct investment to the U.K. Chapter Four discusses the specific organisational forms of companies commonly found in Asia and particularly Malaysia. These are the conglomerates, the Chinese family business and GLCs. The research methodology is presented in Chapter Five. Chapter Six to Eight form the analysis chapters that also present the findings of the research. They include the determinants of Malaysian companies' investment in the U.K. in Chapter Six, and their mechanism and strategies of investment in Chapter Seven. The type of investing firms i.e. the conglomerate firm, Chinese family firm and GLCs, and their operation and management in international business is discussed in Chapter Eight. Chapter Nine presents the summary of the findings and concludes the research.

CHAPTER 2: GENERAL FRAMEWORK OF FOREIGN DIRECT INVESTMENT AND DEVELOPING COUNTRIES' TNCs

2.1 INTRODUCTION

This chapter forms the first part of the two literature review chapters. The first section presents the theoretical and conceptual frameworks that underpin foreign direct investment (FDI). UNCTAD (2005) defines FDI as 'an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of foreign direct investors (FDI enterprise or affiliate enterprise or foreign affiliate). FDI also involves a significant degree of influence on the management of foreign affiliates and flows of capital between economies (UNCTAD, 2005 p 297).

An understanding of the underlying literature of FDI is important for analysing the case of Malaysian companies' direct investment in the U.K. Discussion is focused on the general theories of FDI and its relevance to firms from the developing countries. It includes an overview of the motives of FDI, and the strategies for foreign market servicing.

This is followed by a discussion of the organisational structure of TNCs. For this, the discussion is centred on the structures and strategies of international companies, and the management of their subsidiaries. The final section presents the results of past empirical research on the motivations and evolution of FDI by firms from other developing countries.

2.2 MOTIVES FOR FOREIGN DIRECT INVESTMENT

The origin of the FDI framework goes back to the Hymer-Kindleberger theory that was developed in the 1960s. It addresses the question of why a foreign-owned firm is able to compete with local firms in the host economy given the advantages of local firms (Buckley and Casson 1976). The theory postulates that for a foreign-owned firm to compete in a host country market, it must possess some transferable

ownership advantages over local firms. It was further argued that barriers to trade and other barriers that prevent host country firms from duplicating this advantage means that FDI is frequently the preferred form of exploiting this advantage in the foreign market (Buckley and Casson, 2002).

The internationalisation of the firm involves incremental stages in the market servicing strategy from domestic-oriented to international market servicing through export, licensing, franchising and direct investment. Johanson and Wiedersheim-Paul (1975) explain this phenomenon as being an incremental process that starts with a nearby country to a more distant country as the firm increases its experience. Different approaches have been used by different schools of thought to explain the internationalisation of the firm. However, the motivations for the internationalisation are not fixed as they change as the firm grows (Dunning, 1993) or emerge as the business environment changes (Mintzberg, 1994a).

The main impetus for a firm to internationalise lies in its corporate strategy which is in turn, influenced by factors in the business environment. The evolution of the firm normally starts with 'born local' in which its market, resources, technology and assets are locally based. Once the firm reaches a certain size, its corporate strategy changes to accommodate new requirements within the business and market, in which locally available resources are insufficient for the firm's expansion or to maintain its competitiveness. As transactions are considered less efficient in the open market, FDI would be the best choice to maintain competitiveness. In other words, a firm undertakes FDI in order to maintain its competitiveness locally or internationally, as well as to ensure its survival.

With regard to the literature on types of FDI, Dunning (1993) presents four main types of FDI namely, resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking FDI. There are, however, other explanations for FDI aside from Dunning's FDI types although these are not totally independent of the basic Dunning's 'seekers' motive. Buckley and Casson (1976, 2002), for example, present the view of the emergence of multinational enterprises from the perspective of the firm's profit maximisation, imperfect market and internalisation (as discussed

in Section 2.2.2). The following section discusses the different types of FDI which is based on Dunning's Model of FDI.

2.2.1 Dunning's FDI Types

Dunning (1993) divides FDI types into resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking.

2.2.1.1 Resource-seeking FDI

Resource seeking investment refers to the acquisition or utilisation of natural or human resources that are in short supply, or not at all, in the home market, in a host country. Dunning (1993, p 57) presents three main types of resource seekers. The first is the case of, investing firms that seek to exploit physical resources, such as raw materials available in foreign countries to complement their current activities. The motives for such investment are to secure supply and minimise cost. The second form of resource seeker exploits the abundant sources of cheap labour in the host country for labour intensive manufacturing. This usually involves transferring the investment of manufacturing companies from higher real labour cost to lower real labour cost countries.

In the context of resource seeker FDI (Dunning, 1993), higher real labour cost normally refers to home country labour market and lower real labour cost basically refers to the host country labour market. However, the reverse is true of investment originating from developing countries into the developed countries in which developing countries possess lower real labour cost. It is assumed that the objective of such an investment is other than for labour intensive manufacturing as it seeks skilled labour in technology based investment. It is likely that such resource seeking FDI is related to the third type of resource seeker proposed by Dunning, namely the case of a company that acquires technological capabilities, management expertise and/or organisational skills as a result of its lack of ownership of those capabilities. This research therefore, seeks to fill some of the gaps in understanding resource seeking FDI.

2.2.1.2 Market-seeking FDI

Market seeking FDI is undertaken to supply goods and services which may previously be supplied by exports. The motive for bypassing this market transaction, amongst others, is due to transaction costs caused by market imperfections (Williamson, 1984), tariff barriers (Dunning, 1993) and/or other forms of protections imposed by the host country. Dunning (1993) describes four motives of market-seeking FDI:

- To follow the customer overseas so as to retain the business;
- To enable companies to adapt their products according to local requirements; it also enables firms to familiarise themselves with local market environments;
- FDI is assumed to be less costly than supplying from a distance; and
- FDI that is driven by 'follow the leader' or competitors' motives so that the firm can be present in the market that is served by the competitors.

2.2.1.3 Efficiency-seeking FDI

Efficiency seeking FDI is undertaken to enable the investing company to gain from the common governance of geographically disperse activities. The aim for efficiency seeking is to take advantage of different factors endowment, cultures, institutional arrangements, economic systems and policies and the market structure of different geographical locations. The prerequisite for efficiency seeking FDI is a well developed and open cross border market. Therefore, a regionally integrated market is the best place to realise the benefit of efficiency seeking FDI (Dunning, 1993). The investing company will benefit from economies of scale, economies of scope and risk diversification which is stemmed from cross border product or process specialisation or learning experiences and opportunity for arbitraging cost and price differences across exchange. It is also to take advantage of differences in consumer tastes and supply capabilities (Dunning, 1993, p 59). In the context of economies of scale, it arises in all aspect of MNE operations. It can be achieved if more units of a good or services can be produced on a larger scale such as

producing in fewer countries to supply multiple markets. In the context of international business, the idea is that unit cost fall as output rises in supplying markets in different countries. Meanwhile, economies of scope come about from the joint use of assets that result in lower overall costs than the firm units had when they operated independently (Haspeslagh and Jemison, 1996, p153). Companies are also able to diversify assets and capabilities by exploiting the benefits of producing in several countries and risk diversification (Dunning, 1993).

In addition, Rugman and Brewer (2001) note that efficiency seeking FDI is a reflection of the rationalisation of the multinational activities where affiliates' activities are specialised, and benefits are gained from the flow of goods and knowledge between the firms.

2.2.1.4 Strategic asset-seeking FDI

Strategic asset seeking FDI involves the acquisition of assets in a foreign country to sustain the firm's strength and competitiveness both internationally and locally which otherwise would be costly or difficult to generate internally (Dunning, 1993; Rugman and Brewer, 2001). The motive for acquiring the foreign strategic asset is to add to the acquiring firm's existing assets (asset augmentation), which the firm perceive will sustain or increase its competitiveness in relation to its competitors. It is also to capitalise on the benefits of common ownership of diversified activities and capabilities (Dunning, 1993, p 60). There is also a relationship between strategic asset-seeking FDI and the motive to create a synergy between the acquired assets and the other segments in the investing firm. This is in line with Dunning's (1993) classification of *support investment* in which the purpose of the acquisition is to support the activities of the rest of the enterprise of which they are part (p 61).

Based on the above theoretical underpinning, a general assumption can be made about the motive of Malaysian FDI into the UK. In general, Dunning's four types of FDI could be used to explain Malaysian FDI. They would not, however, be able to provide a complete explanation. For instance, although the U.K. is a high cost country, it is relatively advanced in technology. Therefore, the resource-seeking

motive of Malaysian investment into the U.K is more likely to be around gaining access to technological capability and skilled personnel rather than lower cost of input factors. Market seeking FDI could only be used to explain the motive of investment by Malaysian manufacturing based companies that are involved in the production of exportable goods. It is also assumed that Malaysian companies, especially conglomerate firms, aim to gain from economies of scale and scope as well as risk diversification from their investment in the U.K. Finally, it is assumed that the two most important strategic asset seeking motives of Malaysian FDI into the U.K are acquisition of technology and international brands.

2.2.2 Profit Maximisation and Transaction Cost

Buckley and Casson (1976) postulate that it is the natural objective of the firm to maximise profit. However, because transactions in the market are costly, transaction cost reduces the potential profit of the firms. Costs are, for example, incurred in contract implementation, discriminatory pricing, asymmetric knowledge and tariff restrictions. Costs also relate to the cost of finding and negotiating with partners, communication and coordination cost, and failure to adapt to environmental condition and safeguarding specific asset, and also the cost of monitoring performance (Buckley and Casson, 2002, p 37-38). To maximise profit in imperfect markets, there are often incentives for the firm to bypass the imperfect markets by bringing the entity that was previously linked by the market into common ownership, or by creating an internal market. It is also more profitable for the firm to undertake certain activities and transaction within its organisation, rather than subjecting them to a market mechanism (Buckley and Casson, 1976). The motive to internationalise due to market imperfection is further expanded in the transaction cost hypothesis that explains the motivation of the firms involved in international operation.

Williamson (1985) posits transaction cost as a firm's evaluation of the cost of integrating an operation within the firm as compared with the cost of using an external party to act for the firm. Transaction cost can also be defined as 'the cost of running the system' (Standifird and Marshall, 2000) or 'the cost of organising

the economic system' (Arrow, 1969 cited in Levy,1985). Theory postulates that there is an alternative method of organising the product market in which the market is treated as costly and inefficient. Therefore, the theory was brought about by the notion of market failure. It begins with the assumption that competition within the market discourages supply side opportunistic behaviour and forces suppliers to perform efficiently (Anderson and Gatignon, 1986; Hennart, 1991). Williamson (1981) attaches two behavioural assumptions on transaction cost analysis, namely bounded rationality and opportunism. Bounded rationality implies that human actors as well as firms are incapable of perfect contracting due to environmental and behavioural factors, which is limited by information and communication abilities. Opportunism is a situation where, given the opportunity, decision makers may unscrupulously seek to serve their self interests, and it is difficult to determine a priori who is trustworthy and who is not (Standifird and Marshall, 2000, p 26). Given the situation of market imperfection and asymmetric information, a firm may assume that the cost of doing a transaction in the market will exceed the cost of organising the activity within the hierarchy, and therefore, the firm may opt for internalisation of operations abroad; that is, to conduct FDI (Buckley and Casson, 1976).

There are studies that have found the influence of transaction cost in investment decisions. Brouters (2002) in his studies of European Union firms suggests that a firm that perceives higher levels of transaction costs tends to venture as a wholly owned subsidiary. Transaction cost factors are also strong predictors for the choice between joint venture and wholly owned subsidiary irrespective of the nationality of the investing firms (Neupert and Makino, 2000).

The effect of transaction cost on firm's investment decision could also be relevant to Malaysian investment in the U.K. Therefore it is assumed that Malaysian firms undertake direct investment in the U.K. because they feel it is more profitable to undertake certain activities and transaction within the hierarchy rather than be subject to the market mechanism due to the perceived costs of transactional market failure.

The above FDI motives provide the basis for explaining the types of FDI in international business literature. However, FDI motive varies among firms and between business environments. Therefore, it is difficult to embrace all motives of FDI into a single explanation. The most that the analyst can reasonably do is to formulate paradigms to provide an analytical framework for explaining the various FDI motive (Dunning, 1993, p 63). Thus, the motive of firm's internationalisation can be explained by relating the firm's business environment and location factors, to the firm's overall corporate objectives. Japanese corporations, for example, actively pursue investment overseas in response to yen appreciation, protectionism, higher labour costs, slower domestic growth and the need to secure natural resources and markets (Farell et. al., 2004, p 162). Yeung (1998) in his study of Indian FDI suggests heavy home government restrictions have forced many Indian TNCs to operate abroad in order to better exploit their ownership specific advantages.

In relation to the notion that it is difficult to find a single explanation on the motives and strategies of FDI for every country, this research on Malaysian investment in the U.K. seeks to provide an alternative explanation of the uniqueness of factors that are specific to the firms and countries that influence their foreign investment behaviour.

2.3 FOREIGN MARKET SERVICING STRATEGY

Firms have various options on how to serve a foreign market. The decision normally involves the selection of direct export, licensing, franchising, management contract, joint-venture, merger and acquisition and greenfield entry. These options are regarded as an incremental process that normally involves a gradual shift from less integrated to more integrated mode (Welch and Luostarinen, 1988; Gatignon, 1986). The resources and capabilities of the investing firm are the most influential determinants of the mode of foreign market servicing types. Theoretically, the ownership-location-internationalisation (OLI) paradigm is the most widely cited, and remains an important model to explain why and how firms decide to be involved in a foreign market.

With regard to the definition of strategy, some authors consider market servicing strategy as 'a deliberate choice' (Dunning, 1993, p 186) and involves setting goals and objectives, analysing markets and developing options (Tallman and Yip, 2001). Mintzberg (1994) proposes an 'emergent strategy' which explains that there is no fixed strategy because a strategy changes as the environment changes. This point is discussed in details in the following section.

2.3.1 The Emerging Strategy in Internationalisation

Internationalisation strategy is complex, firm specific and context dependent. By definition, strategy is a Greek word meaning 'leading the army', and in business this always refers to competitive and corporate strategy (Kenyon and Mathur, 1993). Leading discussions on business strategy have highlighted the contrasting features between conventional 'designed strategy' and 'emerging strategy' (Kenyon and Mathur, 1993).

Briefly, the 'designed school model' of strategic planning associated with the Business Policy Group at the Harvard Business School (Mintzberg, 1990b, p 171) is based on the following premise:

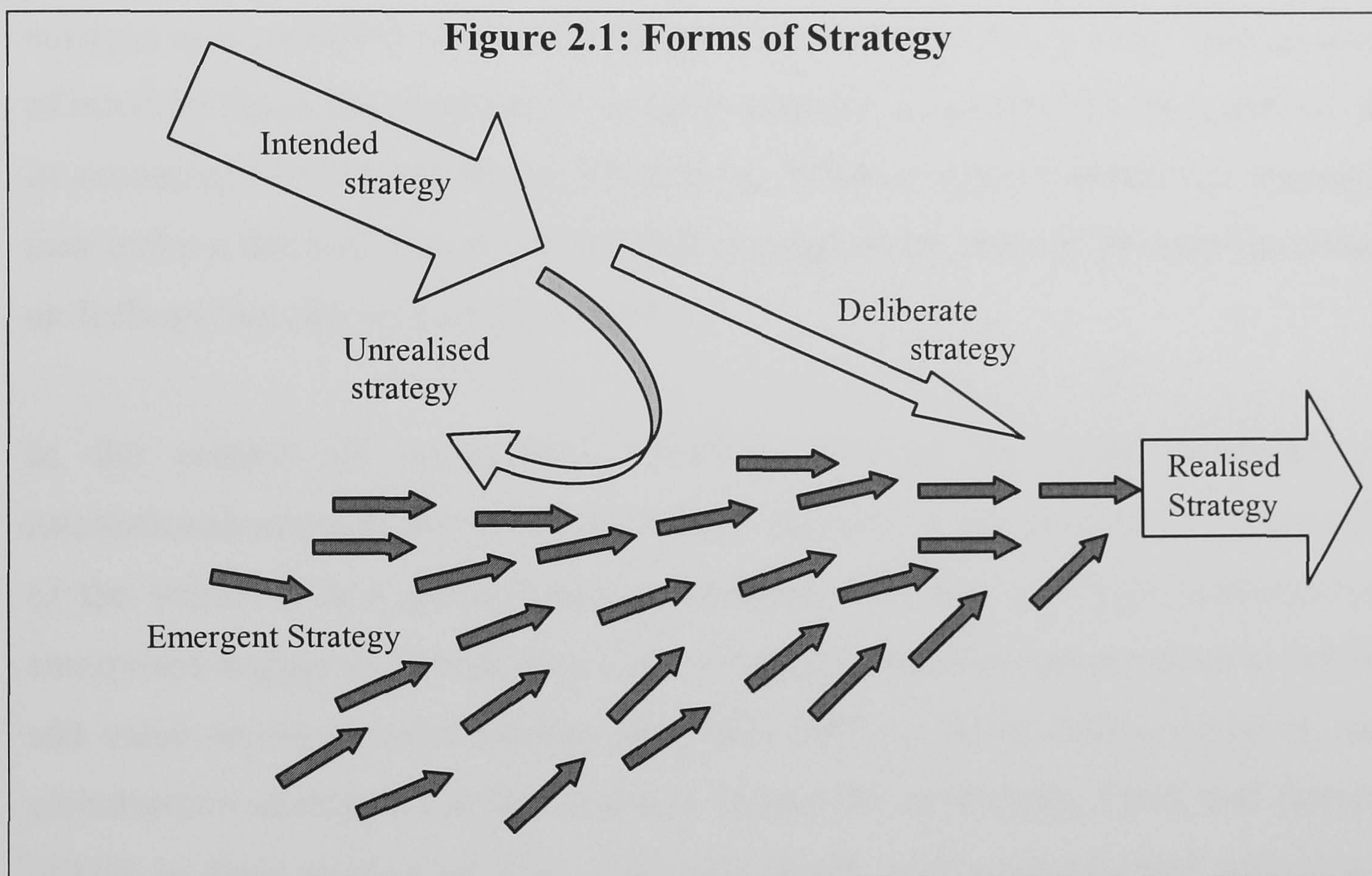
Strategy formation should be controlled and conscious as well as a formalized and elaborated process, decomposed into distinct steps, each delineated by checklists and supported by techniques. The responsibility for the overall process rests with the chief executive in principle; responsibility for its execution rests with staff planners in practice. Strategies come out of this process fully developed, typically as generic positions, to be explicated so that they can then be implemented through detailed attention to objectives, budgets, programs, and operating plans of various kinds.

(Mintzberg, 1994a, p 42)

The 'emerging strategy' is a concept established by Henry Mintzberg, who criticises the notion of strategy of the design school which he considers as 'if the concept is not exactly dead, it has certainly fallen from its exalted pedestal' (Mintzberg, 1994, p 12). According to him, strategies are not only designed or planned, but also 'emerge' (Campbell, 1991; Kenyon and Mathur, 1993). Planners 'craft' their strategies rather than 'design' them (Campbell, 1991). Mintzberg argues that during the implementation of a strategy, planners face surprises and

accidental discoveries and they react to these environmental changes by modifying their strategies either incrementally or even radically (Kenyon and Mathur, 1993, p 358). However, the design school denies the planners the chance to adapt (Mintzberg, 1990, p 180). These two forms of strategies are presented in Figure 2.1.

Figure 2.1 explains that an intention that is fully realised is called deliberate strategy, or a strategy that is not seen as something inadvertent or accident but conscious, deliberate and explicit (Kenyon and Mathur, 1993, p 357). The unrealised intention is called unrealised strategy, while emergent strategy is the realised pattern that was not pre determined and is sporadic. The design school prefers deliberate strategy and does not recognise the emergent strategy.



Source: Mintzberg (1994b)

The concept of deliberate strategy is also applied in explaining strategy in the international business literature, instead of emergent strategy. Li (1994), for example, proposes the definition of strategy as the 'firm-specific choice or managerial choice with regard to the broad perspectives and specific actions in conformity with the holistic fit between the firm's internal profile and external context to obtain, sustain, and enhance its competitive advantages to transform its

intended goals into realised performance' (p 149). Dunning (1993) also describes business strategy as a deliberate choice taken by entrepreneurs or managers of firms to organise the resources and capabilities within their control to achieve an objective or set of objectives over a specific time period (p 186).

In the context of emerging strategy, firms may decide to organise their resources and capability across different markets, or to internationalise their operation across borders. This may be a reaction to environmental change such as rising cost due to market imperfection, a threat to changes in demand in the market and continuity of supply of materials and emerging opportunities. Another important element in emerging strategy is the role of intuition. This is deeply, often passionately felt; rooted in experience of the context, even if the learning is subconscious; and emerges as a conscious choice and direction (Campbell, 1991, p 109). The essence of intuition lies in the organisation of knowledge for quick identification, and not in its rendering for inspired design (Mintzberg, 1994b, p 310). Therefore, a manager may make a decision that is not based on a consciously planned process but rather on feelings that rely on past experience.

In the context of international business, one of the basic strategies of internationalisation of the firm is to provide services or sell products to every part of the world. It is a globalisation of business activities in which multinational enterprises engage in foreign direct investment to create foreign subsidiaries which add value across national borders (Rugman, 2002, p 3). In reality, however, the globalisation strategy of a firm is not as systematic as thought. Crick and Spence (2005) in their studies of U.K. high-tech small- and medium-sized enterprises (SMEs) find that a majority of the firms exhibit both planned and unplanned strategies, and serendipitous encounters that were important to several firms either initially and/or in later times after they had internationalised. They thus suggest that entrepreneurs may not have undertaken planning in a formal sense, but rather react to changing circumstances, and had a notional idea of where they wanted to take their firms, operating a series of emergent strategies as a result of opportunities that were identified (p 182). Karagozlu and Lindell (1998) in their study of small and medium US technology-based firms also suggest a similar situation in which

dramatic changes in the business environment promoted new management paradigms encompassing such characteristics as allowing structure to emerge from action, becoming more responsive, evolving strategies from bottom-up processes and focusing human resources more on individuals.

Emerging strategy also explains the opportunistic strategy in which the manager is able to recognise 'chance' opportunities and be ready to take advantage of them (Crick and Spence, 2005). Merrilees et al. (1998) cited in Crick and Spence (2005) describes a four stage-process with regards to serendipity in international market selection. First, networking, referrals and meetings through which entrepreneurs widen their horizons and have the chance to identify potential opportunities. Second, identification of emerging opportunities where opportunities for one person could be considered hopeless encounters by others. Third, is a predisposition to respond quickly to relevant opportunities and fourth, 'resource leverage', or the adaptability of resources to enable implementation (p 172). It is also the entrepreneurial spirit leading to the seizing of opportunities (Karagozoglu and Lindel, 1998). Basically, the emerging strategy is relevant at any stage of the internationalisation process. The concept of emergent strategy has been widely used to explain strategic planning in organisations. Its application in international business research is, however, still limited and this research seeks to provide the applicability of emergent strategy in the case of Malaysian companies investing in the U.K. Therefore, it is assumed that the internationalisation strategies of Malaysian firms are more likely to be guided by business opportunity that is 'emergent' and not by a well structured investment strategy and norms of investment.

2.3.2 Incremental Process of Internationalisation

The evolution of transnational corporations describes the sequence in which a firm evolves from domestic organisation, serving a relatively homogenous home market, to becoming an active exporter, and subsequently an international corporation serving a large number of diverse multinational and cultural markets (Hibbert, 1997). It can be, therefore, an incremental process in which the firm starts

internationalisation by exporting, before it eventually begins production in the host country. It ranges from buying and selling goods and services in the open market, through a variety of inter-firm non-equity agreements, to the integration of intermediate product markets and an outright purchase of a foreign operation (Welch and Luostarinen, 1988). Incremental internationalisation mostly refers to the sequential process of a firm's involvement in the international market, and is a function to acquire knowledge and market commitment (Johansson and Vahlne, 1977). In contrast to incremental internationalisation is the 'born global' firm (Gabrielsson and Kirpalani, 2004; Hashai and Almor, 2004; Sharma and Blomstermo, 2003). Gabrielsson and Kirpalani (2004) define 'born global' as a firm which 'from inception, seeks to derive significant competitive advantages from the use of resources and the sales of output in multiple countries without any preceding long term domestic or internationalisation period'(p557). A born global firm essentially leaps over the 'stages' in the internationalisation process by internationalising rapidly and almost from its inception (Hashai and Almor, 2004).

In a broader scope, Welch and Luostarinen (1988) define internationalisation as 'the process of increasing involvement in international operations'. This definition is broad in the sense that it looks at the process of internationalisation that involves interconnection and a close link between inward and outward flow of investment. Other explanation that is frequently quoted regarding the internationalisation process is one that was proposed by Johanson and Vahlne (1977) or better known as the Uppsala Model. This model is based on a number of assumptions (for a review, see Forsgren, 2002, p 259). The basic assumption is that the major constraint to firms to undertake foreign investment is the lack of knowledge of foreign markets. As this knowledge is tacit, firms have to be in the market to acquire it. The second assumption is that the firm will undertake foreign investment incrementally because of uncertainty about the market. This means that the more a firm knows about the market, the less the perceived risk to it and the more it is willing to undertake foreign investment in that market. The proposed internationalisation can also start when the domestic market is near saturation and it seeks new alternatives abroad. Hence, the process starts as a consequence of growth and profit motives. In addition, internationalisation is a framework where

the investing firms evaluate their alternative approaches to invest in the host countries.

Empirical evidence of TNCs from developing countries tend to produce a mixed result in relation to incremental FDI and developing countries' TNCs. Young et. al. (1996) in their study on outward investment by Chinese multinationals show that although some results support the internationalisation process models, there are also evidence of leap-frogging of stages. Similarly Lau and Rose (2002) in their study of the internationalisation process of Hong Kong garment firms show many of these firms started exporting from inception. They are also different from some of the technologically driven born global firms (see Gabrielson and Kirpalani, 2004 and Hashai and Almor, 2004) because they do not have firm specific advantages in technology.

Firms operate in different industries and face different situations in their internationalisation process. Therefore, there is no single framework in the literature that can explain every aspect of internationalisation of the firms and research that is based on different countries could provide a broader- based literature on internationalisation of firms. Andersson (2004), for example, posits that firms in an early stage of internationalisation in a mature industry can succeed by means of a slow, incremental internationalisation strategy. When the industry is matured and the firm has become more experienced, then its choice of market entry is more dependent on the actions of its rivals.

Based on the geographical location of Malaysia within the Southeast Asia, it can be assumed that the internationalisation of Malaysian companies follows the path of incremental FDI that started with neighbouring countries in the Southeast Asian region before becoming distributed more wider afield.

2.3.3 Ownership, Location and Internalisation Advantages (OLI Paradigm)

The international business framework has also been developed based on explanation in the context of Dunning's OLI Paradigm. The OLI paradigm is useful

in the explanation of the process in international production, but it is more likely to offer a framework of international production rather than a theory. This was explained by Dunning (1988) as follows:

The intention was to offer a holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprises and the growth of such production
(Dunning, 1988, p 1)

The theory suggests that geography and the industrial composition of foreign production undertaken by multinationals is determined by the interaction of three sets of interdependent variables or sub-paradigm: ownership specific advantages, location specific advantages and internalisation advantages. The first sub-paradigm, firm ownership advantages, relate to the advantages possessed by the investing firms relative to those owned by domestic firms. They are sometimes called competitive or monopolistic advantage and must be sufficient to compensate for the costs of setting up and operating a foreign value-adding operation, in addition to those faced by indigenous producers or potential producers. They arise from ownership of specific assets vis-à-vis those possessed by other firms, and transaction advantages arising from the capacity of firm hierarchies to capture the transactional benefits arising from common governance of a network of these assets, located in different countries (Dunning 1988). *Ceteris paribus*, the greater the competitive advantages (arising from ownership specific advantages) of investing firms relative to those of domestic firms or other firms, the more they are likely to be able to engage in or increase their foreign investment. Amongst others, the ownership specific advantages may be those owing to size and established position of the firm, product or process diversification, monopoly power, proprietary technology, patent and trademark, R&D, marketing capability and access to input and resources. There are also advantages arising from multinationality such as the ability to take advantage of international differences in factor endowment, government intervention, and the ability to diversify risk between different regions and/or countries.

The second sub-paradigm, country-specific location advantages, refers to attractions offered by a country or region that needs to be exploited for value-adding activities by investing firms. It may comprise of natural resources, labour, infrastructure facilities and government incentives. As argued by Dunning (1988), firms will engage in international production whenever they perceive it is in their best interest to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments or other intermediate products in another country. It is also asserted that the more the immobile, natural or created endowments, which firms need to use jointly with their competitive advantages, the more firms will choose to exploit their ownership advantages by engaging in direct investment (Dunning, 2000).

The third sub-paradigm, internalisation, offers a framework in which firms evaluate alternative strategies for exploiting their ownership advantages to complement the location attractions offered by different countries. Firms have alternatives, from transacting in the open market for goods and services to internalising the market for intermediate product. They may eventually internalise production in the foreign market by outright purchase of the foreign operation. It is perceived that the greater the net benefits of internalising cross-border intermediate product markets or the greater the perceived costs of transactional market failure, the more likely a firm will prefer to engage in foreign production itself, rather than license the right to the foreign firm (Dunning, 2000). There are many elements of internalisation incentive advantages such as to: avoid transaction and negotiation costs, avoid cost of enforcing property rights, avoid or exploit government intervention, control an uninterrupted supply of raw materials and inputs; and also to be able to engage in cross-subsidisation and transfer pricing strategies. At the same time, a firm will also be able to exploit the economies of large-scale by directly undertaking the production of intermediate goods in the foreign market that would eventually benefited it in the home country in terms of lower cost of product. Generally, internalisation is undertaken in the event that the international market place is not the best place for exploiting specific advantages due to risk, uncertainty and transaction costs.

Buckley and Casson also emphasise that the decision to internalise depends on four main factors, namely *industry-specific factors* which rely on the nature of the products and the structure of the industry; *region-specific factors* based upon geographical and social characteristics of nations; *nation-specific factors* that relates to political and fiscal relations between nations and *firm-specific factors* which reflect the internal factors within the firm such as resources and management capabilities (2002, p 33). Then, there is a straight forward link between internalisation and internationalisation in which different stages of production, for example, requires different combination of factors that are available in different geographical location. Internalising product value chains in different countries will create MNEs, which at the same time gives an explanation on internationalisation of the firms. Buckley and Casson's approach on internalisation and the consequent internationalisation of the firm is also reflected in the concept of the Eclectic Paradigm laid down by Dunning. Dunning (1999), for example, suggests that the ownership advantages arise not only from the exclusive possession of certain assets, but from the ability of firms to internalise these assets to protect themselves from market imperfections.

The interaction of ownership, location and internalisation in the OLI paradigm could provide a foundation for making an assumption about Malaysian ODI. It is assumed that the greater the competitive advantages (arising from ownership specific advantages) of Malaysian companies relative to those of the U.K. domestic firms, the more likely they are to be able to engage in or increase foreign investment. As the U.K. is a developed country, direct investment by Malaysian companies into the U.K. is assumed to be influenced by location cost disadvantages. Assumptions could also be made that Malaysian companies will engage in foreign operations whenever they perceived it is their best interest to combine spatially transferable intermediate products produced in Malaysia with at least some immovable endowment or other intermediate product in the U.K.

2.3.4 Mode of Entry Strategy

The internationalisation of the firm is also about selecting an appropriate mode of entry into the foreign market. Cavusgil (1984) proposes that direct involvement in overseas production facilities happens when a firm reaches a committed involvement stage in its internationalisation strategy. Brouthers et. al. (1996), on the other hand, categorise the mode of entry choice into independent, cooperative and integrated mode. The independent mode refers to firms that are not directly involved in the production and sales of product in the foreign country but rely on other companies. It includes licensing, franchising, distributing and contracting where firms do not take any equity stake in the venture. The cooperative mode refers to joint venture (JV) or strategic alliance between foreign and domestic firms. The JV may be voluntary or it can be the result of host government regulation. Finally, the integrated mode is where firms establish their own production and sales in the host country market by acquiring existing local companies or setting up from scratch (de novo, greenfield).

In investment decisions, firms will choose the most efficient mode of entry choice from various alternatives and it depends on transaction-specific asset, external uncertainty, internal uncertainty and free-riding potential (Anderson and Gatignon, 1986). There were also studies that relate mode of entry choice to cultural distance (Erramili, 1991; Kim and Hwang, 1992; Kogut and Singh, 1988), host country regulations (Buckley, 2000; Contractor, 1990), level of international experience of the investing firms (Coviello and Munro, 1997; Johanson and Vahlne, 1977; Welch and Luostarinen, 1988), characteristic of the investment and motive of investment (Casseres, 1990; Kogut and Singh, 1988).

Most of the studies that relate entry strategy to cultural distance were based on the concept of cultural dimension between nations (Hofstede, 1999). Hofstede's cultural dimension between nations corresponds to the issue of power distance (focuses on the degree of equality, or inequality, between people in the country's society), collectivism versus individualism (which focuses on the degree the society towards individual or collective achievement and interpersonal relationships),

femininity versus masculinity (which focuses on the degree the society reinforces, or does not reinforce, the traditional masculine work role model of male achievement, control, and power) and uncertainty avoidance (which focuses on the level of tolerance for uncertainty and ambiguity within the society). Hofstede's dimension of culture has also been widely referred to in explaining cultural distance in other areas of international business studies such as transaction cost theory (Gatignon and Anderson, 1988) and the effect of culture on firm's strategy (Hennart and Larimo, 1998; Ross, 1999).

Characteristics of national culture especially with regards to cultural distance between markets have been found to influence the selection of entry modes as suggested in some studies. Erramili (1991), for example, found that the probability of service firms employing full-control modes declines with increasing cultural distance of the host country. Similarly, Kogut and Singh (1988) find strong support for the hypothesis that the greater the cultural distance between the country of investing firm and the country of entry, the more likely a firm will choose joint venture (JV) and greenfield over acquisition. They also found that uncertainty avoidance which results from cultural distance also has strong correlation with JV and greenfield entry.

It is not surprising to find that companies are attracted to foreign operations first in more familiar (culturally) and closer locations which allows experimentation without high risk. It also gives them time to gather relevant knowledge and experience, before any deeper commitment is contemplated (Coviello and Munro, 1997; Johanson and Vahlne, 1977; Welch and Luostarinen, 1988). Apart from this internal dimension, multinational firms also need to face and respect diverse local institution and markets, legal systems and norms of behaviour or the external societal and institutional structures of the host country (Buckley, 2000).

Host country specific factors also affect the choice of entry mode especially with regards to socio-political factors such as industrial growth, which is positively related to greenfield entry (Mudambi and Mudambi, 2002), market potential to contractual mode (Pak, 2002), country risk and intensity of competition to lower

resource commitment mode such as licensing (Contractor, 1990; Kim and Hwang, 1992). On the influence of host government regulation with regards to entry choice, Contractor (1990) in his study of US investors found that in a nation where the government is perceived as more intrusive in operation, there is a greater tendency to form shared-equity affiliates. Government restrictive policy is also a very strong factor for equity sharing in the developing countries. It is the issue of conflict between multinational firms wishing for larger shares, where the government finds lower equity share ownership by foreigners as being more desirable (Asiedu and Esfahani, 2001). In terms of parent companies' international experience, Erramili (1991) found that firms with little or no experience appear to exhibit a disproportionately high affinity for full control entry modes. This finding is similar to Casseres (1990) who argues that firms choose whole ownership if they have a lot of experience in an industry or a country.

The firm's characteristics and its business venture also influence its entry strategy. Casseres (1990) found that the investing firm will choose whole ownership if the subsidiary was in a marketing-intensive industry. Kogut and Singh (1988) found that diversified and R&D firms enter via greenfield and JV, while advertising firms enter via acquisition. Another factor that seems to influence entry choice is the motive of investment itself. Pak (2002) in his study of international franchisers in the U.K. and the U.S.A. found that investing firms choose to have equity in the foreign unit rather than contractual mode if the motive is to quickly penetrate foreign market, gain experience from overseas, gain overall competitiveness and to alert themselves of rival firms' activities. An investing firm will also choose JV if the investment relies on local input or raw materials, local skills and to gain access to technology (Casseres, 1990; Mutinelli and Piscitello, 1998).

Generally, any form of internationalisation undertaken by a firm will face market and structural imperfections that arise from uncertainties about the socio-political differences in the workplace and business environment between the investing countries and the host countries. These include uncertainties about the work cultures, distribution network, government regulations, customer preferences, political structure and also ethnic relations. In this research, the cultural distance

presented is between Malaysian and Britain based on historical ties where Malaysia has had an enormous political and socio-economic influence from the British. This relationship is assumed to have a great influence on the choice of the U.K. as the location of investment by Malaysian investors. This research seeks to find this relationship element as factors that determined Malaysian ODI.

Based on the literature on incremental FDI, it is assumed that Malaysian firms will be less inclined to follow a sequence entry choice from less integrated to more integrated mode. On the relationship between cultural distance and entry choice, an assumption can also be made that the higher the cultural distance between markets, the more control the Malaysian companies are likely to maintain over their foreign operations, resulting from uncertainty and risk.

2.4 ORGANISATIONAL STRUCTURE AND CONTROL OF SUBSIDIARIES

Different home countries' TNCs provide different organisation and control systems of their subsidiaries. Therefore, studies of emerging countries' TNCs have also focused on the business network system, culture and institutional analysis (Yeung, 1999). Studies on the organisational structure of multinational firms also concentrate on ownership (Kogut and Singh, 1988; Newburry and Zeira, 1997), control and decision making (Baliga and Jaeger, 1984), human resources and level of autonomy (Forsgren and Pahlberg, 1992; Taggart and Hood, 1999).

The underlying concept is that of the centre-periphery structure. Headquarters (or divisional headquarters) is the centre that designs the strategy for the whole system and control of the subsidiaries, the periphery (Forsgren and Pahlberg, 1992, p 48). However, in reality, the relationship between parent and subsidiaries is more complex. It is reasonable to believe that the subsidiary's degree of autonomy may have a direct relationship with geographical distance between parent and subsidiary, cultural distance and environmental uncertainty. Taggart and Hood (1999) who compared the level of autonomy of German and Japanese firms located in the U.K., concluded that German subsidiaries have more decision-making powers that

gradually increase with time. Japanese affiliates, on the other hand, not only have less autonomy than the German firms, the level also tends to decrease over time.

One of the major elements in the structure of international companies is the relationship between parent and the subsidiaries. There is a lot of interest in the literature which discusses the way the parent company interact with their subsidiaries especially with regards to the forms of managerial control and work organisation (Baliga and Jaeger, 1984; Bartlett and Goshal, 1998; Birkinshaw and Hood, 1998; Forsgren and Pahlberg, 1992; Gates and Egelhoff, 1986; Newbury and Zeira, 1997; Paterson and Brock, 2002; Young and Tavares, 2004). The research on headquarters-subsidiary relationship, for example, focuses on centralisation and formalisation of decision making, subsidiary roles and subsidiary development (Paterson and Brock, 2002). Birkinshaw and Hood (1998) view the relationship as hierarchical, centred-dominated corporations, whose foreign subsidiaries were typically limited to local sales and manufacturing, acting as an instrument of the parent company and all subsidiaries were treated in the same way.

Bartlett and Goshal (1988) instead proposed the transnational solution as the way forward for successful international organisation. They argue that a successful company should be organised independently along the line best suited to its environment. The independent structure of the subsidiaries acknowledges the importance of responding to local knowledge to achieve international competitiveness and cumulative organisational learning processes by every member in the organisation. Therefore, the relationship between subsidiaries and parent may be influenced by the business environment and formal control varies depending on environmental factors (Paterson and Brock, 2002), and shared managerial strategy that could increase success in pursuing global strategies (Bartlett and Goshal, 1998).

Organisation studies recognise that subsidiary companies should be treated as separate units for analysis, given their specific roles according to their existing capabilities in the local business environment, and they are also autonomous (Birkinshaw and Hood, 1998, p 7). However, the headquarters are not always

willing to accept this level of decentralisation (Paterson and Brock, 2002, p 143). The above arguments are based on two contrasting organisational behaviour of multinational subsidiaries, i.e. centralisation and decentralisation (autonomy). Centralisation is defined as the level at which a decision would need to be approved before being implemented (Gates and Egelhoff, 1986, p 72) and represents the division between subsidiaries and headquarters in the decision making process. Young and Tavares (2004) defines decentralisation or autonomy as 'the constrained freedom or independence available to or acquired by a subsidiary, which enables it to take certain decision on its own behalf' (p 228). To become useful, autonomy requires resources such as managerial, technological, financial capabilities and information (Young and Tavares, 2004, p 216).

Gates and Egelhoff (1986) in their study on the U.S.A., the U.K. and European MNCs posit that centralisation or decentralisation is influenced by the size of the MNC and its foreign operation, size of subsidiary, age of the company, the internal and external complexity of the organisations, the industry groups and the origin of the parent company. Their study found that the European and the U.K. MNCs tend to decentralise as the relative size of their foreign operations is larger than the U.S.A. MNCs. The U.S.A. MNCs tend to have more centralised marketing and financial decisions than the European MNCs. The U.K. MNCs also have the most decentralised marketing and manufacturing decision-making and the most centralised financial decision making (p 88).

Finally, the subsidiary development stream postulates that subsidiaries can grow the organisation itself without support from the headquarters (Paterson and Brock, 2002, p 147). The basic idea is that with time the subsidiary accumulates experience and capabilities and is thus able to enhance the scope of its activities. However it will still depend on resources availability, the global environment, competition from other subsidiaries and the management's desire to increase autonomy as well as constraints and opportunity in the host country market (Paterson and Brock, 2002, p 148). In general, however, the organisational structure of MNEs and parent-subsidiary relationship evolves with changes in the global economy and the

industry. As such, multinational firms are also becoming multi-dimensional as a result of their differentiated subsidiary roles.

The theoretical framework of internationalisation and organisational structure as discussed above is based on the evolution of industrialised market multinationals. This is due to the fact that world FDI in the past decades has been dominated by multinationals from the 'triad' of U.S.A., Europe and Japan. Theoretical frameworks on FDI that originate from developing countries have only been given greater attention in the 1980s and 1990s. But often the tendency is to apply traditional models of developed country's internationalisation practices.

This research therefore seeks to provide an explanation for the internationalisation practices by Malaysian companies that is based on organisational structure which are assumed to be different to other developing country TNCs. Due to the spatial distance between Malaysia and the U.K. and it is assumed that Malaysian companies are less able to implement direct control over their U.K. subsidiaries and therefore the subsidiaries have greater autonomy.

2.5 INTERNATIONALISATION OF FIRMS FROM DEVELOPING COUNTRIES

Multinational firms from Brazil, Argentina, India, South Korea, Taiwan and Singapore were the leaders in developing countries' outward investment in the 1980s and 1990s (Tolentino, 2000). Investment from these countries initially concentrated in their neighbouring countries before they eventually expanded into developed countries (Ferrantino 1992; Lall 1983; Tolentino 2000). In recent years, developing regions still lead the rise in FDI. UNCTAD (2005b) for example, stated that developing economies, particularly those from Asia, are emerging sources of FDI as Asia and Oceania contributed more than four-fifths of outward FDI from developing countries. Meanwhile, over the past 15 years, annual FDI outflows from developing countries have grown faster than those from developed countries (UNCTAD, 2004a). In 2003, for instance, FDI from developing countries accounted for over one-tenth of the world total stock and some 6% of world total flows (UNCTAD, 2004a, p 19). The composition of outward FDI stock between

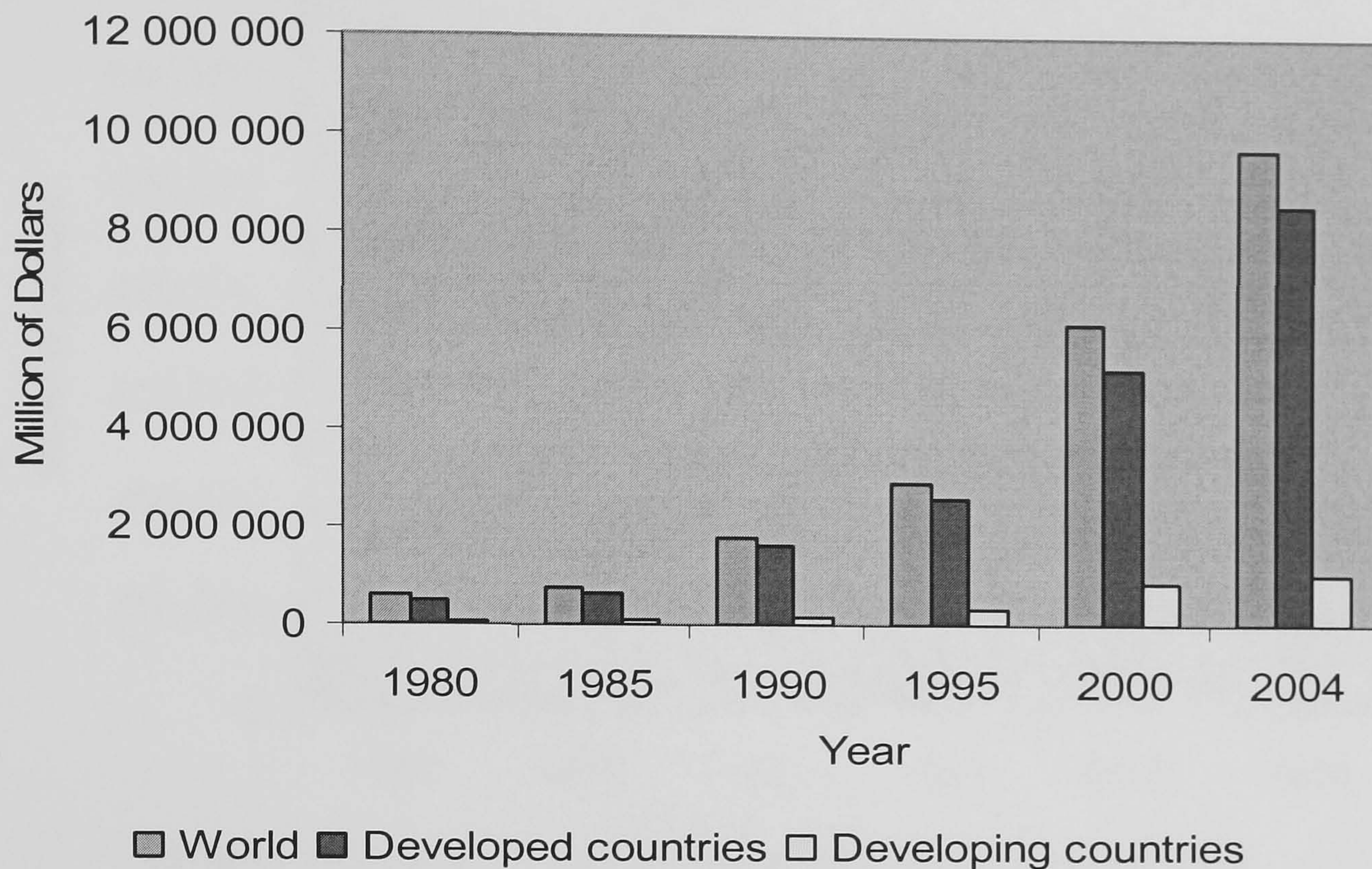
developed and developing countries is shown in Figure 2.2. With regards to FDI from developing countries, UNCTAD (2004a) has concluded that:

TNCs from developing countries in all regions are acquiring ownership advantages. They are becoming a force in the world FDI market. With outward FDI stock of already \$859 billion, they are building their own international production systems. They are driven by the same pressure as their counterparts in developed countries to remain competitive in the global economy.

(UNCTAD, 2004A, p 29)

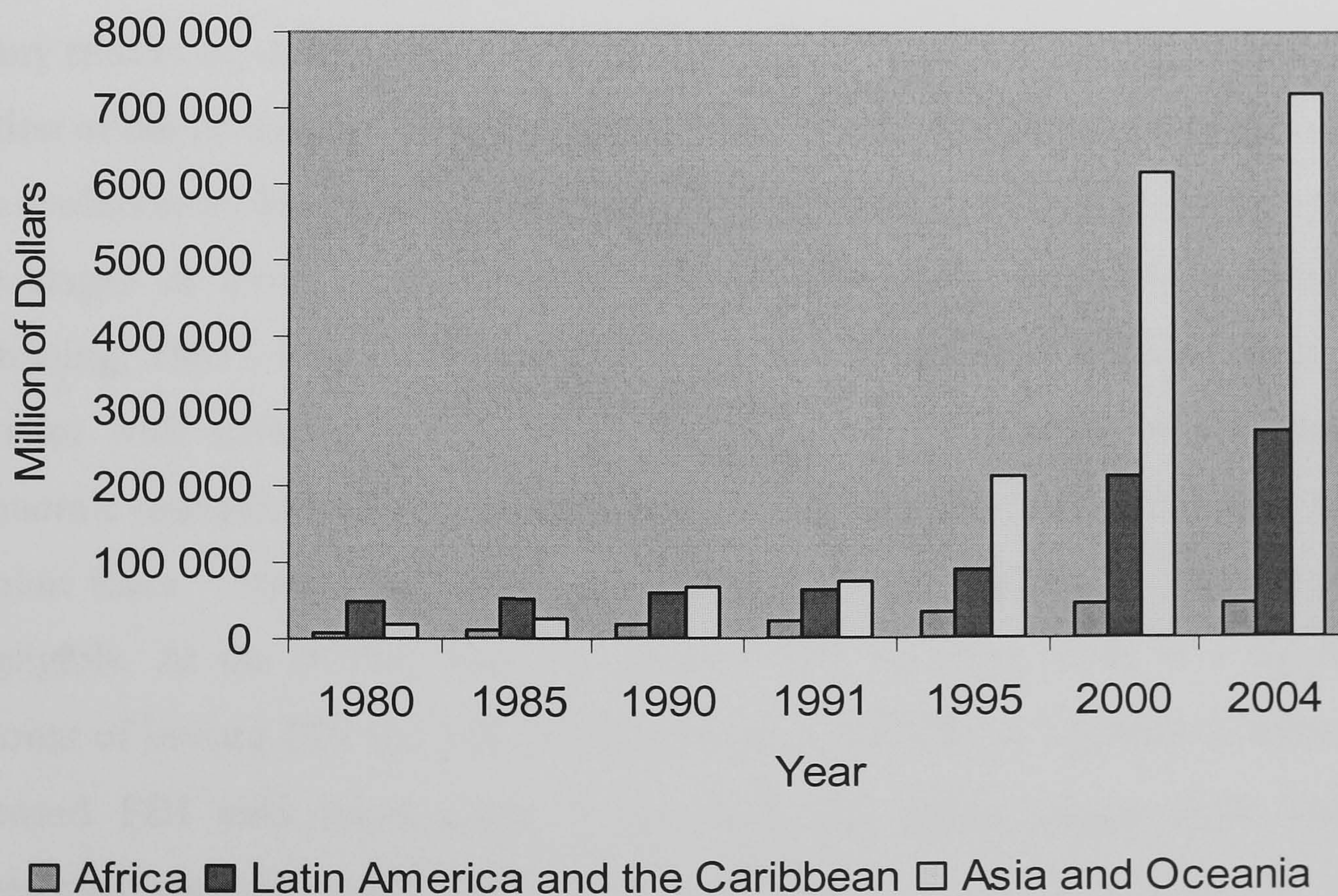
Based on region, developing countries from Asia and Oceania are the largest and fastest growing outward investors followed by countries from Latin American and the Caribbean (Figure 2.3). In 2003, countries from Asia and Oceania were the major contributor towards the FDI stock of USD635.3 million (UNCTAD, 2004a). The major players include India and Pakistan in South Asia, Singapore, Malaysia, Indonesia and other ASEAN member countries in South East, and Taiwan, People Republic of China (P.R. China) and Korea in East Asia (see Figure 2.4 and countries by region is shown in Appendix 2.1). In 2004 witnessed a significant increase of outward FDI from Hong Kong, Singapore, South Korea, China and India. Outward FDI from Hong Kong, for example, increased from USD5 billion in 2003 to USD40 billion in 2004 (UNCTAD, 2005b).

Figure 2.2: Outward FDI Stock: World, Developed Economies and Developing Economies, 1980-2004 (Million of Dollars)



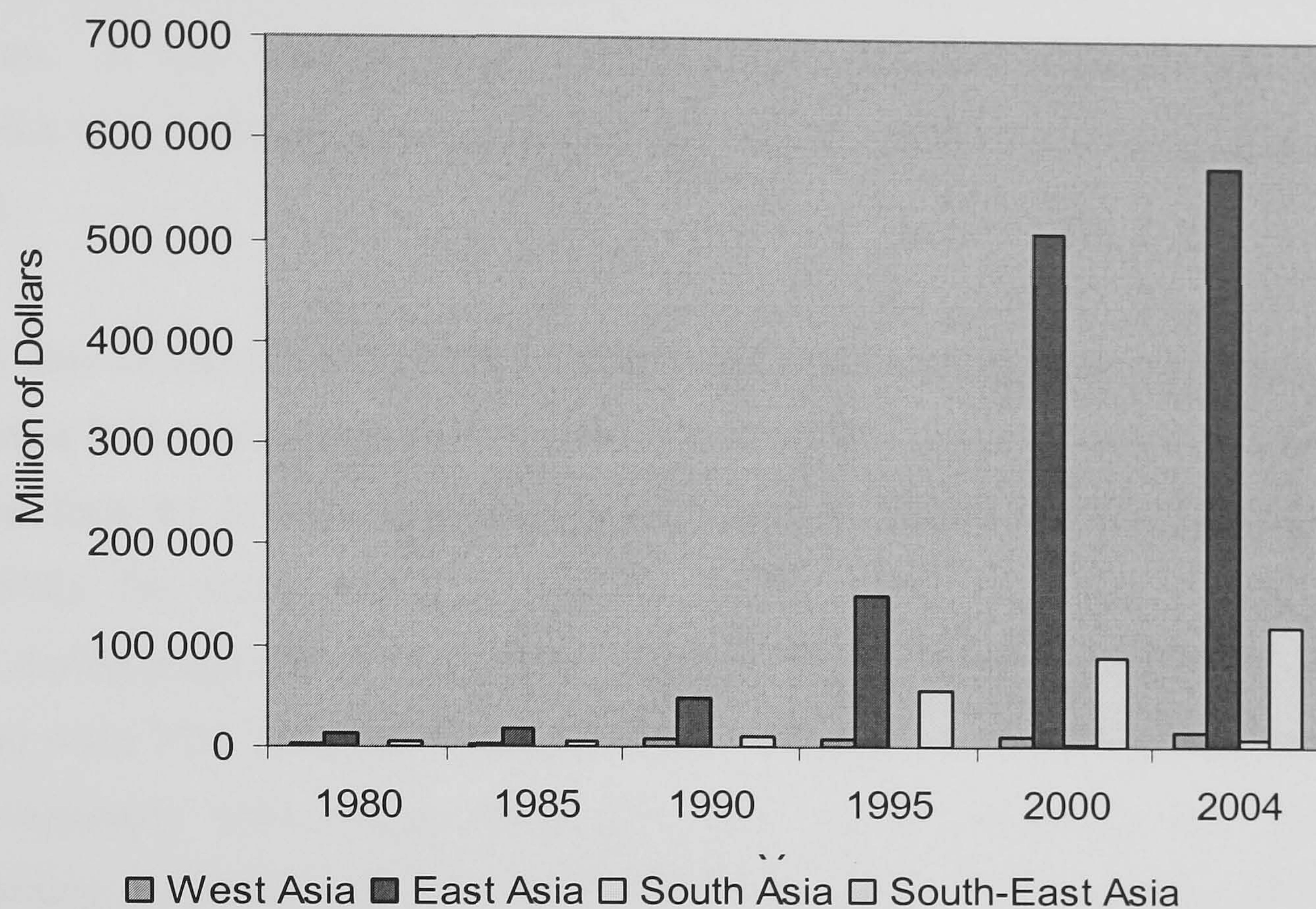
Source: UNCTAD (2005b)

Figure 2.3: Developing Countries: FDI outward stock, 1980-2004 (Million of Dollars)



Source: UNCTAD (2005b)

**Figure 2.4: Asia: Outward FDI Stock 1980-2004, by Region
(Million of Dollars)**



Note: Membership countries as in Appendix 2.1

Source: UNCTAD (2005b)

2.5.1 Theoretical Perspective: The Investment Development Path (IDP)

Many studies on developing countries' outward investment have been based on the notion of the investment development path (IDP). The IDP is a model that explains the evolution of developing countries' TNCs by looking at the correlation between the stages of development and the degree of outward and inward investment (Dunning, 1981). The IDP hypothesises inward and outward investment to grow parallel with national development. Thus, in the early stage of development, economic resources have yet to be utilised and the country has little or no means to exploit them. Inward and outward investment during this stage is consequently negligible. At the second stage, as the economy develops, there is a significant amount of inward FDI but still very limited outward FDI. A significant increase in outward FDI only takes place in the third and fourth stages when outward investment appears to outweigh inward investment.

In the second stage, inward FDI predominates in trading, import substituting, location specific advantages, resource based activities, simple manufacturing, and

limited technology and organisational requirements. As the stages of development move forward, inward FDI is then transformed into a single activity in a particular location. It also requires more technologically advanced operation and more complex organisational structure, and an increase in R&D expenditures (Dunning, 1981).

In the case of outward FDI from certain developing countries, there is evidence to suggest a fundamental shift in both character and motivation of outward investment by firm from the developing countries described as 'second wave' FDI (Dunning et al., 1998). The second wave of FDI from the developing countries actually took place during stage three of economic development (Dunning et. al., 1998). In the second wave FDI, although the majority of developing countries' investments are still regionally concentrated, they have also started expanding into distant developing countries and into industrialised countries. The gradual shift of investment to industrialised countries is to cope with high competition in the domestic market with global economy liberalisation when regional competitiveness is no longer sufficient for the firm's survival. It is also to avoid protectionism in the developed countries especially due to the development of de facto and de jure economic blocs such as the European Union (EU) and North America Free Trade Area (NAFTA). This new wave of FDI from developing countries is entirely consistent with the predictions of the IDP (Dunning et al., 1998).

2.5.2 Internationalisation Motives of TNCs from Developing Countries

The earlier studies on the evolution of multinationals from developing countries undertaken mostly in the 1980s have been contributed by Agrawal (1981), Chen (1981), Dunning (1981), Lall (1983), Lecraw (1981), and Wells (1981). Their studies found that the motivation of FDI by companies originating from developing countries do not deviate much from those of TNCs based in developed countries. Thus, the overall motivation of FDI from developing countries remains within the context of resource-seeking, market-seeking, efficiency-seeking, and strategic-asset seeking (see discussion in Section 2.2.1). Later studies have been contributed by

Tolentino (2000); Yeung (1994) and UNCTAD (2004) mostly on TNCs from newly emerging economies such as Hong Kong, Singapore, Brazil and India.

The evolution of TNCs around the world suggests that, as the industrial development of the home countries proceed and as their firms become more mature, there is a gradual progression of outward investment towards a more sophisticated form of activity, technology and organisational structure (Tolentino, 2000). There are also indications that the motivation, direction and type of investment are also influenced by home and host countries specific factors. Yeung (1994) lists out the motivations as a set of 'pull' and 'push' factors such as sluggish domestic markets, local market knowledge exploitation, relative firm-specific advantage exploitation, protection or penetration of foreign markets, diversification of risks and establishment of cultural and ethnic links. The motives of FDI of some developing countries is summarised in Table 2.1 below:

Table 2.1: Empirical Studies on the Motives of FDI by Selected Developing Countries Multinationals

Authors	Country	Motive of FDI
Wells (1978)	Hong Kong Multinationals	<ul style="list-style-type: none"> • Reaction to higher tariffs or import quota • Production in lower cost country to supply to advanced country • Diversification of risk • High investment cost in late 1960s • Search for foreign opportunity
Kumar and Kim (1984)	Korean Multinationals	<ul style="list-style-type: none"> • Used technology of suitable to the condition of host country • Lower cost of expatriates • Suitable of products • Marketing skills • Availability of cheap inputs • Host country incentives • Cultural systems • Geographical proximity
Fong and Komaran (1985)	Singapore and Hong Kong Multinationals	<p><u>Singapore</u></p> <ul style="list-style-type: none"> • To find new market • To sell technology expertise • To overcome protectionism in host country • Diversification motive to high tech areas <p><u>Hong Kong</u></p> <ul style="list-style-type: none"> • Labour shortages • Rising domestic costs • To circumvent quota and restriction of textile in

Authors	Country	Motive of FDI
		<ul style="list-style-type: none"> host country • Technology expertise • Sourcing raw materials
Hui and Fong (1986)	Singapore Multinationals	<ul style="list-style-type: none"> • To serve local market of host country • Sourcing raw materials • Diversification of risk
Wells (1988)	Brazilian Multinationals	<ul style="list-style-type: none"> • Import barriers: prior export experience • Lack export experience • Exploiting own technology and managerial skill • Slowdown domestic market
Dent and Randerson (1996)	Korean Multinationals	<ul style="list-style-type: none"> • Structural weaknesses of Korean economy, rising labour cost, appreciation won. • Government policy- Segyehawa program – easy application of outward investment • Imported technology is increasingly difficult to obtain natural resources • Lower labour cost
Gang (1992)	China Multinationals	<ul style="list-style-type: none"> • Opens up new market • Circumvent trade barriers and maintain export market • Acquire technology • Acquire raw materials • Home government incentives • Information seeking • Trade experience • Abundance of funds
Neto (1995)	Brazilian Multinationals	<ul style="list-style-type: none"> • Export of technology • Indigenous technology breakthrough • Appropriateness of process and product technology to overseas market • Pecking order stage in product life cycle • Lower operational cost site • Economies of scale • Cultural and ethnic ties • limitation size in domestic market • Home government incentives • Incentive from international agencies • Regional economic integration (South American Common Market) – expansion to neighbouring countries
UNCTAD (2004c),	Brazilian Multinationals	<ul style="list-style-type: none"> • Natural resources seeking • To avoid trade barriers • To improve logistic structure of their export • Follow the client motive • Close to customers • Market seeking • Financial motive rather than international production • Capital flows seeking tax shelter from taxation
Young et. al. (1996)	Chinese Multinationals	<ul style="list-style-type: none"> • Market seeking – near to distant countries • Efficiency seeking – reverse technology transfer • Regional protectionism within China • Risk diversification due to volatile government policy • Vertical integration

Authors	Country	Motive of FDI
Encarnation (1982)	Indian Multinationals	<ul style="list-style-type: none"> • To protect an export market for manufacturers • To extend a new market for capital goods • To expand capacity utilization and foreign exchange earnings • Home government trade policies and unintended domestic regulatory policy (monopolies legislation) • Tariff and quota of host government • Foreign trade tends to lead FDI • Technical collaboration • Government support public Technical collaboration sector enterprises
UNCTAD (2004b)	Indian Multinationals	<ul style="list-style-type: none"> • Improving Ownership specific advantages • Increase financial capabilities • Growing competitiveness • Near to client • Growth opportunity • Expose to knowledge • Access to market • Access to production facilities • Acquire brand name • Access to technology • Securing natural resources • Improvement in home country regulative framework
Lecraw (1992)	Indonesian multinationals	<ul style="list-style-type: none"> • Market seeking- export enhancing • To gain access to technology • Access to channel of distribution • To buy management, technology, marketing advantages through FDI
Tolentino (2000)	Singapore Multinationals	<p><u>1970s</u></p> <ul style="list-style-type: none"> • Finding new market • To exploit investment opportunity • To sell technology expertise • Need to diversify towards high technology industry • Keep abreast of rapidly changing technologies • Respond to neighbouring countries' upgrading of their natural resources <p><u>1980s</u></p> <ul style="list-style-type: none"> • Abundant foreign exchange and recycle to portfolio investment abroad • Government actively promoting outward FDI • Limited size of domestic market • Accelerated pace of wage increase and tightened foreign labour importation <p><u>1990s</u></p> <ul style="list-style-type: none"> • Accumulation of large financial surplus • Emphasis on outward investment to overcome vulnerability of Singapore to external shock • Need to diversify into high technology industry in developed countries
	Taiwan	<p><u>1970s</u></p> <ul style="list-style-type: none"> • Limited opportunity for growth in home country • Seek new market • To establish foreign market position • To overcome import quota of host country • To export indigenous technology abroad • To keep abreast with other home country world

Authors	Country	Motive of FDI
	South Korea	<p>MNC</p> <p><u>1980s</u></p> <ul style="list-style-type: none"> • To improve external relation with the rest of the world • Liberalisation of trade policy and exchange control • The strength of domestic currency • Rapid accumulation of Forex reserve <p><u>1990s</u></p> <ul style="list-style-type: none"> • Accumulation of world's largest foreign exchange reserves • Increase of cost of production as labour cost increases resulting in comparative disadvantage of labour intensive industries • Difficulties for expansion as a result of strict policy on environment, shortage of land <p><u>1970s</u></p> <ul style="list-style-type: none"> • To secure access to raw materials • To expand exports market • Promote international economic cooperation with developed and developing countries • Liberalisation of Korea's outward investment policy (restriction to the development of domestic industrial growth) • Investment incentive by government <p><u>1980s</u></p> <ul style="list-style-type: none"> • Accumulation of BOP surplus • Strength of Korean currency • Rise of labour cost as a result of the shortage of low-skilled labour and an increased pressure from labour organisation for wage increase. <p><u>1990s</u></p> <ul style="list-style-type: none"> • The strength of <i>chaebols</i>¹, a conglomerate created by the Korean government
Ragayah (1999)	Malaysia	<ul style="list-style-type: none"> • Close proximity and cultural factors not highly rated • Expanding and finding new market • Cheap and abundant resources for plantation ventures • Diversifying of risk • Home Government disincentive • Higher return of investment than in home country • To exploit expertise available in host countries

¹*Chaebols* refers to a large, family-owned conglomerates comprised of firms that operate in different sectors of the Korean economy (Ferris et al. 2003; Chang, 1988)

The above Table 2.1 shows that the primary reasons why developing countries' TNCs invest in other countries is still based on Dunning's four types of FDI as discussed in Section 2.2.1. FDI was also driven by home country's government incentives such as TNCs from Korea (Dent and Randerson, 1996), China (Gang, 1992), Brazil (Neto, 1995), India (Encarnation, 1982) and Singapore (Tolentino,

2000). The other primary reasons were to circumvent trade barriers and other host countries' trade restrictions. This is amongst the motives of FDI by TNCs from Hong Kong (Fong and Komaran, 1985; Wells, 1985), Singapore (Fong and Komaran, 1985), Brazil (UNCTAD, 2004c; Wells, 1988), China (Gang, 1992) and India (Encarnation, 1982). The other main motives were diversification of risk such as TNCs from Singapore and Hong Kong (Fong and Komaran, 1985; Hui and Fong, 1986; Well, 1988;), and exploiting own technology which is found amongst the motives of TNCs from South Korea, Singapore and Brazil (Neto, 1995; Fong and Komaran, 1985; Kumar and Kim, 1984;).

In addition to the studies presented in Table 2.1, TNCs from South Korea provide a good example of successful TNCs from the third world. Ghymn (1980) suggests that Korean construction firms have dealt successfully with external opportunities by exploiting their human resources. The success of Korean firms is also attributed to government support such as five years' tax holiday on exported construction materials and training facilities for the workers before they are exported to the host countries to work in Korean companies (Aggarwal and Agmon, 1990). Different level of government support for Korean firms is also targeted at the import substitution and export promotion stage. In the import substitution stage, the government leads the corporate sector by creating and protecting profit opportunities for the corporation, and developing their comparative advantages. When the country moves towards the export promotion stage, the government no longer plays the role of leader but acts more as a facilitator to private sector investment (Aggarwal and Agmon, 1990). At this stage, the comparative advantage becomes more firm specific such as competitive advantage in technology of Korean firms over foreign competitors (Han and Brewer, 1987).

The above studies clearly show how difficult it is to find a single explanation of the motives of FDI by TNCs from the developing countries. Perhaps, the contextual differences between countries contributed to the diversity of the motivations in some TNCs. Therefore, the study on Malaysian investment in the U.K. presented in this thesis contributes to the existing literature on the internationalisation of developing country firms.

2.5.3 International Investment Strategy of Developing Country's TNCs

The international investment strategy of the firm refers to the way the firm develops its position in the transnational value chain in order to build a stronger competitive position in the world market (Craig and Douglas, 1997). It is a value that is created from production to marketing to end consumers, as goods and services move across borders. Similar to motive of investment, developing country firms' investment strategies also cannot be generalised with a single explanation. Commonalities exist to a certain extent, but there are also differences due to the uniqueness of these TNCs. For example, the strategy of overseas Chinese businesses in Asia is influenced by some elements of guanxi and kinship (Gao, 2003; Rauch and Trindade, 2002; Yeung, 1999) and the strategy of investment by Korean TNCs is influenced by the strategy of Chaebol and the intervention of home government (Ghymn, 1980).

In terms of location, a regional phenomenon exists in the international investment by firms from Taiwan, Korea, Hong Kong and Singapore (Tolentino, 2000; Yeung, 1998) as they invest mostly in neighbouring Asian countries. Investment strategy for TNCs from the emerging economies can be traced to partial and complete participation as suggested by Craig and Douglas (1997). In their initial investment into foreign market, firms from emerging economies tend to adopt a low-cost commodity positioning where their competitive advantages are based on low production cost. As their capability in mass production increases, these firms tend to manufacture for private label or Original Equipment Manufacturer (OEM) which enables them to market their product worldwide, thus overcoming their weaknesses in product brandings and marketing.

Another investment strategy is the production of components for other established manufacturers, and is extensively pursued in the computer and automobile industries. In complete participation, the investment strategy shifts towards becoming a low cost leader aimed at a market that is sensitive to price, while having greater control on distribution and marketing. It also focuses on markets with similar levels of technology with the home country. The firm also targets

niche markets to enable it to leverage firm specific tangible and intangible assets that have a positive association with the home country (Craig and Douglas, 1997, p 78). Table 2.2 shows some of the strategies associated with TNCs from the developing countries which are based on firm level case studies.

Table 2.2: FDI Strategies of Developing Countries TNCs

Authors	Country of Origin	Strategy
Wells (1978)	Hong Kong	<ul style="list-style-type: none"> • Defensive strategy • Aggressive strategy • Undercutting price of potential competitors • Foreign subsidiaries designed to serve host country market and no integration with other affiliates for economic of scale • JV with others – Japanese. • JV with western MNC for brand name • Send old equipment abroad
Fong and Komaran (1985) Hui and Fong (1986)	Singapore	<ul style="list-style-type: none"> • In small investment – prefer to finance their investment from their own cash reserves. • In small investment – main instrument of control is periodical visit by company official and periodic reports filed by foreign venture. • Direct management in larger FDI • Adapting technology to local requirements
Wells (1988)	Brazil	<ul style="list-style-type: none"> • Competing based on technology and managerial skill in LDC • In non-advanced technical base – the firm competes on the basis of smaller production runs and adaptation of technology to local climates • Use raw material advantages in home country
Buckley and Mirza (1988)	Asia Pacific Multinationals	<ul style="list-style-type: none"> • Strategies similar with MNCs from small industrialised countries • Technology appropriate for other developing countries • The states and elite connections
Encarnation (1982)	India	<ul style="list-style-type: none"> • Capitalisation in own technology and machinery • Exploiting competitive advantages – knowledge of small-scale, labour intensive production techniques

Authors	Country of Origin	Strategy
Ragayah (1999)	Malaysia	<ul style="list-style-type: none"> • Most decision are made at the subsidiary level • Decisions at subsidiary level are reported to the headquarters through monthly reporting system. • Major decision that might have significant impact on business and profit need prior approval from headquarters • Basic financial operation done at company's level

2.5.4 FDI Characteristics of TNCs from Developing Countries

Developing country TNCs display certain characteristics that vary according to their countries of origin. Generally, the size of the firm is large locally, but is small globally, and they also have a limited number of foreign subsidiaries. In addition, the majority of developing country's FDI is in labour intensive manufacturing and services with some in capital intensive industry. Yeung (1998) suggested that developing countries' TNCs prefer minority equity JV compared to Greenfield entry, and more wholly owned forms amongst newly industrialised countries (NICs). Yeung also described the relationship between parent and subsidiaries in developing countries' TNCs are rather loose, fluid and informal.

The strategy of developing country TNCs also involved the adaptation of the technology for local use. Localised technology innovation includes downscaling product technology. Localisation is also undertaken in the production of appropriate product for local consumption and using local distribution channel in marketing (Hans and Brewer, 1987; Yeung, 1998 p 37). In addition, most developing countries' FDI are dominated by private sector initiatives although there are active involvement of state-owned enterprises (SOEs) such as in China and Singapore (Deng, 2004; Fong and Komaran, 1985; Hans and Brewer, 1987). Developing countries' TNCs are also characterised as being self-financing in capital input with the exception perhaps, for SOEs, as well as drawing capital from the local partner in minority JV (Yeung, 1994). Table 2.3 highlights some of the characteristics of developing countries' TNCs:

Table 2.3: FDI Characteristic in Developing Country Case Study

Author/Journal	Country case	Characteristics
Han and Brewer (1987)	Korean	<ul style="list-style-type: none"> • Competitive advantage in technology • Ownership advantage in government policies • Technology in small scale and labour intensive • Skilled and semi-skilled labour in labour intensive technology • FDI in manufacturing flows to lower income LDCs • Korean trading companies are active investors • FDI as export platform investment • Korean bank tend to be in industrial countries • Majority 100% ownership • 100% ownership mostly in trading firms • JV dominant in manufacturing, logging, fishing, construction • JV to follow host country requirement.
UNCTAD (2004)	Brazil	<ul style="list-style-type: none"> • Most of the country's FDI stock is located in tax-haven economies. • Other Latin Countries are the most prominent locations of outward FDI. • Prefer Greenfield projects as mode of entry. • Large part of outward capital movement has taken place for financial motives rather than for international production • FDI is concentrated in services activities and distribution activities • FDI in primary activities is negligible and FDI in manufacturing is relatively low
Deng (2004)	China	<ul style="list-style-type: none"> • Government role/motivation – state controlled economy • Dominant source of outward FDI – firms usually owned by county, municipal council and SOEs • FDI primarily triggered by PULL factors – technology, barriers, strategic assets etc • Not efficiency-seeking FDI –i.e. seeks lower cost • It is not an export-platform type of FDI • To gain access to foreign capital market • Non-economic factors –education, citizenship, social security, health services
Fong and Komaran (1985)	Singapore	<ul style="list-style-type: none"> • Home-grown, family-owned/managed • Home-grown, government-owned/managed • Firms that have developed ownership specific advantages in manufacturing and expanding in related activities. • Conglomerate companies which are involved

Author/Journal	Country case	Characteristics
		<p>in highly diversified activities.</p> <ul style="list-style-type: none"> • Investment in free trade zone is mainly in labour intensive activities. • Investment mainly in the Southeast Asia region • Prefer to be minority partner in foreign JV except in Malaysia
Ragayah (1999)	Malaysia	<ul style="list-style-type: none"> • A standalone affiliates – subsidiary operate largely as independent concern within the host country. • Link with parent company through ownership, technology transfer and supply of long term capital

The characteristics shown in Table 2.3 are, however, just simplistic representations as TNCs from developing countries are generally more complex and context dependent. The character of outward investment by developing countries' TNCs, for instance, may change due to technological advancement in certain sectors, market liberalisation, effects from regional trading blocks and also possibly due to the easing of restrictions on capital flows.

2.5.5 Organisational Structure of Developing Countries' TNCs

The literature on organisational structure as discussed in Section 2.4 focused on two main topics i.e. centralisation/decentralisation and the operational structure of multinational enterprises. The main issues are the level of top management localisation, the degree of centralisation/decentralisation between parent and subsidiaries, the level of policy and managerial formalisation and the utilisation of global operational structure. Ulgado et al. (1994), in their study of Asian multinationals (primarily involved in general manufacturing) from Hong Kong, India, Singapore, South Korea, Taiwan and Thailand, found the following characteristics:

- Asian MNEs do not hire as many host country nationals for top management positions as US or European MNEs. In this, they resemble their Japanese counterparts;

- The Asian MNEs subsidiary-headquarter relationship is not as highly centralised as that of American firms but are more centralised than Japanese and German firms;
- The reporting requirements for Asian MNEs were less frequent than US MNEs, but are more stringent than their German or Japanese counterparts;
- Asian MNEs do not depend extensively on home office written policies.
- Asian MNEs implement non global management structures (international division, export division, branch)

2.5.6 Developing Countries' TNCs in Developed Countries

Studies that specifically investigate the motivation of FDI from developing countries into developed country are still lacking. As shown in Table 2.4, the motivations of FDI into developed countries are to avoid trade barriers, exploit price competitiveness (lower cost of production in the home country), seek new technology and acquire international brand names.

Table 2.4: Motivation of FDI into Developed Countries

Authors	Context	Motivations
Wells (1978)	Chinese firms from Hong Kong	<ul style="list-style-type: none"> • Reaction to higher tariffs or import quota • Production in lower cost country to supply to advanced country
Encarnation (1982)	Indian Joint Venture Abroad	<ul style="list-style-type: none"> • Tariff and quota of host government • Financial and Technical collaboration
Deng (2004)	Outward Investment by Chinese MNCs	<ul style="list-style-type: none"> • Technology seeking • Trade barriers – to protect and promote export • Strategic assets-seeking – to internationalise its brand name

Other empirical evidence provided by Chen (1995), who investigated Taiwan's outward investment into the U.S.A., suggests that the primary motive for investing in the U.S.A. is to expand the local market as well to get access to a third market such as Canada. It is then followed by the objective to acquire new technology, to collect market information, to diversify risk, and to secure the supply of raw

material. Unlike the motives of investment in the developed countries by companies from Hong Kong, India and China (Table 2.4), the motive to avoid restrictions and trade barriers is negligible in the context of Taiwan's investment in the U.S.A.

Chen (1995) also suggests that Taiwanese firms may move their production into the U.S.A. to increase their product value. The motivation to move abroad also greatly differs between industries and size of the firms. Electric and electronics has the highest propensity to invest abroad, and the incidence of FDI increases significantly with the size of the company. Dunning et. al. (1998) observe the investment of Taiwanese and South Korean firms into the triad market (North America and the European Union) and concludes that the major motivation of investment are strategic asset-seeking, accumulation of firm specific advantages related to marketing and building up a global brand name. A study by Sim and Pandian (2003) also suggests that FDI by Taiwanese and Singaporean textile and electronic industries into the U.S.A and the European market were driven by market and technology seeking motives.

However, Lau and Rose (2002), who observed Hong Kong garment firms investing abroad suggest that firms of mature industry from developing countries, may not have the comparative advantages over local firms in the advanced economies. This has been indicated by the closing down of one of Hong Kong's garment manufacturing investment in Ireland due to failure in generating profit.

In the context of past study on Malaysia, Ragayah (1999) has spelled out the motivations and strategies of Malaysian companies investing abroad but it was far from conclusive. Her study looks at the overall motivations and strategies of Malaysian ODI but based only on 7 companies which is probably less representative. A study on Malaysian investment in this thesis looks at an investment into a single country i.e. the U.K. thus seeks to find conformities as well as divergences with the findings in Ragayah's study.

Past studies on FDI by developing countries multinational do not have much information about direct investment into the developed countries. However, some

general assumptions can be made on the motives, strategies and characteristics of Malaysian TNCs based on these studies:

- (i) It is assumed that there are similarities regarding the general motives, strategies and characteristics of Malaysian TNCs with multinationals from other developing countries and there are also differences due to the location of the investment and contextual factors;
- (ii) The motives of FDI by multinationals from Indonesia (Lecraw, 1992) and China (Gang, 1992) could be the nearest description of the motives of Malaysian FDI;
- (iii) Malaysian firms are more likely to engage in a defensive rather than an aggressive internationalisation strategy;
- (iv) Malaysian TNCs are dominated by private sectors' initiatives and characterised by self-financing in capital input;
- (v) The organisational structure of Malaysian TNCs is dominated by centralisation rather than decentralisation; and
- (vi) The primary motives of investment into the developed countries are market access and technology seeking.

2.6 CONCLUSION

The above discussion shows that the traditional theoretical framework of international production still forms the basis for explaining the internationalisation of the firm. However, the internationalisation phenomenon cannot be explained by a single explanation. In other words, the general framework of FDI is not sufficient to explain the different types of FDI, the variety of direction and country origins of the TNCs. The characteristics of TNCs from the developing countries are more context-dependent on the socio-political economy of the home countries.

The uniqueness of internationalisation practices still exists among firms. Therefore, it is important to understand the internationalisation practice of developing countries' TNCs vis-à-vis multinationals from developed countries. In addition, there are also tendencies for TNCs from developing countries to present different

explanations in respect of firm ownership advantages, organisational structure and location of investment.

The discussion thus far suggests that the motives of TNCs are varied among firms and between business environments. The corporate objectives of the firms and the changes that occur in the business environments influence firm strategies and this raises the importance of emergent strategy. Therefore, research on Malaysian FDI into the U.K. will contribute towards explaining some of the diversity in FDI motivation and strategy. The lack of available knowledge on the motives and process for outward FDI from developing countries (such as Malaysia) in developed countries (such as the U.K.) warranted the study of FDI in this context.

In general, this research seeks to fill the gaps in the literature in several areas. This research seeks to fill some of the gaps in understanding resource seeking FDI namely seeking skilled labour in the developed countries. Since it is difficult to find a single explanation on the motives and strategies of FDI for every country, this research on Malaysian investment in the UK could provide another dimension on ODI by firms from developing countries. This research also seeks to provide the applicability of emergent strategy in the case of Malaysian companies investing in the U.K. It is presented in this thesis that Malaysian and Britain have historical ties and Malaysia has had an enormous political and socio-economic influence from the British. This relationship is assumed to have great influence on the choice of the U.K. as a location of investment by Malaysian investors. This research seeks to find elements in this relationship as factors that determined Malaysian ODI. This research also seeks to provide explanation for the internationalisation practices by Malaysian companies that are based on organisational structure which are assumed to be different to other countries. Finally, this study on Malaysian investment looks at investments into a single country i.e. the U.K. and thus seeks to find conformities as well as divergences with the findings in earlier studies. Some general assumptions have been made in this chapter and whether these assumptions are confirmed or refuted is presented in the concluding chapter.

CHAPTER 3: AN OVERVIEW OF THE MALAYSIAN ECONOMY AND ITS FOREIGN DIRECT INVESTMENT POSITION

3.1 INTRODUCTION

This chapter presents a background of the Malaysian economy, in particular the position of Malaysian inward and outward FDI flow and stock among developing countries. The purpose of this chapter is to place the study within its context such as socio-economic conditions, societal fabric, government policy, FDI position and also the Asian crisis. This is important as the study is primarily based on Malaysian incorporated companies, established along specific Malaysian socio-economic lines which have, to a certain extent, shaped their FDI motivation, structure and characteristics of organisation and their investment behaviour. This chapter also presents the background of Malaysian investment into the U.K from the historical perspective as well as more recent investment.

3.2 SOCIO-ECONOMIC BACKGROUND OF MALAYSIA

In terms of land mass, Malaysia covers an area of about 330,000 square kilometres. Peninsular and East Malaysia are separated by about 450 kilometres of the South China Sea. Peninsular Malaysia has its frontiers with Thailand in the north and Singapore in the south (See Figure 3.1). Malaysia is a federation of 13 states that consists of 11 states in Peninsula Malaysia and the Eastern states of Sarawak and Sabah. It has a population of about 25 million in 2003 of which 66.2% are Bumiputera⁴, 25.2% Chinese, 7.4% Indian, 1.2% other ethnic and 5.29% non-citizens (Table 3.1). The Malaysian population is multi-ethnic and multi-religious, with three major ethnic groups – Malays and other ethnic minorities (including Ibans, Kadazans, Bajaus and Muruts), particularly located in East Malaysia, Chinese and Indian. The Chinese and Indian were originally immigrants from mainland China and the Indian continents (Salleh and Meyanathan, 1993). These Chinese immigrants were later known as overseas Chinese (Redding, 1993). There is also a heavy concentration of Malaysian business and enterprises in ethnic

⁴ Meaning 'sons of the soil' or natives or population indigenous to the country.

Chinese hands (Salleh and Meyanathan, 1993). Therefore, it is not surprising that about 58% of the companies studied in this research are Chinese owned companies.

Figure 3.1: Map of Malaysia



Table 3.1: Malaysia: Population Size and Structure, 2003

	2003	% to total
Total Population ('000 persons)	25,082.1	100.0
• Citizens	23,794.9	
➤ Bumiputera	15,752.2	66.20
➤ Chinese	5,996.3	25.20
➤ Indian	1,760.8	7.40
➤ Others	285.6	1.20
• Non Citizens	1,287.2	5.29
Age Structure (years)		
• 0 – 14	8,325.4	33.20
• 15 – 64	15,724.4	62.70
• 65+	1,032.3	4.10

Source: Economic Planning Unit, 2004 (Major Economic Indicators, 2003)

3.2.1 Growth and Transformation of the Malaysian Economy

The theoretical framework of IDP suggests that the level of country's economic development have an effect on the inward and outward FDI in a particular country (Dunning, 1993). Malaysia can be categorised as a small open economy where the private and the government sectors facilitate each other in the economic development process. A small market provides limited scope for expansion for domestic firms which at the same time also need to compete with foreign investors investing in Malaysia. Economic activity during the 1950s and 1960s was basically resource-based; when tin, rubber and palm oil were the main sources of economic growth, employment and export. Access to natural resources and the availability of cheap labour force have helped Malaysian companies to build competitive advantages which have enabled them to compete in the international market. Porter (1998) for example noted that 'a nation firms gain competitive advantage if they possess low-cost or uniquely high-quality factors of particular types that are significant to competition in particular industry. The pre-industrialisation period prior to the 1950s was inline with the first stage of country's development as projected by the IDP theory (Dunning, 1993). In the late 1950s towards early 1960s, Malaysia entered a second stage of development with emphasis on industrialisation (Salleh and Meyanathan, 1993) which saw an increased of FDI in import-substitution industries (Ragayah, 1999). The import substitution strategy was adopted to cope with external imbalance such as reducing dependence on imported consumer goods; promoting the use of domestic natural resources; to promote industrialisation such as broadening the industrial base; as well as creating investment opportunities (Alavi, 1996; Salleh and Meyanathan, 1993). In the late 1960s, the policy shifted to export promotion especially after the formation of the Federal Industrial Development Authority (FIDA). The aim of the export-oriented policy was to encourage the production of light manufactures such as textiles, footwear and garment (Salleh and Meyanathan, 1993). These were basic labour-intensive industries that provided employment opportunities to the public. The main impetus for export promotion policy was the setting up of Export Processing Zones (EPZs) or Free Trade Zones (FTZs) in which tax incentives were given to pioneer industries under Pioneer Industries Ordinance, 1968. During the 1970s onwards, the Malaysian government actively promoted export-oriented policies which also

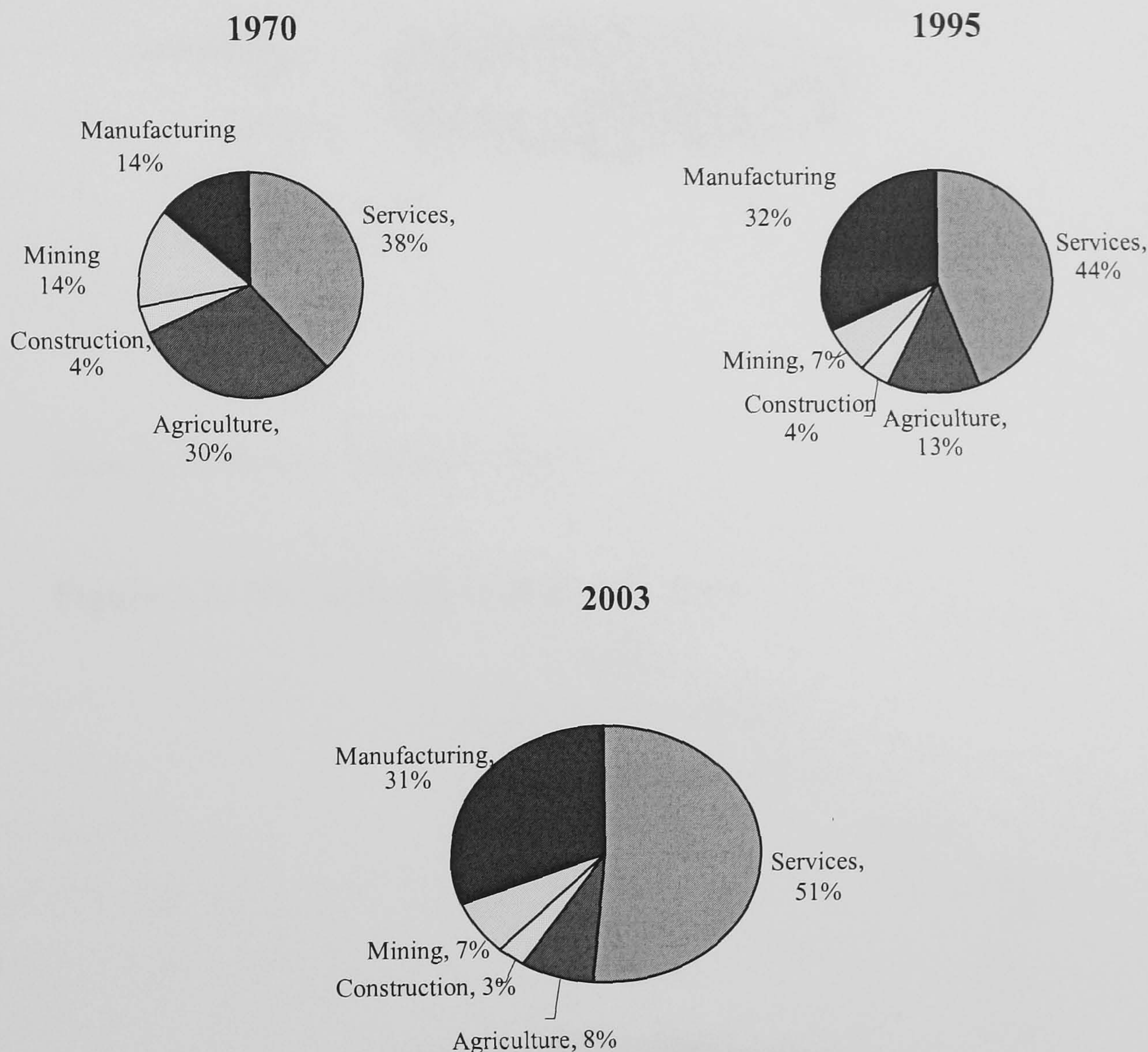
witnessed the third stage of economic development. In the late 1980s, following the further liberalisation of FDI policies, inflows of FDI into the manufacturing sector increased significantly, an impetus given by the Promotion of Investment Acts, 1986. Towards the end of the 1990s, the policies of the government aimed to encourage heavy industry intended to push Malaysia into diversification, creating modern manufacturing activity (Salleh and Meyanathan, 1993). This was also the stage where Malaysian companies were encouraged to increase competitiveness and productivity (MITI, 1996). This could also relate to the acquisition of U.K. companies in the 1990s to gain access to technology.

The transformation of the Malaysian economy also witnessed structural transformation from agriculture to services and manufacturing. Figure 3.2 for example shows, a drop in the contribution of agriculture and mining to Gross Domestic Product (GDP) between 1970 and 2003. By 2003, services and manufacturing had contributed about 82% to GDP while agriculture and mining only contributed for 15% (Economic Report, 2004/2005).

Malaysia's economic policy from 1971 was also guided by the New Economic Policy (NEP) with two-pronged objectives to (a) reduce and eventually eradicate poverty by raising income levels and increasing employment for all Malaysians irrespective of race; and (b) accelerate the process of restructuring of Malaysian society to correct economic imbalance so as to reduce and eventually eliminate the identification of race with economic function (Malaysia, 1991). It was in particular to redress economic imbalance between ethnic groups to improve the economic position of the Bumiputera relative to the non-Bumiputera (see Malaysia, 1991; Rasiah, 1999). From 1991 onward, while the economic policies were still in the shadow of the NEP, the government introduced the New Development Policy (NDP) with the objective to promote economic growth and address further the inequalities and imbalances within society (Malaysia, 1991 pp 14). The NEP and later the NDP were not well accepted by the non-Bumiputera (particularly the Chinese) and they felt alienated by this policy which required them to share wealth with the Bumiputera (Gomez, 2002). As suggested by Yeung (1999) on the effect of restrictive equity policy in some countries in ASEAN, it is also assumed that

some Malaysian companies undertake FDI as a reaction to the NEP and NDP equity policy.

Figure 3.2: Gross Domestic Product by Industry of Origin, 1970, 1995 and 2003 (in 1978 Prices)

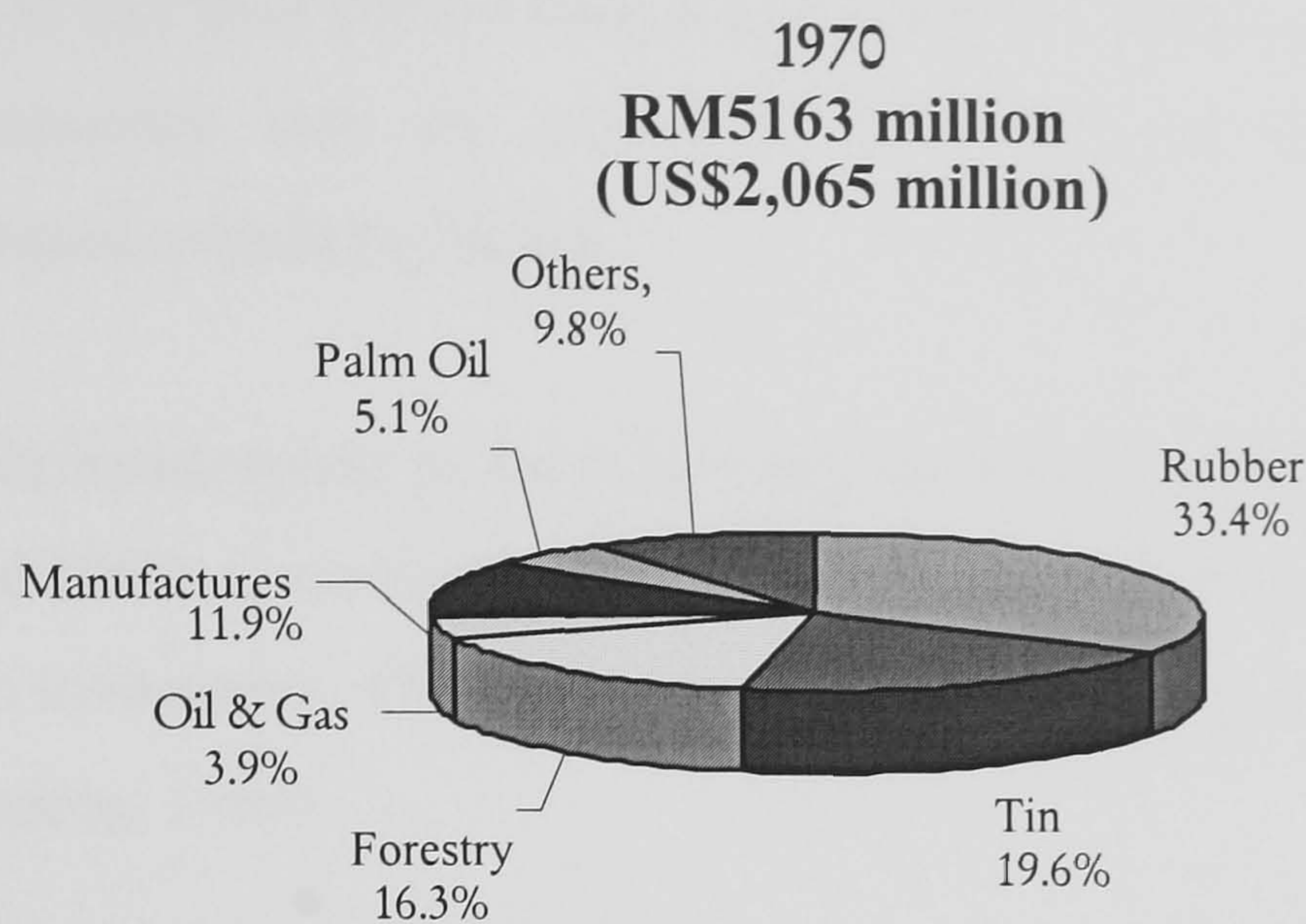


Source: MITI (1996); Economic Report (2004/05)

As far as exports are concerned, Malaysia has long been a major exporter of commodities such as rubber, palm oil, sawlogs⁵ and sawn timber, and crude oil. Malaysia also exports manufacturing products such as textile, clothing and footwear, chemical and petroleum, electronic and electrical products and manufactures of metal (Economic Reports, 2004/2005).

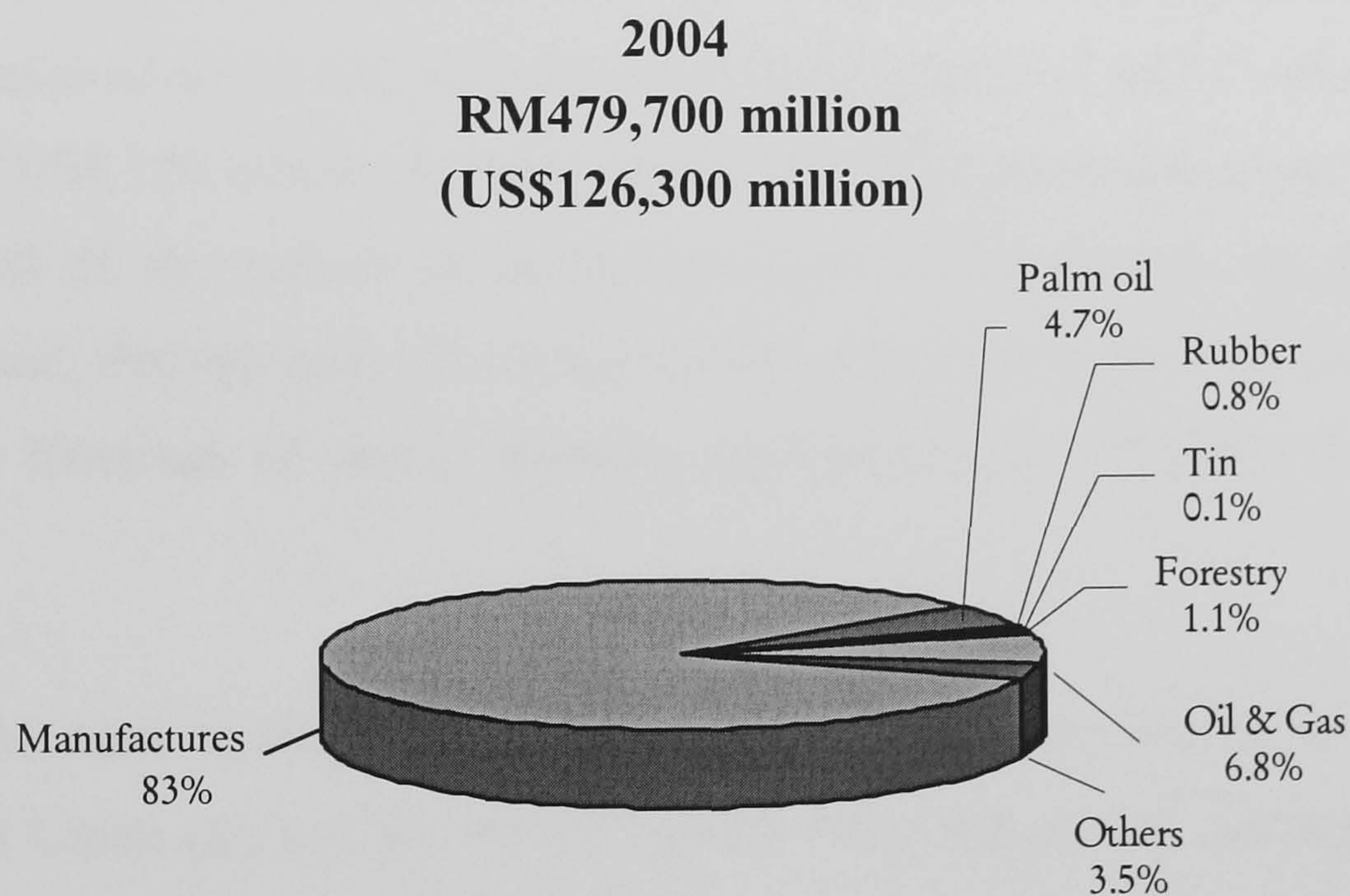
⁵ technical term for timber prior to it being processed into sawn-timber.

Figure 3.3: Diversification of Exports, 1970



Source: Economic Reports, 1980

Figure 3.4: Diversification of Export 2004



Source: Economic Report 2004/05

Figure 3.3 and 3.4 clearly show the shift of exports from primary commodities such as rubber and tin in 1970 to manufacturing products in 2004. There was a substantial increase of manufacturing exports from 11.9% in 1970 to 83% in 2004

while primary commodities' contribution to export has declined from more than 50% in 1970 to less than 10% of total exports in 2004. This indicates the shift of the Malaysian economy over the period of three decades from commodity and agricultural-based to industry based.

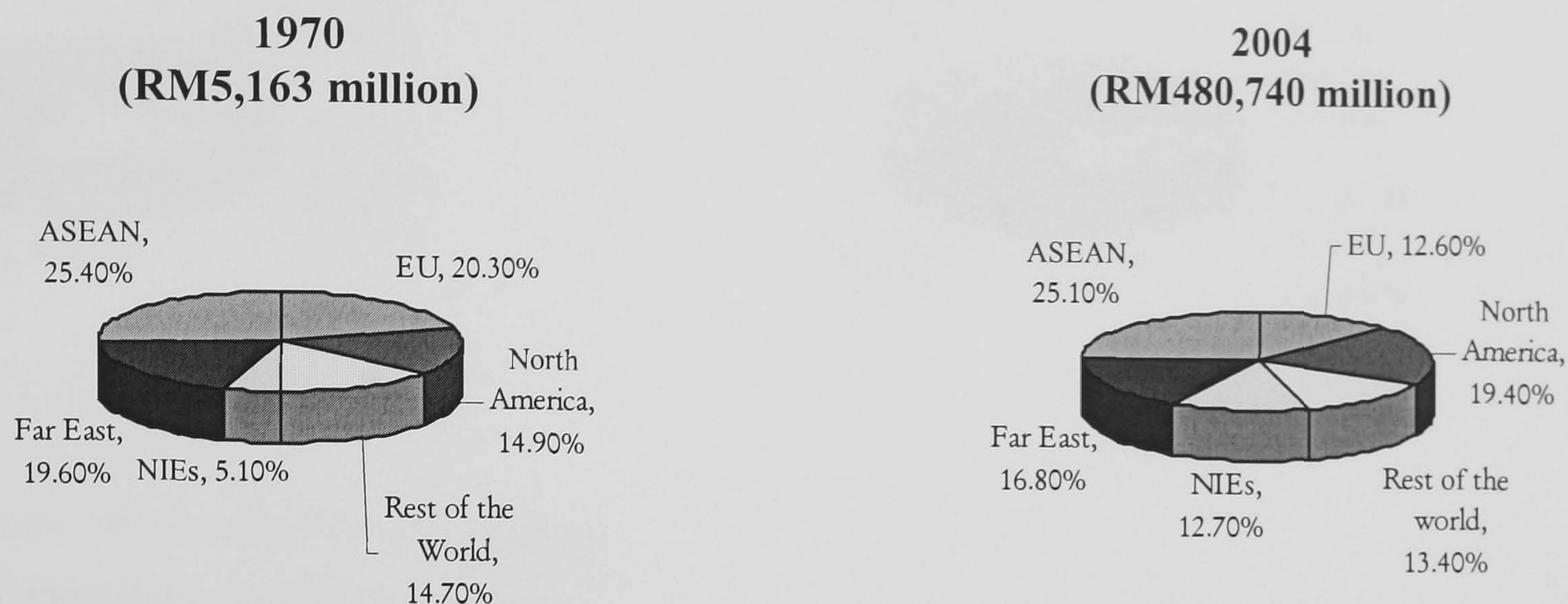
An increase in involvement in manufacturing activities by Malaysian companies in the 1990s and 2000s is assumed to have contributed to their gradual involvement in direct foreign investment. The thrust for FDI would be resource seeking and market seeking (Dunning, 1993).

Regionally, Malaysia is part of the Association of Southeast Asian Nations or ASEAN. ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. The ASEAN region covers a total area of 4.5 million square kilometers and in 2003, it had a population of about 500 million, a combined GDP of US\$737 billion, and a total trade of US\$ 720 billion. Its main objective is "The Association represents the collective will of the nations of to bind themselves together in friendship and cooperation and, through joint efforts and sacrifices, secure for their peoples and for posterity the blessings of peace, freedom, and prosperity" (ASEAN Secretariat, 2005).

ASEAN is the main trading partner of Malaysia, followed by North America and the European Union (EU) as shown in Figure 3.5 and Figure 3.6. Among ASEAN countries, the main trading partner is Singapore which, in 1970, accounted for 84.9% and 33.2% of exports and imports amongst the ASEAN countries respectively. In 2004, about 59.9% of total Malaysian exports and about 46.4% of total Malaysian imports amongst the ASEAN countries were with Singapore (Economic Report, 2004/2005). Singapore has become the major trading partner of Malaysia, which could be explained by its close proximity to Malaysia, as well as by the fact that Singapore was previously part of Malaysia. High levels of trade with neighbouring countries in ASEAN indicates the role of close spatial proximity

and stages in the context of internationalisation process as discussed in Section 2.3.2.

Figure 3.5: Malaysia's Exports by Destination, 1970 and 2004



Note: Figure for 2004 is categorised as preliminary.

NIEs: Hong Kong, South Korea, Taiwan

Far East: Japan and China

ASEAN: Brunei, Indonesia, Philippines, Singapore, Thailand, Vietnam, Myanmar, Laos and Cambodia

Source: Economic Report, 2004/2005; Bank Negara Malaysia (2005)

Malaysia has experienced strong growth during the last three decades. Starting from 1970 to 1990, the Malaysian economy posed stable growth with an average GDP at 6.7% per annum (see Table 3.2). Malaysia, however, experienced a negative growth rate of -7.4% in 1998 as a result of the Asian financial crisis. The economic recovery after the crisis has been led by strong growth in exports, particularly of electronics and electrical products (Economic Report, 2001). However, the Malaysian economy has show a decline in 2001 with a growth of 0.3%. The lower growth rate was due to volatility in the world economy as well as uncertainty due to wars in Afghanistan and Iraq and the outbreaks of Severe Acute Respiratory Syndrome (SARS) in Asia (Malaysia, 2003 p 25). It has also affected the investment flows such as shown in Figure 3.7 and also the decline in FDI flows into the U.K. as shown in Figure 3.13.

Figure 3.6: Malaysia's Imports by Origin, 1970 and 2004

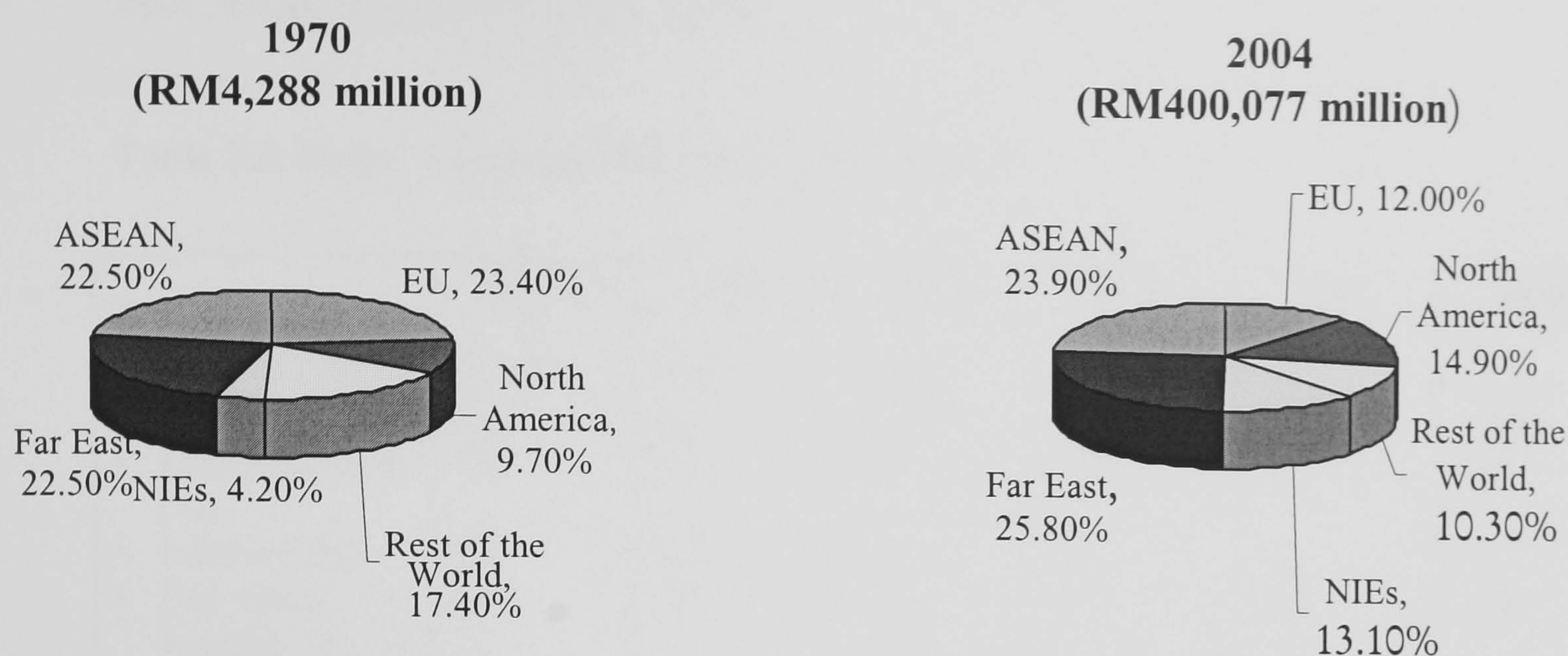


Figure for 2004 is categorised as preliminary.

NIEs: Hong Kong, South Korea, Taiwan

Far East: Japan and China

ASEAN: Brunei, Indonesia, Philippines, Singapore, Thailand, Vietnam, Myanmar, Laos and Cambodia

Source: Economic Report, 2004/2005; Bank Negara Malaysia (2005)

Table 3.2: Malaysia's Development Growth

Year	Annual Growth (%)
Average 1970s	7.5%
Average 1980s	5.8%
Average 1990s	7.1%
Average 1971-90	6.7%
Average 1991-2000	7.1%
Average 1996-1997	8.7%
1998	-7.4%
1999	5.8%
2000	8.5%
2001	0.3%
2002	4.1%
2003	4.5%
2004	7.1%

Source: Malaysia (2001); Economic Report, 2000/2001; Bank Negara Malaysia (2005)

Malaysia also experienced a tremendous increase in GNP per capita from US\$368 in 1970 to US\$3,775 in 2003 and unemployment remained low at 3.1% to 7.4% during the same period (see Table 3.3). The increase of GNP per capita also indicates the rapid pace of economic development which is related to the propensity to be involved in outward investment (Dunning, 1993). The inflationary pressure

remained benign and was controlled below 2% between 2000 and 2003 (Malaysia, 2001; Bank Negara Malaysia, 2005).

Table 3.3: Major Economic Indicators 1970-2003

	1970	1980	1990	2000	2002	2003
• GNP per capita RM	1,132	3,737	6,299	13,333	13,716	14,343
US\$	368	1,717	2,329	3,509	3,610	3,775
• Unemployment (%)	7.4	5.6	5.1	3.1	3.5	3.5
• Inflation (%)	1.9	6.7	3.1	1.6	1.8	1.1
• Fed. Govt. account (% to GDP)	-4.0	-13.5	-2.9	-5.8	-5.6	-5.4
• Current a/c of BOP (% to GNP)	0.2	-1.2	-2.1	10.3	7.6	10.2

Source: Malaysia, 2001; Bank Negara Malaysia, 2005

3.2.2 The Asian Crisis and Malaysian Capital Control

After nearly a decade of strong economic growth, Malaysia was hard hit by the regional financial crisis at the end of 1997, which pushed down its growth rate to minus 7.4% in 1998 (Economic Report, 2000/2001). The crisis first started in Thailand before spreading to other countries in the region. The effect of the crisis was so severe that it brought the collapse of the stock market and asset prices in Malaysia, and a steep fall in the dollar value of the currency. Businesses that were dependent on foreign funds or that had loans quoted in US dollars found their loan obligations climbing dramatically, and many were obliged to go out of business. Real GDP was volatile but started to show a positive growth after the crisis (Economic Report, 2000/2002).

There are many possible effect of the Asian crisis to foreign direct investment. Poon and Thompson (2001) for example suggest that 'whereas international capital flows into Asia were once thought to drive the region's modern economic development, the 1997/1998 financial crisis would appear to have suggest the

opposite' (p121). The region saw massive outflows of capital in the period subsequent to the crisis. Although this capital probably represent a highly mobile portfolio investment (Poon and Thompson, 2001), there is also the possibility of 'capital flight' in terms of redirecting the investment by local firms and also foreign firms residing in Malaysia. Cuddington (1987) refers to capital flight as short-term 'speculative' capital exports by the private non-bank sector. However, resident investors which are better aware of the changing nature of risks in the domestic market, facing heightened risks and fear of the crisis might exit the market and thus may drive their outward direct investment overseas. The crisis has also affected the ability of Malaysian companies to serve their existing investment due to liquidity problems.

After the economic downturn, the government undertook measures to revive confidence in the economy. Among the measures taken were to strengthen external demand, provide stronger fiscal stimulus, and to provide low interest rate environment. This was undertaken to spur the private sector activities that were dampened by the high interest rate during the period of 1997 and 1998. In August 1998, the government launched the National Economic Recovery Plan which had six main objectives, stabilising the Ringgit by implementing a fixed exchange rate policy by which the Ringgit has since been pegged to the US Dollars (USD1 = RM3.80); restoring market confidence; maintaining financial market stability; strengthening economic fundamentals; continuing the equity and socio-economic agenda and restoring adversely affected sectors in the economy (NEAC, 1998).

One of the measures undertaken by the Malaysian government is to implemented controls on international capital flows or capital control. The main elements of capital controls (see Hood, 2001) are as follows:

- (i) One year waiting period imposed on repatriation of the proceeds of sales of Malaysian securities held in external accounts;
- (ii) Mandatory repatriation of all Ringgit held abroad;
- (iii) Restriction on transfer of funds between external accounts;
- (iv) Limits on transport of Ringgit by travellers;

- (v) Prohibition of resident/non-resident credit arrangement;
- (vi) Prohibition of trade settlement in Ringgit;
- (vii) Prohibition of resident/non-resident offer side swaps and similar hedge transactions; and
- (viii) Freezing of transaction of Malaysian companies' shares in CLOB (Singapore's Central Limit Order Book market)⁶.

The above restrictions that have direct effects on capital movement between countries not only affected the inflow of FDI into Malaysia but also restricted Malaysian companies that wanted to invest abroad. Hood (2001) argues that capital control created uncertainty for foreign investors and this may have raised the cost of capital.

3.3 MALAYSIA AND ITS FDI POSITION

Malaysia has long been perceived as a recipient of FDI rather than a source of FDI. The role of FDI in the Malaysian economy has changed according to the transformation of the economy as discussed in Section 3.2.

3.3.1 Malaysia's FDI Performance Index

The FDI performance index has been used by UNCTAD to measure a country's competitiveness to attract FDI as well as firm's ownership advantages and home country's disadvantages in certain countries which induce outward investment. Malaysia has experienced a rather inconsistent measure in the context of world FDI Index. As in Table 3.4, the *World Investment Report* (WIR) 2004 reported the value of Malaysia's inward FDI performance index⁷ to be 4.355 in 1988-1990 which

⁶ On 2 January 1990, the Singapore Stock Exchange introduced an over-the-counter market, known as **CLOB** International, to allow investors to trade in a number of international securities which are listed on foreign stock exchanges (Singapore Exchange, 2006)

⁷ The inward performance index is a measure of the extent to which host countries receive inward FDI. The Index ranks countries by the amount of FDI they received relative to their economic size, calculated as the ratio of a country's share in global FDI inflows to its share in global GDP. A value greater than one indicates that the country attracts more FDI in proportion to its economic size, a value below one shows that it receives less (a negative value indicates that foreign investors disinvested in that period). Thus, a higher index implies success in the competition, explicit or implicit, to attract FDI (UNCTAD, 2004 p12).

indicates Malaysia was attracting more FDI in proportion to its economy size and has been highly competitive to attract FDI. In 2001-2003, Malaysia's competitiveness in attracting FDI had dipped which was reflected in lower value of index of 1.079. Singapore and Hong Kong were more competitive compared to Malaysia in both periods. Describing this inward FDI trend, WIR 2004 in its statement about Malaysia says:

One striking features of the Index calculation is the sharp deterioration in Malaysia's FDI performance. From ranking among the top 10 till the mid-1990s, Malaysia fell in ranking every year in the latter part of the decades, reaching 75th place in 2001-2003. For an economy that depends heavily on FDI to drive its exports, this may be cause for concern, especially since the reasons are not clear'

(WIR, 2004, p 13-14)

Table 3.4: Inward and Outward FDI Performance Index 1988-1990 and 2001-2003 of Selected Countries

Countries	1988-1990		2001-2003	
	Inward FDI Index	Outward FDI Index	Inward FDI Index	Outward FDI Index
Malaysia	4.355	0.444	1.079	0.638
Singapore	13.599	2.892	6.000	5.104
Indonesia	0.794	0.013	-0.324	0.036
Thailand	2.562	0.091	0.858	0.110
Vietnam	1.020	-	1.923	-
Phillipines	1.689	0.029	0.675	0.013
China	1.033	0.214	1.969	0.150
Hong Kong	5.292	3.370	4.822	3.477
Taiwan	0.927	3.297	0.350	0.974

Note: Figure of outward FDI Index for Vietnam is not stated.

Source: UNCTAD (2004)

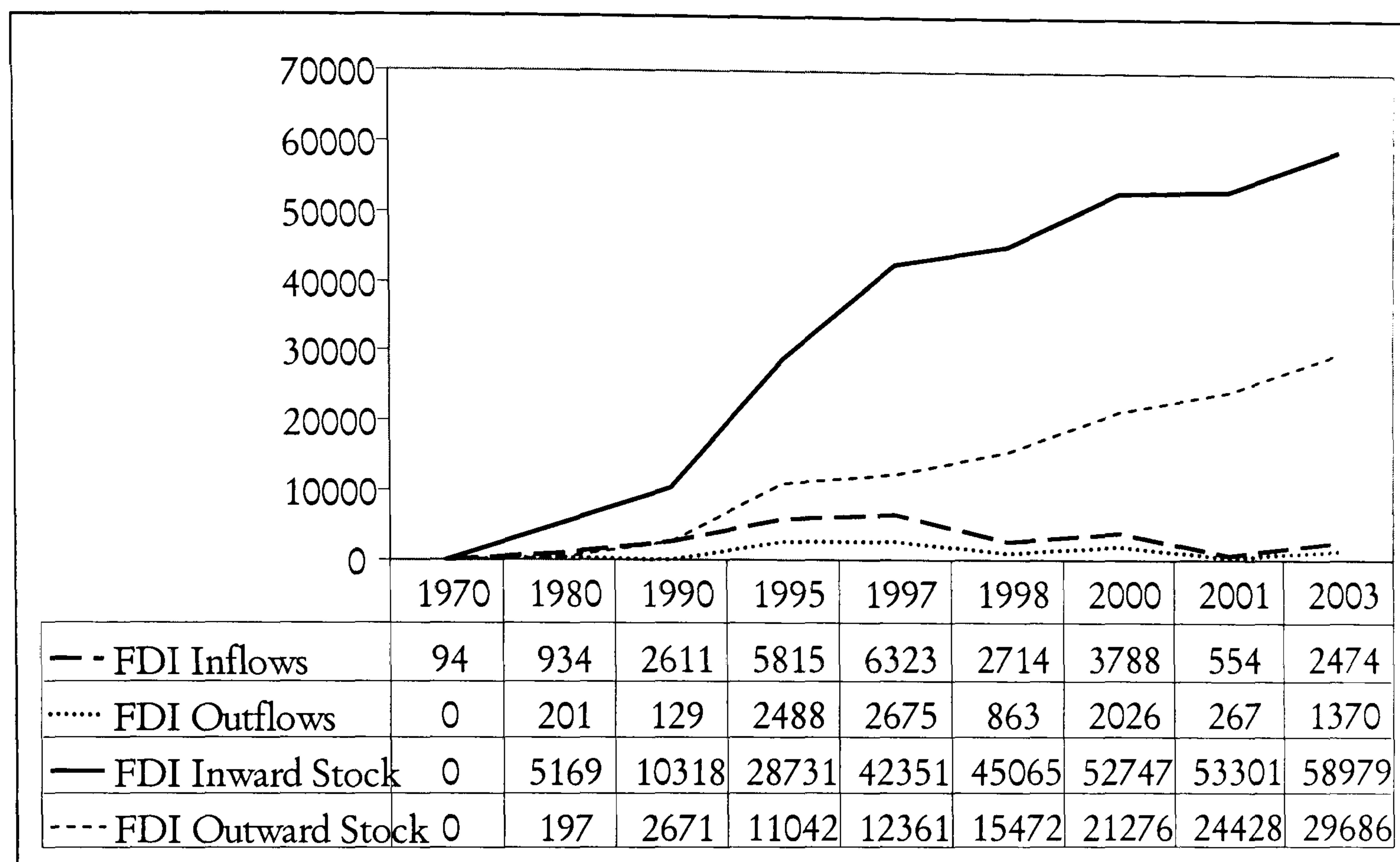
As far as outward FDI is concerned, it shows lower outward investment index as in 1988-1990 as well as 2001-2003. Based on UNCTAD's definition, this indicates that Malaysian companies have fewer ownership advantages which discourage them from investing overseas. Malaysia's position in outward investment index is lower than Singapore but better than countries such as Indonesia, Thailand, Phillipines and China.

3.3.2 Malaysia's Inward FDI

The background of Malaysian inward FDI presented in this thesis is to show the importance of Malaysia as location of FDI. It is also generally accepted that there are linkages between outward and inward FDI for countries. The IDP concept suggests that there is a link between outward FDI and economic development and in turn, FDI has a direct effect on economic growth or FDI is growth enhancing (Baharumshah and Thanoon, 2005). Inward FDI also allows countries to reach some degree of economic maturity and Dunning (1993) suggests that the OLI configuration facing domestic firms may increase propensity to engage in outward investment. Inward investment has also exposed Malaysian domestic firms to international operations that arise from their relationship with foreign firms. Greater net inward FDI as shown in Figure 3.7 also show the propensity for the Malaysian government policies to attract inward FDI more than to encourage outward FDI.

During the colonial era up to the 1950s, inward FDI was almost entirely resource-seeking, in this Malaysia was like many other developing countries of the time (Jomo and Edwards, 1993; Lindblad, 1997; Rasiah, 1999). In the early post-independence until the early 1960s, an import-substitution policy has encouraged FDI in food products, beverages and tobacco processing, printing and publishing, building materials, chemicals and plastics. Malaysia continued to receive a gradual increase of inward investment since the 1970s. There were two occasions in which Malaysia has experienced lower inward FDI, during the first economic recession in middle 1980s and during economic crisis in Asia in 1997 (based on data by UNCTAD⁸). Figure 3.7 shows Malaysia's FDI inflows dropped from US\$6,323 million in 1997 to US\$2,714 in 1998. The detailed data is as shown in Appendix 3.1.

Figure 3.7: Malaysia: Major FDI Indicators (US\$ Million)



Notes: UNCTAD defines FDI flows and FDI stock as follows:

- 1) Flows of FDI comprise capital provided (either directly or through other related enterprise) by a foreign direct investor to an FDI enterprise, or capital received from FDI enterprise by a foreign direct investor;
- 2) FDI Stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise.

Source: UNCTAD (2005a; 2005b)

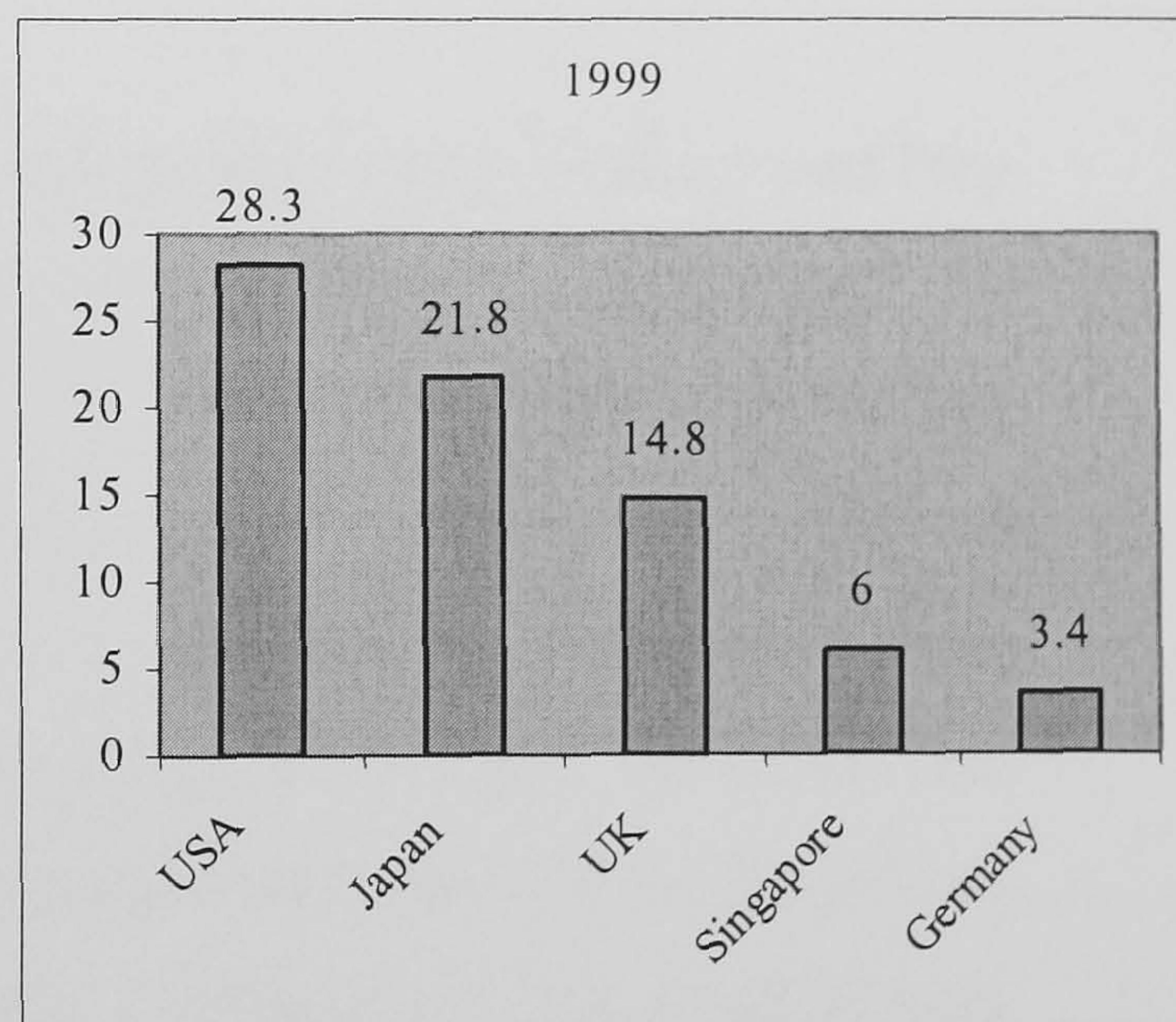
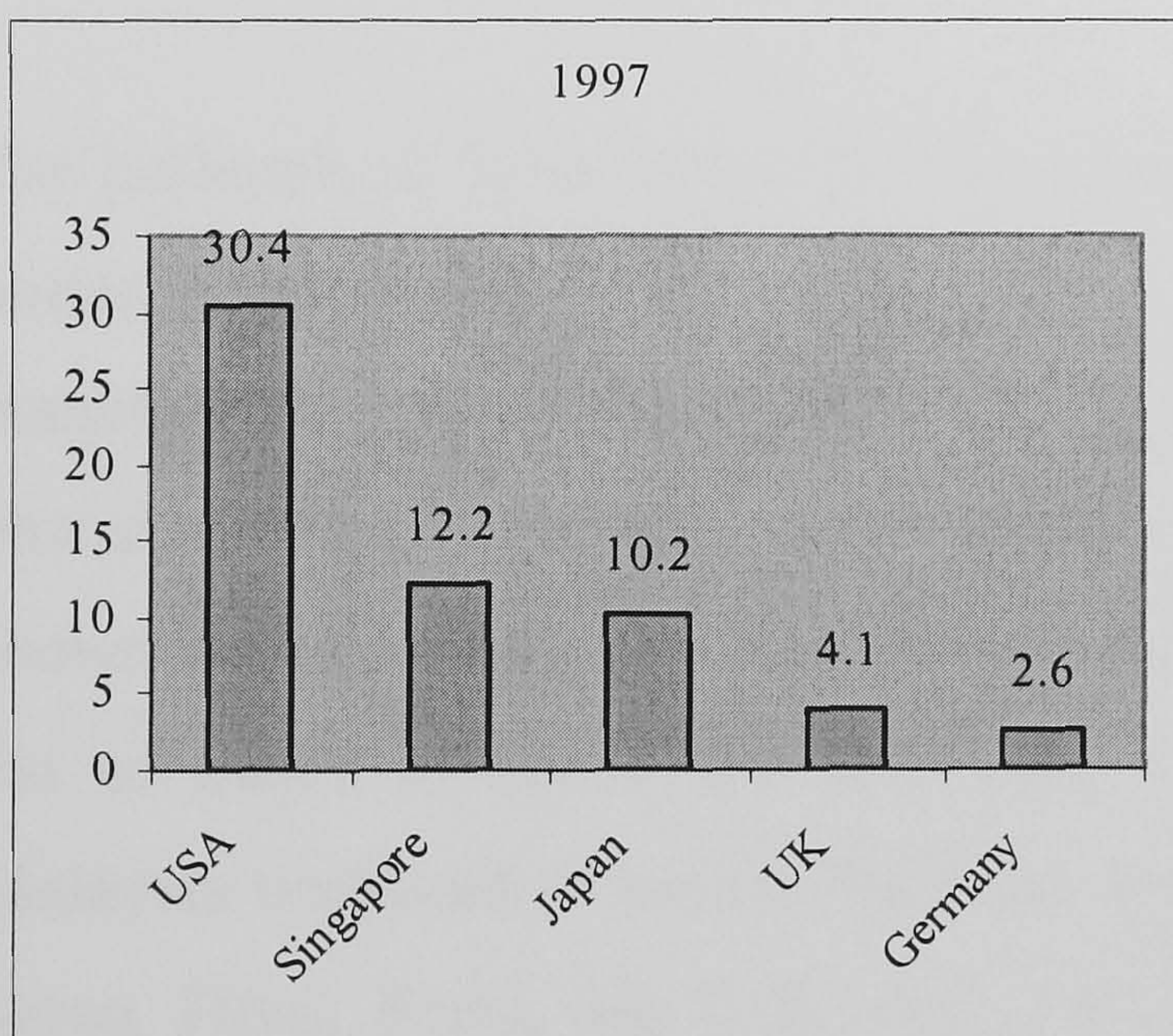
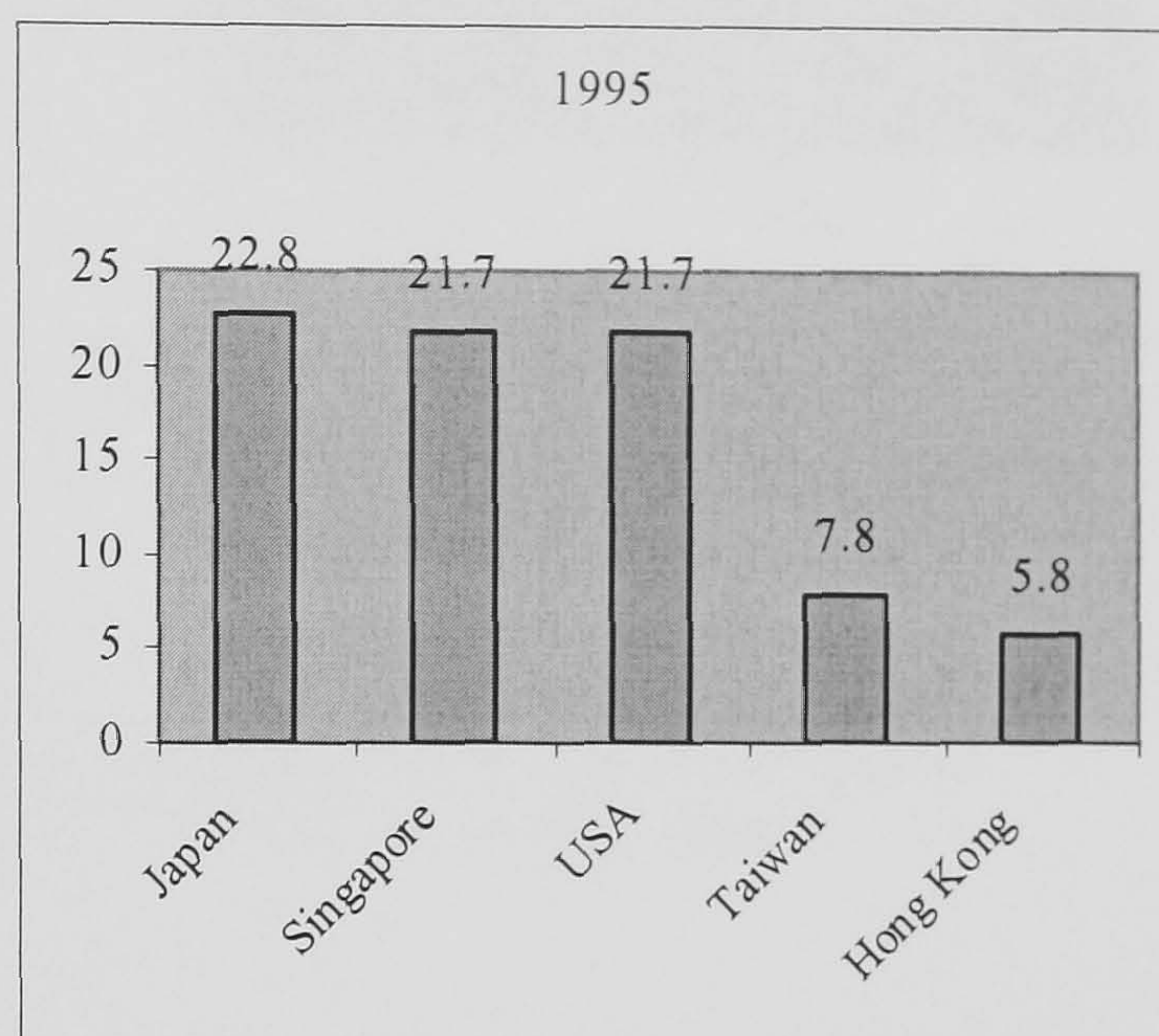
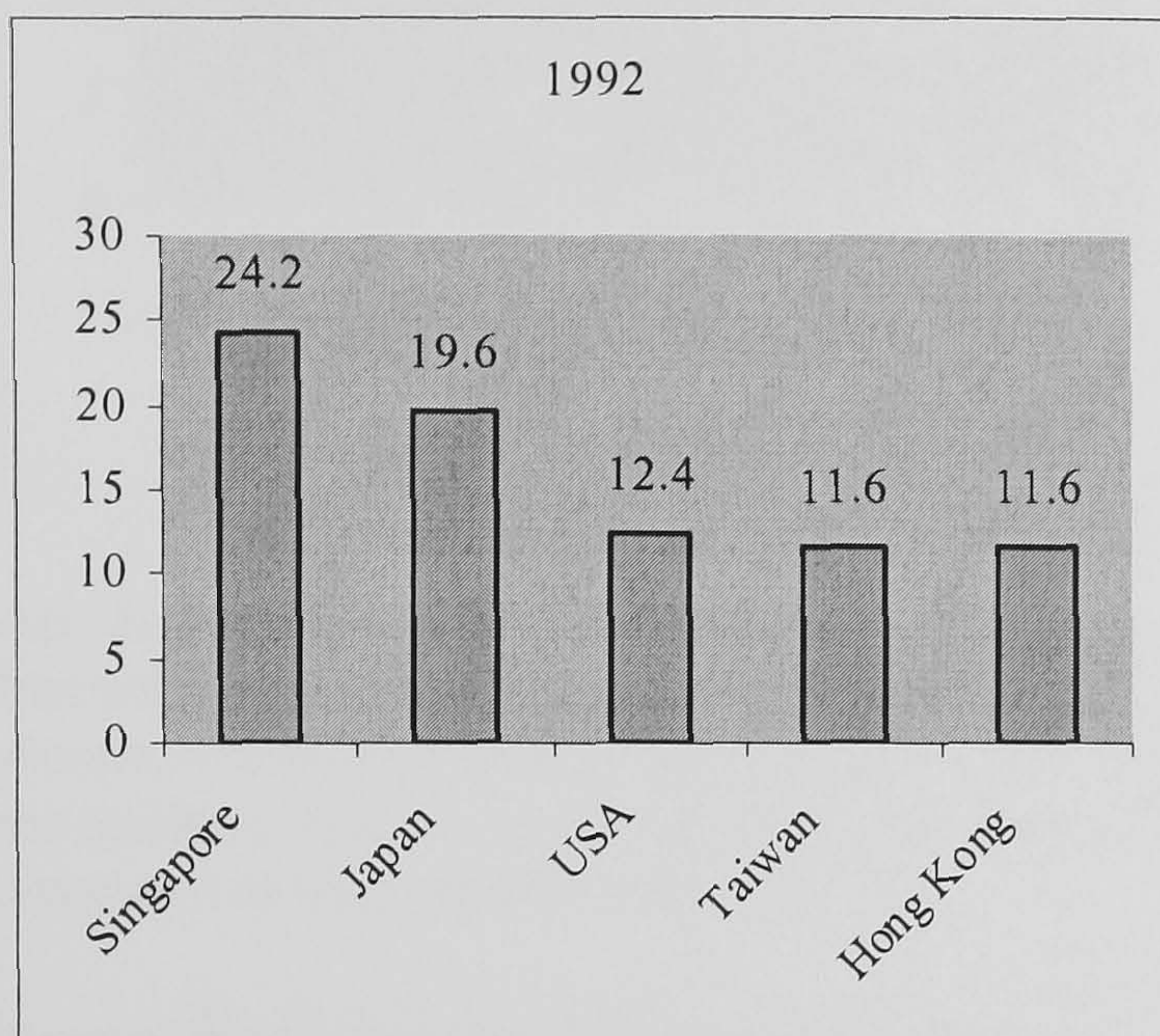
The FDI inflows started to bounce back in 2000 after the Malaysian government relaxed the capital control measures by adopting a repatriation levy instead of the twelve months holding period to make Malaysia more attractive to portfolio (investment in securities such as stocks, bonds, or other financial assets) investors. However, there were many other elements that had influenced the FDI sentiments such as in 2001, FDI inflows dipped to its lowest level as discussed in section 3.2.

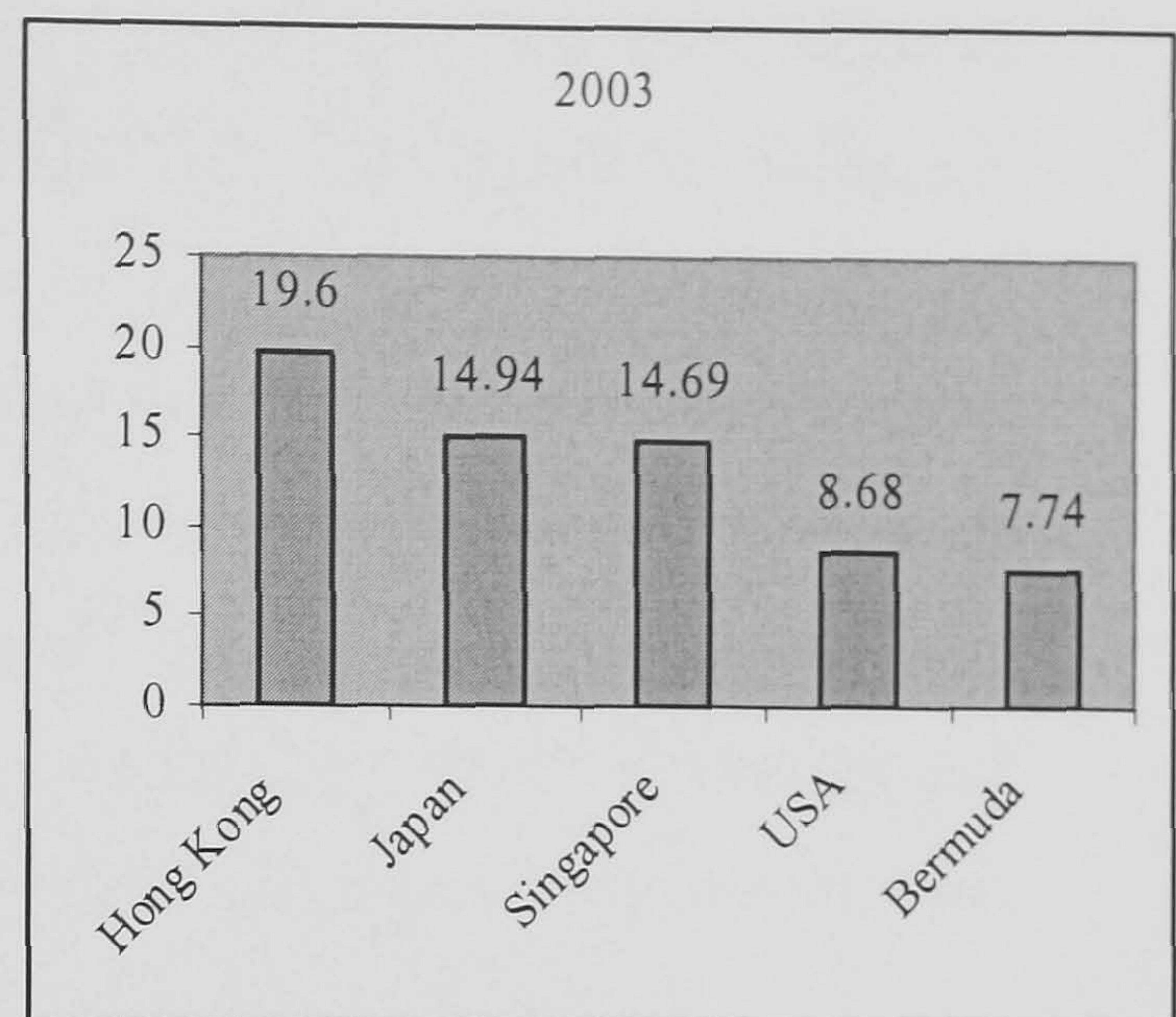
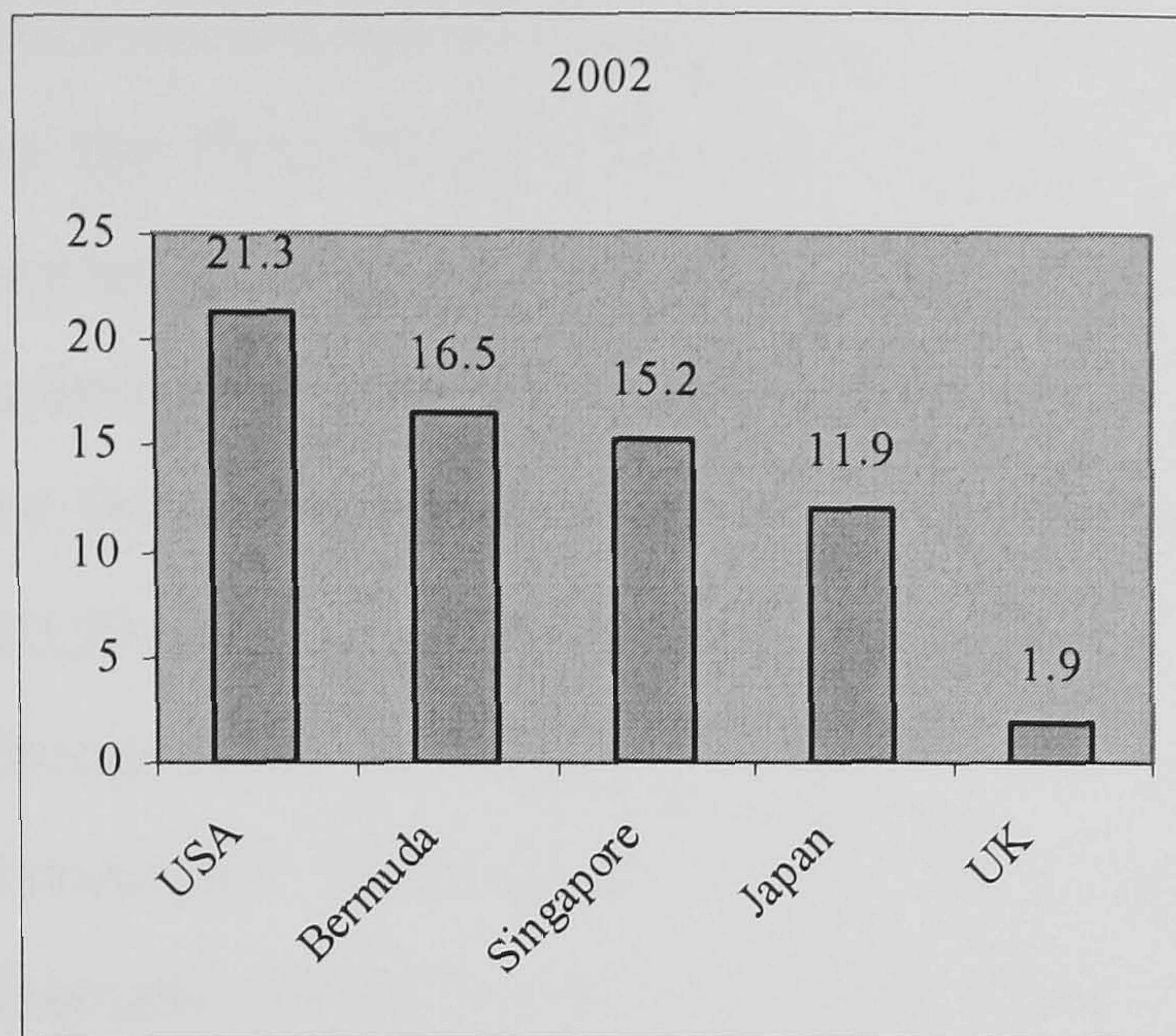
The biggest sources of FDI into Malaysia were Japan, the U.S.A., Singapore, Hong Kong and Taiwan. In the 1970s FDI in Malaysia was dominated by Japan and the

⁸ UNCTAD FDI Database accessed at <http://www.unctad.org>

U.S.A. while Taiwanese investors emerged as an important source of FDI in the 1980s (Salleh and Meyanathan, 1993).

Figure 3.8: Top Five Investing Countries in Malaysia, Percentage to Total Inflows (Selected Years)





Note: In Malaysia, the data that captures the magnitude and value of overseas investment can be obtained from the Cash Balance of Payment Reporting System, Bank Negara Malaysia. Overseas investment covers direct equity investment, purchase of real estate abroad and extension of loans to non-residents abroad. It also includes capital invested or loans extended by foreign-owned companies to their parent companies

Source: Bank Negara Malaysia, 2003

The hallmark of Taiwanese FDI was in small and medium-sized industry and they normally undertook joint venture with the Malaysian Chinese especially in the manufacturing sector (Ali and Rasiah, 2000). In the second half of 1990s and onwards, the U.S.A. became the single most important investor in Malaysia. As shown in Figure 3.6, in 1997, 1999 and 2002, investors from the U.S.A. topped the list of major investors into Malaysia. It also shows that major investors into Malaysia consisted of almost the same countries each year, the U.S.A., Singapore, Japan, Hong Kong, the U.K., and Taiwan with Germany playing a small role. Singapore has been the most important investor among Malaysia's neighbouring countries.

Malaysia's inward FDI stock shows an increasing trend during the period of 1970 to 2003. It did not reduce in absolute value during the economic recession in 1997 except in 1985 because of economic recession (see Appendix 3.1). The economic crisis in 1997 on the other hand, did not affect FDI inward stock in which it was increased to US\$45,065 million in 1998 from US\$42,351 million in 1997 (Table 3.5).

Data on the industrial distribution of Inward FDI into Malaysia has been captured by the Bank Negara Malaysia's database starting from 2002. Based on Table 3.5 inward FDI goes to three main sectors namely manufacturing, services and the oil industry. In 2002, 39.4% of FDI went to manufacturing, 36.3% to services and 14.5% to oil industry. FDI in services has become more important by 2003 with 40.2% of the total FDI inflows. The government policy towards liberalization and deregulation in finance, insurance, real estate and business service sub-sector and favourable fiscal incentive and good infrastructure has contributed towards the increase of FDI in services in 2003 (Economic Report, 2004/2004, p 52).

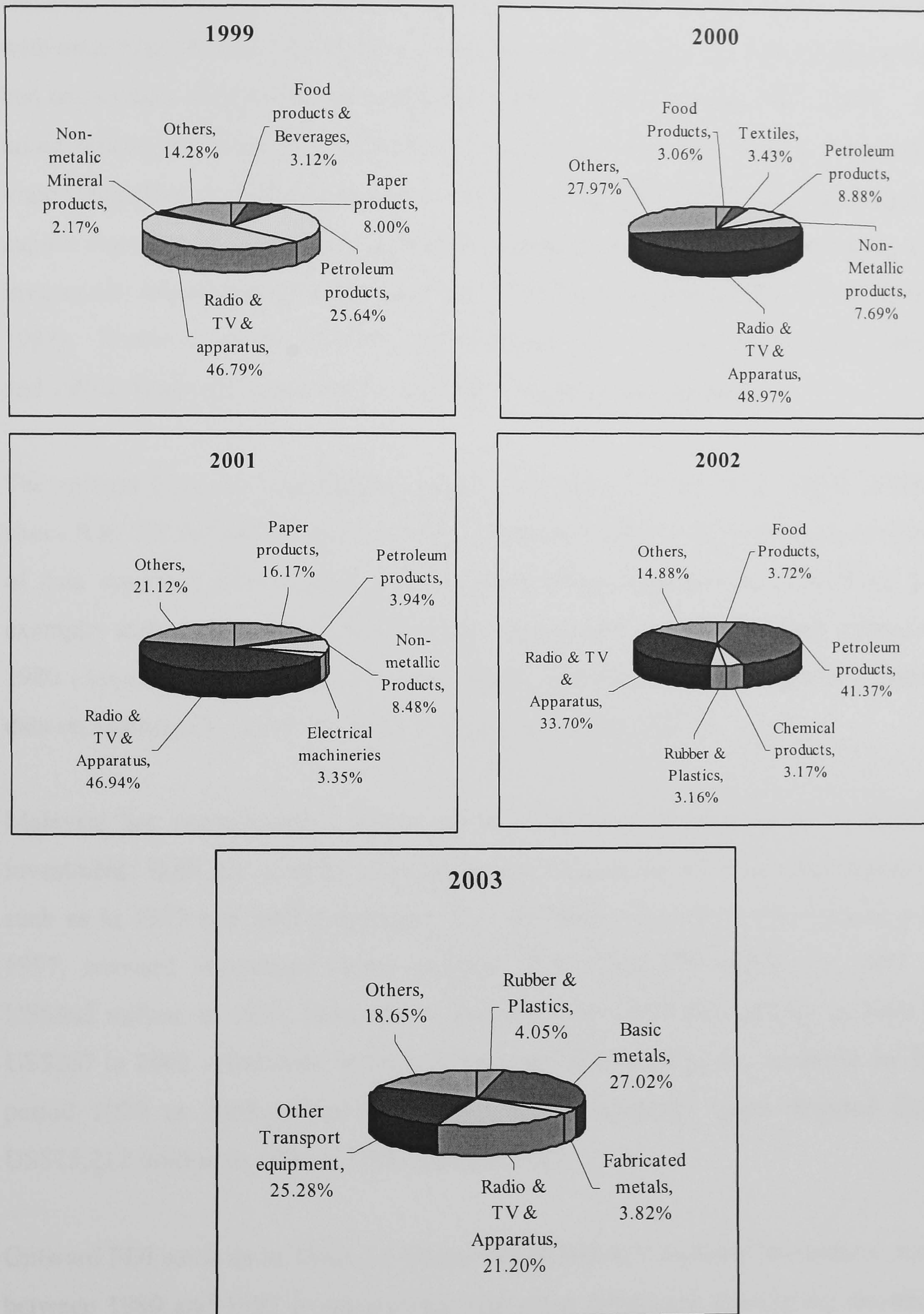
Table 3.5: Malaysia: Industry Distribution of FDI Inflows, 2002 and 2003(Percentage)

Industry	Share to Total Inflows	
	2002	2003
Total	100	100
Agriculture	2.0	0.8
Services	36.3	40.2
Oil	14.5	20.6
Manufacturing	39.4	29.8
Other	7.8	8.7

Source: Bank Negara Malaysia (2004).

In the manufacturing sector, during the period of 1999 and 2003, FDI inflows mostly went to electronic and electrical products (Industry classification denoted as Radio, Television & Communication equipment & Apparatus), petroleum related and chemicals and machinery equipment industries (as shown in Figure 3.9).

Figure 3.9: Malaysia: FDI Inflows to Manufacturing sectors by Industry Classification, 1999 to 2003



Source: ASEAN Secretariat (2004)

3.3.3 Malaysia's Outward FDI

Outward investment by Malaysian companies is relatively new when compared with other countries in Asia such as Korea, Taiwan, Singapore and Hong Kong that had begun their outward investment in the 1950s and 1960s (Tolentino, 2000). As noted earlier in Section 3.3, Malaysia's economy prior to the 1970s was basically import substitution which made her a recipient of foreign investment rather than a capital exporter. Low levels of domestic savings and higher demand for domestic investment also discouraged any intention to invest abroad (Ramasamy and Viana, 1995). However, as the industrial development grew progressively in the 1980s and 1990s, Malaysia's outward investment also gained momentum.

The earliest figure on Malaysia's overseas investment is in 1972, which totalled about RM 148 million (Ragayah, 1999). However, there is inconsistency in terms of data reporting with regards to Malaysia's outward investment. UNCTAD for example, started to capture Malaysian data on outward investment at the earliest in 1980 (Appendix 3.1), while the Bank Negara Malaysia started to produce yearly data on Malaysia's capital outflows in 1992 (Appendix 1.2).

Malaysia has experienced a similar trend of outward investment as its inward investment. Both are directly affected by the fluctuation of Malaysian economy such as in 1997 and 2001 (Appendix 3.1 and Table 3.5). During the recession in 1997, outward investment flows dropped from US\$2,675 million in 1997 to US\$863 million in 1998. Similarly, it dropped from US\$2,025 million in 2000 to US\$267 million in 2001. However, Malaysia's outward FDI stock grew constantly for the period 1970 to 2003 except for 1997 when its absolute value dropped from US\$15,212 million in 1996 to US\$12,361 million in 1997.

Outward FDI stock as in Table 3.6 shows that Malaysia's outward investment stock between 1980 and 1995 is comparable with other prominent developing countries such as China, Hong Kong, Singapore and Taiwan, and was better than countries such as India, Indonesia, Philippines and Thailand (UNCTAD, 2004). Taking the years of 1990 and 2003 as an example, Table 3.6 shows that Malaysian outward

investment performance followed the same trend as China, but still lagged behind Hong Kong, Singapore and Taiwan.

A substantial proportion of the investment outflow is in the form of Malaysian equity buying in foreign companies. Based on data produced by the Central Bank of Malaysia (as in Appendix 3.2), in 1992, equity investment made up about 59% of the total investment flow in 1992 and 42.5% in 2002, an increase from RM 775 million in 1992 to RM 6993 million in 2002. Only a small proportion of outflows consisted of portfolio investment. In 2002 it was reported that from the total of RM 16424 million outward flows, only RM 59.133 million comprises of portfolio investment (Bank Negara Malaysia, 2003) and shown in Appendix 3.2. Portfolio investments represent passive holdings of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control of the securities' issuer by the investor. It also has shorter-term investment horizon. Direct equity investments have a significant and long-lasting management interest in the company in which an investment is made (UNCTAD, 1997).

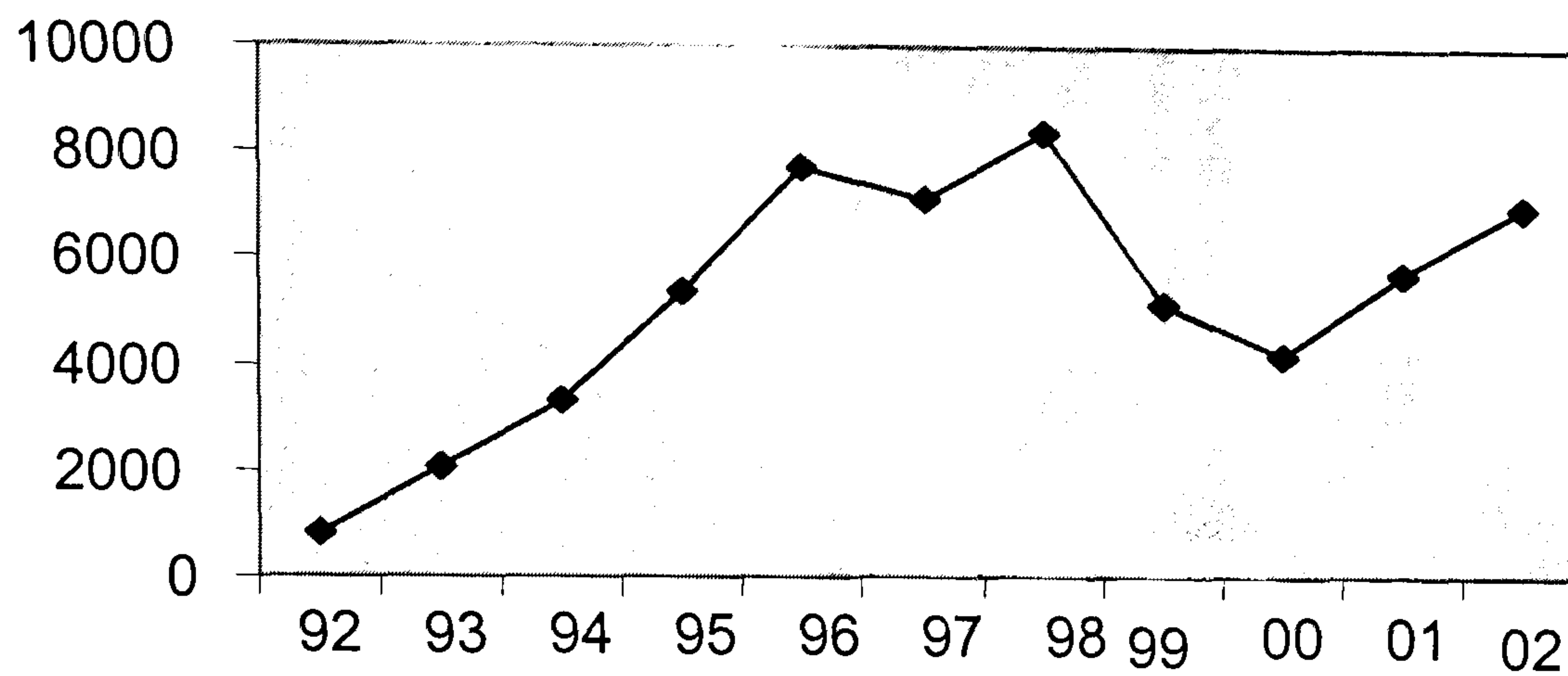
Table 3.6: Outward FDI Stock of World, Malaysia and Selected Developing Countries, 1980-2003 (million of dollars)

Countries	1980	%	1985	%	1990	%	1995	%	2003	%
World	559629	100	738809	100	1,758,216	100	28975470	100	8,196,863	100
Malaysia	197	0.03	1374	0.18	2,671	0.15	11042	0.03	29,686	0.36
China	-	-	131	-	2,489	0.14	15802	0.05	37,006	0.45
Hong Kong	148	0.02	2344	0.31	11,920	0.68	78833	0.27	336,098	4.10
India	4	-	19	-	50	-	264	-	5,054	-
Singapore	3718	0.66	4387	0.59	7,808	0.44	35050	0.12	90,910	11.09
Taiwan	97	0.01	204	0.02	12,888	0.73	25144	0.08	65,232	0.80

Source: UNCTAD (2005a)

Malaysia's equity investment from 1992 to 2002 is depicted in Figure 3.10. It shows a fluctuation before and after the economic crisis in 1997. Equity investment increased steadily from 1992 to 1997, after which it began to decline before it picked up again towards 2002.

Figure 3.10: Malaysia: Annual Outward Equity Investment, 1992-2002 (RM Million)

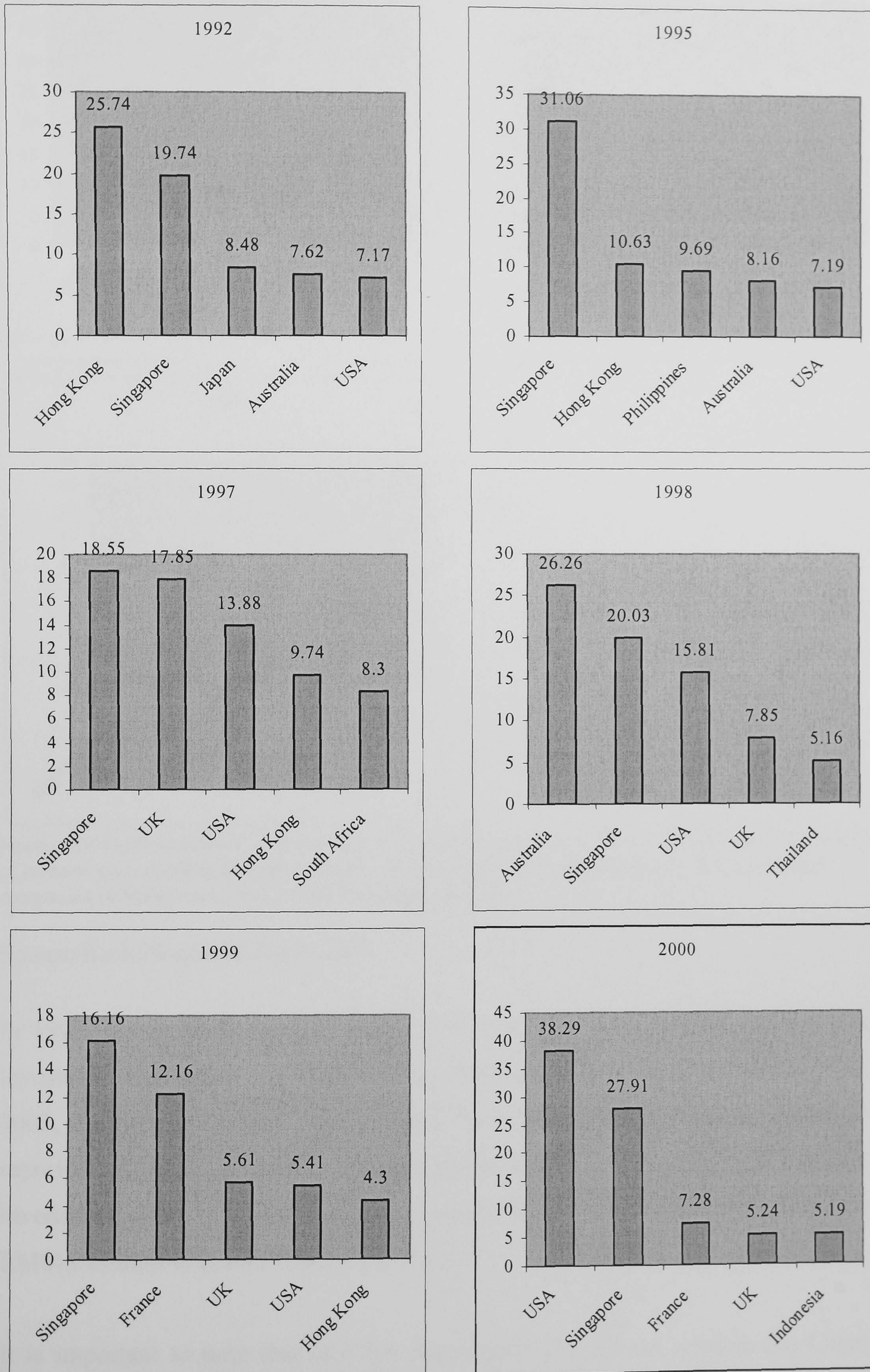


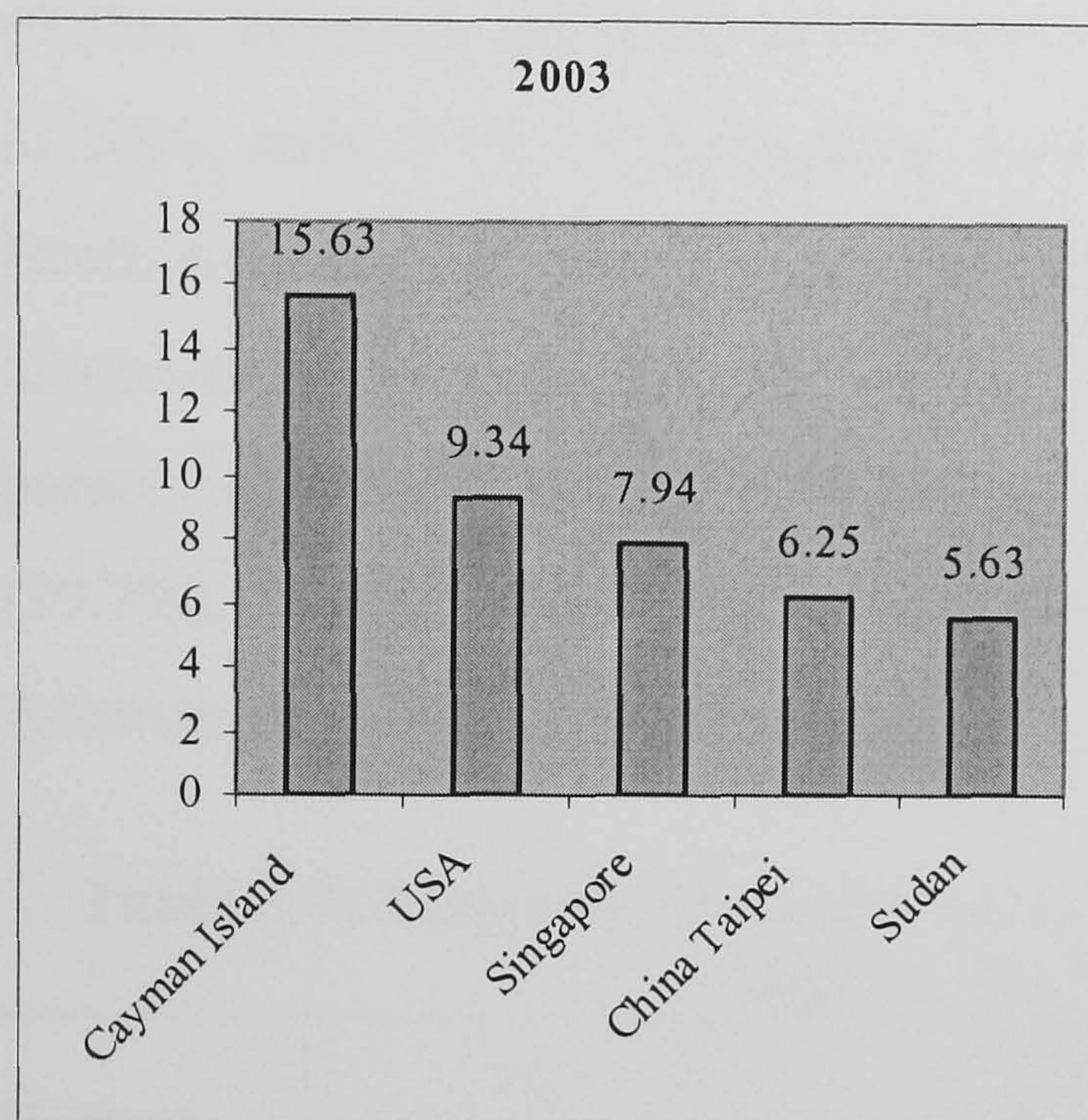
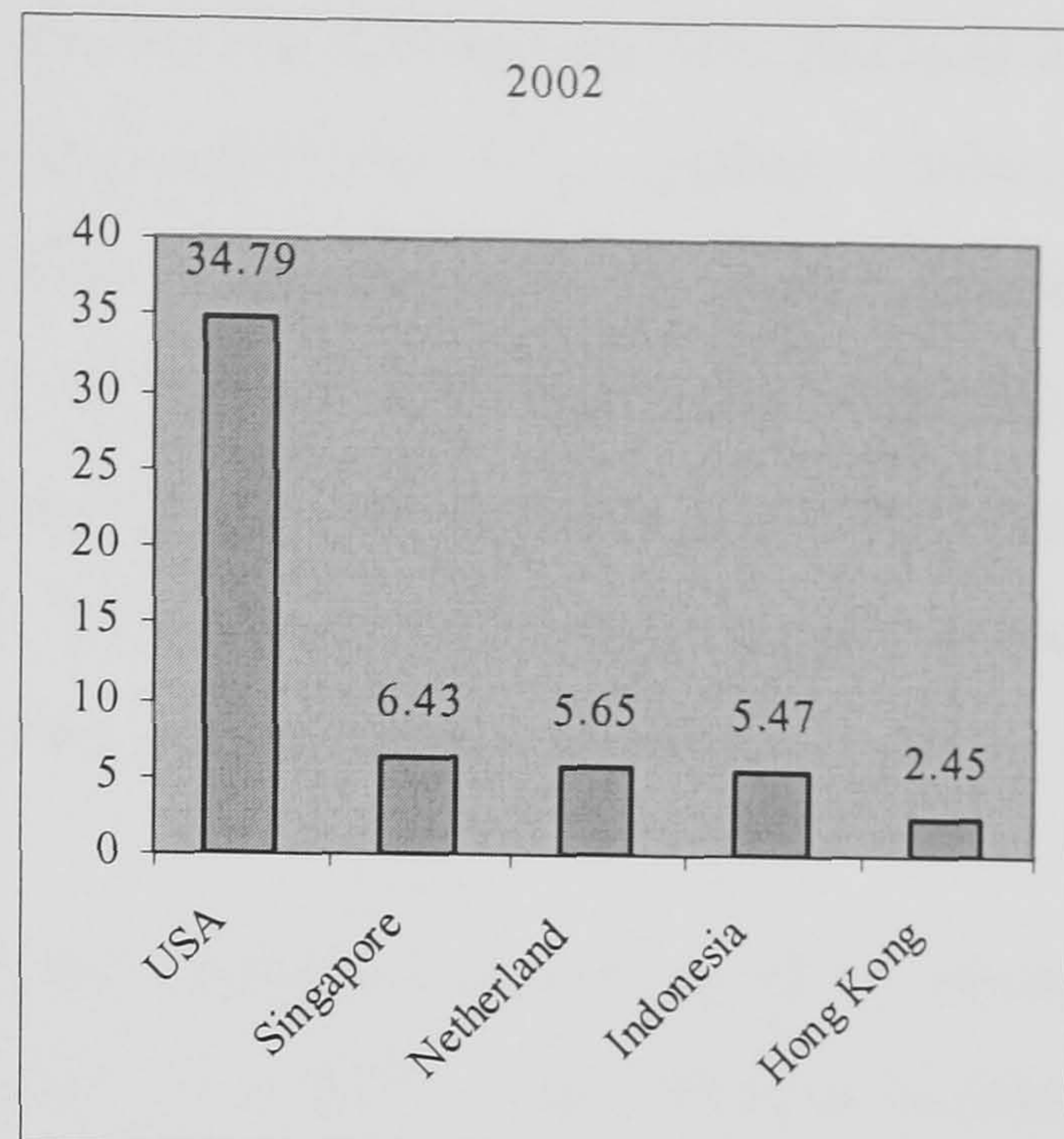
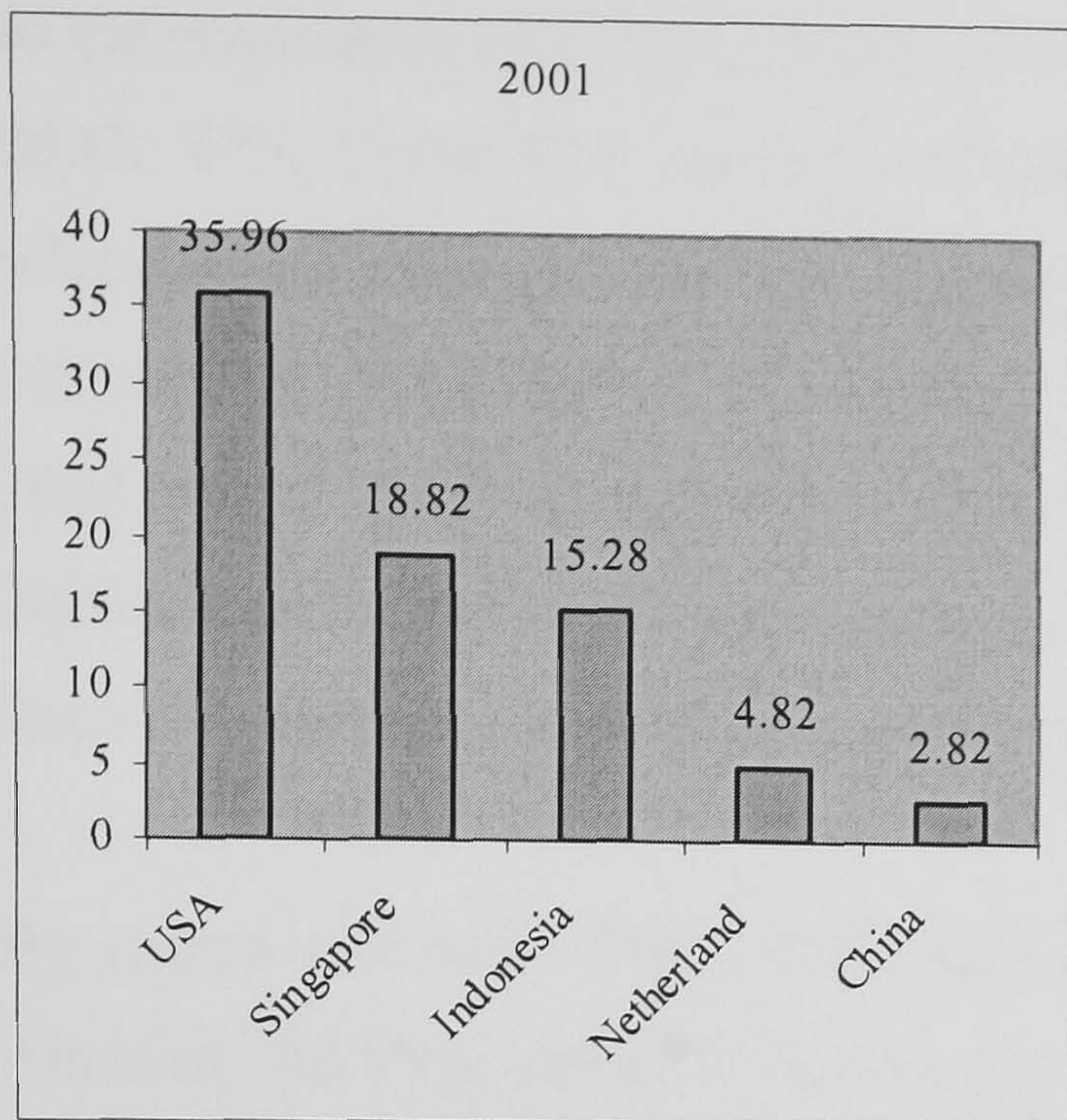
Source: Bank Negara Malaysia (2003)

In general, Malaysia's outward investment destination has not changed much over the years. The four most important destinations are Singapore, Hong Kong, USA and the U.K. (see Figure 3.11 and Appendix 1.1). As Singapore is close to Malaysia, it remains the popular destination of Malaysian investment overseas from 1992 to 2003. In 1992, Singapore accounted for 19.74% of Malaysian investment overseas. In 1995, this increased to 31.06% and it was still high at 18.82% in 2001. The other important destination of Malaysia's outward investment is the US which became the top destination between 2000 and 2002. The highest Malaysian investment to the US was in 2000 at 38.29% of the total investment. As for Hong Kong, Malaysian investment was very high in the early 1990s until 1994. This later declined to only 0.91% of the total investment in 2001.

Amongst the European countries, Malaysian investment is mostly concentrated in the U.K. On average, Malaysian investment in the U.K. is higher than investment in Switzerland, the Netherlands, Germany and France. Investments in other European countries are negligible (Bank Negara Malaysia, 2003).

Figure 3.11: Malaysia's FDI Outflows: Top Five Destinations, Percentage to Total Outflows (Selected Years)





Notes: FDI Outflows refers to direct equity investment, purchase of real estate abroad and extension of loans to non-resident abroad. Includes capital invested or loan extended by foreign-owned companies in Malaysia to their parent companies abroad;

Source: Bank Negara Malaysia, 2003

In 1992, Malaysian investment in the U.K. was at 4.81% of total outward direct investment and valued at RM63 million (Appendix 1.2). Over the period 1992 to 2002, the highest Malaysian investment flows into the U.K. was in 1997 which represented 17.85% of total Malaysian investment overseas. However, Malaysian investment in the U.K. has declined gradually from 1998 when it went down from RM812 million to RM400 million in 2002.

It is important to note that in 2003, the highest investment went to the Cayman Islands, a tax haven and well known off-shore centre. This is thought to be related

to the acquisition of Wessex Water in the U.K. by YTL Group that was finalised in 2002. YTL Group had used its wholly-owned subsidiary, YTL Utilities Limited which was incorporated in the Cayman Islands, to acquire Wessex Water Limited via another subsidiary, YTL Utilities (U.K.) Limited (YTL Power International, 2002, p 78). Another important feature is the high investment flows into Sudan in 2003 which is related to the acquisition of a stake in Sudan's Block 8, located in the Blue Nile Basin by Malaysian oil company, Petronas (Petronas, 2004).

By region and as in 2002, Malaysian outward investment mostly went to North America (35.9%), Africa (14.4%), South East Asia (13%) and Western Europe (9.2%). Although North America received most of Malaysia's outward investment in 2001, only 3.3% of the amount consisted of equity investment. Investment in North America is assumed to have consisted of non equity investment such as loans to non-residents and loans extended by foreign subsidiaries in Malaysia to their parent companies in North America. Equity investment mostly goes to Africa (29.7%), Western Europe (19.2%), South East Asia (17.1%) and Central and South America (9.4%) as presented in Table 3.7.

Table 3.7: Malaysia Outward Investment Flow and Equity Investment by Region, 2002 (RM Million)

Regions	Outward Investment		Equity Investment	
	Investment	%	Investment	%
Africa	2369	14.4	2080	29.7
Central and South America	920	5.6	657	9.4
North America	5895	35.9	231	3.3
West Asia	57	0.3	22	0.3
South Asia	167	1.0	147	2.1
Southeast Asia	2141	13.0	1197	17.1
Northeast Asia	894	5.4	472	6.7
Western Europe	1510	9.2	1344	19.2
Commonwealth and Independence States	32	0.2	32	0.4
Oceania	1647	10.0	9	0.1
Labuan IOFC	1685	10.2	1601	22.8
Others	-----		-----	
	16424		6993	

Note: Labuan IOFC is the Malaysian International Offshore Financial Centre, offering a wide range of offshore financial products and services to customers worldwide, including banking and investment banking, insurance, captives, trust business, fund management, investment holding, company management and Islamic financing (<http://www.lofsa.gov.my/lofsa5/index.htm>)

Source: Bank Negara Malaysia (2003)

High equity investment into the African nations in 2002 (see Table 3.7) was as a result of huge investment by Petronas, Malaysia's national oil company. It acquired 35% interest in the consortium for the construction of Chad-Cameroon Integrated Oil Development and Pipeline Project with an estimated project cost of US D3.5 billion (Petronas, 2004). Overall, most Malaysian investment has been in the form of outward investment flows or equity investment. These have mostly gone to Southeast Asia, North America, Africa and Western Europe (Bank Negara Malaysia, 2003).

Data on FDI captured by Malaysia's Central Bank is the most up-to-date available on Malaysian investment overseas (Ragayah, 1999). However, it is not wholly representative as far as FDI is concerned. Malaysian FDI data is reported in the Balance of Payments System which captures the movement of capital in and out of the country. It does not capture the sector in which the investment takes place. It also does not reflect the total value of Malaysian investment overseas since the System used by Bank Negara Malaysia only captures the outflow of more than RM 50,000 (Bank Negara Malaysia, 1995/1996).

3.4 MALAYSIAN INVESTMENT IN THE U.K.

The background of Malaysian investment into the U.K. provides a historical scenario of early investment as well as recent investment. Malaysia and the U.K. have historical and cultural ties dating back from the colonial era in the late 19th century. This relationship perhaps has to a certain extent facilitated Malaysian investment into this country because Malaysian investors are more familiar with the U.K. market than other countries in Europe. Britain has also placed enormous influence on the use of the English language, the administrative system, education and law and regulation in Malaysia. As for recent investment, in 1992 to 2003, the U.K. emerged as the most consistent destination of Malaysian investment among countries in the European Union. Investment in France and Netherlands, for example, was only significant in 2000 and 2001 respectively (see Figure 3.11). The U.K. is also considered as a gateway to the European Union market and has minimal restrictions on inward FDI. These historical and recent investment

perspectives are important to enable answers to the research question to be fully understood and put in context.

In the beginning of the last century, FDI between the U.K. and Malaysia was merely a one way FDI flow mostly undertaken by the British East India Company and also by British trading houses⁹ (Helten and Jones, 1989). The purpose was to exploit Malaysian natural resources especially rubber and tin in order to fulfil the demand from industrial revolution in Britain and other parts of the world. Only in the late 1960s and early 1970s, did reverse investment from Malaysia into the U.K. take place.

3.4.1 The History of Malaysian Investment in the U.K.

Malaysian investment into the U.K. started with the takeover of the British Empire's companies by government related corporations in the early 1970s. These British-owned companies were incorporated in England during the colonial era. Although incorporated in England, their businesses were largely based in Malaysia, either in plantations or tin mining. The motion for the takeover emerged from several reasons and amongst others was to fulfil the call to reduce the 'foreignness' in the Malaysian economy especially after Independence. Two companies in this research are former British owned companies, namely Sime Darby Berhad and Kuala Lumpur Kepong Berhad. The take over of the former British companies in the 1970s also witnessed the involvement of government institutions and their role have remained important in recent investment into the U.K.

The colonisation of Malaysia (then Malaya) by the British started in 1786 when Malaysia became part of the larger British Empire. British colonisation had developed the foundation of a capitalist economy in Malaysia, especially in the exploitation of natural resources such as tin mining, rubber and palm oil plantation activities. Large plantation activities and more modern extraction methods were

⁹ They are British exports and imports companies that had emerged in the late 19th century. Their activities went with (followed) the expansion of British imperial frontiers. The traders were closely connected with the expansion of British shipping. There were also associated with the growth of overseas banks.

introduced with the help of British capital. This resulted in the emergence of British agency houses in the early 20th Century such as Guthrie, Harissons and Crossfield, Dunlop and Sime Darby that were mostly involved in plantation. By the 1920s the Guthrie Group of companies had become the largest of the Malaysian rubber group (Helten and Jones, 1989). In the 1930s, 93% of total British investment in Malaya was in tin and rubber. In the 1950s, the annual return of the U.K. investment in Malaya and Borneo was £10 million (White, 1996). After independence in 1957, the declining role of British companies in the primary sector such as plantation and tin mining saw their roles having been taken over by Chinese family business (Jomo and Edwards, 1993). This represents a shift in the Chinese family business from small and medium scaled enterprises to larger companies.

The British administration, however, had been criticised for its 'divide and rule' style of government. As a result, the Malays that formed the majority of the population were left behind in the mainstream economy while the British trading companies controlled the big plantation companies and the Chinese controlled the smaller scale economic activities. The Malays, on the other hand, occupied government administration machinery and small-scale agricultural activities. After Independence, there was a surge in political awareness among the Malays, especially among the dominant pressure groups which brought about Malaysia's Independence in 1957. Subsequently, the New Economic Policy (NEP) was formulated in 1971 to correct the economic and social imbalance among the ethnic groups with regards to ownership of wealth. In 1969, the ownership of Bumiputera and Thrust Agencies of share capital was only at 1.5% (Table 3.8). This was also in response to the worst ethnic riot in 1969. This policy targeted that by 1990, at least 30% of corporate equity must be in the hand of Bumiputera, 40% non-Bumiputera and 30% foreigners. The first measure was to reduce the proportion of corporate ownership among foreigners in favour of the Bumiputera. This is also one of the reasons for the involvement of government institutions in the business in Malaysia, which is to hold equity on behalf of the Bumiputera.

Table 3.8: Ownership of Share Capital (at Par value) of Limited Companies, 1969-2002

Group	1969	1970	1985	1990	1995	2000	2002
Bumiputera Individuals, Institutions and Trust Agencies	1.5	2.4	19.1	19.2	20.6	18.9	18.7
Chinese	22.8	27.2	33.4	45.5	40.9	38.9	40.9
Indians	0.9	1.1	1.2	1.0	1.5	1.5	1.5
Nominee Companies	2.1	6.0	1.3	8.5	8.3	8.5	9.2
Foreigner	62.1	63.4	26.0	25.4	27.7	31.3	28.9
Others	10.1	-	7.2	0.3	1.0	0.9	0.8

Notes:

1. Exclude shares held by Federal and State Governments;
2. Institutions refer to share held through organisation channelling Bumiputera funds such as Amanah Saham Bumiputera Scheme (Bumiputera Funds), Lembaga Tabung Haji (Pilgrimage Funds) and Lembaga Tabung Angkatan Tentera (Arm force Funds);
3. Trust agencies refer to shares held through trust agencies such as Permodalan Nasional Berhad (Investment trust) and State Economic Planning Corporations (owned by the states in Malaysia)

Source: Gomez (2002); Economic Planning Unit (2004)

In addition to their high foreign equity, British companies in the plantation sector such as Sime Darby, Guthrie, and Harissons and Crossfield with their estates throughout Malaysia were seen as a visible sign of foreign domination of the economy. They naturally became the target of economic nationalisation (FEER, 1980). It is, however, unclear whether this was a voluntary divestment by the British shareholders or some form of forced takeover. Box 3.1 describes the case of Guthrie.

Box 3.1: The Takeover of Guthrie

The take over of Guthrie probably the most famous event among all of the Malaysianisation process in 1970s and 1980s. It was known as 'dawn-raid' since Guthrie was in the Malaysian hand within few hours of morning trading in the LSE. In 1970, Guthrie was the largest oil palm producer in the world and was listed on the LSE (www.kumpulanguthrie.com). It was incorporated in Britain and was almost wholly owned by foreign interest, with a solid proportion in the U.K. and dominated by institutional shareholders. Among them was M & G Unit Trust holding almost 10% of Guthrie's shares. Twenty percent of its shares were held by Asian which included Overseas-Chinese Banking Corporation Singapore and Kuwaiti Investment Company and only a small portions were held by Malaysian namely Permodalan Bumiputera Sabah (4%), Bank Simpanan Nasional (3%) and the government owned lottery Sports Toto (2%) (FEER, 1981; 1979). Before the success bid by PNB on 7 September 1981, Sime Darby, another Malaysian owned company had a lengthy and

unsuccessful takeover bid to take over Guthrie in early 1979. Sime Darby had offered Guthrie shareholders of 425 pence per share against Guthrie's valuation of assets at 628 pence per share, in which Guthrie had urged their shareholders to reject the offer. (FEER, 1979). Subsequently, Sime Darby sold the 25% shares in Guthrie to PNB (FT, 1981b). The failure of takeover bid by Sime Darby had resulted the government undertaken another option. On 7 September 1981, PNB with the collaboration of their British stockbroker firms had successfully taken over Guthrie via a 'raid' on the Guthrie's shares on the LSE. The morning before the raid, PNB had already bought almost 8 million shares of Guthrie in less than four hours. The merchant banker of N.M Rothschild and Sons and stockbroker, Rowe and Pitmans had undertaken the buy. The deal had been so secret even some of the merchant bankers of Rothschild and partner Rowe and Pitmans had no idea what their colleagues were planning to do the next morning (FEER, 1981). The price of Guthrie shares at the pre-weekend closing date was at 662 pence. The next Monday morning Rowe & Pitman on behalf of PNB had offered to Guthrie's shareholders to buy at 901 pence per share and within ten minutes it managed to buy just under 5% from number of seller including M & G Unit Trust. Although the transaction in the LSE was ruled under the council of Securities Industries " Rules Governing Substantial Acquisition of Shares" which says that anyone who already holds 15% or more of a company's shares cannot buy more than a further 5% in any seven-days period. But since PNB had already owned 25% of Guthrie shares prior to the raid, it reached the 30% but did not contravene the Takeover Rule. They managed to overcome this technical obstacle, in which the rule no longer apply beyond 30% as the City Code requirement for full bid after this point, then by 10.30 a.m. that morning, PNB had acquired a total of 42% of Guthrie's shares. By 11 a.m. Rothschild had sent a letter announcing PNB's attention to make an offer for full bid for Guthrie as required by the City Code on Takeovers and Mergers. By afternoon, PNB had acquired 50.4% which make it the controlling shareholder. This event took many by surprise. Financial Time September 8, 1981 in its comment of the raid said ' PNB, the Malaysian equity institution yesterday acquired the U.K. based plantation group, in one of the fastest takeover bids the City of London has ever seen'. Mr. Ian Coates, the Chairman of Guthrie who was successfully blocked earlier bid by Sime Darby criticised the British system as grotesque. In 1989 Guthrie has been brought to Malaysia with the incorporation of Kumpulan Guthrie Berhad and it was subsequently listed on the Kuala Lumpur Stock Exchange (KLSE) as a fully fledged Malaysian company.

Source: Kumpulan Guthrie (2004), FEER (1979, 1981) and Moore (1981, September 8)

The takeover of Harrisons and Crossfield, on the other hand, was not a hostile takeover. However, it took six years of discussion between Harrisons and Crossfield and the Malaysian government before it was finally agreed on the restructuring of Harrison Malaysian Estate, a unit of Harrisons and Crossfield in Malaysia on 1 June 1982. Moore (1981, September 8), of the Financial Times London, described; 'the plantation company had been doughty in resisting attacks across the London Stock Exchange (LSE) floor, but Permodalan Nasional Berhad (PNB) had proved an irresistible suitor'. Another example is the takeover of Sime

Darby in 1980 in which PERNAS, another government statutory body had built up a 9% share in Sime Darby during 1975 and 1976. Instead of pursuing an expensive strategy of buying further blocks of shares, it launched a board-room coup in November 1976. This started when PERNAS proposed that four of the six British directors due for re-election be voted out of office and replaced by four Malaysians. At that particular time, the record of British management in Sime Darby was not encouraging. Its former chairman was in jail in Singapore for criminal breach of trust. The coup was successful and the process of Malaysianisation was continued with the move of Sime Darby head office from London to Kuala Lumpur in 1978 and its legal domicile since 1980.

Government statutory bodies namely Perbadanan Nasional Berhad (PERNAS) and Permodaln Nasional Berhad (PNB) were at the forefront in the takeover process. Both are bodies that promote Bumiputera's corporate equity participation in Malaysia. The shift of ownership, however, was not to be achieved by force sequestration, but by gradual reallocation in the context of a growing economy (Helten and Jones, 1989). Dr. Mahathir Mohamad, then the Deputy Prime Minister in his speech at a City of London seminar held in Kuala Lumpur in 1979 said that;

Recently the attempt by a Malaysian-based company to acquire a British-owned company¹⁰ give rise to yet another bout of vilification. A vicious campaign was carried out in the British press accusing Malaysia of backdoor nationalisation and urging investors not to invest in Malaysia. We will not nationalise, but legitimate acquisitions or mergers carried out by businessmen are something else. We are not going to stop them. We are not going to be pressured by any attempt to sabotage our investment efforts. We are not going to submit to any form of economic imperialism. I hope this hint will be understood by everyone

Dr. Mahathir Mohammad
Deputy Prime Minister Malaysia
1979¹¹

Generally, the takeovers of British companies by Malaysians were undertaken through 'board-room coups' and 'raids' on the LSE. Although some of them were 'hostile', none was reported as illegal. The LSE for example, was strictly governed

¹⁰ He refers to the several attempts by Sime Darby (already under Malaysian control) to acquire Guthrie corporation

¹¹ Far Eastern Economic Review, Vol.103, No.7, 16 February 1979, pp 63

by the Panel of Merger and Takeovers, which monitors any movement of shares especially any transaction that triggers the 30% mark. As a consequence of this takeover, the domiciles of these companies were brought back to Malaysia. Some of their U.K. subsidiaries remained in the U.K., but over the years many have ceased to be in operation or have closed down.

3.4.2 Recent Investment in the U.K.

A significant number of Malaysian private investments in the U.K. started to emerge in the early 1990s. Most of the investments were undertaken by public companies and were privately driven (see example in Table 3.9).

Table 3.9: Selected Cross Border Merger and Acquisition Transactions Involving Malaysian Companies in the U.K. from 1995-2002

Year	Deal value (USD)	Target companies	%	Acquirer companies (Malaysian)
1995	11.83 million	Bloxwich Engineering Ltd	100	Mega First Corp
1995	3.18 million	Millenium (U.K.) Ltd	80	George Town Holding
1995	Undisclosed	Proton Cars (U.K.) Ltd	70	Proton
1995	15.47 million	Croda Cosmetics & Toileteries	100	KL Kepong
1995	0.81 million	Ramus Holdings Plc	42.47	Hong Leong Industries
1996	64.68 million	Costain Group Plc	40	Intria Berhad
1997	Undisclosed	Spitalfield Holdings Ltd	33	Metacorp Berhad
1997	0.41 million	Creightons Plc (Soap Division)	-	KL Kepong Berhad
1998	75.04 million	Laura Ashley Holdings Plc	40	Malayan United Industries
1998	26.11 million	Lotus Group International	16.25	Proton
1998	12.58 million	Baldwin Ltd	100	Mr Tan Bin Sin
1999	165.37 million	Premier Oil Plc	25	Petronas
1999	78.30 million	London International Exhibition	42.7	Usaha Tegas Sdn Bhd
2000	1.23 million	Baltec Ltd	65	Polymate Holding
2000	0.50 million	Agile Manufacturing Ltd	100	Mega First Corp.
2001	32.32 million	Blakes Hotel London	-	Atlan Holding Berhad
2001	Undisclosed	Denholm Ship Management Ltd	100	Konsortium Perkapalan
2001	0.60 million	London Clubs International Plc	2.03	Resort World Berhad
2002	1,765.92 million	Wessex Water Limited	100	YTL Power International
2002	17.88 million	Rapitest Ltd	100	Ta Ann Holdoings

Source: Sakran (2003)

The above table 3.9 also shows that the majority of the Malaysian companies that are involved in the U.K. investment are big companies that are listed on Bursa Malaysia. Only two parties namely Mr Tan Bin Sin and Usaha Tegas Sdn Bhd are non public companies. Ten companies acquired the controlling shares of the U.K.

companies in which seven have acquired 100% shares. Financial Services Authority (FSA) of the U.K. defines a controlling shareholder as below:

Any person (or persons acting jointly by agreement whether formal or otherwise) who is entitled to exercise, or control the exercise of 30% or more of the rights to vote at general meetings; or able to control the appointment of directors who are able to exercise a majority of votes at the board meetings.

(Financial Services Authority, 2005)

It is believed that many other acquisitions may have taken place, but difficulty in obtaining data means that this could not be proven.

3.4.3 Sectoral Distribution and Location of Investment

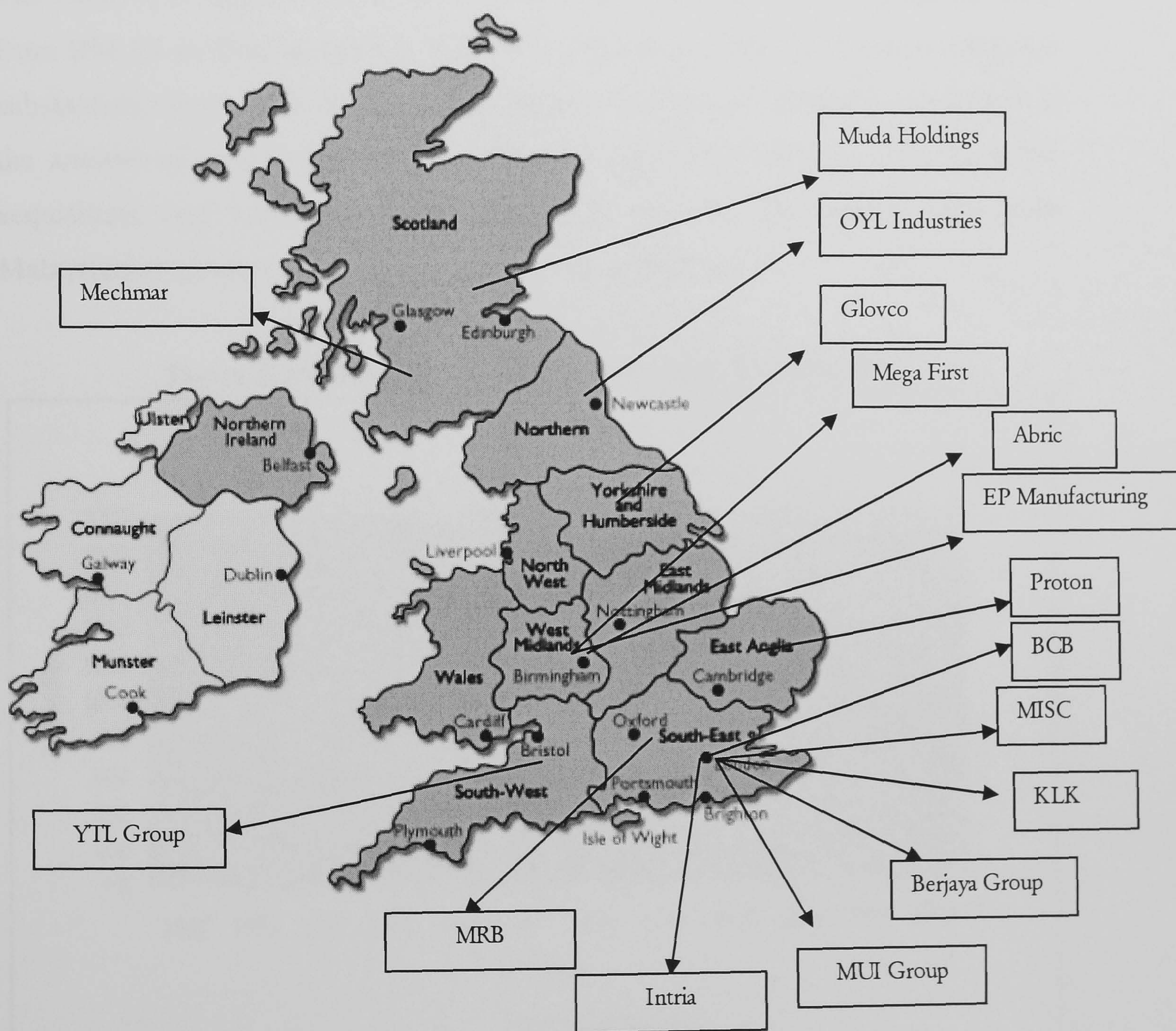
Based on ICC Plum database (accessed between October to December 2003), Malaysian investment into the U.K. can be categorised into four groups as follows:

- i) Manufacturing, trading and retailing, engineering and services;
- ii) Research and Development (R&D) activities;
- iii) Banking and financial institution; and
- iv) Property and hospitality services

The investment in manufacturing involves the manufacturing of car components, bicycle, toiletries products, garment and home furnishing, industrial equipments, machines parts and components. In trading and retailing, Malaysian companies have been investing in the distribution and retailing of medical gloves, garment and toiletries, pewter products, vehicle tyres and passenger cars. In the services sector, the investment is in the oil and gas industry and shipping. Malaysian investors have also invested in hotels, for example Malayan United Industries Berhad which controls the Corus Hotel chain in the U.K. In financial services, there are three Malaysian banks that have branches in London namely Malayan Banking, Bumiputera Commerce Bank and also a branch of Malaysia's Central Bank. Investment in properties is also prominent especially during the early years of Malaysian investment in the U.K. However, most of the investment is small and

limited to the investors' personal use. There is, however, one substantial property investment. This is the acquisition of London International Exhibition Centre by Malaysian Country Height Holding Berhad before it was disposed to a privately owned company, Usaha Tegas Sdn Bhd in 1999 (Table 3.9). Malaysian companies are also involved in R&D with the handover of Tun Abdul Razak Research Centre near London from the British Government to the Malaysian government decades ago.

Figure 3.12: Location Distribution of Malaysia Investment in the U.K.



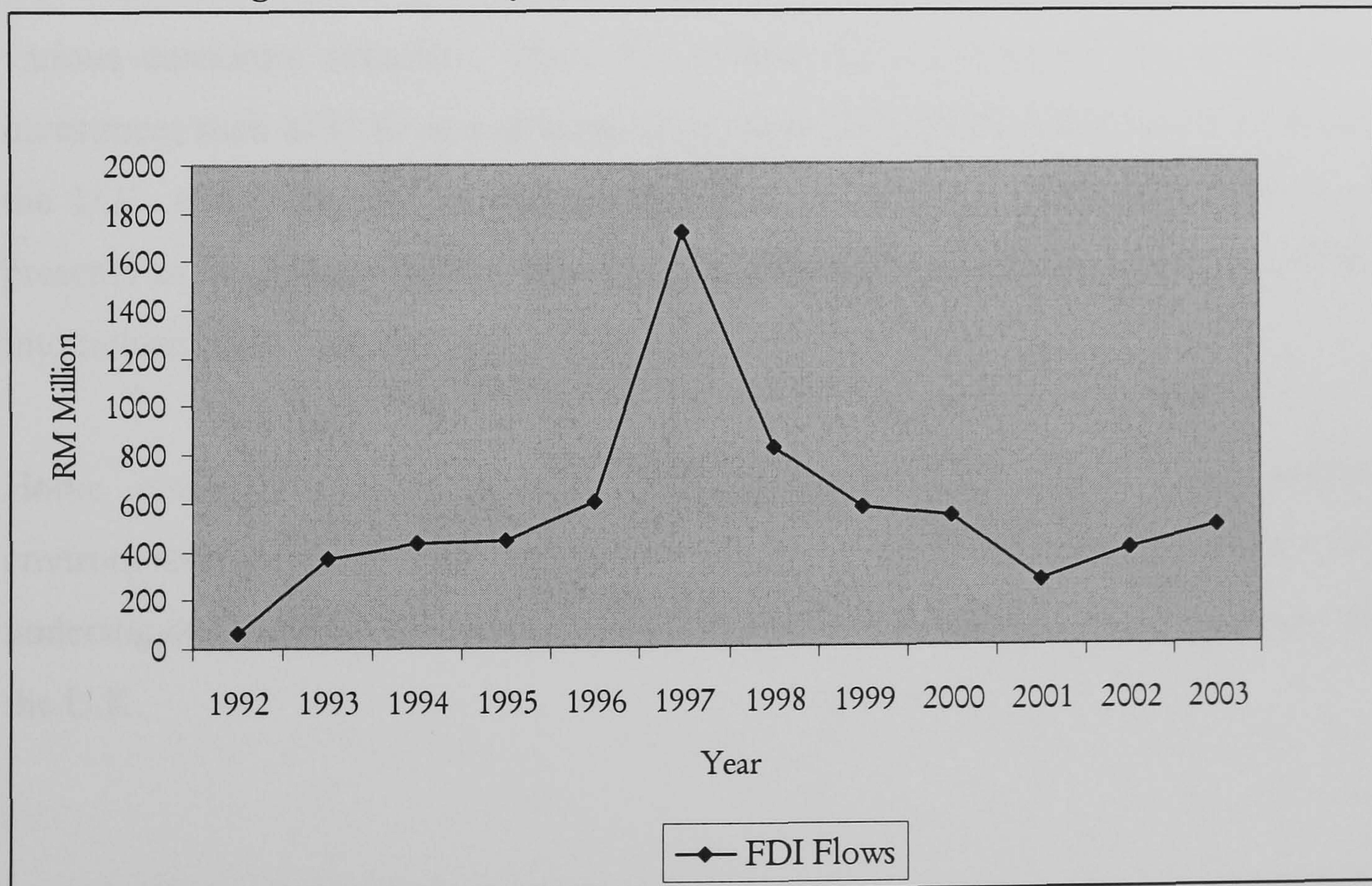
Source: Fame Database (2003)

In terms of location, Malaysia's investment into the U.K. is mostly concentrated in the Southeast, East, London, Wales, West Midlands and in the Northeast. Two Malaysian companies also have investment in Scotland. A sample of Malaysian investment location is depicted in Figure 3.12. Since most of the investments are by acquisition of existing U.K. companies, the location will be the same location as that of the acquired company. In other words, the premises have not been moved to other locations.

3.4.4 Investment Value

The value of Malaysian investment into the U.K. has increased on an annual basis from RM 63 million in 1992 to RM 1716 million in 1997. It, however, dropped substantially from 1998 onwards. The value of investment normally comprised of the amount of money brought by Malaysian companies into the U.K. upon the acquisition, and ongoing funding afterwards. Overall, the trend of the gross Malaysian investment into the U.K. is depicted in Figure 3.13.

Figure 3.13: Malaysia's FDI Flows into the U.K., 1992-2003



Source: Bank Negara Malaysia (2003)

As far as the trend of investment is concerned, there are two possible reasons for the sharp decline of Malaysia's FDI flows into the UK after 1997. First, the Asian crisis in 1997 had effectively reduced company's cash flows and subsequently discouraged any overseas investment. Second, the introduction of capital control by the Malaysian government had made investment overseas more difficult.

3.5 CONCLUSION

This chapter presented a background of the Malaysian economy which clearly shows the transformation of Malaysian economy from commodity based into exporter of manufactured goods. One of the main contributions to the growth of the manufacturing sector was the inflow of foreign capital into the economy. Malaysia holds a commendable position with regards to inward and outward FDI in the world and among developing economies. Although outward FDI is becoming more important, Malaysia remains a net importer of FDI.

Without comprehensive outward investment incentives provided by the Malaysian Government, many private companies have undertaken investment into the U.K. in various economic activities. There are several issues regarding this direction of investment such as U.K. as a developed country, the distance between Malaysia and the U.K. and high cost of running business in the U.K. Therefore, this thesis presents an important step in researching investment by developing countries TNCs into industrialised country.

Home country's factors namely the economic development, socio-political environment and historical background of Malaysia could provide the basis for understanding Malaysian outward direct investment overseas and in particular into the U.K.

CHAPTER 4: A REVIEW OF CONGLOMERATE FIRMS, CHINESE FAMILY BUSINESS AND STATE-OWNED ENTERPRISES

4.1 INTRODUCTION

In the previous chapters, this thesis has pointed out that Malaysian companies investing in the U.K. mainly consist of conglomerates, Chinese family companies and government-linked companies. This chapter presents a review of the literature regarding these three forms of organisation as it seeks to provide a broader understanding of the organisations commonly found in Malaysia and in other Asian countries. In addition, discussion is centred on the theoretical underpinning of these three forms of business organisations and its relation to motivation and strategy of their overseas investment.

The section starts with the theories on corporate diversification, followed by a discussion of conglomerate diversification, Chinese family business and government-linked companies.

4.2 THEORETICAL FOUNDATION OF CORPORATE DIVERSIFICATION

The study on corporate diversification often refers to Richard Rumelt's published book: *Strategy, Structure and Economic Performance* in 1974. This study has proposed that diversification did pay off if a firm could exploit its specific advantage such as skill and technology in new areas and related diversifier outperformed both single business firms and unrelated diversification (see Goold and Luchs, 1996 p 258). Many other authors have also contributed to the explanations of diversification of firms such as Buckley and Casson (2002), Choi and Cowing (2002), Davis and Diekman (1994), Hyland and Diltz (2002), Lee et al. (1991), Martin and Sayrak (2003), Montgomery (1994), Teese (1980), and Pitelis (2004).

Montgomery (1994) views diversification strategy in the context of three theoretical perspectives, namely the market power view, the resource based view and the agency view.

The market power view stems from the concern about the size of the firm and its benefit, where the bigger group sometimes have internal financial source to finance more risky operations by having bank and finance company within the group. The argument about the advantage of having an internal capital market is based on the fact that it gives advantage to the firm since internally raised equity capital is less costly than funds raised in the external capital market while the firm's manager can exercise superior decision control over project selection rather than leaving the firm's investment decisions to the whims of less well-informed investors in the external capital market (see Martin and Sayrak, 2003, p 41).

The resource based view argues that rent-seeking firms diversify in response to excess capacity in productive factors such as human resource, special skill and knowledge and special type of services. A firm therefore undertakes an expansion if this is the way of utilising its under-used resources. Although some resources can be efficiently sold in the market, some of it, such as knowledge, is 'tacit' and is deeply embedded within the firm, and as separation from the firm would be impossible or difficult to undertake and may cause failure, expansion is the best alternative for the firm (Teese, 1980). Therefore, a firm's level of profit and breadth of diversification are a function of its resources stock (Montgomery, 1994).

An earlier framework of 'excess resources' goes back to Edith Penrose (1959) in her book *Theory of the Growth Of The Firm* where she described the firm as a bundle of human and non-human resources which are coordinated to produce products for sale for a profit. The interaction between these resources may give rise to 'value creation' and as productivity increases, less and less resources are required to perform the same activities thus creating surplus resources within the firm. Excess resources could be put to profitable use at zero marginal cost which encourages firm to expand (in Pitelis, 2004, p 525). This is similar to the resource view suggested by Montgomery (1994).

The agency view arises as a result of new forms of corporate management where there is separation in company ownership and management. This view proposes that owners and managers have different goals for a firm and their perceptions of risks are also different. This determines whether a firm's diversification is undertaken for the sake of benefit to the manager at the expense of the shareholder.

There is wide discussion in the literature about the different motivations between outsider-manager and owner-manager in running the firm (Jensen and Meckling, 1976; Katz and Niehoff, 1998; Lloyd et. al. 1987). The study by Lloyd et al. (1987), which is based on Fortune 500 data during the merger wave in 1960s and 1970s, suggest that there is evidence that manager-controlled firms do not pursue the same objectives as the owner-controlled firm. The motivation is reflected in the conflict between profit orientation of the owner and self-interest of the manager. The study also suggests that the contradiction between manager-controlled companies and owner-controlled company's behaviour occurs in four different ways. Firstly, manager-controlled companies have a significantly greater tendency to engage in conglomerate mergers than do firms with strong owner control; secondly, the income streams of manager-controlled firms are more diversified than those of companies with strong owner control; thirdly, individual owners tend to monitor their managers closely even if their ownership interest is relatively small, and finally, the value-to-sales ratio is lower for manager-controlled companies than for owner-controlled companies.

There are several other reasons as to why the separation of ownership and control is an issue. By definition, the relationship between owner and manager is a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision making authority to the agent (Jensen and Meckling, 1976). However, if both the principal and the agent (manager) are utility maximisers it is unlikely that the agent will act in the best interest of the principal (owner). In addition to the above, Denis and Denis (1994), in their study of the behaviour and efficiency of majority owner-managers, suggest that there is a strong relationship between family involvement in the management and control of the firms and the incidence of majority ownership.

As the family involvement in management becomes diluted, the firm is significantly less likely to be majority-controlled. This indicates that the choice of majority ownership is more owner-specific than firm-specific.

Management studies also suggest that managers make different decisions in owner-controlled firms compared to manager-controlled firms and there are differences in terms of risk aversion, executive activity, merger and acquisition activity (Katz and Niehoff, 1998). The manager's risk can be associated with income risk and employment risk and this is closely related with the firm's risk. As the manager's income may constitute profit sharing, bonuses and shares in the company, the manager can effectively diversify his or her income risk by diversifying the company's income. However, the manager cannot diversify his or her employment risk as human capital cannot be traded in the open market. Hence, the risk-averse manager is expected to diversify his or her employment risk by other means, such as engaging the firm in conglomerate mergers which would generally stabilise the firm's income stream (Amihud and Lev, 1981; Katz and Niehoff, 1998). Most of the above research was based on U.S.A. data.

Similarly, Buckley and Casson (2002) argue that, unlike shareholders, managers are rewarded only partly by dividend and mainly by salaries. Therefore, managers may be more risk averse than shareholders and put the safeguarding of salaries and jobs before profit earning. If a manager overvalues risk and undervalues profit then the manager may diversify to safeguard their job. Buckley and Casson further argue that diversification through direct investment is preferable to managers because it widens the scope of their discretion. From a different perspective, Hyland and Diltz (2002) view the agency theory as a free cash flow theory in that when a firm generates positive cash flow, management may either reinvest the cash in the firm or distribute it to shareholders.

It is important to note that the above conclusions seem to suggest diversification strategy in the context of risk reduction strategy by the manager which leaves the shareholders out of the picture. In reality though, the shareholders have the collective power to remove a manager who acts against their interests. It is also

plausible that the owner-manager may undertake a risk-reduction strategy. The risk involved may also be different such that the owner-manager may be motivated to prevent appropriation of wealth by the home government income distribution policy or any other government discrimination policy.

The difference in the contextual setting of the firms and their period of study as undertaken by Lloyd et al. (1987) seem to contradict the structure found in some Southeast Asian corporations and some western conglomerates. They suggest that manager-controlled companies have a greater tendency to engage in conglomerate mergers than do firms with strong owner control in the context of Asian firms. However, many conglomerates in Southeast Asia are family owned and their substantial owners are directly involved in the firm's day-to-day operations (owner-managed). At the same time these companies diversify into related and un-related business within the country and across borders.

Lee et al. (1991) alternatively explained diversification as being driven by three elements, namely entrepreneurial-driven, surplus resource-driven and problem-driven. Entrepreneurial diversification occurs when there is a gap between a firm's goals and its actual performance; thus it diversifies the product or market to make up for the gap that exists. Surplus-resource-driven diversification occurs when a firm diversifies to find new opportunities due to limited business opportunities in the current industry although the firm has surplus resources. Finally, problem-driven diversification occurs when a firm is forced to diversify when it encounters unexpected changes such as competition, change of government regulations and scarcity of raw materials.

Corporate diversification is a strategy that allows the firm to utilise its resource over different segments and industry thereby providing optimum contribution to the overall firm value. Burch et. al. (2000) suggest that diversification provides managers with the ability to move capital to other market segments, which allows capital to flow to its highest use among segments, depending on industry conditions or they can shift funds from operating divisions with limited opportunities to others that are more promising, to create shareholders value (Martin and Sayrak, 2003).

Diversification also relates to efficient resource allocation (Williamson, 1975). Hyland and Diltz (2002), on the other hand, propose that a firm diversifies as a result of agency considerations namely to pursue a strategy that centres on the holding of large cash balances and the pursuit of growth through diversification mechanisms rather than research and development. It has been argued that such diversification would generate benefit to the firm such as the creation of internal capital markets, building economies of scope and scale, stable cash flow that benefits from multiple activities and thus possibly able to obtain better financial deals (Choi and Cowing, 2002; Davis and Diekman, 1994; Markides and Williamson, 1994; Teese, 1980). Meanwhile, in the context of geographical diversification, a firm would benefit by exploiting firm-specific assets, by increasing operating flexibility and by diversifying shareholders' risk.

Several elements are associated with diversification, namely the relationship between diversification and core competence, synergy, firm's value, risk and international diversification.

4.2.1 Diversification and Core Competence

Core competencies may be used to explain the ability of smaller firms to undertake an internationalisation strategy. Internationalisation, whether through diversification or not, will expose the firm to competition with existing firms in the industry or any competition that may appear in the future. In the process of internationalisation, the competition may start at the entry point in which firms bid to acquire another company or tender for a certain project. In addition, the decision to diversify means the company is making a strategic choice to enter a new business domain. Therefore, the choice of diversification strategy depends on the core competencies possessed by the firm which is also related to the firm's competitive advantages.

Many authors postulate core competence as the determinant of success in diversification motive (Gronhaug and Nordhaug, 1992; Markides and Williamson, 1994; Very, 1993). Gronhaug and Nordhaug (1992), for example, define core

competence as what a firm is able to perform with excellence compared to its competitors. The core competence is developed and maintained with a combination of technology and organisational knowledge and skill, and it is further linked to its environment, its value-generating activities and the organisation of these activities. This competence can be used to propel another business strategy or business unit via related diversification or even unrelated diversification.

Very (1993) views core competencies as a key success factor of a firm's business and constitutes a barrier to the entry of new competitors into the business. Therefore, a core competence must be a source of a firm specific or ownership advantage and must be unique to that firm, and inimitable. In addition, the core competence concept explores how competitive advantage is linked to unique resources and firm specific assets, which are the basis of the value-creation process (Post, 1997). Post (1997) also views strategic capabilities which are the elements of core competencies as tacit, subject to learning, firm-specific, and developed over time through interactions among resources. Post also distinguishes between competence building and competence leveraging. Competence building is a process by which a firm achieves qualitative changes in its existing stocks of assets and capabilities to coordinate and deploy new or existing assets and capabilities in ways that help firm achieve its goals. Competence leveraging, on the other hand, is the application of a firm's existing competencies to current or new market opportunities in ways that do not require qualitative changes in the firm's assets or capabilities.

Core competencies can also be a managerial skill or an operational competence. It is developed from within and is not given to the firm. Very (1993) for example, noted that managers need to assess their managerial competence if a firm decides to venture into diversification. In the case of diversification strategy, for instance, diversification performance depends on the ability of the managers to transfer core competencies to the new business. Javidan (1998) explains that a firm develops core competencies within four hierarchies. First, the *resources* that belong to the firm such as plant and equipment, and human and organisational resources. Second, the *firm's capability* to exploit the resources such as a set of activities that transforms an input into product. Third, the *competence* that is a cross-functional

integration and coordination of capabilities among business units, and fourth, the highest level in the hierarchy is *core competence* that results from the interaction between different business units competencies i.e. the collection of competencies that are widespread across the corporation.

4.2.2 Diversification and Capturing of Synergy

Synergy is a notion that is often used to justify corporate action especially in acquisition strategies. It has been an essence of corporate strategy in diversified firms but it may represent an objective that rarely occurs in practice due to problems of implementation (Porter, 1996 pp 178). The basic idea of synergy is the benefit that could be realised as a result of collaboration or interrelationships between business units (Porter, 1996; Very, 1993; Vizjak, 1994). To realise potential synergy between business units, decentralisation has to be controlled since uncontrolled decentralisation will reduce interrelationships.

Porter (1996) categorised inter-relationships between business units into three; namely tangible inter-relationships, intangible inter-relationships and competitor inter-relationships. Tangible inter-relationship is about sharing of activities in the hierarchy or value chain among related business units such as sharing common buyers, technology and networks. Intangible inter-relationship involves sharing of management know-how among business units, and competitor inter-relationships are present when firms compete with diversified rivals in more than one business unit. The competitive advantage of a firm will depend on the inter-relationship it has achieved compared to its competitors. Kanter (1996) suggests the outcome of synergy could be cross-selling between business units, product links, combining expertise, sharing market intelligence and leaps in efficiency.

The sharing of activities, resources and know-how will lower the cost of activity and will lead to competitive advantage (Porter, 1996). Firms will also benefit from economies of scale and scope that result from inter-relationships between business units. Sharing will increase the scale of business activities and has a potential to

reduce cost. The scope of activities will also have the potential to increase such as through sharing of networks.

The potential of synergy is not limited only to business units within the same boundary but may cross geographical borders, namely between parent and subsidiary and between subsidiaries in different countries.

4.2.3 Diversification and Firm's Value

The connection between diversification and corporate or firm value is related to the reallocation of resources between diverse entities within the group. Overall, the potential cost and benefit of diversification can be deduced from Berger and Ofek (1995) as follows:

The potential benefits of operating different lines of business within one firm include greater operating efficiency, less incentive to forego positive net present value projects, greater debt capacity, and lower taxes. The potential costs of diversification include the use of increased discretionary resources to undertake value decreasing investments, cross-subsidies that allow poor segments to drain resources from better performing segments, and misalignment of incentives between central and divisional manager. There is no clear prediction about the overall value effect of diversification.

(Berger and Ofek, 1995, p 40).

Theoretical arguments suggest that diversification has both value-enhancing and value-reducing effects (Berger and Ofek, 1995; Chen and Ho, 2000; Choi and Cowing, 2002; Singh et. al., 2003). Various studies have looked at the relationship between diversification and firm value. Empirical evidences suggest that diversification destroys firm value (Berger and Ofek 1995; Chen and Ho 2000; Doukas et. al. 2002; Graham et. al. 2002; Lamont and Polk 2002) and subsequently shareholder wealth (Bodnar et. al., 1997). Berger and Ofek (1995), for example, found that controlling for other sources of value, industrial diversification reduces firm value by 13% to 15%. The loss in value is due to the problem of over-investment in low growth activities and cross-subsidisation of loss-making activities. Therefore, diversification reduces the value of the firm, which is associated with over-investment and subsidisation of poorly performing segments.

There are also positive arguments about diversification. These arguments mostly relate to the formation of internal capital market. Since information asymmetry increases the cost of external capital, diversification will allow the firm to bypass external capital markets in favour of an internal capital market. The advantage of an internal capital market is that segments of high cash flow but limited investment opportunities will provide financing to the segments that have low cash flow but high investment opportunities (Lin and Servaes, 2002). However, the efficacy of the internal capital market is not guaranteed as it depends on market volatility and information gaps between segments, especially in developing markets. In addition, value-enhancing diversification is also influenced by the ownership structure of the diversified firm. Jensen and Meckling (1976), cited in Lin and Servaes (2002), suggest that managers who are owners are less likely to squander corporate wealth via poor diversification choice. Chen and Ho (2000) in their study of Singaporean firms found that multi-segment firms are valued less than single segment firms only for those firms with low insider ownership.

Matsusaka (2001) alternatively views value-enhancing diversification as a dynamic value-maximising strategy revolving around the notion of organisational capability. Firms can be seen as having organisational capabilities and skills at different levels of management and these may be transferable across products and industries. In the case of firms facing a downturn in one segment, these capabilities could be utilised in new ventures in new market segments, thereby diversifying into new activities while maintaining the existing ones. This diversification can be considered as a value maximising strategy. Similarly, value-enhancing diversification can be realised when firm optimally chooses the number of segments in which it operates depending on its comparative advantage (Maksimovic and Phillips, 2002).

4.2.4 Diversification and Risk

The basic notion of diversification with regards to risk can be looked at from two perspectives. First, the motive of diversification is to diversify corporate risk. Second, diversification itself is a risky venture, especially for international diversification. As stated earlier in this chapter under agency theory, there is a

conflict of perception between managers and owners with regard to diversification and risk. This section focuses on corporate risk diversification motives perceived by the firms. It is based on the argument that a firm can avoid marked fluctuations in performance and better secure its future if it includes businesses spread across different industries with different risk characteristics and subject to different economic cycles (Goold and Luchs, 1996, p 12). This risk-spreading argument is based on the expectation that good business units act as the saviour for weaker units, thereby providing firms with balanced performance throughout.

An earlier study by Rugman (1976), shows that it is possible for multinational firms to reduce the risk of their profits (increases the stability of earnings) by engaging in foreign operations. In other words, multinational firms enjoy the additional advantage of profits stability than does a similar sized firm selling most of its goods in one national market. This means that stability of earnings through time is an increasing function of the ratio of foreign to total operations (p 75).

4.2.5 International Diversification

As noted earlier, diversification may encompass geographical boundaries. However, the existence of conditions which make corporate international diversification valuable are difficult to identify and measure in the international context (Garrod and Rees, 1998). It is difficult, as different cultural, institutional and environmental contexts will give different result on the benefits of international diversification. Quoting other authors, Garrod and Rees indicate several scope of gains from international diversification such as gain accrued from imperfections in product and factor markets, imperfections in international financial markets, the management of real exchange risk and operating benefit from multinational structure. Other studies have also indicated that the benefit from international diversification may stem from the ability of the firm to arbitrage restrictions imposed by institutions and governments and gain from economies of scale (Doukas et al. 2002).

Denis et al. (2002) also suggest several possible benefits can accrue with global diversification, namely firm value is increased by the creation of flexibility within the firm to respond to changes in relative price, difference in tax codes and other institutional differences. Similarly, the multinational has the ability to lower the firm's overall tax liability by exploiting tax differences between countries. Having operations in different locations gives multinational firms a string of options such as where to declare profit, which location is appropriate to exercise market power and where to raise low cost capital (Bodnar et al., 1997).

In contrast, global diversification may also incur transaction cost to the firm such as cost of monitoring and coordinating between parent and affiliates, cost of asymmetric information, inefficient cross-subsidisation between affiliates and also cost resulting from the agency problem.

From the above theoretical foundation on diversification, an assumption can be made about Malaysian investment into the U.K. Among the perspectives on diversification discussed above (i.e. market power view, resource-based view, agency theory, core competence and synergy), it is assumed that diversification by Malaysian companies into the U.K. can be best explained by the resource based view, risk diversification and leveraging on the subsidiary's core competence.

4.3 CONGLOMERATE DIVERSIFICATION

Conglomerate is one of the many types of corporate diversification of firms. Buckley and Casson (2002) categorise firm diversification into three types. A firm is horizontally diversified if it produces the same product in several different plants (either in the same or different regions). A vertically diversified firm produces intermediate products that correspond to different stages of the same productive sequence. Finally, a firm is conglomerately diversified if it produces in more than one type of production sequence (p 20). Conglomerate diversification is, therefore, the outcome of firms undertaking product diversification into unrelated activities outside their core activities.

A classic description of the conglomerate firm applies to companies that are involved in business activities that are unrelated to each other, but the term is also relevant for companies whose operations extend over more than one distinct business, or multi-business/multi-products firms (Goold and Luchs, 1996). Davis et al. (1994) define the conglomerate as a corporation with relatively autonomous business units operating in numerous unrelated or weakly related industries, with a corporate headquarters acting as an internal capital market, allocating resources among the units. An early form of conglomerates among the US companies was the M-Form (multidivisional form) diversification (Davis et al. 1994). The M-Form involved substituting quasi-autonomous operating divisions (mainly organised along product, brand and geographic lines) for the functional divisions of the Unitary-Form (U-Form) structure, as the principal basis for dividing up tasks and assigning responsibilities (Williamson, 1985).

4.3.1 The Rationale of Conglomerate Structure

Most discussions on conglomerate firms tend to concentrate on its organisational structure, financial and business management (Choi and Cowing 2002; Davis and Diekman 1994; Markides and Williamson 1994; Teese 1980). A conglomerate is assumed to create value through diversification by reducing the variability of total cash flow in comparison to the sum of the variabilities inherent to the cashflows generated in each business (Very, 1993). Very (1993) also argues that some conglomerates can create advantage through financial complementarity between different business units in which the profitable business supports the weaker unit.

The conglomerate merger wave became a phenomenon during the 1960s as firms experienced dramatic growth in the short term, prompting other firms seeking growth to imitate this strategy. The emergence of conglomerate firms in the 1960s also resulted in the development of theoretical arguments that explained this form of organisation. Over the course of the twentieth century, conglomerate mergers became a dominant form of industrial firms and were very fashionable, particularly in the U.S.A. Conglomerate acquisition was used as a corporate strategy for firms' growth via diversification. The antitrust policy of the U.S.A. that restrains growth

via vertical and horizontal integration resulting in a monopoly also contributed towards this trend. As a result, firms seeking growth were forced to diversify beyond their primary activities into unrelated activities through mergers, which formed the basis of conglomerate firm (Scott, 1989).

However, by the 1980s, the prevalence of conglomerates declined substantially. Davis et al. (1994) suggest that conglomerate structures did not work as measured by one crucial metric namely stock market valuation. The stock market undervalued the conglomerate relative to the focused firm, and punished firms that acquired unrelated businesses with drops in their share price (Morck et al, 1990 as cited in Davies et al, 1994).

The rejection of the conglomerate strategy by the stock market made sense as there are compelling theories and evidences that propose conglomerate diversification to be a financial mistake. Theoretically, conglomerate diversification appears at first to provide a motive of risk reduction. But as Amihud and Lev (1981) argue, in a perfect capital market, risk reduction via unrelated diversification cannot be beneficial to stockholders as they can achieve on their own the desired level of risk through portfolio diversification. Amihud and Lev (1981) further argue that even in an imperfect capital market, given the low cost of portfolio diversification, the risk-reduction benefits of conglomerate from the stockholders' point of view seem highly questionable.

Katz and Niehoff (1998) also suggest that the failure of conglomerate mergers over the last decades occurred for three reasons. First, key decision makers attached unrealistic expectations of synergies on the merger. Second, conflicting company cultures obstructed plans for rapid consolidation of redundant functions; and third, firms were unable to quickly meld their operations, giving managers the freedom to either expand or insulate their personal domain.

4.3.2 Empirical Studies on Conglomerate Enterprises

Hill (1983) examined the performance between conglomerate and non-conglomerate British companies in the 1970s, and found that the performance of conglomerate firms was more volatile than that of non-conglomerate firms. There were also studies that looked at the comparative performance of conglomerate and non-conglomerate firms to establish the effect of conglomeration on firm performance, but the findings were rather inconsistent. Studies by Utton (1969 cited in Hill, 1983) on U.K. conglomerate firms found no difference between their performance and that of non-conglomerate firms. However, studies by Econtel Research in 1969 and Kumps in 1975 (also cited in Hill, 1983) saw conglomerates out-performed non-conglomerates. Hill (1983) on re-examination of the above phenomena on a sample of the U.K. companies within the context of the whole economic cycle, found the performance of conglomerates to have improved significantly more than the performance of two non-conglomerate firms during the boom period, but they deteriorated significantly more rapidly than the non-conglomerate during economic downturn.

Bergh (1997) conducted a study to explain some of the differences between divested and retained unrelated acquisitions, and found that a high proportion of unrelated acquisitions are divested, often shortly after their purchase. His study supported his prediction that unrelated acquisitions would be divested if they fail to meet expectations based on a set of motives and conditions that prevailed at the time of the acquisitions. His study also showed that unrelated divestiture occurred when the unrelated acquired firms did not contribute to the cash flow, are relatively small, and did not increase group financial synergies.

The conglomerate firm is also studied in the context of efficient resource allocation across industries. Maksimovic and Phillips (2002) in their study based on the U.S.A. census data for the periods 1974 to 1992, noted that conglomerate discount (which means the firm is valued at a discount relative to the value imputed from

single segment firms in the industries in which it is present¹²) caused by differences in underlying firm organisational or managerial ability can arise endogenously. They found that conglomerate firms are less productive than single-segment firms of a similar size except for the smallest of firm, and that plants in the larger segments of conglomerate firms are more efficient than plants in the smaller segments. Lamont and Polk (2002) gave two explanations for the conglomerate discount;

First, it could be that diversification itself somehow destroys value. Second, it could be that diversification and lower value are not causally related, but merely reflect firms' endogenous choice. For example, perhaps low value firms choose to diversify leading to negative correlation between diversification and value

(Lamont and Polk, 2002, p 52)

Core discussion on conglomerate firms have also concentrated on risk diversification (Ramanujan and Varadarajan, 1996), linkages and synergy (Haspeslagh and Jemison, 1996; Kanters, 1996) and other corporate management issues, which are related to the ability of this organisation structure to create value.

There are also studies on Asian conglomerates by Choi and Cowing (2002) and, Lins and Servaes (2002). Lins and Servaes (2002) compared the value of diversified and focused firms in emerging economies, namely on corporate diversification in Hong Kong, India, Indonesia, Malaysia, Singapore, South Korea and Thailand. They found that diversified firms traded at a discount of approximately 7% compared to single-segment firms, and diversified firms are less profitable than single-segment firms. The discount is most severe when management control rights substantially exceed their cash flow rights.

In contrast, a study on the relationship between corporate diversification, concentration and performance of Korean firms by Choi and Cowing (2002) found that an increase in industry diversification does not affect *chaebol's* profit, and the existence of an internal capital market in diversified firms does not affect the group

¹² Burch et al., 2000

profit. Chen and Ho (2000) looked at different firm's ownership in which they postulate that the value loss from diversification is only significant for firms with low degree of managerial ownership, but not for firms with high degree of managerial ownership. Managers with lower ownership stake have more incentives to pursue value-reducing diversification because the private benefit may outweigh the value loss from diversification.

In the case of developing countries, Lin and Servas (2002) also found that the relationship between diversification and firm value for firms from emerging markets is rather different. Thus, the relative costs and benefits are not necessarily of the same size, as market imperfections are more severe. This probably suggests that the effect of diversification on firm value might be different between larger and smaller markets. However, Khanna and Palepu (1997) in their study of Indian Conglomerates suggest that diversification can be valuable in emerging markets because diversified firms can mimic the beneficial functions of various institutions that are present in developed markets. There is also a variety of market imperfection elements in emerging markets such as underdeveloped and illiquid capital market, scarcity of well-trained people in labour market, asymmetric information between buyers and sellers in product market, government interventions in the market and unpredictable contract enforcement that are in favour of the diversified firms compared to focused firms.

In a country with an under-developed capital market, investors have little information about companies and tend to invest in large and well-established firms, an advantage to conglomerates. Conglomerate firms can also exploit the imperfection of information in the product markets using their established companies' name in multiple product categories, and at the same time build up brand name. On the other hand, it is costly for small firms to establish a brand if the mechanism for information dissemination is under-developed. In the labour market, conglomerate firms have the capability to undertake staff development and are also able to spread the fixed cost of professional development and allocating the employees over the businesses in the group. In developing countries also, conglomerate firms have a close relationship with the government, thus giving them

an advantage in dealing with regulatory bureaucracy. Finally, conglomerate firms can also use their reputation and successful dealing in the past to reduce the possible cost of contract enforcement (see Khanna and Palepu, 1997).

4.3.3 Conglomerate Diversification of Asian Firms

Thus far, discussion on conglomerates have concentrated on the developed countries, namely the U.S.A. and Europe, and in a few Asian countries notably Korea and Japan. The prominent characteristics of the Korean *chaebol* lies in its ownership and management, decision making, family involvement, the role of the founder and heavy support from the government (Choi and Cowing, 1999; Lee et al., 1991; Shin and Park, 1999). Lee et al. (1991), for example, described the *chaebol* as follows:

- Ownership and management are not separated;
- Family dominance in management;
- Top-down decision making process;
- Founder still holds top management post;
- Close support from the government;
- Unique corporate culture based on the social fabric of Confucianism.

The Japanese *keiretsu* which dominated Japanese economy in the 1980s closely resembles the *chaebol*. McGuire and Dow (2002) suggest that the two important characteristics of this system are stable shareholdings dominated by institutional and corporate shareholders, and close ties with financial institutions (or bank ties). This type of ownership also promotes efficient monitoring and control by equity holder without short term performance pressure. The distinct features of *keiretsu* groups have been considered as the major force in the Japanese economy of the so called 'Japanese miracle' (Lin, 2005). The Japanese *keiretsu* system, for example, has contributed to the emergence of large Japanese conglomerate groups which played a major role in the Japanese economy in the 1980s. Mitsubishi Corporation, for example, experienced a 27% annual sales gain in the U.S. auto market and

Japan's world market share in the semiconductors industry has doubled to more than 50% since 1980s (Lin, 2005).

Lin (2004) describes two types of *keiretsu*. One, vertical *keiretsu*, which consists of upstream suppliers and downstream distributors affiliated with large manufacturing or commercial firms. The second, the financial *keiretsu*, consists of a commercial bank along with other financial institutions joined with one or more trading companies as well as a range of manufacturing firms. There are, however, some differences between *chaebol* and *keiretsu*. The *chaebols* use explicit centralised control, whereas the linkages within a *keiretsu* are more informal; *chaebols* do not employ a main bank system like *keiretsu* in which the main bank acts as shareholder and creditor to member firms; and *chaebols* are more family oriented and thus *Chaebol* firms do not migrate between groups as *keiretsus* do (Shin and Park, 1999 cited in Ferris et. al. 2003)

Asian conglomerates in general differ from U.S and European conglomerates. The motivation for conglomerate formation in the U.S was inadvertently promoted by the anti-trust policies of preventing horizontal and vertical diversification to prevent industries from being dominated by monopolies. Management consultants and organisational economists were also promoting this model, which resulted in a widespread adoption of the 'firm-as-portfolio' model by large corporations. This model implies buying business in industries that are neither potential buyers, suppliers, competitors, or complement to the firm's current business (Davis et. al., 1994).

Firms in Asia, on the other hand, tend to diversify into more segments and related activities through vertical relatedness and complementarity; they are more diversified and diversification did not diminish the corporate value of the firm (Claessens et al., 2000a). In relation to these different characteristics of diversified firms, Claesens et al. (2000a) compared East Asian firms with firms in the U.S.A. and found that firms in East Asian countries and Japan diversified into more segments and engaged into more related businesses than firms in the U.S.A.

The competency aspect is also relevant for the study of Asian firms. Carney (1998) postulates that the organisational characteristic which is less formal compared to western organisations and top management which is dominated by kinship and ethnicity contributed to the drawback in competence enhancement of the family firms in Hong Kong. Simple organisational structures of Asian firms appear unable to provide the coordinating capacity necessary for the operation of complex value chains. The absence of loyal employees, high staff turnover, and high turnover in transacting partner, all reduce the ability of the firm to create organisational learning and competencies. As competency generation within the existing organisational structure faces a lot of obstacles, it is then sought through investment ventures into international markets.

The conglomerate structure of Asian firms is also evident in Malaysian companies. Malaysian multinational companies consist of large firms engaging in several diverse related and non-related activities within a business group. Claessens et al. (1998), for example, found that, from his total selection of 531 Malaysian companies, 70% consisted of multi-segments firms (p 7). The conglomerate companies normally acting as an investment holding providing corporate and management services to the business group. The business group consists of separate firms in which the substantial shares are owned by the family-related parties, who at the same time hold important management posts in the company (Claessens et al., 2002b, p 13). Some unrelated diversification resulted from *guanxi* networking (Yeung, 2006 forthcoming).

In general, theoretical discussions on corporate diversification and conglomerate structure are based on studies of western corporations with some studies based on Asian corporations. Literature on Malaysian conglomerate diversification is however, still limited apart from Claessens et al (1998). This research seeks to fill this gap. It is assumed that the structure of Malaysian conglomerate firms is different from western conglomerate and instead resembles the structure of Korean conglomerates (*chaebol*). Direct investment into the U.K. is assumed to be part of their conglomeration strategy to expand their multi-product business.

4.4 OVERSEAS CHINESE FAMILY BUSINESS (OCFB)

Another prominent feature of Malaysian business is the dominant role played by ethnic Chinese business companies. This, however, is not a feature found only in Malaysia as the Chinese have dominated business throughout the Asian region. They have even been successful in dominating economies in which they are the minorities (Redding and Whitley, 1990). In terms of organisational structure, Redding (1993) described OCFB as representing a close overlap of ownership, paternalism, concentration of control among family members and the role of kinships.

However, since Redding's early finding, OCFB have undergone an evolution where in some cases they are no longer small-scaled or have simple organisational structure. The geographical scope of their investment have also changed where many have invested in western countries such as the U.S.A. and the U.K. Redding (1993) also argues that, where western firms developed their competence based on their entrepreneurship skills and access to global networks, Asian corporations are known for their business networks especially among ethnic Chinese business. As such, their competencies have been developed within the context of inter and intra region investment.

With the exception of Singapore, all overseas Chinese in Southeast Asian countries are minorities. They make up 8% of the total population in Thailand, 4% in Indonesia, 1% in the Philippines and 37% in Malaysia (Redding, 1995). Although a minority, ethnic Chinese controlled 37.9% shares of limited companies in Malaysia in 1999 (Malaysia, 2001), down from 40.9 % in 1995. In 1991, it was estimated that Chinese in Malaysia owned 50% equity in the construction sector, 82% in wholesale trade, 58% in retail trade and 40% in manufacturing. The Chinese also controlled 70% of Malaysia's small-scaled enterprises (Gomez and Jomo, 1997). The Chinese also dominate the domestic economies of Thailand, Indonesia, Vietnam and the Philippines (see Diao and Mely, 2001; Mackie, 2001; Redding, 1993; Theresa, 2001; Yeung, 1999).

4.4.1 The Concept of Family Businesses

Apart from ethnic Chinese dominance, one of the main features of Malaysia and other ASEAN countries' corporate business is the high incidence of family-owned firms. The family business is a worldwide phenomenon and not exclusive to any particular country or ethnicity. It is estimated, for instance, that between 90 to 95% of American businesses are family-owned or family-controlled (McCann et. al., 2001). In the European Union countries, family-enterprises form 75% to 90% of all companies. One in eight companies on the London Stock Exchange is family-based. In Asia, family-based *chaebols* in Korea and *keiretsus* in Japan spearheaded the industrialisation process in Korea and Japan respectively (Lin, 2005; McGuire and Dow, 2002).

Getz and Carlsenb (2000) note that family business has no commonly accepted meaning and at its most basic, can be defined as an enterprise which in practice is controlled by members of a single family. Tsang (2002) defines family business as one where a family owns the majority of stock and exercises full managerial control. Any attempt to define family business, however, should make a distinction between two types of family business as suggested by Morris et. al.(1997). They are family-owned (controlled) and managed business; and family-owned (controlled) but professionally-managed business. However, whatever the category of the family business, Getz and Carlsenb (2000) highlight several potentially important considerations for understanding the family business, such as the ownership and control of the enterprise, the involvement of family members in management, family business interdependencies and the succession or generational transfer. This forms the basic difference between family-controlled firms and non-family controlled firms. Morris et al. (1997) also proposed several differences between these two types of firms as in Table 4.1.

Table 4.1: Differences between Family-Owned and Managed Firms and Non Family-Owned Firms.

Family-owned and managed firms	Non family-owned firms
1. Family members in managerial positions have lifetime and personal stake in firm.	1. Manager's interest in firm is limited more so to specifics of employment contract.
2. Family members in managerial positions may be with firm for entire career.	2. Managers seldom remain with one firm for entire career.
3. Family members have indefinite time horizon.	3. Managers have shorter time horizon.
4. Failure of the business has dramatic personal and career implications for the family members, especially those in senior management positions	4. Failure of business has relatively less personal impact on the manager.
5. Likelihood of family member in managerial position being terminated is low	5. Likelihood of a manager being terminated or his/her position eliminated is greater.
6. Personal gain resulted from a sense of pride in organisation's growth, success, job creation, and family wealth creation.	6. Personal gain results from advancement, promotion and increased compensation.
7. Organisational performance tends to be correlated with managerial compensation	7. Organisational performance tends to be less directly correlated with what a particular manager earns
8. Decision making tend to be more centralised, although this may lessen across generations.	8. Decision making is often more participative and team-based.
9. Internal control systems tend to be more informal.	9. Internal control systems tend to be more formalised.
10. Succession can be problematic and traumatic even if planned for; rivalries can arise among family members, while conflicts occur between the business head and heirs	10. Succession can involve conflict and competition, but stockholders will monitor the process in an effort to ensure it is accomplished in a timely and orderly fashion.
11. Family member managers are accountable to self, family.	11. The manager is accountable to stockholders.
12. Conflicts tend to further a dynamic pattern that is circular; conflict within the family can impact on business decisions made at a much later date, which in turn influences future family dynamics.	12. Conflicts tend to follow a more linear pattern such that the impacts are more traceable overtime and isolated.
13. Non-family employees may perceive real limits to their upward mobility and personal opportunities within the firm.	13. Employees are apt to have a greater sense of equal opportunity in terms of advancement and participation in decision making; this may produce more internal competition.
14. Family affairs can directly affect business affairs and vice versa.	14. While the personal lives of employees affect their job performance, the impact is likely to be on the individual than the firm.

Source: Morris et al. (1997)

4.4.2 The Characteristic of OCFB

The characteristic of family business suggested by Morris et al. (1997) in Section 3.4.1 is actually based on a study of family business in the United States. It provides the basis for identifying the characteristics of family business in Southeast Asia, in particular the OCFB. However, OCFB have other distinctive characteristics because of their cultural and social context. Carney (1998) highlighted several characteristics of the OCFB such as:

- Close knit network
- Wealth preservation goals
- Limited managerial capacity
- Concentration of decision making
- Management on the hand of family member
- Limited reliance on professional manager
- Informal organisational structure
- Low degree of role specialisation
- Role of senior owner-manager paramount
- Opportunistic investment into liquid assets such as land and property, or into unrelated business.

Tsang (2002) notes that the OCFB is a company that is essentially a family possession or controlled by the family, where top management positions are filled by the close knit family members, and the management ideology is based on the Chinese culture with a clear hierarchy, reciprocal vertical obligation and benevolent autocracy. Carney and Gedajlovic (2002) also explain that the OCFB as a corporation is a tightly-controlled and family-centric operating structure. These points are similar to those of Redding (1993) where he describes the OCFB as being small-scaled operations tied together in circuitous web-holdings, but ultimately controlled by the family where their strategic goals are to create and protect family wealth. Redding further highlighted the characteristics of the OCFB as follows:

- (i) The company remains in essence a family fortress that involves a very specific set of people;
- (ii) It is guarded against incursion from outsiders and its workings are not publicly known;
- (iii) It is usually run nepotistically with a benevolent paternalism throughout.

Redding also indicates that the OCFB people are very secretive and keep information within the family, and that their power is hidden.

One, however, has to be cautious about making generalisations of the characteristics of OCFB. The above description of OCFB is rather static as many OCFB have experienced transformation. The characteristics mentioned tended to be that of a more traditional form of OCFB and presumably best in explaining the small and medium scale OCFB. The larger OCFBs in contrast, have mostly been transformed into a more open establishment where the family is the company's majority shareholder or retains a strategic stake and holds the top management position. Lower management posts, however, are left to non-family, professional managers. This form of company is common in Malaysia (Gomez, 1999), Singapore (Chen and Ho, 2000) and other Southeast Asian countries such as Thailand, Indonesia and the Philippines (Yeung, 1999). Many have expanded and been transformed into public companies, although some are still controlled by the family. This suggests that many OCFB do respond to globalisation and modernisation. However, to understand the OCFB as a whole, it is still necessary to understand the characteristics of the traditional Chinese family business in mainland China (see Chen, 2001).

Key influences in Chinese family business are paternalism, personalism, feeling of insecurity and business networking. Explaining the concept of paternalism, Redding (1993) argues that in Chinese society, the family is largely self-sufficient, fundamentally competitive and largely motivated by the pragmatic exigency of protecting and enhancing family resources, where within the family the father's authority is legitimate and his power is widely accepted by the family members. This value has been extended into the Chinese business in which the relationship between leader and subordinates is clear. Thus, in the typical firm there is always a single dominant leader and power is highly centralised (Redding, 1995). Within this scope of paternalism, the concept of nepotism is widely exercised. The son, normally the eldest, will be groomed to take over the business from the father and the key posts in the firm are commonly filled by the relatives. It is common that family members are exposed to the business in the early stage and probation is exercised even when they are well educated (Redding, 1993).

In Chinese family business there is also the tendency to allow personal relationships to enter into the decision making process, which underlies the concept of personalism. Personalism is when that it is difficult to make anything happen in the absence of the blessings of those in key positions, and successful organisational life comes to be based on the building and maintenance of appropriate contacts (Redding, 1993). Personalistic networking is also the main means of expanding a person's capacity.

As ethnic Chinese in South East Asia are immigrants and represent a minority in these countries, they have developed organisations that are deep-seated in mistrust that caused them to be defensive. This feeling of insecurity is rooted in historical China where mistrust existed between merchants and government. The government intervened in the creation and distribution of wealth, and family power was not allowed and beaten back if it looked like becoming a social power (Redding, 1993). This feeling of insecurity set in among the first generation of migrants to the Southeast Asian countries where they faced similar hostile environments, being a minority in every country except Singapore.

Even in hostile environments, however, OCFB still grow regardless of whether the government is genuinely supportive, as in the majority Chinese countries such as Singapore and Hong Kong, and even where the government is accused of being less supportive or even discriminating in favour of the majority indigenous people, such as in Malaysia and Indonesia. Redding (1993) suggests that this could be due to the pragmatic nature of the OCFB that is based on a controlled structure, where trusted people are put in key positions and important supplies depend on networks of trust or obligation.

OCFB has also been said to be developed based on network or *guanxi* that is referred to as personal relations and connection. Redding (1993) identifies four main lines of networks among the overseas Chinese. It is based on kinship and identification by surname, defined by the area of origin in mainland China, those that perpetuate a dialect, and those based on occupation or craft reminiscent of the guilds of traditional China. Dialect, however, is very much related to the area of

origin. Crawford (2000) suggests that the level of integration and cross border synergy is achieved through these transnational and culturally rooted business networks and it remains socially embedded in their 'birth culture'.

The network also exists with the political master of the government of the day. Gomez et al. (2001), for example, described that many Malaysian Chinese tycoons have established a close relationship with the Malay patron including the Prime Minister of Malaysia. In Indonesia, Liem Sioe Liong of Salim Group, an Indonesian Chinese tycoon, was reported to have benefited from his close association with the former President Suharto (Diao and Mely, 2001). In Thailand, the Sino-Thai (of Chinese descent) has played an active role in Thai political circles. Since 1988, the leaders of the main political parties and all but one of Thailand's Prime Ministers have been Sino-Thai, in part or whole (Mackie, 2001).

The network is also based on the cooperative arrangement, either in share ownership, link or joint venture where people and capital are brought together to share risk and reward. This alliance building has resulted in the emergence of a new breed of multinational in the Southeast Asian region (Redding, 1995). This network is then extended to include alliances with European multinational companies that is based on the matching of international technology and expertise with the local company's access to local investment environment. This relationship works because the overseas Chinese have now accumulated substantial organisational skills needed to form alliances with Western firms; they have a dominant position in the region including the webs of network, and they are familiar with local investment regime. This network also helps them to accumulate funds (Redding, 1993).

However, traditional networks are the source of development of overseas Chinese business and remain prominent, although the companies may function in a different manner especially in the context of internationalisation. Yeung (2006, forthcoming) argues that there are three particular dimensions of continuity in Southeast Asian overseas Chinese capitalism, namely the continual significance of the family firm; strategic deployment of 'Chineseness' for business and economic purposes such as

an investment in China; and Chinese culture as a strategic resource for business expansion. But, the involvement of overseas Chinese business in international production means that the tight network structure cannot remain static. Thus, the larger the corporation and the wider the business activities, the harder it is to maintain the ethnic network. Recent trends in overseas Chinese business networks has, therefore, changed as a result of globalisation and changes in domestic politics (Crawford, 2000). Overseas Chinese business and their networks have been forced to restructure as a result of declining monopoly power enjoyed by the leading overseas Chinese firm. This was the result of increasing measures for privatisation and greater participation of the indigenous people, for instance, in countries such as Malaysia and Indonesia (Yeung, 2006, forthcoming).

4.4.3 The Management of OCFB

Management in OCFB as indicated in section 4.4.2 is usually about the prominent role of family members in the management of the company (or owner-managed company). Carney (1998) in his study of 50 manufacturing firms of Hong Kong OCFB notes that important decision making and management in the OCFB remain in the hands of family members and close trusted associates, and are rarely delegated to professional managers, and this structure has changed little in the modern era. Although the OCFB faces management capacity constraint in which the need for professional managers has increased due to business expansion, reliance on outsiders for managerial, technical and marketing skill is minimised, and they are retained as subordinates to the family-member manager.

The key feature of OCFB organisation is that they make little use of formal organisational structures such as designated function of division i.e. personnel, market research, and there is a low degree of role specialisation (Carney, 1998). Instead, the role of senior owner-manager is dominant. In addition, Tsang (2002) notes that top posts are mostly filled by close family members. Non-family members have to serve for a long time before they could be trusted to fill the senior management posts. Decision-making is concentrated with the senior managers and most of the strategic decisions made are normally family affairs behind closed

doors. Concentration of ownership in the hand of few shareholders is also one of the important features of Asian corporation. Claessens et al. (2000b) in their study on East Asian countries including Malaysia, found that more than two thirds of the firms under study were controlled by a single shareholder. In addition, the separation of management from ownership is rare, and the top management of about 60% of the firms that are not widely held is related to the family of the controlling shareholders.

4.4.4 Investment Strategy of OCFB

The investment strategy and capital allocation of OCFB is closely channelled towards the firm's original or core business, and profit earned is reinvested into liquid assets such as land and building or unrelated business ventures (Carney, 1998; Carney and Gedajlovic, 2002). This argument is based on the same study by Carney as in Section 4.4.3. He gives an example that property business accounted for 50% of turnover and 75% of profit of Lai Sun Garment (International) Ltd, the company that stated garment manufacturing for export as their core business. There is also a tendency for the controlling shareholder to disperse their investments across multiple operating units to diversify risk to the family wealth while maintaining undiluted control over business operations, but such a trend deprives firms from developing specialised assets since firms have taken minimal investment in dedicated capital equipment but utilised available capital intensively for non core business.

Yeung (1999) identifies ethnic Chinese conglomerates from Southeast Asia adopted several strategies in their internationalisation. First, internationalisation through forward and backward integration, a situation where specialisation takes place in different segments of the production chains. This strategy aims to penetrate new markets and to consolidate the competitive position in particular business field and extend the value added activities in the production chains. Secondly and similar to diversification and risk as discussed in section 4.2.4, ethnic Chinese conglomerate diversify into unrelated businesses as a way of alternative risk hedging. This diversification strategy has also been motivated by the social relationship in the

guanxi circle. As such, the agreement for investment started from the relationship or to promote the relationship and not because of strategic necessity. Third is the internationalisation strategy that exercises strict family and ownership control and intra-group coordination among foreign affiliates. Based on his study of Hong Kong firms, Carney (1998) suggests that the growth of the conglomerate is also influenced by a weak institutional environment, the absence of product market regulation and weak contract enforcement regulation.

In another study, Tsang (2002) highlights several contrasting approaches to FDI between the OCFB and non-OCFB based on his study of Singapore multinationals' investment in China as in Table 4.2:

Table 4.2: A Contrast of Approaches to FDI

	OCFB	Non-OCFB
Information collection and analysis	Low degree of formalisation and unstructured	High degree of formalisation and structured
Negotiating team	Small and consist mostly the boss and his immediate family member	Large and consisting of functional managers
Assignment of expatriate manager	Family members in charge of key expatriate positions	Systematic rotation of expatriate manager
Communication between Singapore and China	Rely heavily on visits by the boss	Rely heavily on detailed and systematic written reports
Experience sharing in Singapore headquarters	Strategic experience mainly held by the boss and his family members	Strategic experience spread among managers through channels such as meetings and management participation

Source: Tsang (2002)

4.4.5 A New Hybrid of OCFB

While the traditional value and structure of OCFB business continue to be the pillar of today's OCFB, it has experienced a gradual variation derived from particularistic institutional, political and market condition found among Asian countries. Yeung (1999) terms this the new hybrid of OCFB namely a transformative process in which traditional and new elements are continuously adapted and recombined into

something that resembles neither ethnic Chinese capitalism nor global capitalism. The influence comes both from western and Japanese firms operating within the same market. For instance, OCFB has emulated the conglomerate business structure of former colony agency house especially in Malaysia, Singapore and Hong Kong (Carney, 1998).

Carney and Gedajlovic (2002) raised three reasons behind the conglomerate diversification of OCFBs. First, the instinct of familism creates a distrust of outsiders and therefore, conglomeration provides the means for wealth diversification without the need to relinquish control to outside investors. This structure also allows them to exploit new business opportunities and limits risk in their suspected hostile environment. Second, conglomeration provides them with camouflages about the real family ownership and wealth and this is assumed as a rational means of managing risk of discrimination and appropriation. Third, the growth of business corporations into a large unit means the need for outside manager also grows. OCFBs address this problem by structuring the family business into small-scale business units which meant that it allows the company to monitor the performance of the smaller units through their financial result, have more effective control and minimise the impact of hire managers on family wealth. However, while the dilution of family wealth could be contained in this way, such tendency deprives the firm of access to capital and human resources to develop more specialised assets (Redding, 1993).

The new generation of OCFB are in general different from those established by their predecessors (Yeung, 1999). Although the businesses were inherited from their parents, over the years some have been transformed into new conglomerates with new business strategies. The goal of securing new forms of financial resources is among the factors that lead to the adaptation of international business norms and practices (Yeung, 2005, forthcoming). Thus, where in their early stage, OCFB were more domestic oriented, and their management systems typical of Chinese family businesses within the concept of paternalism and personalism, they are now involved in investment in more than one country. Internationalisation of OCFB has been prompted by several possible influences. Amongst the reasons are the

saturation of the domestic market that resulted from increased competition with western MNCs and loss of monopolistic advantages due to government market deregulation. In addition, the policy of the governments of Malaysia, Philippines, Indonesia and Thailand have been accused of ethnic bias in favour of the indigenous (Yeung, 1999). In relation to this, Yeung and Olds (2000) note that ethnic Chinese business firms in Southeast Asia have responded to ethnic-biased economic policies in two basic ways: by establishing political-economic alliances with the political master of the country; and globalisation through diversification in search of new investment opportunities that were often denied to them in their home country because of state regulation.

Certain impetus for internationalisation may arise from within the organisation such as a change in the internal structure of the OCFB. Thus, many past features that appeared to hinder modern economic life have been altered, such as the softening of autocratic power of the senior generation which implies more incentives and autonomy for their sons (Yeung, 1999). Their sons now have more flexibility to expand their family business into modernisation.

4.4.6 Critical View of the OCFB

The OCFB model has been criticised for being path-dependent which does not require them to develop the capabilities and resources necessary to institutionalise new product development, establish brand name or build global distribution networks (Carney, 1998). They have continued to focus upon low-cost manufacturing and adapted plant relocation into neighbouring countries in the event of higher cost of production in the adopted countries. They also tend to use their excess resources to acquire new businesses in view of facing maturity in their traditional market (Carney and Gedajlovic, 2002). If the conglomeration was taken in response to the perceived 'continual existence of hostility and discrimination' against ethnic Chinese in Southeast Asia (Yeung, 2006 forthcoming) and not in response to strategic business practice, perhaps this will not bring about the development of competitive advantages among OCFB.

Carney (1998) in his study of Hong Kong OCFB finds that there is little evidence that larger manufacturing firms have developed the capability to produce, distribute and internationally market a product of their own design or manufacture. When firms do move downstream into marketing and brand management they do so through the acquisition of established brands. The strategy of buying and selling business units and properties can be very profitable during a period of rising asset value, but it is rarely a source of sustainable competitive advantage (Carney, 1998). Carney also notes that the corporate structure of OCFB has frequently been reorganised in which the common strategy is to de-merge business units into a separate legal entity and re-list the entity as a new public company.

Yoshihara (1988) as cited in Hamilton (2000) criticised that OCFB cannot grow large and cannot undertake sizeable and complex projects. This is because OCFB cannot succeed in enterprises requiring scope or scale. Tracy (2002) argues that Chinese business seeks to multiply small units rather than expand a single large one. Economy that comprises of this type of firms has been labelled as 'ersatz capitalism' or speculative economies that are hollow at the core (see Hamilton, 2000; Yeung, 2006 forthcoming). The OCFB, however, cannot be evaluated purely based on the characteristics of individual firms without understanding the growth of the firm in a broader context. Hamilton (2000), in defending OCFBs, suggests that during the economic crisis in Asia in 1997, many of them survived because their strategies are less influenced by state directive and their levels of debt were lighter and spread over a variety of financial sources, including substantial networking of the co-owner. Those that went into bankruptcy were because of the effect of currency depreciation and also because much of their resources had gone into unproductive sectors such as property. Similarly, Yeung (2000) argues that the allegations of inherent limits to growth of OCFB become less relevant when the firms venture into regional and even the global market place (pp 65).

The study of Chinese capitalism forces us to understand the social context of the Chinese family, in which this value is embedded in the managerial and conduct of OCFB. In addition, the new generation of OCFB has experienced structural change due to changing global competitive context, local institutional conditions as well as

firm-specific strategies. Redding (1995) acknowledges the implications of this new force in which the OCFB have now accumulated substantial organisational skills of the kind needed to make alliances work with western firms and they can bring substantial capital into a deal by the use of their networks and their accumulated resources. The need for access to brand names, international markets and new technology has also driven them towards internationalisation. In general, this research seeks to fill the gap in the literature by providing the understanding of the characteristics and investment practices of OCFB into the developed country such as the U.K. Past studies presented in this section tend to look at OCFB in the context of the Asian region only.

The above discussions provide some general perceptions about OCFB. However, it is thought that modernisation has changed some of the characteristics of OCFB. With regards to Malaysian OCFB, it is assumed that they are becoming more modern, western-like organisations but while retaining the fundamental elements of Chinese family business such as preservation of the family wealth and close control and family member influence in decision making. The pressure to become an open and modern business organisation is assumed to be critical when they are investing outside Malaysia. Guanxi or business networking is expected to be an important element of the business in Southeast Asia but becomes less significant in western countries.

4.5 STATE-OWNED ENTERPRISES (SOEs)

By definition, SOEs are enterprises in which the government is the principal stockholder, or otherwise has the ability or potential to exercise control over the broad policies followed by the enterprise and to appoint and remove the enterprise's management (Thomas, 1986). This definition of SOEs, however, represents one of the alternatives of organizational structure of SOEs. The ownership by the government in SOEs varies between wholly-owned, state-holding companies and partly-owner between private sector and government body.

The role of the states in the political economy of international business can be analysed using the 'collusion and rivalry' framework proposed by Pitelis (1991) and cited by Dicken (1992). Collusion means mutual dependence and induces cooperation between States and TNCs. Rivalry on the other hand exists because both States and TNCs share the common objective of raising global surplus by exploiting the benefits from the division of labour (see Yeung, 1998; Dicken, 1992).

The involvement of States in the business is also about retaining its power and authority. Yeung (1998) argues that the State may regain its power and authority through collusion with private capitalist institutions. The rationale for the State's involvement in business is increased competitiveness at the State level position through incorporating transnational capital in national development (p 393).

SOEs are also a common feature in many Asian developing countries. They act as omnibus policy vehicles, incorporating political, economic, and social goals at once (Negandhi et al., 1986). In China, the government controlled 84.9% of the total listed companies in 2001 (Qiang, 2003). The Singapore government through its investment holding companies namely MND Holdings, Singapore Technology Holdings and Temasek Holding holds substantial shares in big companies in Singapore (Feng et al., 2003). SOEs also contribute a significant percentage to gross domestic product (GDP). In Indonesia, for example, 164 State enterprises account for 29% of GDP and in Thailand, 67 government-linked companies are responsible for more than 20% of national output (Stride and Nydam, 1999).

Discussion on SOEs in the literature basically surrounds the issue of government intervention in the economy (Negandhi and Ganguly, 1986). The motivations for this intervention include controlling strategic industries, income distribution by virtue of providing employment, rescuing failing companies, driving industrialisation by promoting exports, protecting infant industries and ideological imperatives (Negandhi and Ganguly, 1986; Thomas, 1986). It is also argued that it is necessary for the government to possess strategic important resources for the

development of the economy and to fill gaps not covered by the private sector in low return, high overhead and high risks industries (Thomas, 1986).

Often, the main goal of SOEs is not primarily to maximise profit like a private company, but to provide a threshold of socio-economic welfare. The involvement of states in the business is also about power and authority retention (Yeung, 1998). Government intervention in international business is not merely for economic reasons, but is also politically motivated. Negandhi and Ganguly (1986) argue that when formulating economic policies, governments are not always motivated by economic rationality but by the desire to maximise political support (p 36). One of the motives is to provide employment, which in turn realises the policy of income distribution, a motive related to political policies.

4.5.1 Internationalisation of SOEs

In recent years, there has been increasing involvement of SOEs in international business where they become multinationals. Explanation on the motivation for the establishment of SOEs in the domestic arena, however, does not necessarily explain why they go international. Collins (1986), for example, uses the eclectic theory to explain why SOEs invest abroad. He argues that country-specific advantages could become firm-specific advantages in favour of SOEs such as in the petroleum industry where many SOEs were created for reasons of economic nationalism. And like private oil companies, these SOEs in petroleum have to go international to secure sources of petroleum and take advantage of differences in factor prices and other costs.

The internationalization of SOEs is also related to the role of the government as in the case of China and Singapore. Deng (2004) reported that the dominant source of Chinese outward FDI is SOEs where their outward FDI are part of the government development scenario, and their investment strategies largely reflect government priorities. Yeung (1998), in his study of regionalization of Singapore firms, argues that the state needs to take up the initiative for outward FDI due to underdevelopment of indigenous entrepreneurship. The government also has

sufficient political legitimacy and economic resources to take up the role as entrepreneur through government linked companies.

4.5.2 Government-linked Companies in Malaysia

By definition government-linked companies (GLCs) are companies in which some shares are owned by the government (Feng et al (2004). They are like other private companies which are doing transactions in a competitive market. In the case of Malaysia, GLCs are companies owned by the Government or its agencies in which the Government or its agencies has the authority to appoint members to the company's Board of Directors and senior management, as well as make major decisions (e.g. contract awards, strategy, restructuring and financing, acquisitions and divestments) (Khazanah Nasional, 2005). The Malaysian government's involvement in business is conducted by its investment arms namely Khazanah Malaysia Berhad (Ministry of Finance Incorporated). It was established "to hold and manage the investments entrusted to it by Government of Malaysia, to undertake new investments in strategic, high technology and of national interest and any other investments which meet the financial criteria as defined" (Khazanah Nasional, 2005). The Malaysian government also controls companies through other agencies owned by them. Control means the government has substantial interest, usually up to 20%, as a single shareholder. In this study, seven out of the nineteen companies in the sample have government shareholding. The government also holds the shares through The Bumiputera Unit Trust (Amanah Saham Nasional) besides Khazanah Nasional Berhad. In the case of GLCs, there are elements of separation between ownership and management. In managing the company, the government usually nominates a professional manager to run the business.

The role of government and institution in private business in Malaysia could contribute to fill the vacuum in the literature that discusses the role of government and institutions in the process of ODI by firms from developing countries. It is assumed that government companies will continue to be involved in outward direct investment, especially in technology seeking FDI and used the companies to

achieve Malaysian competitiveness. Malaysian GLCs however are thought to be different from Chinese SOEs.

4.6 CONCLUSION

This chapter has provided insights into three prominent features of Malaysian companies selected for this study, namely conglomerate firms, Chinese family businesses and GLCs. It also presented the basis for comparing these organisations with other forms of business organisations especially with regards to their process of internationalisation. It is, however, important to realise that in many cases, these three forms or organisational structures can be manifested in one company. Thus, a company can be categorised as a 'family conglomerate' in that it is owned and managed by the family but at the same time it can be a conglomerate in its own right.

This chapter has also provided an avenue for trailing the internationalisation practice of multinational companies which not only looks at their common motivations and strategies but into deep understanding of the factors and actors behind their overseas venture. The significant occurrence of conglomerate firms, Chinese family business and the involvement of the government in private limited companies in Asian business, among others, are important to be clearly understood in the context of internationalisation of firms from the developing world.

CHAPTER 5: RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter presents the whole process and method of collecting data for this research. The use of interviews as the main data collection strategy rests on the realist presumption forwarded that behind surface appearance lies structure that gives rise to observable phenomena (May, 1997). Researching owner-managed or family-owned organisations require qualitative approaches, because quantitative approaches typically meet with no response. Such organisations do not respond to survey questionnaires, and do not generate available secondary data and information about themselves. Interviews were considered the best method of interrogating them.

This chapter explains the methodology that has been used to collect and analyse data for this research. This study uses primary data collected via face to face interviews with the managers of the responding companies. In addition, documentary data from the public domain and company-owned documents were also collected. The first section therefore deals with the design and in particular the protocol that was followed to undertake data collection, both in Malaysia and in the U.K.

The next section outlines the strategy for data analysis. The last section deals with reliability and validity issues and how they are handled in this research.

5.2 RESEARCH APPROACH

This research uses a qualitative approach to study why Malaysian companies choose to undertake outward investment, a naturally-occurring social phenomenon. Qualitative research is one of the many structures and orientations used for investigating social phenomena. It provides a framework within which data are collected and analysed (Bryman, 1988; Hancock, 1998) and is concerned with finding the answers to questions which begin with 'why', 'how', and 'in what way' (Hancock, 1998). In addition, the overall focus of the study involves investigating

and analysing the investment decisions of the companies, asking why they chose to invest outside Malaysia, and specifically why they chose to invest in the U.K. As this investment decision is an evolving process and not static, a qualitative approach is considered appropriate. As emphasised by Blaikie (2000),

As a general rule, qualitative authors view the social world as processual rather than static, as being about the dynamics of social relationships between social actors rather than the characteristics of individuals and the relationships between abstract concepts.

(Blaikie, 2000, p 252)

Additionally, finding the answers to the research questions of this study, concerning for example the motives and strategies of FDI, requires a rich description and explanation of sequential events. As Miles and Huberman (1994) describe:

With qualitative data one can preserve chronological flow, see precisely which events led to which consequences, and derive fruitful explanations.

(Miles and Huberman, 1994, p 1)

Miles and Huberman (1994) posit that although qualitative research has always been a primary method of research in social science, notably in anthropology, political science and history, it has also now been widely applied into other fields of research including organisational and business studies. The relevance of using qualitative methods in international business research is also a reflection of arguing the relevancy of linking business behaviour with sociological and anthropological perspectives (Chapman, 1997). Qualitative and intensive interviews are also one of the preferred modes of gaining access to the realm of international business (Yeung, 1995, p 322). The qualitative research approach is also appropriate in many different situations. Yin (1994), for instance, argues that the first and most important condition for differentiating among the various research strategies is to identify the type of research questions being asked. He proposed that the qualitative approach is appropriate to answer 'what and why' questions.

The choice of qualitative data collection has been frequently made in past international business studies. For example, Yeung (1995), in his study of Hong

Kong TNCs, argues the advantages of using a qualitative approach in international business research as follows:

I argue that the qualitative personal interview method is a much better technique than other common techniques in international business research such as postal surveys and telephone interviews. This argument is particularly relevant when the research is conducted in an urban context and the objective is to probe deeply into the process and mechanism of international business. Another dimension of the qualitative personal interview method is that it provides much flexibility both in the conduct of data collection and subsequent analysis

(Yeung, 1995, p 313)

Despite the growing popularity of qualitative research, there is no consensus on its definition. As Mason (1996) qualifies, qualitative research does not represent a unified set of techniques or philosophies; it has grown out of a wide range of intellectual and disciplinary traditions. Taking into consideration its common elements, she defines qualitative research as grounded in a philosophical position which is broadly 'interpretivist' in the sense that it is concerned with how the social world is interpreted, understood, experienced or produced. It is therefore based on methods of data generation which are flexible and sensitive to the social context in which the data are produced, and is also based on methods of analysis and explanation building that involve understandings of complexity, detail and context (Mason, 1996). Merriam (1998) also argues that an important element of qualitative research is that it covers several forms of enquiry that help us understand and explain the meaning of social phenomena with as little disruption to the natural setting as possible.

A qualitative research approach is appropriate for this study because of the following reasons:

- (i) The approach of this research is 'interpretivist' and not 'positivist'. This is not to establish cause-and-effect relationship but the understanding of social world through an examination of the interpretation of that world by its participants (Bryman, 2001);

- (ii) Qualitative research is able to examine the process of events (appropriate in the context of motive, process and strategy of an investment), and to be able to create a link between events and to explore respondent interpretations of the factors that produce such connections;
- (iii) The motive, process and strategy of ODI by Malaysian companies are not static accounts of events but are interconnected to each other. The complexity of these issues did not favour quantitative investigation;
- (iv) The limited number of potential respondents (due to small population of Malaysian companies investing in the U.K.) limits the ability of producing meaningful results in statistical analysis of quantitative data; and
- (v) Quantitative data present less intricate details which are necessary to explain the reason for companies to invest abroad.

5.2.1 Research Strategy

In determining the research strategy, Saunders et al. (2000) suggest choosing between experiment, survey, case studies, grounded theory, ethnography and action research. For this research, a case study is preferred as the phenomena being studied are contemporary observations that occurred as a result of the behaviour or decisions that were taken in the past. This is in line with the argument that a case study is particularly appropriate when there is a need to unfold the history of particular companies (Yeung, 1995).

Yeung (1995) defines a case study as being a detailed investigation, often with data that is collected over a period of time, of one or more organisations or groups within organisations with a view to provide an analysis of context and processes involved in the phenomenon under study. On the other hand, Yin (1994) defines it as an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident. Yin further argues that a case study is preferred

when a 'how' or 'why' question is being asked about a contemporary set of events over which the investigator has little or no control. Although there is an overlap between case study and history, as Yin argues:

The case study's unique strength is its ability to deal with a full variety of evidence – documents, artefacts, interviews, and observation - beyond what might be available in the conventional historical study

(Yin, 1994, p 8)

The rationale for using a case study approach in researching Malaysian investment into the U.K. is:

- (i) The type of research question to know 'why' and 'how' Malaysian companies undertake ODI into the U.K. are in line with the suggestion by Yin (1994) in which he noted that 'these questions deal with operational links needing to be traced overtime, rather than mere frequencies and incidence' (p6). The unique strength of the case study is its ability to deal with a full variety of evidence such as documents and interviewing (as was done for this research);
- (ii) Malaysia is considered as a developing country (based on classification by the World Bank; refer to Section 1.1) and one of developing countries mentioned in the World Investment Report 2002 as actively involved in outward direct investment. Meanwhile, the U.K as the host country represents a developed country, also as classified by the World Bank (see Section 1.1). Therefore, this strategy follows the notion that a case study is a research strategy which focuses on understanding the dynamics present within a single setting (Eisenhardt, 1989) and in this case, Malaysian ODI into the U.K;
- (iii) Malaysian companies consist of various type of organisation and ownership structure and this would be one of the factors that also influence their ODI motive and strategies; and

- (iv) Geographically, Malaysia and the U.K. are distant countries and the ODI by Malaysian companies is assumed not to be influenced by geographical closeness.

5.2.2 Data Generation Technique

Qualitative data is collected through direct encounters with individuals (Hancock, 1998). For the purpose of this study, data is primarily drawn from field research by way of interviews with selected companies. Interviews are the primary data generation technique used, as some information could only be realised from probing and detailed explanation. Interviews are appropriate for this study as the author intends to explore in some depth the companies' experiences, motivations and reasons for their investment in the U.K. Interviews allow the author to speak with the right person and make instant adjustments to the interview protocol as necessary. An interview is also a symbolic interaction through which inter-subjective knowledge is gained and can be validated, which is impossible to be achieved through statistical formulae (Yeung, 1995). Saunders et al. (2000) also note that managers are more likely to agree to be interviewed, rather than complete a questionnaire, especially when the interview topic is relevant to their work. The interviews were undertaken using a process of data collection protocols or field procedures as presented in Section 5.6.

In addition to data drawn from field research, data is also obtained from public domains and companies' publications. Except for studies of preliterate societies, documentary information is likely to be relevant to every case study topic (Yin, 1994). In addition, documentary information was used in collaboration with the interview to check the consistency of the information provided during the interview. As Yin (1994) stresses, documentation is stable and therefore can be reviewed repeatedly. It is also unobtrusive, provides the exact information and covers a broad range and number of events.

Three main sources of documentary data available for this research are:

- i) Official documents and reports obtained from the companies and also announcement by the companies to Bursa Malaysia which is kept in the Information Centre of Bursa Malaysia, Kuala Lumpur;
- ii) Secondary data from the government offices at the federal level namely the Central Bank of Malaysia, Ministry of International Trade and Industry (MITI) and Malaysian Industrial Development Authority (MIDA); and
- iii) Secondary data from the United Nations Centre for Trade and Development (UNCTAD) especially with regard to FDI statistics.

The first source of data such as company's annual reports is obtained from the company during the interview and also from the Information Centre of Bursa Malaysia. These reports contain important information on the companies such as the directors' background, major activities, shareholding structure, and financial accounts. Bursa Malaysia also provides information on company's corporate announcements, circulars to the shareholders, paper cuttings and any letter of correspondence between the company and Bursa Malaysia. The data that is readily available in the filing system of Bursa Malaysia only covers data before 1999 while data for 1999 and beyond was downloaded from the Bursa Malaysia's website. Information was also obtained from the Federation of Malaysian Manufacturers' (FMM) website. This website contains brief information about the companies such as the addresses and contact persons and description of the companies' activities. This information is crucial for the research as it gives the author a broad picture of the company concerned and it also helps in the interview and subsequent data analysis. The equivalent information for the U.K. subsidiaries was obtained from the FAME website accessible through Leeds University library. All information about companies and their recent financial reports are presented on this website.

The second source posed a more difficult situation. The national data on Malaysian outward investment can only be obtained from the Central Bank of Malaysia. The

Central Bank data covers investment by country, equity investment by country and portfolio investment by country. This data is only available from 1992 onwards. This data reported a flow of funds from Malaysia every quarter which is recorded in the balance of payments reporting system. It is difficult to ascertain the reliability of this data in relation to direct Malaysian investment overseas. This is because the data covers a wide range of capital flows such as equity investment, portfolio investment, purchase of real estate abroad and loans extended to non-residents. Whether loans extended to non-residents can be considered as direct investment is unclear¹³. MITI and MIDA, on the other hand, only collect data for inward investment into Malaysia and their data only cover investment in the manufacturing sector. In addition, none of the government offices claims responsibility for collecting outward investment data beyond that captured by the Central Bank of Malaysia.

The third source of data is obtained from the UNCTAD website. In the case of Malaysia, UNCTAD data is mostly restricted to investment inflows and outflows as well as FDI stock.

5.3 DATA GENERATION PROTOCOL

The data collection protocol for this research consists of initial preparation for the interviews (such as selecting respondents and identifying persons to be interviewed), gaining access to the companies, conducting the interviews and recording the interviews. The author used the same protocol for the Malaysian and the U.K. interviews.

5.3.1 Selection of Respondents

The Malaysian companies were selected because they have undertaken direct investment into the U.K., and have at least one subsidiary or associate company located in the U.K. at the time of the study: the period, that is, between October 2002 and October 2003. At the start of the research, a total of 180 companies

¹³ Unfortunately, the request by the author to meet the official from the Central Bank to discuss

wholly-owned or partly-owned by Malaysians in the U.K. were identified (based on the FAME Database as of June, 2003). The ownership of these 180 U.K.-based companies corresponds to 80 parent companies in Malaysia. The 80 parent companies were then scaled down to 45 qualified Malaysian parent companies. 'Qualified' here means that the companies own a subsidiary or subsidiaries that actually have active operations in the U.K. This measure was undertaken to ensure that the author would be able to meet people who run the subsidiary in the U.K. It also emerged, at the initial stage of the search for the respondent companies, that a high proportion of the Malaysian-owned companies in the U.K. are not active. They had either ceased operations in the U.K. after their parent companies (incorporated in the U.K. and were formerly owned by the British) were taken over by Malaysian companies and their operation were transferred to Malaysia (some of the subsidiaries remained in the registration of Companies House) or the company was incorporated but had yet to commence business. Scaling down of the sample was therefore necessary to exclude dormant companies, companies that had been dissolved, and companies that are only maintained as registered offices in the U.K. Among these, there are also companies that have assets or business in Malaysia but none in the U.K.

To confirm that these 45 Malaysian companies do have active subsidiaries in the U.K., reference was made to their respective Annual Reports of 2002, which are accessible from Bursa Malaysian website (www.klse-ris.com.my). After the Malaysian parent companies were determined, the U.K. respondents then selected were those subsidiaries that were still active.

The main objective of the interview was to get an explanation of the company's overseas investment, in particular the motivations and strategies of their investment in the U.K. In order to have access to this information, the most suitable person to interview was the person involved in the investment decision process and at the same time is holding the highest management post in the company. Holding highest management post means this person is responsible to report to the shareholders (or

about the data was turned down

owner) about the operation of the company. For the Malaysian companies, these should be the Chief Executive Officer (CEO), Chief Operating Officer (COO), Managing Director or the Executive Chairman. They are considered knowledgeable about the history of the company and often they are either the majority shareholder or have had a long tenure in the company. The initial correspondence was targeted at the above office bearers, but the final decision was with the companies, to assign anybody they considered suitable for the interview. The initial correspondence was undertaken in early July 2003.

For the U.K. interview, the selection of the respondents in the U.K.'s subsidiaries was based on information given by the parent companies in Malaysia. The U.K. respondents were variously CEOs, Managing Directors, Directors or General Manager. All parent companies in Malaysia had given permission for the author to conduct the interviews with their subsidiaries in the U.K.

5.3.2 Obtaining Agreement to Participate in the Research

Access to an organisation is the key point that determines the success or failure in qualitative interviewing research. Unlike anthropologists who often need no 'permission' to go and do their study (Buckley and Chapman, 1996), qualitative interviewing must be done with permission. Therefore, a letter of request had to be sent and an agreement needed to be obtained prior to the actual interview. The letter of request contained a brief introduction of the author's background, the objective of the research, and a request to the company to participate in the research project. Since the method of data collection is in-depth interview, the company was also requested to assign the most senior official, who would be considered knowledgeable about the subject of the research. This is necessary as the interview requires the respondent to recall historical events or experiences.

Prior to sending out the letter, the author was aware of two obstacles. Firstly, the interviews were to be conducted in English. As such, the author's ability to pursue an in-depth interactive interview on certain issues was a concern, since the English proficiency of the respondents was unknown to the author. Second, was the issue

of non-response. After considering all possibilities, the author chose to introduce himself as a Malaysian government officer, and in his letter to the companies had also attached a recommendation letter from his previous office, the Foreign Investment Committee (FIC)¹⁴, with which most of the companies have had dealings. It is thought that to a certain extent this helped the author in getting responses. The letters were sent directly to the persons holding the highest position in the companies, asking them to consent to participate in the research project. A sample of the letter is as shown in Appendix 5.1.

A lot of effort was put into gaining the agreement and participation of all of the target companies. Due to the small number of companies, the allowance for non-respondents was small. Reminder letters were sent two weeks after the first letter and this was followed by a series of phone calls. Efforts were also made through third parties, for example by contacting a person who worked in the subsidiaries of the same parent company, or by contacting other government officials who have dealt with the companies or who happened to know someone in the company.

Finally, twenty five companies responded to the invitation letter. Of these, three companies indicated that they no longer have active companies in the U.K. or have ceased operation. One company agreed to have the interview in London. One company returned the initial survey document but never responded for the interview, and one company agreed to be interviewed but cancelled afterwards. In total, nineteen companies took part in the Malaysian interviews. In the U.K., a total of twenty three companies were invited to participate in the research, of which eight agreed to participate. The sample invitation letter is as shown in Appendix 5.2.

Interviews with government officials were also undertaken to help the author to understand and confirm issues pertaining to government overall policy on outward investment in Malaysia. In Malaysia, there are two government bodies that are involved directly or indirectly with capital inflows and outflows. These are the Ministry of International Trade and Industry (MITI) and Bank Negara Malaysia. An

¹⁴ The FIC is a government body that monitors the acquisition of assets, mergers and takeovers by Malaysian or foreign companies in Malaysia

interview with MITI was concluded successfully, but the request for an interview with Bank Negara Malaysia was turned down for no given reasons. Informal meetings with officials from the Malaysian Trade Commission in London, and with the London Director of MITI, were also undertaken.

Most of the scheduling was done through telephone and all the interviews were undertaken throughout a three month period.

5.3.3 Conducting the Interviews

Most of the interviews were successfully conducted with persons at the managerial level in the Malaysian parent companies and also in the U.K. subsidiaries. A total of nineteen interviews were conducted in Malaysia. Another eight interviews were successfully conducted in the U.K. In all, a total of twenty eight people from both the Malaysian and the U.K. subsidiaries were involved in the whole interview process. Descriptive data of interviewees for the interview conducted in Malaysia and in the U.K. are presented in Table 5.1 and 5.2.

The interview was semi-structured with a mixture of closed and open-ended questions. A Semi-structured interview means that the interviewer sets up the general structure by deciding in advance what ground is to be covered and what are the main questions to be asked (Drever, 1995). This method provides the author with a set of questions to guide the whole interview and at the same time prevents uncontrolled deviation from the research questions.

Table 5.1: Descriptive Data of the Malaysian Interviewees

Company Code Identifier	Date of interview	Place of interview	Duration of interview	Nationality/Ethnicity	Position	Age	Length of term with the company (Yrs)
CA	29.07.2003	Malaysia	1 hour	Malaysian/Chinese	Managing Director	45	14
CB	03.09.2003	Malaysia	1 hour	1. Malaysian/Chinese 2. Malaysian/Malay	1. Senior General Manager	50	10
					2. Senior Manager	30	7
CC	07.08.2003	Malaysia	1 hour	Malaysian/Malay	Vice President	50	15
CD	04.08.2003	Malaysia	1 hour 30 mins	Malaysian/Chinese	Finance Director	44	5
CE	20.08.2003	Malaysia	1 hour	1. Malaysian/Chinese 2. Malaysian/Chinese	1. Managing Director	55	15
					2. Director	40	10
CF	12.09.2003	Malaysia	1 hour	Malaysian/Indian	General Manager	40	10
CG	11.08.2003	Malaysia	1 hour	1. Malaysian/Chinese 2. Malaysian/Chinese	1. Chief Executive Officer	52	18
					2. Group Financial Controller	50	10
CH	17.09.2003	Malaysia	1 hour 15 mins	Malaysian/Malay	General Manager	36	3
CI	31.07.2003	Malaysia	2 hours 15 mins	Malaysian/Malay	Deputy Director General	50	20
CJ	14.08.2003	Malaysia	1 hour 15 mins	Malaysian/Chinese	Executive Director	50	5
CK	25.08.2003	Malaysia	1 hour 15 mins	Malaysian/Malay	Group Managing Director	50	24
CL	05.08.2003	Malaysia	1 hour	Malaysian/Chinese	Chief Operating Officer	46	8
CM	02.09.2003	Malaysia	1 hour 15 mins	Malaysian/Chinese	Group Financial Controller	47	10
CN	29.09.2003	Malaysia	1 hour 30 mins	Malaysian/Chinese	President/Group CEO	58	27
CO	07.08.2003	Malaysia	1 hour 30 mins	Malaysian/Malay	Head, Strategy Development	45	10
CP	01.10.2003	Malaysia	1 hour	Malaysian/Chinese	Managing Director	50	25
CQ	12.08.2003	Malaysia	1 hour	1. Malaysian/Chinese 2. Malaysian/Malay	1. Senior Manager	35	10
					2. Manager	30	6
CR	23.09.2003	Malaysia	1 hour	Malaysian/Malay	Managing Director	50	21
CS	08.10.2003	Malaysia	1 hour 45 mins	Malaysian/Chinese	Director, Business Development	47	15

Source: Author's Survey

Table 5.2: Descriptive Data of U.K. Interviewees in Malaysian Firm Subsidiaries

Company Code Identifier	Date of interview	Place of interview	Duration of interview	Nationality/Ethnic	Position	Age of interviewee	Length of term with the company
SA	11.08.2004	U.K.	1 hour 15 mins	British	Managing Director	55	11
SB	02.07.2004	U.K.	30 mins	British	General Manager	40	8
SC	30.06.2004	U.K.	1 hour 30 mins	Malaysian/Malay	General Manager	40	10
SE	17.06.2003	U.K.	2 hours 15 mins	British	Managing Director	55	15
SG	30.06.2003	U.K.	1 hour	British	Managing Director	55	9
SJ	01.07.2003	U.K.	40 mins	Malaysian/Malay	Chief Executive Officer	57	5
SL	11.08.2004	U.K.	1 hour 30 mins	British	Commercial Manager	37	7
SP	28.06.2004	U.K.	1 hour 15 mins	British	Finance Director	40	6

Source: Author's Survey

The person interviewed was given a reasonable time to answer the questions and the author also responded using prompts, probes and follow-up questions in cases where the author required further clarification on the answers.

The rationale for using the semi-structured interviewing technique is:

- (i) The basic rationale of unstructured interview in this study is that it reveals something about the company, derived from the interviewee concerned and not the interviewer concerned, as in survey interviewing (Bryman, 1988);
- (ii) It is a study of a perspective as seen through the eyes of the manager involved in the process or have knowledge on companies investment abroad, based on specific facts and recollection of historical events and sustained period of involvement i.e. the interview is necessary to gain the information;
- (iii) Ethnography for example is not appropriate when the data involved is not current but a recollection of past experience.

Qualitative research allows the researcher an access to unexpectedly important topics which the researcher may not have prior knowledge such as the insight of Chinese family business and the use of structured and potentially rigid approach such as survey interview.

The interviews were undertaken at the time convenient to the interviewees. The interview was conducted in English. In the case of the Malaysian interviews, worry of misinterpretation due to different background and use of English as medium of conversation was overcome because all the interviewees had a good command of English. All of the interviews were conducted at the office of the companies except for one of the Malaysian interviews which was conducted over lunch.

Before the actual interview took place, the author read and made notes of the company's profile. This gave the author prior knowledge about the company which

also helped in the interview. The author also studied the manner of how the interview should be conducted, especially regarding the ethics and protocol of the interviewing elites in business organisation (Welch et al. 2003; Yeung, 1995). These measures are necessary to establish a good rapport and credibility as well as to project true professionalism and enthusiasm on the part of the author.

At the beginning of the interview, the author briefly explained the purpose of the interview including a brief description of the research project and how the company was selected for the research project. The interviewees were also told that the interview might take up to one hour, but the length of the interview was left to the interviewees themselves.

The interview session lasted between one to two hours, depending on the length of explanation of certain topics, and also on the other commitments of the interviewee on the day. The level of explanation has very much to do with the rank of the interviewees and also the length of their tenure in the company. Different ranks basically produced different depths of the explanation, in line with their level of authority in the company.

The interview process posed a number of issues for the author. The interview is a process of conversation that requires more than the ability to speak. It is a test of the ability of the author to be an investigator and an examiner, and at the same time to be involved in casual conversation. Interviewing of this kind not only requires training, but also experience. The choice of language to be used in the conversation also contributes to the success of any interview. In the case of this research, the author used English in the interview, even with interviewees of Malay descent. This merits comment, since the author is a Malay speaker. It might be felt that the use of Malay, where it is a shared ethnic language, might be desirable, creating a feeling of commonality and harmony which might lead to better and deeper communication. However, in the Malaysian business environment, people tend to communicate more in English than in Malay, Chinese or Tamil. The use of English in these interviews followed, therefore, normal local practice and therefore, the author started the interview in English.

Another cause for concern is that of cross ethnicity issues. The author is of Malay descent, while the interviewees comprised of Malay, Indian, Chinese and British. The author did not experience any obstacle in terms of the ability to communicate effectively, but it remains possible that cultural and ethnic background played a role in the way some interviews developed. For instance, Malaysian interviewees might be reluctant to address directly issues which are felt to be sensitive to the interviewer's ethnic background, especially concerning ongoing debate on the corporate equity imbalance between ethnic groups in Malaysia (as discussed in Chapter 4.2). There could be elements of withholding information because of prejudice due to differences in ethnic background and the interviewee's concern that the information given by them might be wrongly disseminated. The problem of withholding information was not only relevant to interviews with Malaysians in Malaysia but also to interviews with Malaysian managers in the U.K. subsidiaries.

However, British managers are more open (or even too open, according to my sensibilities) when they described the internal conflict within the organisation and their dissatisfaction with some of the ways that the subsidiary has been managed and the role of major shareholders. Perhaps the British interviewees could speak more freely compared to Malaysian interviewees, since the ethnicity issue of the interviewer is not a cause of concern for them. Most of British interviewees are salaried staff while some of the Malaysian interviewees are owners of the company. Perhaps an owner is likely to be more cautious than the employee. If anything goes wrong, the worker can always change job but the owner cannot simply close one company and set up another. Notwithstanding the above, some of the Malaysian interviewees are also salaried staff, but still tended to be more surreptitious compared to the British. The research of this thesis has not been directed to exploring this question in detail, but it seems likely that there may be cultural differences at work here. Malaysia, for example, scores high on Hofstede's 'power distance' index, while the U.K. scores comparatively low. Malaysia also scores considerably higher on the 'Collectivism' index than the U.K (itim International, 2005; Hofstede, 1999). The argument can be made that in business contexts that are both 'high power distance' and 'collectivist', knowledge is likely to be treated

as a source of power, and not freely shared either vertically or horizontally in an organisation. The data from this research seem to be consistent with this argument.

This then relates to the issue of transparency. One example is when the author wished to investigate the family business or family controlled company. The interviewees were reluctant to discuss this matter openly. Although some of the companies were still controlled by the family, interviewees nevertheless declined to admit that they were a family-owned business. They preferred to portray the company as a public company, professionally run, and subject to corporate governance as approved by Bursa Malaysia. Referring to the cross-shareholding nature of family business, Chen (2001) noted that Chinese families generally prefer to keep information about cross-holdings private, especially where the Chinese are a minority population and suspicious of their possible treatment by the national authorities. This means that for an outsider (such as the researcher), detecting such cross-holdings and conducting due diligence can be an extremely frustrating process.

The author also realised the importance of the 'gate-keeper' of the company. Since the invitation letter was sent to the highest ranking official in the company, the person who first received the letter would normally be the personal assistant to the CEO or the Managing Director. There were occasions when the company, knowing the author to be a student, tended to treat the letter lightly, and even indicated that they were all too busy to find the time for an interview. This was reflected on one occasion when a company initially declined to be interviewed, but reversed the decision after a request was made by a third party.

5.3.4 Recording the Interviews

Most of the interviews were tape-recorded with the permission of the interviewees. Otherwise, the author recorded the conversation manually. As well as using the tape recorder, the author also made an effort to jot down the important points manually. Out of the twenty interviews, three Malaysian managers in the parent companies

declined to be tape-recorded. In contrast, the U.K. managers all agreed to the use of the tape recorder.

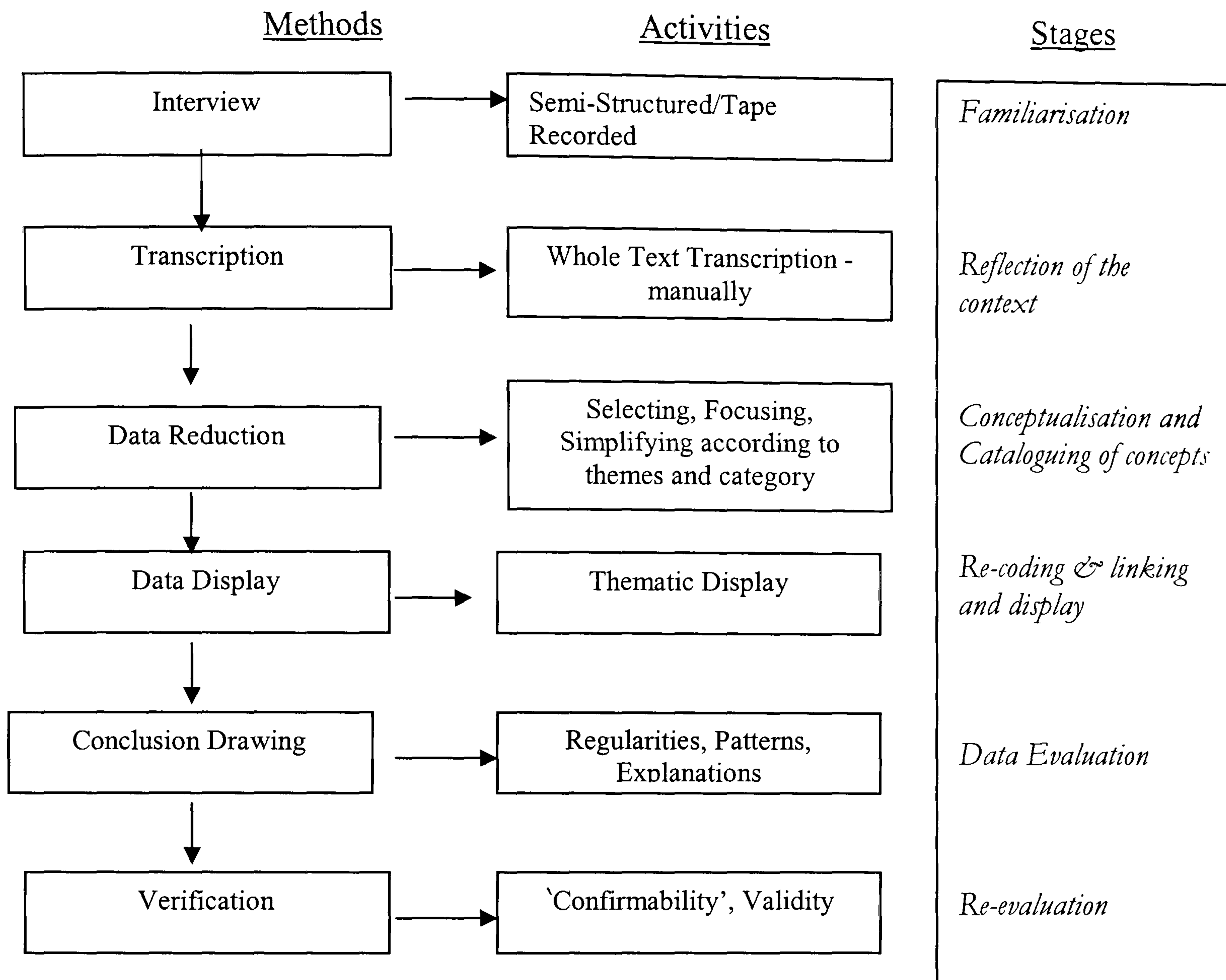
In cases where the interview was not allowed to be recorded, this limited the ability of the author to recall some of the interviewee's arguments and explanations. The worst scenario was where the interview was held over lunch at a crowded restaurant. Since the use of the tape recorder was not possible under these circumstances, the author had to make every effort to record the important points of the discussion manually.

At all of the interviews, except with companies of private limited status, the author was provided with the documents about the company at the end of the interview session. Most of the documents were the companies' annual reports and brochures about their products. However, the companies were reluctant to hand over documents that were not for public consumption, where these might contain confidential or sensitive information. For private limited companies, written documents are more difficult to obtain because unlike the listed companies, they are not required to submit their annual reports to Bursa Malaysia. Moreover, being private limited companies, they have no obligation to make inside information available to the public. The only information that they made available were contained in brochures promoting their product and services.

5.4 STRATEGY FOR DATA ANALYSIS

Data analysis, as suggested by Yin (1994), consists of examining, categorising, tabulating or otherwise recombining the evidence to address the initial propositions of a study. Neuman (2002) posits that a qualitative researcher should analyse data by organising it into categories on the basis of themes, concepts or similar features. Silverman (2000) notes that data analysis in qualitative research does not come after data gathering but begins once transcription has started.

Figure 5.1: Flow of Data Collection, Data Reduction and Analysis



Source: Developed from Miles and Huberman (1994), Saunders et al. (2000) and Authors's experience

Data analysis for this research was undertaken through several stages as, depicted in Figure 5.1. This involved data collection methods, processing of data which involved transcribing the interview, data reduction and data display. These activities have contributed in achieving a meaningful outcome of the data to answer the research questions.

5.4.1 Initial data management

The first step in data management was classifying the companies according to their types. This was based on their ownership, and also on the scale and variety of their business activities, as shown in Table 5.3. Ownership differentiates the characteristics of the companies, such as distinguishing between family businesses

and government-linked companies. The scale and variety of business, on the other hand, differentiates conglomerates from other companies. Classification was also based on the equity structure of the company, in which the single largest shareholder was considered as controlling the company. Once the single largest shareholder was identified, the companies were then categorised into conglomerate corporations, Chinese family companies and government-linked companies. The objective of segmenting the companies into the separate clusters was to find explanations for their investment behaviour within the same group and between different types of group.

However, this method of clustering poses a difficulty. Companies, for instance, may have more than one of the relevant characteristics; there are, for example, 'family conglomerates' within the sample. As such, it may be difficult to correlate any inferences drawn to the actual type of company. However, as the research is concerned with the motives and strategies of investment, this clustering is plausible as the finding is attached to the characteristics of the companies and a conclusion is drawn upon those characteristics. In other words, each motives and strategies are analysed according to more than one characteristics of the company.

The next step involved the transcription of the interviews and rationalisation of the notes taken during the interviews. Transcribing meant producing a full script of the interview. Prior to the transcription, the tapes were labelled with the name of the company, the name of person interviewed, the date of interview and duration of the interview. Where possible verbatim transcription was done immediately after each interview so that the topics discussed during the interview could easily be recalled. The author also cross-referenced the verbatim transcription with notes taken down manually during the interviews.

Table 5.3: Descriptive Data of Malaysian Parent Companies

Company Code Identifier	Age ¹ (Years)	Size ²	Industry	Controlling Shareholder (%)	Types of Company [CFB/Cg/GLC]	No. of Subsidiaries	No. of Foreign Subsidiaries	No. of Subsidiaries in developed countries	No. of the U.K. Subsidiaries ³	Year of first entry to the U.K.
CA	16	Small	Security seal manufacturing	CFB (36.38%)	CFB	23	17	10	2	1999
CB	37	Large	Multi-products	CFB (38.25%)	CFB/Cg.	447	151	49	10	1996
CC	40	Large	Banking	GLC (46.19%)	GLC	5	5 ⁴	2	1	1979
CD	44	Medium	Tyres and mattresses	GLC (51.17%)	GLC/Cg.	14	4	3	3	1994
CE	17	Small	Glove manufacturing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1988
CF	29	Small	Construction	GLC (62.90%)	GLC	6	2	2	1	1997
CG	32	Large	Plantation	CFB (44.54%)	CFB/Cg.	109	47	32	20	1995
CH	37	Large	Transportation	GLC (75.42%)	GLC	98	39	13	2	1988
CI	80	Medium	Rubber R&D	GLC (100%)	GLC	1	1	1	1	1938 ⁵
CJ	45	Large	Multi-product	CFB (46.56%)	CFB/Cg.	283	115	68	46	1998
CK	33	Small	Boiler manufacturing	CFB (35.39%)	CFB	39	13	6	6	1998
CL	39	Medium	Engineering	CFB (20.55%)	CFB	57	20	11	9	1995
CM	34	Medium	Paper manufacturing	CFB (40.84%)	CFB	37	10	5	3	1994
CN	31	Large	Air-conditioning manufacturing	CFB (64.85%)	CFB/Cg.	79	63	35	5	1994
CO	22	Large	Car manufacturing	GLC (58.21%)	GLC	30	19	19	12	1995
CP	120	Small	Pewter manufacturing	CFB (100%)	CFB	14	14	7	1	1982
CQ	27	Large	Multi-product	GLC (51.17%)	GLC/Cg.	300	129	17	4	1994
CR	23	Small	Off-shore engineering	GLC (780%)	GLC	3	3	2	1	1995
CS	9	Medium	Utilities	CFB (47.28%)	CFB/Cg.	43	30	25	22	2002

Note: CFB (Chinese family Business); GLC (Government-linked Company; Cg (Conglomerate))

¹From the year of an incorporation up to 2005 (rounded up to the nearest figure)

²Based on number of employees

³Including all subsidiaries of the intermediate companies.

⁴Refers to overseas branches

⁵It was established by the British.

Source: www.klse.com.my; www.klse-ris.com.my; www.bcb.com.my/corporate_info/2004; www.velosi.com; www.royalselangor.com

5.4.2 Theme and Category Identification

As noted earlier, the approach of the interview was semi-structured, in which a set of general guiding questions were developed prior to the interview. These guiding questions (as shown in Appendices 5.3, 5.4 and 5.5) were put under the main themes, which were: (1) Characteristic of the investing firms; (2) Motivation for overseas investment; (3) Motivation according to the character of firm/product; (4) Motivation for U.K. investment; (5) Approaches and mechanism of investment; (6) Strategy of investment; (7) Problems in investment. A set of categories was then developed for each theme. These are based partly on predetermined categories derived from the literature review (categories used by other researcher), partly on the transcribed interviews, and also from the author's own understanding of the research. This follows from the suggestion by Merriam (1998, p 182) that the categories can come from at least three sources: the author, the participants, or sources outside the study such as the literature.

Table 5.4: Code Used For Malaysian Parent Companies, the U.K. Subsidiaries and the Interviewees

CODES	DESCRIPTION
CA to CS	Malaysian companies
SA to SS	U.K. Subsidiaries
Pm	Parent Companies in Malaysia
Suk	Subsidiary in the U.K.
Mm	Malaysian Malay
Mc	Malaysian Chinese
Mi	Malaysian Indian
Mo	Owner Manager
Mp	Professional Manager
Bm	British Manager
CFb	Chinese Family Business
GLc	Government-Linked Company
Cg	Conglomerate
Mf	Manufacturing
Svs	Services (Hotel, Shipping & Utilities)
Bnk	Banking and Finance
Su	Sales Unit
Cas	Associates Companies
Tr	Trading and Retailing
R&D	Research and Development
Eng	Engineering Services & Construction
pL	Plantation

Codes are also been assigned to the respondent companies and the interviewees as shown in Table 5.4. These codes represent identification of the interviewees, types of companies and also the industry. These codes are also used in the analysis found in Chapters 6.

The next step involved reading through the transcripts of each company and placing quotations into the designated theme and category cells. An example of this exercise is presented in Box 5.1.

Box 5.1: Example of Designating Quotation to Theme and Category

<p>CHAR/CC: FAMILY BUSINESS</p> <p>(REASON FOR RELEGATION)¹⁵ “because of the need to broaden the business activities” (1) (Pm_Mc_Mo_CFb_Cg)</p> <p>CHAR/CC: GUANXI</p> <p>(GOVERNMENT CONTRACT) “specialising in those day a lot in the government contract, army barracks, housing, work with JKR (Public Works Department of Malaysia), schools, hospitals and offices” (1) (Pm_Mc_Mo_CFb_Cg)</p> <p>IMP/I: PROFIT AND TURNOVER</p> <p>(LESS SUCCESSFUL) “So we thought, this is not all. Initially it is a very heavy expense. But I think we just about to see the light at the end of the tunnel. It was 6-7 years. (Pm_Mc_Mo)</p>

Source: Author’s Survey

From the above sample, the theme was coded as ‘CHAR/CC’, which represents the characteristic of the company where ‘CC’ stands for Chinese-owned companies. The category was presented as ‘FAMILY BUSINESS’ and ‘GUANXI’. IMP/I, is another example of a theme which represents the impact of the investment and ‘PROFIT AND TURNOVER’ as the category. The sub-category such as ‘REASON

¹⁵ Handing over the business to be managed by the sons/daughters

FOR RELEGATION', 'GOVERNMENT CONTRACT' and 'LESS SUCCESSFUL' are used to further categorise the meanings of the quotations. The themes and categories were, however, not final as they were subject to revisions throughout the data management process. This exercise was undertaken on all the transcribed interviews.

For the U.K. interview, a total of seven themes were identified and these are: (1) Familiarity with the parent company; (2) Motivation for U.K. Investment; (3) Mechanism of Investment; (4) Strategy of Investment; (5) Management of subsidiary; (6) Perception by British manager; and (7) Problem of U.K. investment.

Data analysis was approached in two stages, namely within-case and across-case analysis. Although the ultimate objective of the data analysis was to find a general explanation to answer the research question, each case also needed to be treated exclusively as the details for each case varied. Within-case analysis involved sifting through the data, discarding the irrelevant information and bringing together those that are relevant to the themes and categories. As Eisenhardt (1989) suggests, the overall idea is to become intimately familiar with each case as a stand alone entity, and this process allows the unique patterns of each case to emerge before investigation pushes to generalise patterns across cases (p 540). The author also reckoned that a clear understanding of each single case would help in the construction of cross-case analysis. The purpose of cross-case analysis is to enhance generalisability. Although generalisability is not warranted for case study research (see Section 5.5.2), it is useful in finding the relevance or applicability of findings to other similar settings. The objective of cross-case analysis is therefore to find whether the findings are typical or diverse and whether they make sense beyond their specific case (Eisenhardt, 1989; Miles and Huberman, 1994). Cross-case analysis also deepens the understanding and explanation (Miles and Huberman, 1994).

5.4.3 Thematic Charting

The purpose of thematic charting is to sort material of similar properties under the same category. This allows the author to analyse data within the same category and across cases before further analysis across categories is undertaken. This process, which is called thematic charting, means summarising the key points of each piece of data, retaining the context and the language in which it was expressed, and placing the data in themes (Ritchie and Lewis, 2003). The purpose is to display the data according to themes and categories across cases.

In the sample thematic chart shown in Table 5.5 below, each table represents a separate individual theme. Each column then represents a category while each row represents a respondent. The quotation from each unit of analysis was inserted under the category column. The idea for the charting was to summarise the transcripts in a way that context can be easily retrieved for later analysis. It was also meant to group together answers to the same question from the different units of analysis. Since the interviews were conducted using guided questions, regrouping was necessary as the answers given would not be found in the same place in the transcripts. This was the first step of content analysis. The objective was to arrange the data into some manageable portions. Patton (1990) noted that a classification system is critical as without it there is chaos.

In order to standardise data presentation, a similar method was made for reducing documentary data thematically. Documentary data was arrayed and displayed thematically, according to similar themes and categories as were used for thematic charting of interview data.

Table 5.5: Actual Example of Thematic Charting

Motivation of Investment	2.1	2.2	2.3	2.4
	Gov. Encouragement	Malaysian market	Regional Factor	Market Access
CA (Pm_Mc_Mo_Cfb_Mf_Su)		in a small economy such as Malaysia you will die naturally” (5) (SMALL MARKET)	if we market in this region is like a natural death” (1)	“We are actually market driven, we are forward looking” (1) (MARKET DRIVEN)
CB (Pm_Mc_Mp_Cfb_Cg_Svs)	“we follow the order of our Prime Minister that encourage Malaysian company to invest abroad” (2) (PM ENCOURAGEMENT)			we must penetrate a very lucrative European market” (MARKET CAPTURE)
CC (Pm_Mm_Mp_Bnk_Glc)		“Malaysia is a very small country with a population of 23 million” (1).(SMALL MARKET)		

Source: Author’s Survey

The researcher used manual coding, categorising and thematic technique (see Ritchie and Lewis (2003) and Basit (2003) in data analysis. Coding and categorising of qualitative data are tedious and time consuming when carried out manually. However, the rationale for choosing this approach is as follows:

- (i) The Researcher considered that 19 Malaysian interviews and 8 U.K. interviews would be manageable for manual coding, categorising and thematic charting;
- (ii) The Researcher can make sense of the data since the researcher is immersed in data coding and categorising;
- (iii) Manual coding, categorising and thematic charting enable the researcher to gain deeper understanding of the research area and at the same time able to

continue to refine interpretation of motivation, process and strategy of overseas investment. Basit (2003), for example, noted that manual coding and categorising helps the researcher to ask questions, to compare across data, to change or drop categories and to make a hierarchical order of them.

5.4.4 Drawing and Verifying Conclusions

After thematic charting was completed, the author proceeded with cross-case analysis of the data using themes and categories. This involved describing and rationalising all the events and the processes of overseas investment by each company into a holistic account according to categories and themes. A deduction was then made from the thematically presented data for all companies. Evidence supporting the categories and themes was displayed, and any counterevidence and subsidiary or branching paths were laid out, either to support the existing patterns or otherwise. Themes were also analysed within individual cases and findings on each theme aggregated across cases. The objective of cross-case analysis is to find similarity in terms of pattern and process for all case studies, as well as finding explanations for divergent cases before the final inferences can be made. The results of data analysis were presented topically in narrative form, based on the research questions. Data analysis was basically a process of making sense out of data which involved consolidating, reducing, and interpreting what people have said and what the author has seen and read (Merriam, 1998). The next step was making conceptual and theoretical coherence of the findings, in which the author started with the observations about the motives and strategies of Malaysian companies investing into the U.K., developed a description of what was happening and found the explanation of why it happened. The data were then used to structure the explanation in terms of the existing theoretical foundations in international business.

The author views this study as explanation building. It starts with observation, in which a picture of what is happening and why was developed, then data are used to structure the assumptions about the research questions. In other words, the explanation of the research findings is still within the context of international

business theory. The objective is to find a link between the research findings and the existing body of knowledge in the research area. Thus, the research will be the basis for developing an understanding of the issues of interest.

5.5 THE CREDIBILITY OF THE RESEARCH METHOD

The credibility of the research method such as the validity and reliability, need to be carefully dealt with in any research methodology. All research is concerned with producing valid and reliable knowledge in an ethical manner (Merriam, 1998). Below are the explanations on how these issues have been dealt with in this study.

5.5.1 Validity

Validity is another word for truth (Silverman 2000). Essentially, the two most important elements of validity in qualitative research are internal validity and external validity.

Internal validity concerns whether or not we are measuring or explaining what we claim to be measuring or explaining (Mason 1996). In this study, the author has tried to improve internal validity by comparing different sources of data and information, thus achieving some degree of data triangulation. Many authors such as Silverman (2001), Merriam (1998), Miles and Huberman (1994) and Yin (1994) suggest that triangulation will help improve internal validity of qualitative research. In the case of this research, most of the target companies are Malaysian public companies which are required to make public announcements about their investment, and these announcements are well documented. Data triangulation was achieved when detailed explanation of the public announcements by the companies was secured from the interview. The subsequent interviews with the subsidiaries in the U.K. were another form of triangulation. Using outside sources to validate the case study materials also enhanced internal validity (Merriam, 1998, p. 204). In addition, interviewing parent and subsidiary in the same study has been a common feature of international business research (Yeung, 1995).

External validity concerns the extent to which the research can be generalised into other contexts. Qualitative research has been criticised for being less able to be generalised. Some (for example Saunders, 1999) have argued that it is less rigorous than other methods, that it provides little basis for generalisation, takes too long, uses small and unrepresentative samples, and generates massive unreadable documents. Blaikie (2000) notes that in qualitative method, probability sampling is uncommon and is inappropriate in many instances, and that this contributes to the problem of generalisation.

It is not the intention of the author to argue that this research could be exactly generalised to other developing country TNCs. The study of Malaysian investment in the U.K., which is presented here, is a study of the reality of a particular internationalisation phenomenon, at the time it was collected, and in the words and understanding of the people who were interviewed. Generalisation to other case studies in qualitative research is always to some degree problematic and arguable. This is because studies conducted by different authors, at different locations and times, will be unique to a particular research and its environment (Blaikie, 2000). Therefore, this study is less likely to provide the kind of generalisation commonly made in quantitative research. The most plausible generalisation is across cases in a similar research context, which might be similar cases may show similar features. It is more difficult to make generalisations with cases from different countries, as companies may be established under a different footing and in a different business environment. However, these are not reasons to assume that this study cannot be generalised theoretically. The interactions of the findings of this study with the existing body of knowledge in international business show the research has broader significance. Since it is a case study approach it follows what Yin (1994) emphasises, that is, case studies do provide generalisations to theoretical propositions but not to population and universe.

5.5.2 Reliability

Reliability refers to the degree of repeatability and consistency of the research. For example, would the techniques used in the research yield the same results on

different occasions? Or would different researchers give consistent results on the same occasions (Merriam, 1998; Saunders et. al. 2000)? In the context of this research, the use of a clear research framework, well-structured guiding questions, tape-recording of the interviews, and written documents of transcription, satisfied research reliability, and the use of thematic charting ensured the repeatability of the analysis, leading to consistent results. Silverman (2000) for example argues that reliability can be achieved by tape-recording all face-to-face interviews, carefully transcribing these interviews according to the needs of reliable analysis and presenting long extracts of data in the research report (Silverman, 2001), and these procedures have been followed in this thesis. In the case of the threats to reliability, the familiarity of the interviewer with the background information of the companies that was obtained from Bursa Malaysia has lessened interviewer bias. Respondent bias has also been reduced since most information given by the Malaysian parent companies can be confirmed with the subsidiaries. Furthermore, the author is the single interviewer in this research, and thus the issue of inter-interviewer reliability does not arise.

5.6 CONCLUSION

Doing research on organisations in Malaysia, especially the qualitative interviews, proved to be very challenging. The lack of openness of some interviewees has resulted in a lack of detailed explanations. However, some of the information was obtained from the subsidiaries in the U.K., where the respondents were more willing to talk and more open compared to their Malaysian counterparts. Being a government officer has been a plus point for the author in making the first contact with the private companies. This networking shows how the corporate sector in Malaysia still considers that fostering relationships with the government is an important element in their daily business activity. Although connections were important in making contacts, there remained elements of unwillingness and caution on the part of the respondents to disclose information about family business and government-related transactions. In addition, secrecy is a known phenomenon in Chinese business, and as most of the units of analysis are Chinese owned

businesses, it is unsurprising that problems of disclosure were encountered. Given the nature of the companies, this is probably unavoidable.

Interviews were mostly conducted with the top level management of the parent company and also the U.K. subsidiary. This data collection method has contributed to the validity of the research since these two interviews (Malaysian and U.K) provide avenues for triangulation. Triangulation with documentary data obtained from various sources with verbal interview data ensure data are reliable and representative of the general position of the company.

The qualitative research approach proved, therefore, to be a valuable method for undertaking research on Malaysian investment into the U.K. Of course there are drawbacks to qualitative methods, as there are to any methods. It is, however, difficult to see how recollection of past experiences by the respondents about their motives and strategies of investment in the U.K. could be well interrogated using other than a qualitative approach. In this, as in numerous other ways, the choice of qualitative methods can be robustly defended.

CHAPTER 6: FOREIGN DIRECT INVESTMENT INTO THE U.K: MOTIVES AND SPECIFIC-FACTORS INFLUENCE

6.1 INTRODUCTION

This chapter aims to unfold the various motives of direct investment by Malaysian companies into the U.K. It draws upon the theories of the international production of firms (Buckley and Casson, 1976; Dunning, 1993), and multinational corporations from developing countries (Dunning, 1981; Tolentino, 2000; Yeung, 1998). This thesis also argues that outward FDI by Malaysian companies can also be partly explained by host country and firm specific factors, and specific features of the organisations and actors involved.

To identify the motivation for Malaysian companies to invest in the U.K., data were analysed using Dunning's four motives of internationalisation. Data were also analysed, based on the OLI Paradigm, to identify the firm specific factors, geographical considerations and internalisation advantages (Buckley and Casson, 1976; Dunning, 1988) of the Malaysian companies, and how they are used in U.K. investments. Additionally, Yeung's (2002) institutional regulations and the social organisation of capital for explaining transnational operations were also employed in the data analysis. Finally, the actors and in particular the company owners/founders were singled out for their role in internationalisation.

The background of the interviewees' to which the quotations are referred to in this Chapter and the following Chapters 7 and 8, are presented in Table 5.1 and Table 5.2 in Chapter 5.

Table 6.1: Types and General Motives of Malaysian FDI in the U.K.

Malaysian Companies	Resource Seeking	Market Seeking	Efficiency Seeking	Strategic Asset Seeking	Diversification Seeking	Synergy Seeking	Core Competence Seeking	Growth Seeking
CA (CFb Mf Su)		✓	✓			✓	✓	
CB (CFb Svs Cg)		✓			✓			
CC (Glc Bk)		✓						
CD (Glc Mf Su Cg)		✓		✓	✓			
CE (Mf Su)		✓						
CF (Glc Eng)			✓	✓		✓	✓	
CG (CFb Cg)		✓		✓	✓			
CH (Glc Svs)		✓	✓			✓	✓	✓
CI (Glc R&D)	✓			✓				
CJ (CFb Cg)				✓	✓			
CK (CFb Mf)		✓	✓	✓		✓		
CL (CFb Mf)				✓				
CM (CFb Mf)				✓	✓			
CN (CFb Mf Cg)		✓	✓	✓				✓
CO (Glc Mf Su)	✓	✓	✓	✓		✓	✓	
CP (CFb Mf Su)		✓	✓					
CQ (Glc Cg)					✓			
CR (Glc Eng)		✓	✓	✓		✓	✓	✓
CS (CFb Svs Cg)				✓	✓	✓	✓	
Frequency	2	11	8	12	7	7	6	3
Percentage	10.5%	57.9%	63.2%	63.2%	36.8%	36.8%	31.6%	15.8%

Source: Author's Survey

6.2 MOTIVES OF MALAYSIAN FDI

Data on Malaysian FDI into the U.K. as in Table 6.1 show that no single motive from Dunning's four categories (natural resources seeking, market seeking, efficiency seeking and strategic asset seeking) stands out as the primary reason for Malaysian companies' investment in the U.K. Instead, the data shows a mix of reasons as to why Malaysian companies choose to invest in the U.K. Of the four categories, natural resource seeking is the least cited motive for investing in the U.K. The other three motives, on the other hand, tended to be cited more frequently by the companies as their reason for investment. At the same time, the data also suggest that the motives of FDI by Malaysian companies are beyond Dunning's four types of FDI. There are other types of FDI such as synergy seeking, core competence seeking and growth seeking FDI. The motives for their investment in the U.K. are also driven by specific factors as discussed in Section 6.3. Therefore, the findings support the assumption made in Section 2.2.1.4 that Dunning's type of FDI can only provide partial explanation about Malaysian FDI.

6.2.1 Resource Seeking

Resource seeking, viewed in the 'traditional' sense as being to exploit natural resources, is the least suggested motive for Malaysian companies' direct investment in the U.K. Table 6.1 shows that only two companies highlight the motive of exploiting skilled labour force in the U.K. that are in short supply or limited in the home market. This contrasted with Malaysian companies that undertake investment to seek natural resources (abundant raw materials and cheap human resources) in other developing countries such as in Indonesia, Papua New Guinea, Thailand, Vietnam, China and Africa (Ragayah, 1999). However, because labour is still considered a resource (see Dunning, 1993, p 57), the motive of some Malaysian companies to exploit skilled human resources in the U.K. seems to fit into this category.

The data shows that two Malaysian companies seek highly skilled labour in the U.K. such as in technology driven investment (see Table 6.1). Company CI which

is involved in rubber R&D activity (see Table 5.3) for example, has retained its research centre in the U.K. since the 1950s although it also has a similar functioning R&D centre in Malaysia. The reason being, all technical staff in its R&D centre in the U.K. are British, and to learn the technology they prefer to bring their Malaysian staff to the U.K. Similarly, company CO which is involved in car manufacturing (see Table 5.3) tends to send its engineers to work with engineers in its U.K. subsidiary or attach them to specific projects in the subsidiary.

As we move along, the justification for us to continue remained in the U.K. after we took over after the Independence because at that time we don't have enough scientists[...] We need to admit that there is certain thing that we cannot do. That's why some people didn't like me, because I want it to be done there. We don't want to say that we don't know. We need to get to the stage that having the culture that can generate this thing in our own way. For the time being the place is needed to be there (CI: Pm_R&D_Mm_Mp_Glc).

We send our engineers to work with Lotus engineers. This is where you get the technology. There are also some Proton engineers that were attached to Lotus on specific projects (CO: Pm_Mf_Mm_Mp_Glc)

This trend to acquire highly developed technical experts and skilled employees, and high-functioning teams for product development was common in the 1990s (Ranft and Lord, 2000). They argue that because knowledge development is costly and capabilities are embedded to a large degree in tacit and socially complex knowledge of personnel, either individually or collectively, retention of personnel was crucial for the acquiring firm to realise its aim of enhancing its technology capabilities. Accordingly, acquisition of a high technology firm was seen as the best option to undertake (e.g. company CI and CO).

6.2.2 Market Seeking

Market seeking motive is normally associated with the selling of product and services in another country. It differs from one host country to another as it depends on the overall host country market size and on trade barriers (Farell et al., 2004). For Malaysian investment into the U.K., the flow of investment and the market

access motive depends on the Malaysia's domestic market, the nature of the product and the type of business activity.

Data show that 63.2% of the companies studied cited market seeking as one of the motives for their direct investment into the U.K. (see Table 6.1). This finding confirms the assumption made in Section 2.5.5 on the primary motive of FDI by Malaysian companies. A majority are distributing their products in the U.K. market. They are creating sales and production subsidiaries which can be regarded as a second step of internationalisation after exporting (Barber, 2001). The companies needed to seek new markets as they faced limited demand in the domestic market and competition from other domestic firms. As the companies looked towards expansion and sustainable growth, and if the demand for the product was bigger in the international market or other countries, it therefore made sense for the companies to establish sales units overseas. Table 6.2 shows some of the companies that have established sales or distribution units in the U.K. to help them capture the market.

Table 6.2: Sales Unit and Products Marketed in the U.K.

Malaysian Companies	U.K. Subsidiaries	Products
CA (CFb_Mf)	Sales Unit	Security seals
CE (Mf)	Sales Unit	Gloves
CO (Glc_Mf)	Sales unit	Passengers Cars
CP (CFb_Mf)	Sales Unit	Pewter
CD (Glc_Mf_Cg)	Sales Unit	Tyres

Source: Author's survey

The companies had each started their involvement in the U.K. by exporting. By establishing their own subsidiaries, the companies sought to serve the market directly and explore new market potential rather than being dependent on third parties or agents. While using agents or third parties distributors, Malaysian companies perceived it will reduce profit and unable to control the export volume.

This kind of product requires the selling to be more personal especially to the farmers or farmers cooperative. If you assign the distributor they may not do that type of selling for us. If you assign distributor, the profit will reduce. Tyres business very competitive and we started our own and we are quite successful (CD: Pm_Mc_Mp_GLc_Cg)

We had initially a distributor in the U.K., but of all of these distributors in the world as you know, they want to sell their own brand. They bit reluctant to buy full container load from you (CE: Pm_Mf_Mc_Mo)

Market seeking undertaken by Malaysian companies, however, does not necessarily refer to the direct sales of Malaysian finished products (e.g. company CG, CK and CN). They do not sell the product that they have produced in Malaysia. Instead, they supply intermediate products to their U.K. subsidiaries that are then used to produce end products under the U.K. brand name or other international brand. Company CC (banking), company CB (Hotel), and company CR (engineering services) are also considered as undertaking market seeking FDI (See Table 5.2).

This approach of market seeking in foreign distribution depends on product acceptability to local conditions and location of the customers. As such, the data for example shows that company CO markets passenger cars for the U.K. market based on what they perceived as 'appropriate technology', aiming to occupy a niche market. With lower product cost, company CO is able to export into a perceived "readily available Commonwealth market" that only requires minor modification to the products. This use of 'appropriate technology' is similar to that of Korean multinationals (Kumar and Kim, 1984).

Another form of market seeking investment is based on the 'follow the client' motive (Dunning, 1993), and is typical of services companies. Interviews with three Malaysian companies engaged in service activities support this argument. company CC, a commercial Malaysian bank, has branches in cities such as Hong Kong, Tokyo, Singapore and London and provides financial services in import and export. The company serves Malaysian companies and also companies that have investments in Malaysia. The company acknowledges their 'follow the client' motive in their foreign investment as follows:

We would try to trail wherever Malaysian goes, because we know our customers best. If we need to have office overseas then we go where our customers are (CC: Pm_Bnk_Mm_Mp_GLc)

The 'follow' the client motive is also applicable to non-financial companies such as company CR. They provide services in the oil and gas industry and needed to be present in different countries:

For shore inspection you need a presence globally. Because for shore inspection like Petronas, Shell etc, they will buy equipment from all over the world, Italy, Germany, Argentina and so on (CR: Pm_Eng_Mm_Mo_Glc)

Similarly, company CA, is a trading company that produces plastic seals, where its customers include international companies such as DHL and Shell. These companies operate in different parts of the world. For this reason, company CA considers that their presence in the international market is vital so as to be close to their main clients:

So we sell to company like Shell, DHL and when this company buy from you they are not just using in Malaysia or Pacific region, they use all over the world (CA: Pm_Mf_Mc_Mo_Cfb)

Data on Malaysian investment in the U.K. shows that the investment location offers another explanation of the underlying market seeking objective. The data reveals that Malaysian companies do not see the U.K. as just a final market destination. In addition to its market potential, 26.3% of the companies studied see the U.K. as a base for accessing the larger European Union (EU) market:

The obvious market is always U.K. U.K. is seen as a spring-board to European market (CA: Pm_Mf_Mc_Mo_Cfb)

We also look Britain as a gateway to EC (CC: Pm_Bnk_Mm_Mp_GLc)

So the basis for setting up centre in U.K. is for export into other market (CD: Pm_Mc_Mp_GLc_Cg)

As far as the EU is concerned, Malaysian companies perceive Europe as a big market that cannot be ignored, and even bigger than the U.S.A. market (e.g. company CA). The U.K. is also seen as a base to access markets outside the U.K. and EU. By having their subsidiaries in the U.K., many of the companies are able

to penetrate other non-European markets such as the Middle East, the U.S.A., Hong Kong and China:

Many years we are trying to penetrate the Middle East market. Our cost is low. But somehow, we can never enter this market. But nevertheless as far as Middle East market is concerned, it has to be from the U.K. So we do the finishing in the U.K. The mind set is that they don't mind to pay the premium price (CK: Pm_Mf_Mm_Mo_Cfb)

In addition, the U.K. company that was acquired by company CK is recognised in China and Hong Kong, potential future markets that company CK has yet to penetrate. Dunning (2000) explains this as dynamic ownership specific advantages which refers to the ability of the firm to locate their value added activities in countries and regions both for creating or acquiring new ownership specific advantages, and for exploiting their existing advantages (p 173).

Other ways in which Malaysian companies use the U.K. to enter other markets are through the existing networks of their U.K. partners and/or leveraging on their U.K. subsidiaries' reputation. Company CR, for example, uses their U.K. partner's existing network to expedite their market access to other developed and developing countries' market. For company CR, their U.K. partner has also helped them to penetrate non-traditional markets in the Middle East, the U.K. and the U.S.A., where previously their market was limited to neighbouring countries in the ASEAN region:

Without Joe Wilson, we may be still in Thailand and other neighbouring countries. With the tie up we would be able to go to Middle East, U.K., U.S. etc (CR: Pm_Eng_Mm_Mo_Glc)

Company CA, on the other hand, used their U.K. subsidiaries' reputation in the international market to penetrate into other industries and produce more sophisticated products:

It is expected that acquisition will allow the group to penetrate into other growth industries, notably electronic seals engineering and logistic

tracking programmes and systems where Encrypta has established a reputation in the international marketplace (CA: Pm_Mf_Cfb)¹⁶

In all of the above cases, Malaysian companies are aiming towards the U.K. market, the EU and also other developing countries' market. Malaysian companies' direct investment in the U.K. is justified because the U.K. itself is a good market for their products. It also has the added distinction of offering companies the anticipation and potential to access the bigger European market. They are also using their UK subsidiaries to export to other developing countries' markets which perceive U.K. products as being of better quality than Malaysian products. The companies studied, however, have not cited their motive of FDI as being to avoid trade barriers as in the case of TNCs from Hong Kong (Wells, 1978), India (Encarnation, 1982) and China (Deng, 2004) (shown in Table 2.4).

6.2.3 Efficiency Seeking

Dunning (1993) postulates that one of the motives of efficiency seeking FDI is to benefit from differential cost and availability of traditional factor endowment in different countries (see Section 2.2.1.3). In the context of international business, it was traditionally assumed that the availability of natural resources and cheap traditional factors such as labour is an element in the developing countries. The differences in these factor endowments have encouraged efficiency seeking MNEs from the developed countries to exploit the benefit in investing in the developing countries (Dunning, 1993). It is not, however, widely acknowledged that efficiency seeking FDI is about developing countries undertaking investment in the developed countries to exploit their access to cheap factor endowment that is available to them in the home country. Data on Malaysian companies investing in the U.K. suggest that 42% of the companies studied cited efficiency seeking as one of their motives of FDI. Among others, they are undertaking upstream value-added activities in the U.K. at relatively lower real cost due to their access to cheaper factors endowment in the home country. A similar motive was observed by Wells (1988) on Brazilian multinationals (see Table 2.2). In terms of industry, the data show these companies

¹⁶ Bursa Malaysia (1999a)

(e.g. company CA, CF, CH, CK, CN, CO, CP and CR) are manufacturing based companies and services companies (see Table 6.1 and Table 5.3).

I think in the longer term what will allow us to take advantage of lower cost is when our components and raw materials are available in the Far East as well and we don't have to travel and we don't have to take our components or raw material send them out there and make a product, it does not make economic sense. Once you have got the infrastructure in place that allow you to buy locally to build the product and bring it here, the I think we will be in much better position (SG: Suk_Tr_Bm_Mp)

We have a lot of plans that have been delayed. Such as we want to manufacture burners in Malaysia because the cost is cheaper, we have enough space in Pasir Gudang. But the unforeseen circumstance has held back our plan. I thing it will be better in future after four years we are in red (CK: Pm_Mf_Mm_Mo_Cfb)

In the context of Malaysian investment in the U.K., real labour cost such as production cost and labour is a negative influence to their foreign investment decision. This is because to most of Malaysian companies in the U.K., they consider U.K. to be a high cost country. Therefore, cheaper unskilled and semi-skilled labour factor is not relevant in this context. Malaysian companies are not relocating labour-intensive production to the U.K. due to its position as high cost country. By investing in the U.K., they are actually employing skilled labour force while at the same time sacrificing higher wages they are paying to the U.K. employees.

In the context of economies of scale, this arises in all aspect of MNEs operation. It can be achieved if more units of a good or services can be produced on a larger scale and at a reduced cost. In the context of international business, the idea is that unit cost falls as output rises in supplying markets in different countries. In the context of Malaysian investing in the U.K., efficiency seeking FDI can be achieved if the access to R&D, marketing expertise and skilled labour in the U.K. will increase the quality and larger number of products produced and then the company have better chance to decrease its cost. Network expansion and brand acquisition also allow production at a bigger scale.

What attract us to buy over the U.K. company, since all along we do our own R&D, own design. Over the years we become stagnant. But in U.K. they are very strong in R&D. But they are not innovative in manufacturing like us. By nature we are more creative; they are more concentrate on R&D and design. So it is a good blend. We do swap people around. What they can pick up from us, it is transferred to the other side (CK: Pm_Mf_Mm_Mo_Cfb)

In contrast, the above motive could generate the diseconomies of scale due to disadvantages of division of labour, distance between Malaysia and the U.K. which cause irregularities in communication and slow decision making, poor labour relations, higher labour wages and higher overall cost of investment.

6.2.4 Strategic Asset Seeking

Strategic asset seeking in the context of Malaysian investment in the U.K. is related to the acquisition of technological assets and product brands. It is to fulfil the objective of sustaining or advancing their international competitiveness (see Dunning, 1993 p 60). It is also to gain product improvement and competitiveness via association with a well regarded technology and product brands. Technology is considered as a strategic asset as it is embedded within the company together with the brand, and includes intellectual property rights or intangible assets (see Galbreath, 2005). A combination of product, technology and brand is therefore considered as an asset owned by the company. Data show that 63.2% or 12 companies studied could be considered as undertaking strategic asset seeking FDI (see Table 6.1). This motivation of FDI is similar to FDI by Taiwanese and South Korean firms into North America and the European Union as observed by Dunning et al (1998) and noted in Section 2.5.6.

6.2.4.1 Technology Sourcing FDI

The motivations of FDI by Malaysian TNCs are best described as to access rather than to export technology, unlike TNCs from Taiwan, South Korea, Hong Kong, Brazil and Singapore (as in Table 2.1). This might explain the difference in the level of technology capability and phases of FDI between Malaysia and the above countries. The basic route of technology seeking FDI normally involves the

acquisition of companies that have the technology and expertise that the Malaysian companies could leverage on. From the study of the nineteen Malaysian companies in the U.K., 9 cases or 47.3% of the companies studied could be considered as technology seeking FDI (see Table 6.3), where the objective was to own the technology via outright takeover or mutual technology transfer through shareholding of the target company.

LEC Refrigeration was originally intended for reverse technology transfer. LEC is a very established British manufacturer of refrigerators since 1942. The idea was to buy the company and take the technology to Malaysia and start technology transfer (CD: Pm_Mc_Mp_GLc_Cg)

We cannot even do it by ourselves here in Intria. So as you can guess one of the primary reasons is to tap their expertise, their knowledge and their global reach (CF: Pm_Eng_Mi_Mp_Glc)

So when we buy this company, our intention was to buy the technology (CM: Pm_Mf_Mc_Mp_Cfb)

Learn the technology. That was the intention of acquiring the company (CO: Pm_Mf_Mm_Mp_Glc)

Most of the technology seeking investment involves outright acquisition of the U.K. companies concerned. This results in ownership of the companies' technology. Table 6.3 shows the Malaysian companies and the technology of the U.K. companies that they acquired. A majority of the companies are manufacturing based except for company CR. Five are GLCs which confirms the assumption made in Section 4.5.2 about the motivation of GLCs in FDI as being to acquire technology.

Table 6.3 Malaysian Companies and U.K. Technology

Malaysian Company	Technology Acquired
CF (Glc_Eng)	Infrastructure Engineering
CI (Glc_R&D)	Rubber Product
CK (CFb_Mf)	Industrial Boilers
CL (CFb_Mf)	Automotive components
CM (CFb_Mf)	Paper mill machinery
CN (CFb_Mf_Cg)	Refrigeration
CQ (Glc_Cg)	Refrigeration
CO (Glc_Mf_Su)	Car Engineering
CR (Glc_Eng)	Off Shore Engineering

Source: Author's Survey

Obviously, technology seeking is one of the major motivations for Malaysian companies to invest in the U.K., especially manufacturing companies. In this regard, the Malaysian companies have described the technology of the U.K. target companies as superior in many aspects: established British manufacturers have, for example, a long established international expertise and reputation (e.g. company CS)¹⁷, extensive experience in their field (e.g. company CO), strong R&D (e.g. company CK and company CL), a centre of excellence (e.g. company CL), and its own higher specification technology (e.g. company CM). Acquisition is therefore expected to help push the Malaysian companies forward, as in the case of Company CK which expects to revive their R&D in Malaysia because they consider the U.K. company as being good in R&D:

What attract us to buy over the U.K. company, strong R&D. Our own R&D, own design, years we become stagnant. But they are not innovative in manufacturing like us. They use the U.K. Standard and the U.S. Standard for boilers. We in Malaysia don't have the Standard Code for boilers. Our chief design engineer in the U.K. sits on the Committee of Governor of British Standard (CK: Pm_Mf_Mm_Mo_Cfb)

An extreme case shows one company, company CO, which considers their acquisition of the U.K. company as being 'a matter of survival' after their failed collaboration with a Japanese car maker:

This is a matter of survival. Survival for Proton is technology. Unless you have the technology you can't access market. Maybe to Mitsubishi when we built Proton, we are competitor to them. So in terms of technology transfer this may affect the speed of technology transfer (CO: Pm_Mf_Mm_Mp_Glc)

Technology and product competitiveness also arise from the notion that the quest to go global requires the company to have a technologically advanced product. Although many Malaysian companies have developed their own products, the capacity of the products to compete internationally is still quite limited. As such, the acquisition of technology to improve product branding is deemed necessary to enable the product to be marketed globally:

¹⁷ Bursa Malaysia (1996).

If we just intend to settle within Southeast Asia should be enough, but we want to go global. If you want to go global, no matter how, the brand name is so important. If we want to promote Mechmar boilers (our own brand) it can only penetrate into limited country. We are only twenty years in the manufacturing. Beyond that, we cannot do it, although we have tried (CK: Pm_Mf_Mm_Mo_Cfb)

In the above example, the acquisition of the company with years of producing similar products but with a different brand name is expected to open the door for the Malaysian product to enter other markets with very little improvement needed to be made on the product. Consequently, it also contributes to achieving the market seeking motive.

For the service-based engineering company, however, the motivation for technology seeking FDI is less obvious because for them the technology is in the equipment that they could acquire from the best supplier:

Technology is actually international. We are a service company. Technology is something to equipment, technique. Actually technology comes from all over the world. No such thing that company A transfer the technology to company B. For us the technology is equipment. We buy the equipment (CR: Pm_Eng_Mm_Mo_Glc)

It is fair to say that technology seeking FDI is more relevant for investment from developing country into developed country than vice versa. This motive, for instance, is similar to India's investment into the U.S.A. and the U.K., which is to get access to technology and knowledge to enable them to strengthen competitiveness and move up their production value chain (UNCTAD, 2004b). It is also similar with the motive of FDI by TNCs from China and Indonesia (see Table 2.1).

6.2.4.2 Acquisition of Established Product Brands

Malaysian companies have two motives with regard to product branding. One is to promote the Malaysian own brand in the international market. This involves Malaysian companies establishing subsidiaries in the foreign market to sell and promote their own brand. This motive of FDI, which is also considered as the

market seeking motive, was discussed earlier in Section 6.2.2. The other motive is to acquire international brands because the company is unable to promote their own brand in the international market. This is considered as the acquisition of the strategic assets of the target companies (Dunning, 1988).

Malaysia has long been recognised as a destination for OEM manufacturing especially from multinational companies from all over the world. Many Malaysian companies have used the knowledge gained from OEM production to move up the value chain by creating their own product brand. However, the success of promoting Malaysian own designs and original brands is still very limited. Most companies have experienced difficulties in promoting their local brand in the international market. Company CN, for example, had started with their own brand but received limited coverage. They later acquired U.S.-based international brand, McQuay for the international market. Company CK too has been trying to promote their own brand in neighbouring countries but without much success:

We have tried. More than seven years we tried it. We only succeed in the playing field of Asean region. Beyond that we haven't succeeded. Because these are the product that has been produced before us. To them our product is still a secondary product. Again this is the mindset. But sometime it is true also. They started earlier than us (CK: Pm_Mf_Mm_Mo_Cfb)

Backman (2005), however, sees this problem as stemming more from the conventional and traditional wisdom that most Asian entrepreneurs, and by association Malaysian entrepreneurs, are not good at building brands. He further adds that their dislike of spending on intangibles such as consumer research, marketing and brand development have led some to resort to the backdoor method of owning a brand by buying into existing brands that have been accepted internationally. The high cost of developing an own brand also suggest that the Malaysian companies may perceive that the cost of buying an international brand is less than the marketing expenses required to establish a Malaysian brand as an international brand. There is also the question of whether the Malaysian products are just as good as other well established brand, but perceived not to be? By asking the question to the respondent the answers are always that their products are as

good as products from developed countries. However, in reality the product maybe substandard thus received negative perception from the consumer. Some interview results in this study are certainly suggestive of the difficulties of developing own brand internationally:

We acquire brand name, because it is an international brand. Malaysian brands are still very restrictive. So this is the opportunity for us. We make use of the brand name. It is whether you develop a brand name or you acquire one (CG: Pm_Mc_Mo_CFb_Cg)

It could take a long time to build a brand to an international recognised standard and the chances of success are uncertain: on the other hand, buying a successful international brand would be very expensive (CJ: Pm_CFb_Cg)¹⁸

Tried more than seven years, succeed in ASEAN region only because new product. To them our product is still a secondary product. Again this is the mindset. But sometime it is true also. They started earlier than us. Customer afford premium brand buy premium product (CK: Pm_Mf_Mm_Mo_CFb)

Table 6.4 lists the Malaysian companies that have acquired U.K. brands. They represent 42.1% of the companies studied which also confirms the assumption made in Section 2.2.1.4. The brand names represent sectors such as manufacturing, retailing and services.

Table 6.4: Malaysian-Owned U.K. Based International Brands

Malaysian Company	Product Brand (Acquired)	Business
CD (Glc_Mf_Su_Cg)	LEC	Refrigerator
CG (CFb_Cg)	Crabtree & Evelyn	Personal Care Products and Toiletries
CJ (CFb_Cg)	Laura Ashley	Home Furnishing & Fashion
CK (CFb_Mf)	Cochrane and Beel	Industrial Boilers
CM (CFb_Mf)	McLean & Gibson	Engineering
CN (CFb_Mf_Cg)	J&E Hall, Jackstone Froster	Air Filter
CO (Glc_Mf_Su)	Lotus	Automobile Engineering
CS (CFb_Svs_Cg)	Wessex Water	Water Treatment

Source: Author's Survey

Data on Malaysian investments in the U.K., however, also suggests that not all companies have acquired the U.K. brand because of their failure to develop their own brand. Company CD had acquired the LEC brand in the U.K. although the

¹⁸ Sze (2002b)

company is not involved in any kind of refrigeration manufacturing in Malaysia, which is the activity of the acquired company in the U.K. Neither is it involved in any activity related to promoting refrigeration brands. Similarly, company CG whose main activity in Malaysia is in plantation had acquired the well-recognised brand name of Crabtree and Evelyn when it acquired the same-named manufacturer and retailer of personal care products and toiletries. Although these companies are not involved in brand development in Malaysia, with their acquisition of the product brands they can still be regarded as strategic asset seeking. The activities of the acquired companies in the U.K. then become the downstream activities of the Malaysian companies.

Another significance of brand ownership to Malaysian companies is its inferred association with technology superiority. Company CO acquired Lotus Car Limited in the U.K. because it wanted to be associated with high quality and high technology cars. Being a relatively new car manufacturer, company CO felt the need to associate themselves with an established brand. Their first collaboration with Mitsubishi had failed to create market confidence in their product. Following this, they acquired Lotus to enable them to be associated with a stronger and well-known brand which in turn contributed to the acceptance of their brand in the U.K. market and world wide:

In fact we need to leverage on a very strong brand. Mitsubishi is not that strong in term of brand. In fact in Malaysia they are also not strong. But at that time Mitsubishi is willing to become our partner. But we need to look at the future of the company, what need to be done. May be to Mitsubishi when we built Proton, we are competitor to them. Lotus acquisition was entirely different. It is in the sense that how we can enhance our brand. Increase acceptability, better brand. So it is the opportunity for Proton to increase the confidence among the consumer. With this association we amend the credibility of the product (CO: Pm_Mf-Mm_Mp_Glc)

Developing countries' markets seemingly perceive products from developed countries such as the U.K. and the U.S.A. as being of higher quality. As such, by having their production in the U.K., Malaysian companies thought that this could create and increase customers' confidence in their products:

Boiler is not to say is very high-tech but it is a long engineering product so the confidence factor is not there. Somehow even the Middle East like Bahrain, Kuwait, they strictly follow American and British. Reason being because for all the projects, they always appointed British or American consultants. So the mindset is that anything from Malaysia and other Asean countries are inferior to them, even the Japanese. This is the problem actually. This is one of the reasons we bought over two companies in the U.K. (CK: Pm_Mf_Mm_Mo_Cfb)

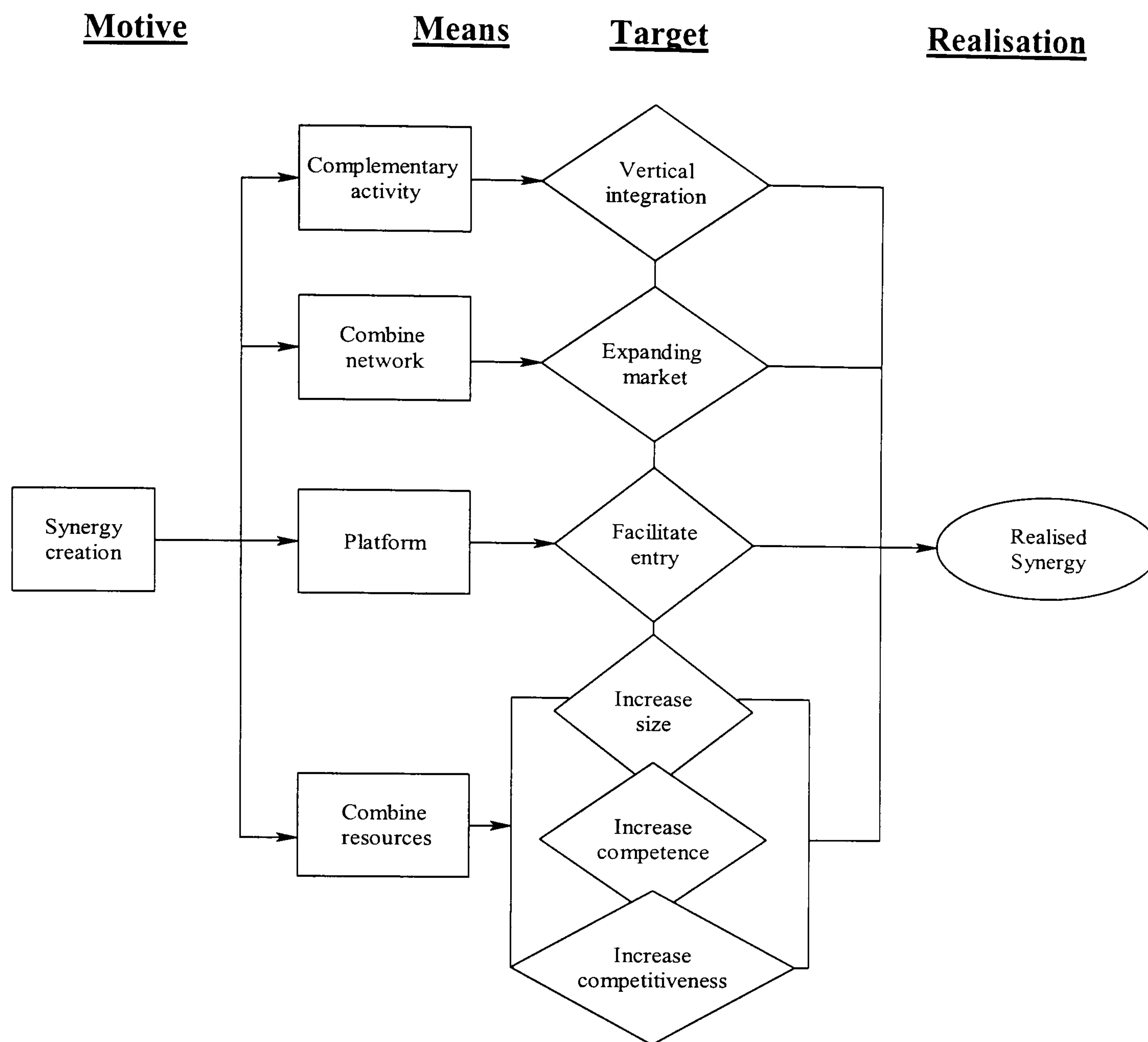
6.2.5 Synergy and Core Competence Motives

Dunning (1993), when he discusses strategic asset seeking motives, has noted that the strategy asset acquirer aims to capitalise on the benefit of the common ownership of diversified activities and capabilities. These benefits may be contributed by the realisation of synergy and core competence as a result of the acquisition of foreign subsidiaries. As discussed in Section 4.2.1 and 4.2.2, synergy seeking and core competence could also contribute to economies of scale and scope which is the basis of efficiency seeking FDI.

6.2.5.1 Synergy Seeking Motive

Synergy seeking with regard to Malaysian investment in the U.K. is applicable to both manufacturing and services companies. As presented in Table 6.1, although it is not as highly rated as market seeking and strategic asset seeking motives, 36.8% of the companies studied cited their U.K. investments as being to realise synergy between the Malaysian and the U.K. subsidiaries. This motive has not been widely recognised in previous studies of developing countries' multinationals (see Table 2.1). The expectation of the Malaysian companies' investment in the U.K. with regards to synergy seeking can be summarised using four elements of synergy creation, namely complementary, combining network, platform and combining resources. This is depicted in Figure 6.1.

Figure 6.1: How Malaysian Companies Create Synergy through FDI.



Source: Author's Survey

Synergy is expected to be achieved with the acquisition of shares in a target company that has a similar type of business, but has different levels of experience and expertise, so that their activities complement each other or allow functional skill transfer (Haspeslagh and Jemison, 1996, p 154):

When we acquired Costain, company CF is supposed to be a global construction group. Leveraging on Costain, one of the leading U.K. construction company. More than 132 years experience in the business, operation worldwide including infrastructure jobs such as Hong Kong airport, the tunnel and other major projects (CF: Pm_Eng_Mi_Mp_Glc)

We have money, they have technology. But they view us also in terms of collaboration of expanding their product outside of the U.K. This is because Lotus business is very much in U.K. and Europe and not in other parts of the world. By collaboration with us, their products can be exported to other parts of the world (CO: Pm_Mf_Mm_Mp_Glc)

It (Laura Ashley) also fits well with the group's strategy of focusing on global business in the fields of retailing (CJ: Pm_CFb_Cg)¹⁹

Malaysian companies also expect to create synergy through combining networks to increase the market coverage of their product. This value creation occurs when capabilities transferred between firms improve a firm's competitive position and consequently its performance or domain strengthening (Haspeslagh and Jemison (1996, p 147). Company CA, for instance, expects to use its foreign subsidiaries as a platform to cross-sell its range of products across various countries (Bursa Malaysia, 2000a). Similarly, company CH considers its acquisition of an American tanker company as a means of widening its coverage and network into other regions. In its announcement to Bursa Malaysia about the acquisition, company CH noted that:

The combined group of AET and MISC will allow new platforms of growth to be established in markets in the North Sea, African and Mediterranean, partly backed by synergy opportunities available through a larger fleet and the Petronas group of companies' upstream developments in the same markets (CH: Pm_Svs_Glc)²⁰

Synergy seeking acquisition is also expected to increase product value added, and consequently to aid the market seeking objective of the firms or domain exploration (Haspeslagh and Jemison, 1996):

Encrypta's patent rights to its product technology will allow the combined marketing resources of Abric and Encrypta to maximise the market potential of all future sales and product developments (CA: Pm_Mf_CFb)²¹

MechMar has an existing subsidiary, BIB Group Plc in the similar business of boiler manufacturing in the United Kingdom (U.K.). The combined businesses with the new acquisition will now place the Group to be the largest player in the U.K. for the fire tube boiler market (CK: Pm_Mf_CFb)²²

¹⁹ Bursa Malaysia(1998)

²⁰ Bursa Malaysia (2003)

²¹ Bursa Malaysia (1999b)

²² Bursa Malaysia (2000b)

The added value captured from synergistic motive FDI is also realised by using subsidiaries in the advanced countries to improve upon the product that is produced by the acquiring company in their home countries, and to market these improved products in countries where products from western countries are more acceptable (as discussed in Section 6.2.2):

Laura Ashley fits well with Company CJ's strategy of expanding into the international retail industry as the London-listed company has carved a niche in both fashion and furnishings with private label offer that ensure exclusivity and fetches premium pricing (CJ: Pm_Cfb_Cg)²³

In terms of combining resources, synergy is expected to be created through increased size and sharing of networks for market expansion:

The pooling of resources and expertise resulting from this transaction will enhance Company CH's capability and capacity to better meet the needs and demands of its customers, particularly in regards to fleet size and flexibility, market reach, improved customer service and new products (CH: Pm_Svs_Mm_Mp_Glc)

6.2.5.2 Core Competence Motive

Core competence motive of FDI has been cited by 31.6% of the companies studied (see Table 6.1) which is essentially a significant motive of FDI. In the context of Malaysian investment in the U.K., the core competence driven investment can be categorised into two. These are to seek new competence or to enhance the existing core competence by acquiring a foreign company, and to exploit the existing core competence of the company.

Competence enhancement has been widely cited as the motive of FDI by the companies studied (e.g. company CF, CG, CO and CR) as shown in Table 6.1. Competence enhancement can be achieved by way of acquiring and leveraging on foreign subsidiaries' core competence. This can happen, for instance, in situations where the company feels that their existing core competence which has been developed over the years, have not enable them to compete effectively in the

domestic or international market. To achieve higher core competence, therefore, the Malaysian company seeks to acquire a company that has a higher level of core competence:

We cannot even do it by ourselves here in Intria. So as you can guess one of the primary reasons is to tap their expertise, their knowledge and their global reach. As up to date I don't think it is a very successful experience. Although we have use them for our own proposals here in Malaysia especially some of our big job before (CF: Pm_Svs_Mi_Mp_Glc)

So our association with Lotus, we expect we can sell not because of the price but we have to sell based on value. So you have the capability to sell the product but not putting it below the value (CO: Pm_Mf_Mm_Mp_Glc)

The two companies quoted above provide good examples of the acquisition of the core competence of others as a route to success. In the case of company CF, it has been successful in infrastructure projects in Malaysia, but feels less able to engage in international infrastructure projects because of lack of international expertise or competence. They expect to obtain this competence by acquiring a well-known infrastructure company in the U.K. In the other example, company CO markets their passenger car in the U.K. based on price competitiveness or by offering lower prices. By associating with a well known British car company, they expect to move from selling based on price to selling based on 'value' (the word is the company's own, and serves here as a figure for brand-based premium pricing).

The second category of core competence-driven investment relates to Malaysian companies' utilisation of their existing core competence in other countries via direct investment (e.g. company CA, CD and CS in Table 6.1). This core competence had been developed over the years via their involvement in domestic projects or in other developing countries. This core competence can take the form of management capability, and/or of product competitiveness:

In part because we felt that we need to take advantage of our skill that we acquired in the late 1980s when we went to Zimbabwe, South Africa,

²³ Shanmugam (1998)

Papua New Guinea, China and Indonesia. A lot of it is focusing in the developing countries (CS: Pm_Mc_Mo_Cfb_Cg)

Social factors also help bring in opportunity to us. By being able to combine good hard work, good market position because we were looking to get a better deal and ability to match the people (CH: Pm_Svs_Mm_Mp_Glc).

We are the first in Asia Pacific and among the first in the world to produce plastic as a seal. It is very unique product, very, very unique (CA: Pm_Mf_Mc_Mo_Cfb)

For Sime Europe, its core competency is in marketing. They have knowledge for the European market for tyres, and secondly it serves as intelligence for us. We gathered information, data, trend and market in Europe. So we survive because of marketing. They have done a good job over many years (CD: Pm_Mc_Mp_Glc_Cg)

The above quotations also show that some companies have accumulated skill in management capability (e.g. company CH), marketing (e.g. company CD), competitive cost structure (e.g. company CS) and product competence (e.g. company CA). Table 6.5 shows the example of the evolution of company CS in developing its core competence.

Table 6.5: Map of Competences of Company CS

First stage – Infant	<ul style="list-style-type: none"> - small establishment - run by founder - family run and funded - Small project - Government contract
Second stage – Higher degree of competence	<ul style="list-style-type: none"> - bigger establishment - Bigger project - Change management - Professionally managed - Stronger balance sheet
Third Stage – Exporting Competence	<ul style="list-style-type: none"> - Utilise financial strength - Strong financial engineering - Increase experience - Identify new venture overseas
Fourth Stage - Interdependent Competence/seeking higher degree of competence	<ul style="list-style-type: none"> - Mixing competence with subsidiaries - Effect - Increase competence in home country - On going - Building competence internationally

Source: Author's Survey

In the above example, company CS started as a family business with limited activities. It began to build up its competence via government contracts, a lucrative and secure form of investment. It first was involved in smaller construction projects awarded by the government and later went on to bigger projects, both government and private construction projects. These projects helped the company become a cash-rich company. This can be viewed as being in line with the suggestion by Post (1997) who describes core competence as being subject to learning which develops over time (see Section 3.2.1).

Another important core competence that Malaysian companies consider to have driven their overseas investment is the possession of financial strength. This involves companies that have built their cash reserves for years and those that have managed to get funds from external financial markets. The data suggest that their core competences are based on strong balance sheets that enable them to put in respectable bids for foreign acquisitions (e.g. company CH, CS and CR). Company CS is further ahead by having the financial engineering skill or the ability to source cheaper funds from domestic and international markets, which they also consider as their core competence:

[...] And third we have a very strong financial balance sheet position. Able to go into the market and procure funding at the much cheaper rate than our competitor. So all the financials pointed to the right thing, all our capability was right, the cost was right and we were able to put in a respectable bid (CH: Pm_Svs_Mm_Mp_Glc)

Of course we have the capacity in financial terms. By that time we have already accumulate almost US\$1 billion dollars of cash. Part of it is leverage through competitive price borrowing. We are very strong in financial engineering skill, in identify cheap money to borrow and at the same time using that money to invest in a very strong asset (CS: Pm_Mc_Mo_Cfb_Cg)

In general, product and financial strength are the two most important features of core competence that drive Malaysian investment overseas. The core competence within the companies is used not only to start the investment but also to further increase other forms of competence that the company seeks. The mix of core competences between parent and foreign subsidiary is as such seen to improve the

company's position in the home country and abroad. Increased financial strength is also considered as core competence that needs to be redeployed to exploit its benefit (Lee et al., 1991; Montgomery, 1994; Teese, 1980).

6.2.6 Diversification

In earlier chapters, it was noted that some of the Malaysian investment in the U.K. was undertaken by conglomerate corporations. Analysis of the diversification motive of these companies that follows is based on the definition of diversification as proposed by Buckley and Casson (2002), Davis et al. (1994), Montgomery, (1994) and Ramanujan and Varadarajan (1996).

6.2.6.1 Forms of Diversification

As presented in Table 6.1, 36.8% of the companies studied cited that their investment into the U.K. is to diversify their existing businesses. The data also show that the diversification motive is not merely associated with conglomerate firms. From the seven companies that are undertaking diversification, company CM is a non-conglomerate (see Table 5.3 and Table 6.1). The data also show that the practice of internationalisation by Malaysian conglomerate companies into the U.K. is not all representative of conglomerate practice, that is, investment into completely unrelated business. The nearest examples to diversification into totally unrelated business domains are company CQ and company CS. Company CQ, a highly diversified group, has never been involved in the manufacture of refrigeration equipment such as its investment in the U.K. Company CS, although it has engaged in infrastructure projects and power generation activities in Malaysia and Australia, made investments in the U.K. in water supply and treatment. It could be argued that the latter was unrelated diversification; however company CS argues that this business is still related to their business in Malaysia, in the sense that they are all regulated utility businesses:

Water is different from electricity in the sense that electricity is electricity and water is water. But the two businesses operate under regulatory regimes. So if you have the opportunity to study the regulated businesses, you will find that there are similarities in certain type of

electricity and water business particularly in Australia and the U.K. The electricity businesses are substantially the same (CS: Pm_Mc_Mo_Cfb_Cg)

The investment in Wessex Water is YTL Power's first investment in the water and waste water industry (CS: Pm_Cfb_Cg)²⁴

Most Malaysian investments in the U.K. are in weakly related activities (Davis et. al., 1994) or in vertical or horizontal diversification (Buckley and Casson, 2002). Company CM is involved in a weakly related business as it produces paper cartons in Malaysia, while its U.K. subsidiary produces parts and components for paper mills and is presently moving towards the business of buying second hand paper mill machines, breaking them up and sell them to interested buyers. Company CG can be considered to be involved in vertical diversification, with its acquisition of Crabtree & Evelyn. The main activity of the parent company, company CG, in Malaysia is plantations, while their U.K. subsidiary produces soap and toiletries. However, the company also produces soap noodles as part of its oleo chemical activities in Malaysia. Consequently, they regard their subsidiary's activity to be an upstream integration with the Malaysian activities:

The acquisition of Standard Soap Company because it's related with our core business in Malaysia i.e. in oleo chemical industry (CG: Pm_Mc_Mo_Cfb_Cg)

Company CJ meanwhile is involved in horizontal diversification with its renowned Corus hotel chain in the U.K., a business that complements its Malaysian activities:

The decision to purchase is in line with the MUI Group's intention to further consolidate its interests in the hotel and leisure business and was taken after considering the potential capital appreciation of the properties held by Corus and Regal Group and the earnings potential of such properties. The Corus and Regal Group properties consist of 88 hotels located throughout the United Kingdom (CJ; Pm_Cfb_Cg)²⁵

²⁴ Bursa Malaysia (2002b)

²⁵ Bursa Malaysia (2001)

6.2.6.2 Reasons for Diversification

The data show that one of the reasons for diversification by Malaysian companies in the U.K. is due to excess resources (as presented in the following Table 6.6) as explained by resource-based theory (Montgomery, 1994; Peteras, 1996). Companies may diversify to utilise their excess resources (Penrose, 1959; Pitelis, 2004; Teese, 1980), where excess resource refers to the holding of large cash balance (Hyland and Diltz, 2002) that have driven firm diversification as discussed in Section 3.2. All of them are conglomerate firms which are big in size and have large capital. Company CQ and company CG, for instance, consider that excess funds have driven their diversification activities into overseas market:

According to Chief Executive we are not going into businesses that are not grow into a major core business. Such as power has been stated as a future core business. We want to get more involved in power generation. We choose power generation because it has a future. Not everybody can involve, you need a lot of capital. So Sime Darby has capital, we can go big. So that's what we have done (CQ: Pm_Mc_Mp_Glc_Cg)

In terms of internal driving force, our financial strength is one of the reasons we invest overseas. At the same time the main reason is the business itself. Whether the bottom line is the same as ours (CG: Pm_Mc_Mo_Cfb_Cg)

In the above example, company CG had received huge compensation from the Malaysian government which had acquired their plantation land. Nevertheless, the high cost of alternative land made it uneconomical for them to expand their core activity in plantation sector. Thus, diversification in another country was seen as a way forward for future business growth, and to enhance earning potential and widen their asset base. This shift of business activity from the core activity is a type of diversification that is common in Asian corporations (Claessens et al., 2000a). It is also suggested that FDI by TNCs from China is also amongst others driven by lack of abundant resources at home (Gang, 1992).

Possession of excess resources as shown in the above quotations, however, cannot be viewed in similar terms to ownership specific advantage as it only seems to facilitate market entry. In addition, in the context of market power, the advantage to

Malaysian companies by having excess resources may only be applicable in the domestic rather than the international market. If the Malaysian capital market is still considered as imperfect, then companies that have excess resources might be unable to fully utilise their liquid assets to earn return because of limited and inefficient form of investment instruments. Thus, buying assets is one easy way of investment. In this case, companies that have excess resource could be assumed to have market power by the ownership of assets. In international markets, small company size and investments mean that they are less likely to affect the international market as a whole. Additionally, in Malaysia, companies cannot exploit the internal financial entity (bank or financial institution owned by the same shareholder) within the group because it is under the control of Malaysian Banking and Financial Institutions Acts, 1989 (BAFIA).

Section 61 provides that no licensed institution shall grant to any single person any credit facility or incur any liability whatsoever on behalf of any single person in excess of any amount prescribed by the guideline issued by the Central Bank (single person is an individual, his or her spouse, child or family corporation.

(Bank Negara Malaysia, 2003)

As a result, banks and financial institutions are not allowed to extend their credit facilities to companies if they are owned by the same group:

In Malaysia, under BAFIA we do not allowed to finance via internal market. You cannot use your own bank to fund your own operation. It was way back in 1980s after the Tan Kun Swan case. Government already ban it (CD: Pm_Mc_Mp_GLc_Cg)

Malaysian conglomerates therefore closely resemble Korean *chaebols* with regards to the issue of internal capital markets. In contrast, within the Japanese keiretsu the main bank acts as shareholder and creditor to member firms (Lin, 2004).

The other likely reason could be opportunity (also presented in the following Table 6.6). Mintzberg's (1994) concept of emerging strategy seems to apply to Malaysian companies' investment in the U.K. because their diversification motives have been driven by opportunity rather than by well-designed business plans. This is in line with the argument posed by Lee et al. (1991) on surplus-resource-driven

diversification (see discussion in Section 3.2). Thus, with surplus resources, the companies really want to diversify their activities and are just waiting for the opportunities to come before them:

Eventually the real thrust of it is we want to diversify. We can diversify in Malaysia but there was no opportunity come to us (CG: Pm_Mc_Mo_CFb_Cg)

Another motive for internationalisation of Malaysian firms with regard to diversification is risk diversification as proposed by Goold and Luchs (1996). They argue that a firm can avoid marked fluctuation in performance and better secure its future if it includes business spread across different industries with different risk characteristics and subject to different economic cycles. In line with this argument, managers in Malaysian firms consider investment in multi-business activities as being motivated by risk diversification:

Suppose we invest in 10 businesses, if five fail to deliver may be the other five can give return so it can compensate. It is risk diversification in that sense (CB: Pm_Mc_Mp_CFb_Cg)

Diversification of risk that mean you must get out from this congested place, where there are opportunities and the risk is perceived to be manageable in relation to the reward (CC: Pm_Bnk_Mm_Mp_GLc)

The diversification of risk, however, is not to the extent that the profitable unit is supporting the weaker unit in a different country, but more on diversifying the source of income so that group income will be more stable.

We look it quite differently. It is not from one off shore to another off shore. If plantation in Indonesia is not performing we need to address the issue in Indonesia. Not using the resources from UK for example to support business in Indonesia. We have got to be clear so we should not mix up offshore business (CG: Pm_Mc_Mo_CFb_Cg)

You cannot have that kind of balancing anymore. So when other country is in bad shape, we also suffer. So I don't think we look in that perspective. What we are looking is stability of earnings (CD: Pm_Mc_Mp_GLc_Cg)

The above quotations indicate Malaysian companies' agreement with the notion that expanding one's business across borders could reduce risk, compared with if the business is only concentrated in one country. This is similar to the observation made by Fong and Komaran (1985) and Hui and Fong (1986) on Singaporean TNCs where their FDI were driven by the motive to diversify into high technology areas and diversification of risk (see Table 2.1). They also confirm the observations made by Yeung (1999) on TNCs from Hong Kong and Latin America which invest abroad to avoid risk of domestic political instability (Yeung, 1998, p 51). Although the findings contradict the argument that investors can easily diversify by spreading their investment portfolio across sectors, especially in perfect capital markets and even in imperfect capital markets (Amihud and Lev, 1981), they support the suggestion made by Khanna and Palepu (1997) that various elements of market imperfections in emerging market favour the firms that diversify overseas.

6.2.7 Growth Seeking FDI

Another motive of Malaysian companies undertaking FDI into the U.K. is to achieve growth of the company. However, it was not highly cited by the companies studied. Only three companies view their investment into the U.K. as to seek growth opportunities.

Desired to go out and grow our petroleum business, need to look for means to do it and doing it organically. But growing it organically meant that you have to build and buy in the market. The market buys are not necessarily at the right timing (CI: Pm_Svs_Mm_Mp_Glc)

Whether it is push or pull, it is not important to us. This is not a typical Malaysian company. We are maybe the only company trying to be a truly multinational (CN: Pm_Mc_Mo_Cfb_Cg)

We don't have the choice. Stays in Malaysian just remain status quo. To grow, then you have no choice but to go overseas (CR: Pm_Eng_Mm_Mo_Glc)

6.3 SPECIFIC FACTOR INFLUENCE

The theoretical framework in international business, the OLI Paradigm, also suggests that the decision for internationalisation, amongst others, is determined by firm specific factors, geographical considerations and internalisation advantages (Buckley and Casson, 1976; Dunning, 1988). Yeung (2002) also argues that transnational operations do not occur in a time-space vacuum: rather, they are always embedded in specific historical and geographical contexts of institutions and organisations. Within these time-space contexts, institutional regulations and the social organisation of capital are very important in explaining transnational activities. Therefore, this study has identified various specific factors that have influenced Malaysian firms' investment into the U.K. (see Table 6.6).

6.3.1 Firm Specific Factors

The data show (see Table 6.1) that about 52.6% of the companies cited that they have strength that is specific to their firms. However, the influence of firm specific factors on the decision of Malaysian companies to invest in the U.K. is unclear, except for financial strength. Detail investigation on their investments in the U.K. does not clearly show that the decision to invest in the U.K. is to deploy the specific capabilities arising from the existence of specific intangibles in the firms. Although most companies claim to have a strong feature or ownership advantage (Dunning, 1988) compared with similar companies in the market, it appears that they do not depend on this feature so much in their decision to acquire or establish new subsidiaries in the U.K. This finding does not support the assumption made in Section 2.3.3 that FDI into the U.K. resulted from firm-ownership advantages. This is also in contrast to firms from Korea (Kumar and Kim, 1984), Singapore (Fong and Komaran, 1985) and Brazil (Neto, 1995) in which these countries' TNCs utilise their own technology to suit host country's requirement. Table 6.7 lists the ownership advantages that Malaysian companies surveyed claimed to have:

Table 6.6: Motivations of Malaysian FDI into the U.K: Specific Factor Influence

Malaysian Companies	Firm Specific			Host Country			Home Country			Transaction Cost		Actors		
	Strength	Excess Resources	R & D	Market presence	Familiarity	Law & Regulation	Favourable business environment	Small Market	Restrictive policy	Govt incentive/encouragement	Transaction Cost	Entrepreneurship	Opportunistic behaviour	Personal relationship
CA (CFb_Mf_Su)	✓			✓	✓	✓	✓	✓						
CB (CFb_Svs_Cg)				✓	✓		✓							
CC (Glc_Bk)	✓			✓	✓	✓	✓	✓		✓				
CD (Glc_Mf_Su_Cg)	✓			✓	✓		✓				✓		✓	
CE (Mf_Su)	✓		✓		✓						✓			✓
CF (Glc_Eng)					✓			✓				✓		
CG (CFb_Cg)		✓			✓			✓	✓					✓
CH (Glc_Svs)				✓	✓		✓							
CI (Glc_R&D)				✓	✓									
CJ (CFb_Cg)					✓							✓		
CK (CFb_Mf)					✓						✓		✓	
CL (CFb_Mf)					✓									
CM (CFb_Mf)	✓				✓						✓		✓	
CN (CFb_Mf_Cg)	✓				✓	✓			✓					
CO (Glc_Mf_Su)				✓	✓			✓			✓		✓	
CP (CFb_Mf_Su)			✓	✓	✓						✓			
CQ (Glc_Cg)	✓	✓			✓									
CR (Glc_Eng)	✓				✓		✓						✓	
CS (CFb_Svs_Cg)	✓	✓			✓	✓	✓		✓	✓	✓	✓	✓	
Frequency	10	3	2	9	19	4	7	5	3	3	6	3	8	2
Percentage	52.6%	15.8%	10.5%	47.4%	100.0%	21.1%	36.8%	26.3%	15.8%	15.8%	31.6%	15.8%	42.1%	10.5%

Source: Author's Survey

Table 6.7: The Ownership Advantages of Malaysian Companies

Company	Ownership Advantage/Firm Specific Factors
CA (CFb_Mf_Su)	One of the pioneers
CC (Glc_bnk)	Special relationship
CQ (Glc_Cg)	Advantage on big capital
CD (Glc_Mf_Su_Cg)	Advantage in marketing skill
CE (Mf_Su)	R&D as an advantage
CM (CFb_Mf)	Advantage in cost control
CN (CFb_Mf_Cg)	Low price
CR (Glc_Eng)	Low price
CP (CFb_Mf_Su)	Product design
CS (CFb_Svs_Cg)	Good Track record

Source: Author's survey

In Table 6.7 above, company CA, claims to be one of the pioneers in plastic security seal products in the world. But it still faces stiff competition in the industry, including from one Malaysian-owned company that sells similar products in the U.K. This indicates that their pioneer status did not afford them much advantage over their competitors. One possible reason could be because the product has become standardised and therefore not much different from their competitors' products. As such, although the strong feature did facilitate their operation and entry into the international market it does not constitute a sufficient advantage over other firms such as to have been the driver of FDI.

The OLI paradigm also assumes that ownership specific advantage lies in access to inputs and resources. Applying this argument to the data, resources can be seen as excess funds within the Malaysian companies which have encouraged them to start looking at the potential of venturing into overseas operations. However, only three companies studied have directly cited excess funds as having driven their FDI (see Table 6.1) and these are conglomerate firms.

If we put too much money in the bank the return is limited. So from there we have some cash and start looking to Indonesia and at the same time we look into other country. In terms of internal driving force, our financial strength is one of the reason we invest overseas (CG: Pm_Mc_Mo_CFb_Cg)

But an excess fund, whether internally or externally generated, is still inadequate to support the argument of firm specific advantages over other firms. This is because

the data show that Malaysian companies have mainly acquired failing U.K. companies. They do not, however, clearly indicate that the successful takeover is actually due to the financial capability of the Malaysian companies over other potential buyers. It could be that the target companies were not attractive to other competitors in the first place because of their already weak position. Nevertheless, excess funds can still be considered as a firm specific advantage if the transaction involved multiple interested parties or many companies bidding for the same company. Company CS, for example, had entered competitive bidding and successfully acquired a U.K. company which they claimed was possible partly because of their financial capability:

Of course we have the capacity in financial terms. By that time we have already accumulate almost US\$1 billion dollars of cash. Part of it is leverage through competitive price borrowing. We are very strong in financial engineering skill, in identify cheap money to borrow and at the same time using that money to invest in a very strong asset (CS: Pm_Mc_Mo_CFb_Cg)

Firm-specific advantages may also be owing to the strength in R&D capability (Dunning, 1988). The data show that R&D is not widely cited as a firm specific advantages (see Table 6.6). In this study, firms that claim to have advantages in R&D are not basing their decision to invest in the U.K. solely to exploit their R&D capabilities. Company CE's FDI decision, for example, is largely due to transaction cost considerations such as the cost of assigning agents or distributors. Only company CP that has firm specific advantage in terms of design has suggested that this actually drove their investment in the U.K:

Because the majority of the pewter manufacturers are very small operation, not more than 20 individuals involved in Birmingham or Sheffield, they are not producing a very significant quantity for the sort of retailer that we are doing the business with, departmental stores and high quality jewellery stores (CP: Pm_Mf_Mc_Mo_CFb)

Another important firm ownership resources identified in the literature is human resources (Dunning, 1988). For the investing firm these resources, which are firm specific, have been used as a means to assist the FDI process. The data, however, does not suggest that Malaysian companies actually use their excess human capital

for foreign investment. Malaysian companies rarely deploy Malaysian expatriates to run their overseas companies, except for a limited period or only for certain positions. It is possible that the companies perceive that even without Malaysian expatriates, the objective for the investment could still be achieved. In this respect, Malaysian companies differ from South Korean companies which regularly bring their own workers to work in their overseas construction projects (Ghymn, 1980).

Dunning's ownership advantage does not seem to hold true in most of the Malaysian U.K. investments. In cases where firms do have an advantage such as excess capital, they are not necessarily exploiting this advantage over host country companies. Instead, they use this advantage to acquire local companies irrespective of the potential local competitor's capability. Post market entry, the subsidiaries depend on their ownership advantages to stay afloat. As such, although Malaysian companies have developed some ownership specific advantages, they are still not sufficient for FDI. This finding is similar to Singapore TNCs as put forward by Fong and Komaran (1985), or to defensive FDI as suggested by Wells (1978).

6.3.2 Host Country Factors

There is a mix of location advantages and location disadvantages with regard to the U.K. as an investment location. As a host country, the U.K. does not offer much in terms of location specific advantages of cheaper cost, government incentives, investment promotion and other investment-related incentives to Malaysian companies. On the contrary, the investment costs in the U.K. are high and it is also far from Malaysia. The cost of psychic distance (Hofstede, 1999) and different business culture invariably contribute to the element of location disadvantage.

Despite this, the U.K. still offers other location advantages where the perceived benefit could outweigh the cost of investment in the long run. One such advantage is the localisation of products according to local requirements (Dunning, 1993) or market presence. Malaysian companies believe it important for them to be present in the U.K. market in order to experience the local business environments which include market trends, marketing networks and regulatory frameworks. As shown

in Table 6.6, about 47.3% of the companies studied feel that they need to be directly present in the U.K. market. These are companies that sell their own products in the U.K. (see Table 5.3). In some ways, the companies feel the need to understand the developed country markets so that their product can be produced according to local taste and needs:

Tap the market by building up own distribution, to understand the developed country market, its environment so we will better prepare when we produce our car. Opportunities for you to know their operating environment, rather than you be just a mere exporter, you own the company and you need to understand the marketing, network, the trend, the regulatory environment (CO: Pm_Mf_Mm_Mp_Glc)

To enable us to be closer to the market and we get a view from the market of what they want (CP: Pm_Mf_Mc_Mo_Cfb)

This is in line with the motive within the market seeking FDI as suggested by Dunning (1993) in Section 2.2.1.2. Having a presence in the market to facilitate market access is not only important for manufacturing companies but also for R&D companies. Company CI acknowledges that their research centre in the U.K. has helped them to understand customer preferences and provided them with technical backup. It has especially boosted customer confidence and acceptance of Malaysian rubber products in the market:

So the center must be close to the consumer which is in U.S. and Europe, this center become the center for consumer research. If we don't do this (consumer research) who are going to buy our products? [...] If the consumer have the problem with our rubber we help to solve them. We are doing in that time so that the suppliers are in the close proximity with the consumers. Research in England to meet the British standard. It not because the centre is in the U.K. people are more confident with the outcome of the research. So for our research it got to be done in England because we must know what people want, thus we cannot do research here for something that other people want. So you must know the condition. Want to capture the market because it is where the problems are. Product develop over there, for that market, design for temperate climate, it design for this performance or temperature. So we have the centre there to assist us. Technology developed here and there (CI: Pm_R&D_Mm_Mp_Glc)

It is common, however, for companies to establish R&D centres in industrialised countries. Florida (1997, p.90) has shown that the objective of globalisation of

R&D activities in a sample of foreign-affiliates of R&D laboratories in the U.S.A., is to customise products for the U.S.A. market and obtain information on scientific and technological developments in the U.S.A.

Other factors associated with location, but outside the location advantages postulated by the OLI paradigm, are familiarity, perception of country risk, and market security and growth potential compared to other countries in the region. The respondents in this study have provided additional information on their perception of the U.K. environmental factors such as socio-economics, politics, and rules and regulation which have contributed to their decision to undertake direct investment in the U.K. The data suggest that given a choice between countries in the European region, Malaysian companies tend to invest in the U.K. because of familiarity, their confidence in the socio-political system, and the reliability of rules and regulation.

Predictably all of the Malaysian companies in the U.K. feel that familiarity with the U.K. is one of the reasons why they chose the U.K. as a base for their investment (see Table 6.6). As noted earlier in this thesis, Malaysia was a British colony until 1957. As a result of British rule, Malaysian laws, administrative and education systems have been essentially inherited from the British:

We also have Commonwealth people, who we think we know and understand them better. If Malaysian wanted to go to Europe they probably go to London first, familiarity as against country like France, we do not know Napoleon and thing like that (CC: Pm_Bnk_Mm_Mp_GLc)

We also have historical relationship with British. We are more or less familiar with their culture (CJ: Pm_Mc_Mp_CFb_Cg)

The U.K. market is chosen because with British we have more things in common. Our first market is essentially in the U.K. (CO: Pm_Mf_Mm_Mp_Glc)

We are familiar with the U.K. and feel more comfortable. That is why our European HQ is in the U.K. (CR: Pm_Eng_Mm_Mo_Glc)

Education also contributes to familiarity where the U.K. has long been the place chosen by Malaysians to pursue education, especially tertiary education. Many

managers in the study have graduated from U.K. universities and this has contributed to their familiarity to and fondness for the U.K.:

For me U.K. is like second home, educated there, so use to the culture. If we look at it, U.K. is a market place itself, you can assimilate into environment quite easily (CA: Pm_Mf_Mc_Mo_Cfb)

They then decided to set-up European office, this is because mainly our management are British trained graduates, our Chairman, is a British Chartered Accountant (CD: Pm_Mc_Mp_Glc_Cg)

Education has played an important role in the U.K. investment. Many Malaysian graduated from British University. Given the example of YTL Group, most of the siblings were educated in the U.K. (CH: Pm_Svs_Mm_Mp_Glc).

The directors most of them studied and trained there. To certain extent it is a personal motivation. They felt that they will do well in the U.K. and Australia. I live in Australia for few years. They speak English and it also a former British empire (CS: Pm_Mc_Mo_Cfb_Cg)

Another factor related to familiarity is language. English is widely used in daily and official communication in the Malaysian business sector. All respondents agree that easy communication in terms of language is one of the factors that Malaysian companies take into consideration when they decide to invest in the U.K. They also feel it to be more practical to have an office or investment in the U.K. compared to a non-English speaking country:

As English speaking country so obviously putting sales office in U.K. is more relevant and appropriate. Otherwise it is difficult such as you have Frenchmen, difficult to communicate (CI: Pm_R&D_Mm_Mp_Glc)

A lot of it is to do with language. We speak the language. If you want to do business in Germany and France, although some of them speak English but there are greater level of parochialism in these country (CS: Pm_Mc_Mo_Cfb_Cg)

[...] the mode of communication is very important. The U.K. has been chosen since we speak the same language (CJ: Pm_Mc_Mp_Cfb_Cg)

Similarly, law and regulation in Malaysia have been based on British laws as a result of Malaysia being a past colony of Great Britain. It follows therefore that

most of the Malaysian companies regard Malaysian law as being similar to British law:

We inherit the British law, some form of British conservatism, we want to be predictable, we are conservative (CC: Pm_Bnk_Mm_Mp_GLc)

A lot of laws, regulation and business structure similar to the U.K. (CS: Pm_Mc_Mo_Cfb_Cg)

The law is quite similar just like we pluck it from the U.K. It is easier to do business in U.K. than with China where the laws are not clearly written (CA: Pm_Mf_Mc_Mo_Cfb)

About 21.1% of the companies studied gave positive view of British law and regulation but one gave a negative view. To him, “the British law is the most cumbersome law, which only enrich the lawyer” (Pm_Mc_Mo_Cfb_Cg). He praised China’s law instead, which contradicted the statement of company CA above which regarded China laws as being not clearly written. This side-line opinion may not suggest the state of British Law but rather may represent a difference of perception based on the different business experience of both managers. The manager of company CA graduated from a U.K. university and has work experience in the U.K. while the manager of company CN has more experience in China.

This study also reveals that 36.8% of companies studied view the U.K. business environment as being more favourable than other EU countries. They feel more comfortable with the corporate culture such as fair government, transparent rules of laws, good corporate culture, less risk in terms of labour unrest, and acceptance of foreign investors:

For Britain, they have good track record, they have a fair government, transparent, and uphold the rules of laws. Impartially whether you are foreigner or local (CC: Pm_Bnk_Mm_Mp_GLc)

We when go to the U.K. obviously because we are very comfortable with the corporate culture there. Nowadays Malaysian company don’t look at the U.S. market, geographically we are far and U.S. such a huge market, you can’t go in and play around with it, either you lose or gain. It is however frightening doing manufacturing in South America, overnight the value of currency might be half, at one glance ok it is good the

currency is down but most of the component imported in U.S. dollar
(CA: Pm_Mf_Mc_Mo_Cfb)

For companies involved in product distribution, the U.K. is considered a good marketing centre for distribution to the whole of Europe due to its accessibility to the other countries' network (e.g. company CA, CD and CH). A manufacturing company, company CR, also feels that although the manufacturing costs are high in the U.K. they are still cheaper compared to certain European countries. Company CB, which has a hotel in London, considers London as a centre of tourism in Europe and a place that everybody wishes to visit. For services companies such as company CC and CH which are involved in banking and shipping, their consideration of the U.K. as a place of investment is more because the U.K. and its neighbouring countries present a large market with potential for more business development. Company CS also chose the U.K. because of its regulated utility businesses where the revenue has already been set by the regulator at a fixed basis. Company CC also looks at the U.K. as the biggest financial centre in Europe and the second biggest financial centre in the world. A stable economy and exchange rate are also two important criteria for selecting the U.K. as a place for investment (e.g. company CA).

The above findings show that familiarity is not only confined to neighbouring countries, as suggested by the Swedish School framework of 'incremental foreign investment' (Johanson and Wiedersheim, 1975). Historical relationships can help bridge the distance as familiarity influences the investment decision, and brings about easy assimilation, understanding and a sense of security:

[...] can assimilate into environment quite easily (CA:
Pm_Mf_Mc_Mo_Cfb)

[...] we know and understand them better (CC: Pm_Bnk_Mm_Mp_GLc)

[...] feel more comfortable (CR: Pm_Eng_Mm_Mo_Glc)

Dunning (1988a), in his study of the U.S. manufacturing affiliates in the U.K. found a similar perception by the U.S. investors of the U.K. The first and foremost reason

was the language. In addition, they also found familiarity in terms of commercial, legal and educational features.

In contrast to other developing countries' TNCs (such as Chinese and Indian TNCs) FDI into developed country (Wells, 1978; Encarnation, 1982; Deng, 2004), data in this study does not suggest tariff and quota imposed by the host country as factors that have driven Malaysia FDI into the U.K.

6.3.3 Home Country Factors

The small home country market is considered as one of the major push factors for Malaysian companies to invest overseas. This was cited by 26.3% of the companies studied (see Table 6.6). Malaysian companies widely consider the Malaysian market as small and it restricts their business expansion. The respondent companies perceived that small market means: limited opportunity for business expansion and the small population means less business (e.g. company CG); it is too small for economies of scale and global products could not emerge from such a small economy (company CA); the place is quite crowded for those that want to grow big (e.g. company CC); the saturated market results in low returns (e.g. company CF); the market is small but there are many players (e.g. company CE). The small market makes it difficult for certain companies to gain and maintain their market but a perception about small Malaysian market is open to question. Many small economies in the world have produced global products such as Switzerland and Sweden in Europe and Taiwan in Asia. Therefore, the perception that the Malaysian market is small might not be true in absolute terms. Limited opportunity for the companies to expand is probably due to the high numbers of companies or similar products in the same industry which result in competition for resources or opportunities. Company CO, for example, has faced reducing domestic market shares because of competition.

Since we are opening our market, there are pressures for us to maintain the market shares. So we need to compensate the loss of volume and also the market shares by venture into export and cross border assembly if you want to compete. For example we are in Iran, we sell complete knockdown cars (CO: Pm_Mf_Mm_Mp_Glc)

The above company manufactures the Malaysian national car by association with Mitsubishi of Japan. As an infant car manufacturer it has been heavily protected by the government tax structure. However, when the government started to liberalise the market in compliance with ASEAN Free Trade Agreement (AFTA), its market share started to shrink. To maintain the volume of production, company CO started to export their products which eventually resulted in direct investment such as into the U.K. A similar limited domestic market has driven FDI from Taiwan, Singapore and Brazil in the 1970s and 1980s (Tolentino, 2000; Neto, 1995) [see Table 2.1].

It might also be because of limited demand for certain product in the domestic market due to small market segments and limited consumers that are willing to use the products because of its higher price:

We are not making those low quality products anymore. They have to prepare to buy our quality product and pay the price. If they cannot pay the price we don't do the product. That's why our local sales very negligible (CE: Pm_Mf_Mc_Mo)

The small home market also triggers market competition which pressures the price to go down. However, companies that produce high quality product variants are not willing to absorb lower prices. Instead, they choose to go overseas to market their product:

Over production cause low product quality. Sell cheap and we have other big factory in other part of the country buying those type of product and ship out. So price cutting comes in. Not interested to build the name and market for themselves. Think the quick bucks. We cannot afford to sell cheap. Every time you have a big buyer comes around, they want a price cut by a dollar. We don't want to sell. There is no point subsidising their profit, they are not selling at loss back in the U.S. (CE: Pm_Mf_Mc_Mo)

Many companies have also started to realise that Malaysia is losing its competitiveness to neighbouring countries. Porter (1998) describes this phenomenon as the shifting advantage of nations, where the availability of resources and skills necessary for competitive advantage in the industry has eroded compared to other countries (p 481). For some manufacturing companies e.g.

company CA, it has become cheaper to produce in neighbouring countries. The company produces industrial security seal products. It had factories in Malaysia and a few other countries. In 2000, it relocated its factory in Petaling Jaya, Malaysia to Rayong, Thailand to take advantage of lower production costs and attractive tax incentives:

In particular, it takes into consideration the competitive labour and production costs and attractive tax incentives (eight-year-tax-free pioneer status, followed by a five-year period of 50% reduction of corporate tax) awarded to the Company's joint-venture company Eastern Abric International (EAI) Co Ltd by Thailand's Board of Investment (CA: Pm_Mf_Cfb)²⁶

Tham (2001) suggests that rising labour costs and labour shortages domestically have led Malaysian investors to relocate to labour surplus economies (p.18), and that competition with other ASEAN developing countries has accelerated because they share common strategies and goals in developing their respective economies (p 22). Contraction of the domestic market is also considered to be related to the Asian Crisis in 1997 and for company CD, it was already affected by the earlier economic recession in 1985 to 1987 (when it seeks new overseas market). As the recession put a slowdown to economic activity, it brought down demand for the product (e.g company CO) and companies had to venture into overseas markets to keep afloat. Company CD, for example, produced primarily for the local market. As Malaysia was hit by first recession in 1985, however, the company started to export their product overseas:

Recession in 1985-1987, was badly hit. At that time the Sime Tyres are predominantly for local market. As a strategic decision, we have to export. One, we export from here to nearby countries in ASEAN for example, Second, we must penetrate a very lucrative European market (CD: Pm_Mc_Mp_GLc_Cg)

The data also suggest that some Malaysian companies undertake FDI in response to unfavourable government policies. However, to obtain sincere views about government policy was hard especially negative ones. The study revealed that three companies view the restrictive Malaysian government policy as having influenced

²⁶ Bursa Malaysia (2000)

their decision to invest overseas in particular. The companies that raise their dissatisfaction on government policy are all Chinese family businesses (see Table 6.6 and Table 5.3). Company CS, for example, considers Malaysia as having an unfavourable policy in the utility industry, citing unfavourable market regulation and a confused state of affairs (CFb_Svs_Cg). The company considers foreign markets such as Australia and the U.K. as being more favourable:

Here in Malaysia you have a situation is very haphazard since suppose suddenly the need to spend more money on capital expenditure. At the end of the day you have increase the tariff between 40-50%. It may not be the best solution. So by introducing this type of regulated models you can ensure the consumer is paying a fair tariff for water, electricity and for gas. This is very much of our framework (CS: Pm_Mc_Mo_CFb_Cg)

Data show that the New Economic Policy which requires the allocation of at least 30% of corporate equity and business to Bumiputera (see details in Section 4.2) has influenced the decision of some Chinese-owned companies to diversify overseas. This finding confirms the arguments by Yeung and Olds (2000) that the globalisation of Chinese-owned companies through diversification is in search of opportunities that were often denied in their home country as a result of state regulation.

However, due to the sensitivity of the equity issues between ethnic groups in Malaysia, it is difficult to get a direct response from the respondents on this issue. Many respondents are reluctant to speak of their true feelings on the matter. Instead, they tend to present two viewpoints to the question whether their overseas operations are a result of the NEP. First, they tried to be positive about it by portraying their company as having complied with government requirements in relation to the NEP:

KLK in Malaysia is a listed company which has deemed to comply with the Bumiputera equity (CG: Pm_Mc_Mo_CFb_Cg)

Secondly, they choose to describe their overseas diversification as being due to the restrictive policy but indirectly:

[...] Going to China, we applied the manufacturing license and we get 100% ownership. Nobody force you to have partner with anybody. Not like Malaysia where you are required to have a strange partner (CN: Pm_Mc_Mo_Cfb_Cg)

By implication, the strange partner in the above quotation can be taken to mean that the company felt compelled to divest shareholdings to Bumiputera to comply with the NEP. Beyond the two stances, it proved difficult to go into details on the issue.

The data also reveal that Malaysian companies have mixed feelings about the Malaysian government's role in promoting outward investment. Table 6.6 shows that only two companies view the government outward direct investment incentive positively. This is because unlike many other Asian economies, the Malaysian Government only offers very limited incentives for outward foreign investment. In contrast, there are significant home country government incentives for outward investments from Singapore (Tolentino, 2000; Yeung, 2002) and South Korea (Tolentino, 2000). In the case of Malaysia, the only incentive for companies engaged in foreign activities is to maximise the benefit from tax exemption for repatriated profits from abroad. A government official from the Ministry of International Trade and Industry Malaysia (MITI) explains:

We just encourage or facilitate people who want to invest overseas. Simply for the reasons that they are looking for business opportunities. That the only reasons. Basic and very general. We don't have a specific department to take care of their investment abroad (MITI)

Therefore, as far as incentives are concerned, this is not the main criterion that motivates Malaysian direct foreign investment. Even the government officials admitted that Malaysian policy on cross border investment is very basic and general as in the above quotation. At the same time, most of the companies interviewed agreed that there have been foreign investments initiated through bilateral government-to-government agreement. MITI for example has bilateral agreements with 137 countries around the world. These include trade agreements, investment guarantee agreements, avoidance of double taxation agreements, bilateral payment agreements, air services agreements, economic, technical, scientific and cultural cooperation agreements and shipping agreements. As a result of these government

initiatives in overseas investment, some companies acknowledge the importance of government involvement in FDI arrangements:

A good relationship with our government, because if we are in trouble we can go to the government and ask for help. So obviously the political affiliation with a country is very important because in the event that the investment in trouble they can recourse to their government [...] We give one license for their bank to operate in Malaysia, they give us one license to operate there (CC: Pm_Bnk_Mm_Mp_GLc)

Another company, company CS, went further to acknowledge that they have actually benefited from government encouragement and incentives:

It to certain extent the impetus created by MITI or the government. They encourage a lot of Malaysian company to go to other developing countries look for opportunities in Southern Africa, Europe, Middle east through program like South-South development cooperation, NASCORP and other numerous program that government has play a significant role in drawing the private sector to go out there. In that sense it would be fair to say that our success here and overseas isn't entirely resulted from our corporate method. I think the national program devised by the government is instrumental in giving us those opportunity and confidence as well (CS: Pm_Mc_Mo_Cfb_Cg)

The limited involvement of the Malaysian government has drawn criticism that the government is not doing enough to promote cross border investment. Company CE, for example, prefers government to provide support in promoting Malaysian brand overseas. Its Managing Director argues:

Every now and then, we hear the government encourage us to sell Malaysian brand, but when it come to incentive, if you make profit there will be tax exemption but that is not the time that I need your exemption (CE: Pm_Mf_Mc_Mo)

He also does not see that the Malaysian Trade Promotion Mission has benefited the company and declared that he had built the market himself without government help.

The Asian crisis discussed in Chapter 3 which is assumed to have driven the outflow of capital from Malaysia could not be confirmed by the data in this study.

Most of the companies studied cited that the Asian crisis has directly or indirectly affected their cash flow and profit. This in turn has a negative effect on the ability to invest overseas or increase current investment in overseas subsidiary. Table 7.6 shows that about 31.6% of the companies studied cited financial constraint prevents the expansion of their overseas investment which amongst others is due to the Asian crisis.

The above findings suggest several views in relation to home country push factors for outward FDI. Obviously, outward FDI is more likely to be driven by a small home market and stiff competition in that market. The Malaysian government actively encourages investment *in* Malaysia, but encourages outward investment only in so far as it offers perceived benefit to the country. Therefore, it is reasonable to conclude that the motivation for Malaysian companies to invest abroad is more likely to have emerged from corporate strategy rather than government influence. This is different from the studies on TNCs from China, South Korea and Singapore, which have shown an important role for government support in encouraging outward FDI. In the case of Malaysia the government may have created some limited opportunities and support for outward FDI. But as in many other developing countries, inward investment is still a preferred measure for overall economic development.

6.3.4 Transaction Cost Factors

Data show that Malaysian companies undertake foreign investment to avoid the costs of transacting in the market. Table 6.6 shows that 31.6% of the companies studied cited minimising transaction cost as one of the factors that drive their FDI. To minimise the cost of doing business in an imperfect market (Williamson, 1984), Malaysian companies try to internalise some of their activities within their hierarchy of companies. The assumption made in Section 2.2.2 on the positive influence of transaction cost factors in Malaysian FDI is therefore confirmed. Direct involvement in the market is seen to increase profit and control and to cut costs (e.g. companies CD, CE, CO and CM). These companies are involved in the marketing of products and have experienced difficulties with distributors and agents

in the foreign country. Company CD, for example, sells tyres in the U.K. and Europe. They undertake direct marketing in these countries to remove the need for agents who take a fraction of their profit as quoted in Section 6.2.2.

Agents or distributors are also seen to slow down the flow of goods to the customer, mark up the price and place infrequent product demand:

So now we use U.K. also as our launching pad, whereby anything urgent we get from them. They will send to us much faster than going to trading house. Agents will mark-up the price. Our purchasing with the U.K. is inter-company transaction. So we cut the layer of trading house, agents etc (CK: Pm_Mf_Mm_Mo_CFb)

If we just stay here and exporting to the country, we will totally depend on the distributors to tell us what they want. They may have other priority as well (CP: Pm_Mf_Mc_Mo_CFb)

The above example suggests that transaction cost can be reduced if the product is supplied on time and the company can take advantage of being close to customers, compared with if supply were to come direct from Malaysia. Another example for reducing the potential transaction cost is through the control of the source of supply, when change to the existing contract or situation becomes inevitable.

When they started off in 1970 it has two machines and in 1988 we bought one machine but it was very costly because we bought it from third party. Over the years we buy it from the U.K. So decided to control the source (CM: Pm_Mf_Mc_Mp_CFb)

He is the owner of distributorship. He did quite well with the business. He passed away. It is best if we acquire the company rather than the company taken over by somebody else (CO: Pm_Mf_Mm_Mp_Glc)

The above quotations suggest that the companies wanted to control the supplier and the distributor company when they were informed that the companies concerned were being offered for sale. They were not willing to enter into new contracts with the new owner as this might incur cost to them. To ensure continuity, acquiring the U.K. target company was therefore the best option available to them.

6.3.5 Actors in Organisation

The internal factors within the organisation that play the main role in investment initiative, apart from the resources, are its social actors. These can be the major shareholder or owner, individual member of the family and the government. In the context of the Chinese family business, for example, the actors may be the founder or the owner of the company. Much evidences suggest that they have played a major role in bringing their investment overseas. Three major elements can be used to explain the characteristics of the actors in Malaysian companies with regards to the decision to venture overseas. They are entrepreneurship, opportunistic behaviour and personal relationship.

6.3.5.1 Owner Entrepreneurship

Owner entrepreneurship with regard to Malaysian companies can be defined in a similar manner to transnational entrepreneurship. Yeung (2003) defines these as the exceptional qualities required of social actors in the process of creating and sustaining particular business ventures across national boundaries. There is evidence of the active role of the owner in the internationalisation process of Malaysian firms in this study as cited by three companies (see Table 6.6) and also supported by Sze (2002a) and Shanmugam (2002).

What Tan Sri Francis did is that he feels there is a need to corporatise the family business so it takes on more professional and expansionary position (CS: Pm_Mc_Mo_CFb_Cg)

I don't know how much they got (cash) but I know Datuk. Yong and he brave enough if you like. He willing to have a serious look and pragmatically walk away if there is no opportunity (SP: Suk_Su_Bm_Mp)

The driving force of our overseas operation was Dato' Lim. He is the one that behind Intra-Muda Group. He also oversee the venture and strategic development of the group, not only operation (CM: Pm_Mf_Mc_Mp_CFb)

He is forward looking, a visionary who is unafraid to try new thing (CS: Pm_CFb_Cg)²⁷

²⁷ Sze (2002a)

Quek and his brothers are reputed to have uncanny ability to spot potential business opportunities (CN: Pm_Cfb_Cg)²⁸

The last quotation in the preceding Section describes the owner of company CN who decided to buy an ailing Hong Kong-based Bank in 1997 during the Asian currency crisis. They managed to grow the bank within two years which then expanded into other countries (Shanmugam, 2002)

All the above elements of owner entrepreneurship are summarized by Yeung (2003) as 'he/she has internalized certain exceptional qualities and his/her strategic action is facilitated by the repertoire and network of resources in which he/she is embedded' (p 15).

6.3.5.2 Opportunistic Behaviour

Investment internationalisation by Malaysian companies is not always the outcome of stringent business strategy and corporate planning (Mintzberg, 1994). A company may have a broad investment strategy with regard to foreign markets. The company will engage in direct foreign investment if they see the opportunity is both within their range of target business market, whether it is related or unrelated to its core activity. The data shows that 42.1% of the companies studied cited opportunistic behaviour of the owner as one of the factors that influence their FDI decision. Data also show that opportunistic investments have mostly occurred among conglomerate firms (see Table 6.6 and Table 5.3).

Opportunistic behaviour in relation to investment opportunities indicates the willingness of the owner or major shareholder to diversify, based on resources within the company, and on condition that the investment contributes to corporate wealth. Company CS had focussed its business venture on regulated assets. In 1999, it acquired an Australian electric transmission company and in 2002 it concluded the acquisition of a water company in England. Both are regulated business but

²⁸ Shanmugam, 2002)

otherwise are completely different activities. The company's statement after the acquisition of both companies is as follows:

YTL Power will continue our strategy of looking for quality regulated assets in the European market where we see many opportunities (CS: Pm_Cfb_Cg)²⁹

Bluemint and ETS (Australia) provides an opportunity for investment in the electricity transmission business (CS: Pm_Cfb_Cg)³⁰

Further to the above statement, one newspaper report stated:

Mr Yeoh admits business success does not come from financial formulae but from intuitive and instinctive measures. When measuring up a possible acquisition target he asks himself: "Can I smell the cash. Can I taste it?" (CS: Pm_Cfb_Cg)³¹

Evidence also suggests that Malaysian companies look for opportunities to expand or diversify their business overseas and when the opportunity emerged in the U.K. they went for it. In some cases, the companies already have knowledge of the U.K. companies from their previous business relationship as a supplier, customer or as business rivals:

The investment in the U.K. was happened not by design but by opportunity. There was nothing about assigning consultant to search for business opportunity but mostly by chance (CJ: Pm_Mc_Mp_Cfb_Cg)

In our case, it is because of this chance meeting (CR: Pm_Eng_Mm_Mo_Glc)

There was an opportunity then, four to five years back whereby Rolls Royce wanted to divest their boilers division and they wanted to concentrate more on turbines. It was just Roll Royce wanted to concentrate with other business. It happen our timing was right at that time (CK: Pm_Mf_Mm_Mo_Cfb)

²⁹ Bursa Malaysia (2003)

³⁰ Bursa Malaysia (2000)

³¹ "Can I smell the cash. Can I taste it?" means whether the investment will be profitable (Macalister, 2003)

Investment opportunities emerged from several circumstances. One, the acquisition is considered a good buy when the acquired company is in financial difficulties and the Malaysian side has the capability to fill the gap financially:

When Company CF acquired 37% of Costain Plc, it was an opportunity because Costain Plc was in deep financial problem at that point in time especially after losing close to £200 million from coal mining deal in the USA (CF: Pm_Eng_Mi_Mp_Glc).

Intria Berhad, now the controlling shareholder of Costain Group Plc is confident of turning around the troubled U.K. based construction and engineering company within a year (CF: Pm_Glc_Eng)³²

Company CF was actually in the midst of restructuring their business in Malaysia with the intention to become a big conglomerate and a prospect of having seven listed companies in the group. The acquisition of Costain Group was part of their conglomerate plan. Another good example is the acquisition of an established home furnishing company by company CJ in 1998 in which its manager considered it as 'an excellent buy'. At its height, the price per share of the target company was 200 pence but it was 26 pence when company CJ decided to buy 48% of its shares (Shanmugam, 1998).

The link between the target companies' financial situation and the timing of the acquisition by the Malaysian companies seems to suggest that Malaysian companies see target companies' weak financial situation as matching their financial capacity, and consider that this opens the doors for acquisition. They are also optimistic that they can revive the target company and that many of the acquisitions could be considered as 'rescue operations':

We believe our remedial actions will effectively stabilise the company and eventually steer a turnaround in its results as we put concerted efforts to realise its potential for growth (CJ: Pm_Cfb_Cg)³³

These companies were private company, so I think the owner and the management don't have the capability to compete. In term of technology they have the technology. But to run the company and to compete they

³² New Strait Times (1996)

³³ Shanmugam (1998)

cannot because they used to receive order and work based on order. So they decided to sell the company. Since we know this because it is our supplier, so we think it is a waste of technology if it closed down and at the same time we lose a good source of supplier [...] That is how we go in and started a new company called Intrapac (U.K.) Ltd an investment company that buy over the Lean & Gibson (CM: Pm_Mf_Mc_Mp_Cfb)

The motivation at that time for acquiring Costain was, one, there is an opportunity because Costain was in deep financial problem at that point in time in 1996. They have bangers at their doorsteps. They have this financial problem because of the acquisition of coal mining operation in the U.S. which is a real bad deal for them since they are losing close to £200 million. So that really put them under financial problem. So Costain was put up for sale (CF: Pm_Eng_Mi_Mp_Glc)

LEC which is in severe financial condition after the founder passed away. It was run by the trust, which has no leader, then they negotiated and Sime Darby agreed to buy (CD: Pm_Mc_Mp_Glc_Cg)

It was an opportunity because the owner wanted to find new partners and need fresh money to continue investing (CO: Pm_Mf_Mm_Mp_Glc)

Second, Malaysian companies anticipate that their foreign investment would provide them with potential future growth as mentioned in Section 6.2.7. Investment opportunity is also seen to drive the investment in certain market segment where companies utilise the existing business position of the target company to help strengthen their existing venture, and gain what they perceive to be a readily secure position in the U.K. market:

The acquisition of Wessex Water for example represents a rare opportunity to acquire a privatized water company in a matured and developed market (CS: Pm_Cfb_Cg)³⁴

So we take a stake since we saw this is an opportunity to own an outlet there since U.K. has the technology and every car players are there. So this is the opportunity for us to continue be present in the U.K. market, continuing promoting our brand (CO: Pm_Mf_Mm_Mp_Glc)

Our investment as the largest shareholder in Laura Ashley allows us immediate, direct and substantial participation in worldwide retailing under a name that has been established for three decades (CJ: Pm_Cfb_Cg)³⁵

³⁴ Bursa Malaysia (2002)

³⁵ Shanmugam (1998)

Because all these opportunities such as technology, brand name and strategic asset are embedded within the firms, acquisition was seen as the best way to capture them.

6.3.5.3 Personal Relationship and Trust

Malaysian investment into the U.K. market has developed from personal relationship between the owners of the Malaysian companies and their counterparts in the U.K. This is not to suggest that all Malaysian investment in the U.K. deliberately involves a personal relationship, although this does play an important role in certain cases as shown by company CG and CE in Table 6.6. Company CG started their investment in a U.K. company in the 1970s when the motivation for the acquisition of the shares in the 1970s was purely based on the personal relationship between the owner of the U.K. company and the owner of the Malaysian company:

Last time more of domestic thing. It is because the relationship between the owner of Yule Catto and KKK that encourage KKK to acquire shares in the company (CG: Pm_Mc_Mo_Cfb_Cg)

Personal relationship and trust is also important when location of investment is distant from the parent company. The owner of company CE in Malaysia had developed a personal relationship with his British counterpart for more than seven years before he decided to set up a new company in the U.K:

Start something it must be with somebody that you can trust. We don't have relative in the U.K. But this guy, I knew him since I started trading for 7-8 years before we decided to start. He with me for almost 7 years now since we started (CE: Pm_Mc_Mo)

Personal relationship is more critical for smaller companies. Because remote monitoring of business is costly and reporting has to be based on trust, small companies with limited budget have to be careful in hiring foreign managers.

6.4 CONCLUSION

Malaysian outward investment is driven by many factors where the importance of the factors depends on the firm's investment objective, products and also internal elements within the organisation. In the context of investment via acquisition, the data show that many occurred not by design but because of opportunity, such as when business started with personal communication among businessmen, friendship and events. This is not to suggest that Malaysian companies are not undergoing strategic investment process, but there are elements of 'grab the opportunity when it is there' and work out the benefits from the acquisition later.

The objective of the acquisitions are various; among these are, the objective of Malaysian companies to become global companies, and the need to secure technology and in some cases to ensure continuity of supply of equipment and to control the source. Malaysian companies also expect that by having subsidiaries in the U.K., they will realise synergies between their activities in Malaysia and expertise in the U.K. Therefore, many acquisitions involved companies that have linkages with their activities in Malaysia. The objective of direct investment into the U.K. is also to have a closer market presence so that the companies can receive feedback in terms of market preferences.

The investment in the U.K. also enabled the company to get access to third country market as many third world countries still perceived product from the U.K. as being of better quality. To be closer to the market and customers especially in the western countries requires Malaysian companies to have subsidiaries in the U.K. in order to supply to European market, because of the need to supply in time and to enable the customer to audit the producer. Companies have also wished to acquire established brands, following on the realisation that this is more feasible than promoting a Malaysian brand. Finally, language, familiarity, culture and education are factors that influence the choice of location in respect to Malaysian investment in the U.K.

Using Dunning's four motives of internationalisation, data on Malaysian companies show a mix of motivations for their investment in the U.K. This makes it difficult to present a generalised explanation. The findings also show that Malaysian companies believe that specific factors facilitate and expedite their investment in the U.K. Because the factors tend to be country-specific, it may not be possible to use them to generalise the determinants of investment between two countries. Nevertheless, the determinants of FDI that are confined to a specific country's investment in another specific country still merit study, as they highlight and confirm the need for a broad framework on firm internationalisation in the subject of international business. To a certain extent this also confirms Dunning's (1993) conclusion that it might help to formulate a general paradigm for explaining multinational activities, but that this should not be seen as an attempt to suggest a single explanation for FDI.

CHAPTER 7: MALAYSIAN DIRECT INVESTMENT INTO THE U.K: PROCESS AND STRATEGIES

7.1 INTRODUCTION

This chapter seeks to understand the process and strategy of direct investment of Malaysian companies into the U.K. given the host country's environmental factors together with the firms' competences and emerging opportunities. Nilsson (1996, p.161) argues that the internationalisation process can be understood as an interplay between four basic factors - corporate strategy, the corporation's internal assets, the competitive situation, and the flow of opportunities with which the firm is confronted. In addition, corporate objective refers to the specific ways in which companies seek to achieve their overall corporate objective (Yeung, 1995). Therefore, internationalisation strategy is the way in which companies seek to achieve their objective of undertaking investment in other countries, and is part of the overall corporate objective.

This chapter is divided into three sections. The first section investigates the process of investment into the U.K., starting with firms' prior business relations with the country before they undertook direct investment. The second section analyses the firms' mode of entry strategies. The third section lays down the post-investment operational strategies undertaken by Malaysian companies in their subsidiaries.

7.2 STRATEGY PRIOR TO DIRECT INVESTMENT

The literature on foreign market servicing strategy suggest that most companies go through incremental stages of internationalisation (Johansson and Vahlne, 1977; Welch and Luostarinen, 1988) where exporting, licensing, and franchising are the most common routes used (Hibbert, 1997). As summarised in Table 7.1, the data show that Malaysian companies in the U.K. generally fall into two broad groups: those that were already in the export business prior to their investment in the U.K. and they are mainly Malaysian companies selling their products in the U.K. market; and companies that were not involved in exporting products into the U.K. market but that invested in the U.K. as a result of an opportunity that can be considered as

an emergent rather than deliberate strategy. There are, however, companies that fall into both groups.

Table 7.1: Internationalisation Strategy of Malaysian Companies

Malaysian Company	Prior Direct Investment		Entry Strategy			Acquisition of a failing U.K. Company
	Export	Emergent	Greenfield	Acquisition/ Takeover	JV	
CA (CFb_Mf_Su)	✓		✓		✓	
CB (CFb_Svs_Cg)				✓		
CC (Glc_Bk)			✓			
CD (Glc_Mf_Su_Cg)			✓			
CE (Mf_Su)	✓		✓			
CF (Glc_Eng)		✓		✓		✓
CG (CFb_Cg)		✓		✓		✓
CH (Glc_Svs)			✓			
CI (Glc_R&D)			✓			
CJ (CFb_Cg)		✓		✓		✓
CK (CFb_Mf)	✓	✓		✓		✓
CL (CFb_Mf)		✓		✓		✓
CM (CFb_Mf)	✓			✓		
CN (CFb_Mf_Cg)	✓			✓		
CO (Glc_Mf_Su)	✓	✓		✓		✓
CP (CFb_Mf_Su)	✓			✓		
CQ (Glc_Cg)		✓		✓		✓
CR (Glc_Eng)				✓	✓	
CS (CFb_Svs_Cg)	✓	✓		✓		✓
Frequency	8	8	6	13	2	8
Percentage	42.1%	42.1%	31.6%	68.4%	10.5%	42.1%

Source: Author's Survey

7.2.1 Market Servicing Through Export

As shown in Table 7.1, about 42.1% of the companies studied exported into the U.K. market prior to direct investment. We can look first at the group of Malaysian companies that had established prior relations in the U.K. through export using agents and distributors. Malaysian companies in this category are mainly manufacturing-based companies (see Table 5.3), producing tyres, medical gloves, car components, cars and pewter products (e.g. companies CA, CE, CO and CP). They then moved into direct investment, as a defensive strategy to secure local market share, as a result of losing or lacking market share because of their dependence on local agents and distributors. This finding is similar to defensive

strategy by Hong Kong multinationals (Wells, 1978) and confirms the assumption made in Section 2.5.5. Direct control of the marketing network is also one of the reasons for the shift from export to direct investment. This decision to move from export to direct investment, however, still falls within the context of market seeking strategy:

All distributors in the world, as you know, want to sell their own brand. They are reluctant to buy full container-loads from you. We have to go and look for the market ourselves. That was the reason why we started the company in the U.K. (CE: Pm_Mf_Mc_Mo)

We used to trade overseas using our agent. But later we decided to incorporate our own office overseas. We then developed our independence of the agent. It has always been like that. When we start in a new market, we always use agent. Later we want to establish our own control (CM: Pm_Mf_Mc_Mp_Cfb)

The reason he did that was because he had some experience with Bloxwich and with Universeals. Both companies were agents for Abric in the U.K. The problem is that both companies also have their own interests in the security seal market. They just use Abric to complement what they were doing. As a result, the sales of Abric products were very, very small. And I think Albert also believed that Abric could build up its own position by setting up a U.K. operation. Our own subsidiary and then develop the market sales ourselves. We have had mixed experience with JV (SA: Suk_Su_Bm_Mp)

The literature reviewed in Chapter 2 suggests that location and distance are important for FDI between nations. However, FDI by Malaysian companies in the U.K. does not necessarily follow the sequence of near to distant country. Company CO, for example, was exporting its product into both the neighbouring countries and into the U.K. market at the same time.

7.2.2 Emergent Investment Strategy

The second investment process involves companies whose decision to acquire U.K. companies can be described as an emergent rather than a deliberately pursued strategy (Mintzberg, 1994a). Data in Table 7.1 indicates that 42.1% of the companies studied could be considered to undertake FDI based on emergent strategy. This finding confirms the earlier assumption made in Section 2.3.1. The data suggest that Malaysian companies may be on the look out for opportunities to

expand overseas, but how they pursue it tends to be informal and unplanned rather than deliberate.

Some companies started with business relationship with the U.K. companies. From this business contact, they were made known that the target companies were for sale (see also section 6.3.5.2):

In Malaysia we use Acson and York. We started as an agent for York. Then we expanded our business overseas and have our own brand (CN: Pm_Mf_Mc_Mo_CFb_Cg)

It (the acquired company) was our supplier. We think it is a waste of technology if it closed down and at the same time we lose a good source of supplier. We don't want to have a problem in the future finding another supplier (CM: Pm_Mf_Mc_Mp_CFb)

Their dealing with the suppliers in the U.K. have exposed them to foreign market experience and by taking over the business of the suppliers, it has been considered as the opportunity to undertake activities up the company hierarchy.

In another instance, potential acquisitions in the U.K. are known or made known to them through personal contacts or third parties. Identification is done quickly and not by prior design:

There was nothing about assigning a consultant to search for business opportunity, but mostly by chance (CJ: Pm_Mc_Mp_CFb_Cg).

This company was introduced to us by Albert Ong (close friend). Albert used to be in the trading business. He knows them and we were looking for an automotive business. He told us that this company makes automotive components and their customers are Honda, Toyota, BMW, Mercedes, and Rover. He linked us up and he helped us run for two years (CL: Pm_Mc_Mp_CFb)

The data support the notion of 'intuition' (Campbell, 1991; Mintzberg, 1994b), chance opportunities and taking advantage of a changing situation (Crick and Spence, 2005; Merrilees et. al.,1998) in the four stages of international market selection as discussed in Section 2.3.1.

The data also revealed that Malaysian companies have tended to acquire poorly-performing or failing U.K. companies. Indeed there seems to be evidence that the emergent strategy has mostly been undertaken with ailing U.K. companies. Although the respondents would not admit that they were deliberately targeting such companies, and preferred instead to couch the acquisition in terms of ownership advantages, Table 7.2 shows otherwise. It shows that only two target companies were seen to be profitable at the time of the acquisition. Table 7.1 shows that 42.1% of the companies studied have acquired failing U.K. companies. This suggests that there is a direct relationship between the emergent strategy and the condition of target companies.

Table 7.2: Profit and Loss of the Acquired U.K. Companies (at the time of acquisition)

U.K. Company	Year Acquired	Profit and Loss Position (£)
Costain Group Plc	1996	-63,600,000
Wessex Water Limited	2002	26,600,000
Laura Ashley	1998	-49,300,000
Lotus Group International Ltd	1996	-222,000
Crabtree & Evelyn	1996	-417,000
Lec Refrigeration	1993	-425,000
Bloxwich Engineering Ltd	1995	405,000
BIB Cochran Ltd	1998	-738,000
Intrapac (U.K.) Ltd	1994	-128,573

Source: FAME Database (2003)

There are two possible explanations. It could be due to the limited opportunity available to Malaysian companies to acquire more stable and profitable U.K. companies, either due to lack of resources or other firm specific advantages. It is also costly to acquire a well established and profitable foreign company. Company CS, for instance, acquired Wessex Water Services Ltd for £1.24 billion (RM6.67 billion), as a result of entering a competitive bidding process. As such, Malaysian companies may have opted for an easy way to get into the U.K. market. This is, to buy into well-established U.K. companies, with products well-known the world over, but in dire need of external funding which the Malaysians were able to supply. As shown in Table 7.2 above, many of the U.K. companies acquired by Malaysian companies were weak financially and the Malaysians were expected to inject new and fresh funds to save the companies from liquidation:

LEC was in severe financial condition after the founder passed away. It was run by a trust which had no leader. Then they negotiated and Sime Darby agreed to buy (CD: Pm_Mc_Mp_GLc_Cg)

Costain, as you know was in deep trouble. They, especially the bankers, expected new shareholders to come and pump in the money to continue operating (CF: Pm_Mi_Mp_Glc)

The company was actually up for sale and the reason I suppose may be they couldn't cope up with costing and all that. But it was still profitable (CG: Pm_Mc_Mo_Cfb_Cg)

I think the company in 1997 suffered a financial crisis following their very vast expansion in the U.S. and North America. But it didn't work and the company was in a bad shape and then I think they were looking for somebody to inject capital into it (SJ: Suk_Mm_Mp)

This strategy, however, is not new or unique to Malaysian companies; the same strategy was used by Taiwanese companies in the late 1980s when they acquired the production facilities of failing British textile companies, with the primary purpose of obtaining marketing channels (Yeung, 1998). Although this investment strategy of acquiring a non- or under-performing company may not fit well into the strategic practice of merger and acquisition (M&A), for Malaysian companies it represented an opportunity for market entry, and a chance to leverage on the target company's strength:

MUI saw it as a good opportunity, MUI has tremendous belief and confidence that this is a great brand and this is a good opportunity that could be exploited and they could turn the company around over time and so they decided to take over the company (SJ: Suk_Mm_Mp)

Although initially Malaysian direct investment may have occurred through chance, in many cases, the acquisition process involved many negotiations and due diligence:

With Crabtree & Evelyn nothing came easy because they had the brand. It took many years to come through. The negotiation took 6 months before everything was finalised (CG: Pm_Mc_Mo_Cfb_Cg)

Follow up examination will be undertaken if a particular party is interested in any particular venture in any country that has been raised during conversations (CJ: Pm_Mc_Mp_Cfb_Cg)

Obviously, either it is emergent or deliberate strategies; the Malaysian companies have accumulated their experience from their investments in neighbouring countries, within the same region or even distant countries and regions prior to their investment in the U.K. Company CS, for example, had accumulated their foreign experience from their investments in African countries:

We felt that we need to take advantage of our skill that we acquired in the late 1980s when we went to Zimbabwe, South Africa, Papua New Guinea, China, and Indonesia. A lot of it was focused in the developing countries (CS: Pm_Mc_Mo_Cfb_Cg)

Experience can also be gained between projects and not necessarily within the same market. Thus, Company CS had used its experience in similar projects in Australia to take over the business in the U.K. In other words, the decision of the company to undertake direct investment in the U.K. was due to their accumulated experience in other markets.

7.3 MODE OF ENTRY STRATEGY

Companies which decide to undertake foreign direct investment have reached the committed involvement stage of foreign investment (Cavusgil, 1984). They also have a choice between greenfield, acquisition and joint venture entry decision.

The data on Malaysian companies in the U.K. show that a majority of them have opted for acquisition and greenfield entry, and that joint venture is not a popular entry choice (see Table 7.1 and Table 7.3). About 63.2% of the companies studied entered the U.K. by acquisition and 31.6% established new company or made a Greenfield entry. Two Malaysian companies entered the U.K. market on joint venture terms, and two were involved in the acquisition of less than 100% shares.

All greenfield entries have 100% Malaysian ownership. About 77% of all acquisitions have resulted in 100% Malaysian ownership, with only two companies having acquired minority shares, and two examples of joint venture. All Malaysian companies could be considered as the controlling shareholder because there are holding more than 30% of the shares, so the latter might still be considered as

ownership (see the definition of controlling shares in section 3.4.2). Generally, it would seem that 100% ownership is preferable to Malaysian companies in the U.K. In cases where ownership is less than 100%, the Malaysians are still substantial shareholders.

Table 7.3: Mode of Entry for Malaysian Companies in the U.K.

Malaysian Company	U.K. based Company	Shares (%)	Mode
CA (CFb_Mf)	SA (Suk_Su_Tr)	100	Greenfield/JV
CB (CFb_Cg)	SB (Suk_Svs)	100	Acquired
CC (Glc_Bk)	SC (Suk_Bnk_Tr)	100	Greenfield
CD (Glc_Cg)	SD (Suk_Su_Tr)	100	Greenfield
CE (Mf)	SE (Suk_Su_Tr)	100	Greenfield
CF (Glc_Eng)	SF (Cas_Eng)	34	Acquired
CG (CFb_Cg)	SG (Suk_Tr_Mf)	100	Acquired
CH (Glc_Svs)	SH (Suk_Su)	100	Greenfield
CI (Glc_R&D)	SI (Suk_R&D)	100	Greenfield
CJ (CFb_Cg)	SJ (Cas_Tr_Mf)	43.8	Acquired
CK (CFb_Mf)	SK (Suk_Mf_Tr)	100	Acquired
CL (CFb_Mf)	SL (Suk_Mf_Tr)	100	Acquired
CM (CFb_Mf)	SM (Suk_Mf_Tr)	100	Acquired
CN (CFb_Cg)	SN (Suk_Mf_Tr)	100	Acquired
CO (Glc_Mf)	SO (Suk_Su_R&D)	100	Acquired
CP (CFb_Mf)	SP (Suk_Su)	100	Acquired
CQ (Glc_Cg)	SQ (Suk_Mf_Tr)	100	Acquired
CR (Glc_Eng)	SR (Suk_Eng)	51	JV
CS (CFb_Cg)	SS (Suk_Svs)	100	Acquired

Note: Company CA have entered the U.K. both via Greenfield and JV.

Source: Author's Survey

This finding contrasts with that of Yeung (1998) who found that developing countries' TNCs prefer minority equity to greenfield entry. Singapore and Hong Kong MNCs prefer minority shareholding because of their risk-averse approach due to unfamiliar territory. On the other hand, Singaporean firms have a substantial number of wholly-owned subsidiaries in Malaysia because of close historical ties (Fong and Komaran, 1985 pp 38). Malaysian companies' preference for majority ownership is similar to a study by Ulgado et al. (1994) on Asian developing country multinationals. It contrasts to Kogut and Singh's (1988) study that firms of culturally distant countries will choose JV over acquisition and that Brazilian MNCs are principally involved in joint ventures (Wells, 1988). Perhaps the familiarity factors discussed in Section 6.3.2 has reduced cultural distance between

Malaysian and British and lessened the element of 'foreignness' between these two countries.

7.3.1 Greenfield Entry

The choice of greenfield entry is determined by various considerations. It is the choice of organic growth which is influenced by factors such as the nature of the product and business, the motive for investment, and the market environment in the host country. The data show that all Malaysian greenfield entries into the U.K. involved the incorporation of trading subsidiaries or sales units in the U.K., to market products imported from the parent companies in Malaysia (see Table 5.3). These sales units are wholly-owned by the Malaysian parent companies. This finding is similar to Casseres (1990) suggestion that firms will choose whole ownership in marketing intensive activities as mentioned in Chapter 2.

In many cases this is a reflection of the companies' confidence in the U.K. market, supported by a build up in host-country experience over time. Because the companies are selling their own products, they feel that there is no reason for them to acquire existing companies:

The incorporation of a new company is because there is no need for us to buy a marketing company. We are going to sell our own product anyway
(CD: Pm_Mf_Mc_Mp_GLc_Cg)

Aspects of modern trading such as internet marketing have also helped the companies to promote and sell their products without the need to establish an alliance with a local company:

There is absolutely no reason, no requirement whatsoever for Malaysian to tie up with somebody else in Europe or in the U.S. or anywhere else. Having got it right in one country, particularly with the internet and with most of the business we are doing, you see I don't have a lot of phone calls to make. Even in the tattoo market most of my order comes through the internet (SE: Suk_Su_Bm_Mp)

Where the need arises to have access to a local marketing network, this is done by appointing local managers with established networks in the U.K. They hired British

managers with vast previous experience of similar products in the U.K (e.g. company CA and CE). The companies are, in a sense, making acquisition of an individual first, before establishing a company in the U.K.

7.3.2 Entry via Acquisition

As noted earlier in this chapter, acquisition involves either the outright takeover or the purchase of a proportion of shares in the target company. As shown in Section 7.3.1, most trading companies entered the U.K. via Greenfield, with the exception of company CO and company CP. These companies had started to export into the U.K. through local companies that acted as agents for their products. As time passed, the Malaysian companies began to acquire their U.K. agents. Subsidiary SO, for example was an agent for Proton cars long before their acquisition by a Malaysian company. The Malaysian company, company CO, decided to acquire this company after the owner died. The acquisition was undertaken to enable company CO's direct involvement in marketing whilst ensuring a continuation of the existing marketing network. Another company, company CP, had also acquired a U.K. based company to take advantage of its marketing network and brand name. Lack of local market experience was also thought to be one of the reasons for Malaysian companies' acquisition of U.K. companies:

Royal Selangor to my knowledge was not distributing seriously to the U.K., until that point. So Englefield was used as a vehicle because Englefield already had a distribution of manufactured product in the U.K. It had sales teams and agents. Royal Selangor just fit into the existing ones (SP: Suk_Su_Bm_Mp)

Initially, company CP has continued manufacture under Englefield's brand together with its own brand but later decided to concentrate on its own brand and change its name as well.

Even though we have a small manufacturing base at Englefields, but we decided it is not economical to continue the manufacturing there. The cost are higher and we already have the manufacturing facilities here in Malaysia where the cost is cheaper, labour, packaging, and facilities are bigger where we can utilise the economies of scale (CP: Pm_Mf_Mc_Mo_Cfb)

In the context of takeover of a U.K. company, it is a strategy that is related to an objective to acquire technology and an established brand (see Section 6.2.4). Of the 19 companies studied, five relate to acquisition of technology and four to acquisition of brand names:

LEC Refrigeration was originally intended for reverse technology transfer. LEC is a very establish British manufacturer of refrigerators since 1942 (CQ: Pm_Mc_Mp_Glc_Cg)

The reason we bringing back the technology from U.K. is because they are good in R&D. I think they are centre of excellence. So we brought back this technology to make pulleys (CK: Pm_Mf_Mm_Mo_Cfb)

MUI saw it as a good opportunity, MUI has tremendous belief and confidence that this is a great brand and this is a good opportunity that could be exploited and they could turn it around over time and so they decided to take over the company (SJ: Suk_Tr_Mm_Mp)

It enables us to control the company, develop the brand created over here. 100% ownership enables us to pursue whole heartedly the operation. If there is a joint venture, it will distract us from what we have been pursuing (SP: Suk_Su_Bm_Mp)

It is also a strategy that is targeting failing U.K. companies, which meant that all the shares in the companies were open for purchase.

The company was up for sale. I think at the time, that was the structure. I don't know whether they were looking at that structure or not. But the company was up for sale 100% and the judgement made was that the price was good and so they bought 100% of the company (SG: Suk_Tr_Bm_Mp)

In cases where Malaysian companies have acquired less than 100% shares in the U.K. public listed companies, this was done for several reasons. In the case of non-controlling shareholders, the strategy of the investment in which the companies perceived that the percentage of shares that they have acquired is sufficient for them to benefit as shareholders without a need to become a majority shareholder. This is the case of the acquisition of 34% shares in subsidiary SF by company CF and of 43.8% of subsidiary SJ by company CJ (see Table 7.3).

So, as you can guess, one of the primary reasons is to tap their expertise, their knowledge and their global reach (CF: Pm_Eng_Mi_Mp_Glc)

You cannot control. It is different between London and Malaysia. Single shareholders cannot control a plc. That means Plcs are bound to respond to all shareholders. No one shareholder is special. Directors are appointed by the majority shareholders and act in their own capacity. They don't act on behalf of the shareholder. So it is a big difference in the thinking there (CF: Pm_Eng_Mi_Mp_Glc)

In the case of company CJ, they have already owned majority shares in the U.K. and they are not in favour of taking more shares. Apart from the regulation of shareholding spread in which at least 25% of the shares have to be owned by the public (Listing Rules of the London Stock Exchange)³⁶ the Malaysian shareholders also perceived that it made no difference to them (the current level shareholding is sufficient to gain benefit from the acquisition) to increase the shareholding to a higher level from the existing controlling position;

I don't think there is a necessity to increase the share since the rest will be just ownership of shares. It is pointless. You must have a block of shares that is tradable in the market to keep the public float (SJ: Suk_Tr_Mm_Mp)

If we look at our structure now at 57-58%, the maximum that we can own is 75%. It is ridiculous to own that much because basically no resolution can move without MUI. Whether you are talking about simple majority or bigger majority (SJ: Suk_Tr_Mm_Mp)

The companies also indicated that the availability of the shares at the time of the acquisition has also determined the amount of shares acquired:

You see, those shares were only available at that time. I guess that was the amount of shares that was made available at that point of time (CF: Pm_Eng_Mi_Mp_Glc)

³⁶ The Listing Rules stipulates that a company is required to maintain at least 25% of public shareholding to keep their listing status. Failing to comply with this requirement will resulted of the withdrawal from the listing. (www.londonstockexchange.com)

7.3.3 Joint Venture

Malaysian companies have also been involved in joint ventures with U.K. partners although this entry method is not common (e.g. company CA and CR). Company CA, for example, had a joint venture in Encrypta Electronic in Wales but the joint venture (JV) collapsed because of conflicts over control. Although the Malaysian partner had 51% shares in the JV, according to them, the local partner was reluctant to hand over control of the running of the company. As a result, the JV collapsed and the company was later wound up. Another company, company CR, has 51:49 JV in Velosi U.K. Ltd. The difference between these two joint ventures is that although both are involved in technology, the technology in Encrypta Electronic had belonged to the local partner while Velosi U.K. uses technology in equipments that are also available in the market thus avoiding conflict of interest.

The data suggests that Malaysian companies have not rejected JVs completely. This option may still be taken if the companies feel that the local partner can contribute in terms of technology, expertise and know how about local culture. Otherwise, 100% ownership is preferred:

Not in favour of partner that is trying to interfere with the business. Okay if you have a partner that works with you. He knows the business. Because of the distance I need somebody that I can trust and who is motivated to grow the business. In that case, yes it is good to have a local partner. It depends from case to case (CR: Pm_Eng_Mm_Mo_Glc)

It enables us to control the company, develop the brand created over here. 100% ownership enables us to pursue whole heartedly the operation. If there is a joint venture, it will distract us from what we have been pursuing (SP: Suk_Tr_Bm_Mp)

One possible answer to the lack of JV alliance between Malaysian and British is that the U.K. government is not intrusive (restrictive policy) on equity that can be owned by a foreigner in a U.K. company. Contractor (1990) and Asiedu and Esfahani (2001) for example suggest that some JVs are result of host countries restrictive policy.

Basically, the choice between greenfield, acquisition and joint ownership of Malaysian investment in the U.K. can be summarised as in table 7.4 below.

Table 7.4: Reasons for Greenfield, Acquisition and Joint Venture

Greenfield	Acquisition	Joint Ownership
<ul style="list-style-type: none"> -Failure in previous JV -Require close contact with customer -Holding of investment -It is a branch of parent in Malaysia -Promoting own brand -Marketing own products 	<ul style="list-style-type: none"> -Acquire technology -Acquire brand -Leverage on expertise and technology -Targeting the existing business marketing network 	<ul style="list-style-type: none"> -Technology -Sharing expertise -Access new market -Local market knowledge

Source: Author's Survey

7.4 OPERATIONAL STRATEGIES

The strategies undertaken by Malaysian companies in their investment in the U.K. are related to their investment financing, management and rationalisation of subsidiaries, diversification strategy, core competence strategy, synergy realisation, business networking, and niche market strategy. These strategies are in turn influenced by costs, product types, company characteristics and overall corporate objectives.

7.4.1 Investment Financing

Outward FDI always involves an outflow of funds from the investing countries into the host countries. In the case of Malaysian investment into the U.K., the fund generally comes from the parent companies. This form of financing involves two stages - the initial investment, and then any additional or operational investment in the acquired company.

As shown in Table 7.5, 89.5% of the companies studied cited that the financing for the acquisition or funds to establish the U.K. subsidiaries were obtained from the parent companies. In the case of greenfield entry (see Table 7.3), all funds are obtained from Malaysia except for company CI which was established during the

British administration of Malaysia and the financial arrangement during the handover to the Malaysian government was not known. This confirms the assumption made in Section 2.5.5 (iv) and is also similar to the finding proposed by Yeung (1994) in Section 2.5.4 that developing countries' TNCs as being self-financing in capital input.

Funds are obtained from Malaysia which is much easier (CA: Pm_Su_Mc_Mo_Cfb)

As far as possible we will finance from internally generated funds. If not we will issue new shares, rights issues, bonds etc (CB: Pm_Mc_Mp_Cfb_Cg)

We fund it from here (Malaysia), we have the target (CI: Pm_Su_Mm_Mp_Glc)

Initially of course it has to be funded from here (CP: Pm_Su_Mc_Mo_Cfb)

We borrow against our local contract. Local projects do not need funding as we have generated profit from our project and also from shareholders fund. Thus, if we are not venturing overseas we don't need to borrow. We are cash rich and paying dividend. But the collateral for the loans are projects in Malaysia (CR: Pm_Eng_Mm_Mo_Glc)

In entry via acquisition, almost all Malaysian FDI into the U.K. involved the transfer of funds from Malaysian purchaser companies into the U.K. subsidiaries to pay for the acquisition, and in some of the cases to assume the debt owed by the acquired subsidiaries to third parties. Only Company CS has issued bonds in a foreign market to finance its acquisition of a U.K. company.

Post-acquisition financing appears to be a mix between continuous funding and subsidiary's self financing. Table 7.5 shows that only 26.3% of the companies studied continue to provide funds to the U.K. subsidiaries. Most of other Malaysian companies expect their subsidiaries to be self financing in their daily operations, especially larger subsidiaries:

Table 7.5: Operational Strategy of Malaysian Companies Investing in the U.K.

(i)

Operational Strategy	Cited by the Malaysian Parent Companies/the U.K. Subsidiaries																		
	CA	CB	CC	CD	CE	CF	CG	CH	CI	CJ	CK	CL	CM	CN	CO	CP	CQ	CR	CS
1. Financing from Malaysia	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2. Centralised decision making	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3. Periodic reporting	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
4. Local managers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5. Cost control by the parent	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
6. Restructuring the subsidiaries																			
7. Opportunistic Diversification						✓													✓
8. Subsidiaries' Diversification																			✓
9. Utilising own core competence	✓																		✓
10. Acquiring core competence						✓									✓				✓
11. Sharing of resources									✓						✓				✓
12. Outsource from Malaysia										✓					✓				✓
13. Use ethnic business network																			
14. Penetrating niche market				✓	✓			✓	✓		✓								✓

(ii)

Operational Strategy	Cited by the Malaysian Parent Companies/the U.K. Subsidiaries	
	Frequency	Percentage
1. Financing from Malaysia	17	89.5
2. Centralised decision making	7	36.8
3. Periodic reporting	5	26.3
4. Local managers	12	63.2
5. Cost control by the parent	9	47.3
6. Restructuring the subsidiaries	6	31.6
7. Opportunistic Diversification	4	21.1
8. Subsidiaries' Diversification	3	15.8
9. Utilising own core competence	3	15.8
10. Acquiring core competence	8	42.1
11. Sharing of resources	5	26.3
12. Outsource from Malaysia	5	26.3
13. Use ethnic business network	-	0
14. Penetrating niche market	6	31.6

Operating Funds
CA, CE, CI, CM
and CR (26.3%)

(iii)

Source: Author's Survey

The bonds are issued at the operating level like Wessex Water Services Ltd, the operating company or it can be issued at the holding company level namely Wessex Water Ltd. If we issue bonds over there, it is because the company is owned 100% by YTL Power (CS: Pm_Svs_Mc_Mo_Cfb_Cg)

In the early years when they acquired the business, they undertook restructuring. They injected funds to finance the restructuring. But by and large, the company at that time operated on internally generated funds (SG: Suk_Tr_Bm_Mp)

Subsidiaries are also expected to find their own sources of funds because of the parent companies' perceived reluctance to continue financing the loss making subsidiary and also the high cost involved:

Everything was completely self-funded. Any investment we want to make, even the purchase in South Africa was done through self funding by Bloxwich Engineering group here (U.K.). We self finance everything. No money was invested by Malaysia. It is a case of 'I bought the company but I won't invest in the company (SL: Suk_Mf_Bm_Mp)

Subsidiary SL was a failing company when it was acquired by a Malaysian company. This company is making profit initially after the acquisition, but it cannot sustain the continuing rise of operational cost in the U.K. It seems that the continuing financial support from the parent is absent due to uncertainty about the future of the U.K. plant perceived by the Malaysian shareholder such as a continuing increase in manufacturing cost and costs related to compulsory contribution to pension funds and National Insurance Policy.

The U.K.'s company is also quite profitable. The U.K. business is actually profitable for a while. But as in other part of the world, automotive industries also contracted in Europe, so many players, and it is very hard to manufacture in U.K. now. It is very expensive especially now with the Pension Cost Issues. Even the BT, Tesco also have a big problem with pension funds. The company have to spend more money to top up the deficit in the Pension fund. The U.K. government has also introduced the National Insurance policy for the employees, if want to trade, it is compulsory to subscribe and pay to this fund and this is an additional cost. So we find that U.K. is a very difficult place to manufacture, very expensive, but in order to supply to the European car market, it is compulsory for you to have a present in the U.K. (SL: Suk_Mf_Bm_Mp)

In greenfield entry, the companies tend to receive continuous support from their parent companies for a number of years after their inception. Companies such as subsidiaries SE and SK, also received loans from their Malaysian parent companies. The data, however, show that there is some degree of reluctance on the part of the parent companies in Malaysia to continue injecting money into the subsidiaries over a long period especially when the previous investment had not shown any return.

The economic crisis in 1997 is also a contributing factor to lack of follow-up financing from the parent companies. Apart from liquidity problems faced by the parent companies, stricter control on outflows of funds (see Section 3.3.2) have prevented them from continuing to send money to their subsidiaries:

If we want to send money now it is difficult. Bank Negara will say no! You may be able to fulfil one condition that is to bring back the technology. But where is the dividend and so on? That is why they (the subsidiaries) are self sustaining (CG: Pm_Mc_Mo_Cfb_Cg)

It is impossible to use Malaysian money to expand overseas. Exchange control. The government is suspicious of you taking money out if it is not for real investment. Approval also takes time. By the time the approval is granted, the opportunity has gone (CN: Pm_Mc_Mo_Cfb_Cg)

7.4.2 Subsidiary Management

As noted in the literature review, the main elements in the organisation of multinational firms are control and decision making (Baliga and Jaeger, 1984), human resources and level of autonomy (Forsgren and Pahlberg, 1992), and the separation of ownership and management (Newburry and Zeira, 1997).

The main control structure of the subsidiaries formed by Malaysian companies is that of the centre-periphery, as suggested by Forsgren and Pahlberg (1992). The data show that Malaysian parent companies are not heavily involved in the daily management of the subsidiaries. About 63.2% of the companies studied cited that their U.K. subsidiaries are headed by local managers [see Table 7.5 (ii)]:

We do not want to rock the boat (CS: Pm_Svs_Mc_Mo_CFb_Cg)

They run the business. They are not shareholders. We pay their salary (CE: Pm_Mf_Mc_Mo)

I leave it to them. But we meet two to three times a year. Like next week, I call all of my managers from all over the world to meet in Abu Dhabi since Abu Dhabi is the centre (CR: Pm_Eng_Mm_Mo_Glc)

Yes, our policy is that the local people run the business for us. It is the same in the U.K. Nobody from Malaysia runs the business (CN: Pm_Mc_Mo_CFb_Cg)

There are various reasons for limited involvement of the parent in the daily management of the company. Local people are perceived to have better knowledge about the local business environment. At the same time, the parent company is still kept well-informed about the subsidiary's activities:

So it is marketed by locals who know local markets and it is easier for the product to be localised (CJ: Pm_Mc_Mp_CFb_Cg)

We are aware of the day to day running of our business, both in Wessex and Electranet. But we don't interfere too much because the system and structure are already there (CS: Pm_Mc_Mp_CFb_Cg)

Limited direct involvement is feasible with a systematic reporting system between parent and subsidiary. The local management task is also concentrated on small decision making, mostly on the non-financial aspects of management:

We set up system and control. We set up reporting. We give them the action plan. We monitor the implementation. Day-to-day running, they do it. But in the decision making, they talk to us. They can call us anytime. My phone will not be turn off until 1 o'clock (CL: Pm_Mf_Mc_Mp_CFb)

For day to day operation they make the small decision. But on, for example, purchase of machinery, handling big project or contract, all are done from Malaysia (CM: Pm_Mf_Mc_Mp_CFb)

Malaysian parent companies also choose not to exploit their privileges of full ownership of the U.K. subsidiaries to avoid resentment from the current

management and workers. In other words, they prefer not to inflate the ownership issues.

The resentment can create bad atmosphere in the factory. So why bother about the shareholding? As for the workers, they can sabotage if they want to. They ask for better scheme and privilege since they are very well protected. So, as far as we are concerned it is very straight forward. You do what you are supposed to do (CK: Pm_Mf_Mm_Mo_Cfb)

However, this strategy has been viewed differently by some of the subsidiaries. Some local managers feel that this absence of personnel from the parent has resulted in a lack of understanding of the nature of their business:

I think during the initial period there was an absence to some extent. It was when they left the business to run itself for a period of time (SG: Suk_Tr_Bm_Mp)

It is strange because if you look at all the Japanese transplant companies in the U.K., not just Honda, Toyota, Nissan, you go to their businesses and they all have Japanese within their structure. In some cases they have the equivalent Japanese-English manager. So I would have Japanese sitting next to me assigning the job or other company would just have a Japanese manager or Japanese liaison people. In the Japanese transplant business they very much bring in Japanese people (SL: Suk_Mf_Bm_Mp)

The management of subsidiary by Malaysian companies reflects various degree of separation between ownership and management. Firstly, there are companies in which the key posts such as Chief Executive Officer or Managing Director are filled by Malaysian expatriates or person/persons from the parent companies who are not the owners but professional managers. The owner meanwhile may sit on the Board of Directors or act as Company Chairman. Malaysian managers in the subsidiaries are usually found in the larger subsidiaries (e.g. subsidiary SO, SJ, SG and SQ). Large subsidiaries are more difficult to manage from a distance in contrast to smaller subsidiaries. As such, a more direct management approach is preferred. The higher investment costs in these subsidiaries means that the parent companies need to exercise more control and may therefore choose to appoint Malaysian expatriates to the top posts. However, all middle level management

positions are filled by local managers to meet local demands such as in marketing and distribution.

The second form of relationship is a clear separation between ownership and management, where the managers are mostly locals. The owners in these cases tend to have a close relationship with the managers whose appointments are made based mostly on trust. This is common in small subsidiaries where local managers are hired to avoid the high expatriation costs:

[...] if we send Malaysian there, they will demand higher salary than the local. The Malaysian, after two to three years, they will request to come home. There is no continuity. [...] Like in Middle East, it is run by the Indian, Egyptian. If I were to assign a Malaysian, they will ask about US10,000 per month. A good Indian will ask about US3,000 but a good Malaysian will ask for a salary of US10,000 per month (CR: Pm_Eng_Mm_Mo_Glc)

In the early days a Malaysian manager was in charge of the U.K. operation. After the acquisition, there were two or three Malaysians who headed the business. I know Adam Chiang who is now in charge of the finance division. He was GM here in the U.K. for several years. That is history. In the last 7 to 8 yrs, the U.K. business has been under the U.K. management team (SP: Suk_Su_Bm_Mp)

Local managers are assigned to meet local demands, understand local environments, local culture and business network:

But in the country where we don't have the expertise, where we need to understand local culture, then we employ local. For example in Australia, our Caterpillar business is run by an Australian (CS: Pm_Mc_CFb_Cg)

In terms of knowledge, they know better about local environment (CG: Pm_Mc_Mp_CFb_Cg)

So it is marketed by local who know local and it is easier for the product to be localised (CJ: Pm_Mc_Mp_CFb_Cg)

In these cases, close monitoring is possible with the advancement of communications technology:

The company is managed by them from top to bottom. Of course on the Board we have representatives. The Chairman is on the Board. On the

financial side we also have representatives. If not, we don't know how they are performing (CG: Pm_Mc_Mo_Cfb_Cg)

I am involved directly. I am on the Board of the company and everything that is outgoing and incoming is all in the system. In fact we are now going a bit further with the usage of electronic accounting system. Any time we can see the inventories in the U.K. and invoices (CA: Pm_Mf_Mc_Mo_Cfb)

Separation between ownership and management also relates to autonomy. The data show that 36.8% of the companies studied could be considered as implementing centralised decision making [see Table 7.5 (ii)]. This confirms the assumption made in Section 2.4 of the limitation of direct control due to the distance between Malaysia and the U.K. In general, the level of autonomy in Malaysian subsidiaries is limited to the daily management of the company based on rules set by the parent. A clear line of authority is set between the parent and managers in the subsidiary. Matters on finance, overall policy and direction of the business are still controlled by the parent irrespective of whether the management of the company is Malaysian or British. Table 7.5 also shows that about 47.3% of the companies studied cited that the parent companies play a significant role in cost control of the U.K. subsidiaries. Therefore, this form of autonomy has not fulfilled the concept of autonomy as suggested by Young and Tavares (2004) especially when the subsidiary has no control over financial resources. Communication between parent and subsidiaries is, however, limited to quarterly visits by people from the parent companies as well as a monthly or quarterly reporting system. As shown in Table 7.5 (ii), about 26.3% of the companies studied required periodic reporting of their U.K. subsidiaries. It is a strategy of centralisation (Birkinshaw and Hood, 1998; Gates and Egelhoff, 1986), especially on financial matters (see also quotation by Company CL in Section 7.4.2). It is also similar to the case of Singapore multinational (Fong and Komaran, 1985; Hui and Fong, 1986):

The subsidiaries are required to submit reports to the parent and the parent would review the financial and operations reports in order to monitor the performance and profitability of the subsidiaries (CB: Pm_Mc_Mp_Cfb_Cg)

They come and report here every two months. The finance people there report here. My boss is in charge from here (CD: Pm_Mc_Mp_GLc_Cg)

For day to day operation they make the small decision. But on, for example, purchase of machinery, handling big projects or contracts, all are done from Malaysia. For example, I send my project manager ahead first to look at the project itself. Estimate the cost of dismantling and eventually our U.K. people assist us to make up the quotation. Then we start the negotiation process (CM: Pm_Mf_Mc_Mp_Cfb)

I *very very very* rarely communicate with them too much. The communication is between the Board of Mega First and our Managing Director who send report once a month and financial figures. That is the only time for any direction and the guy from Mega First would come over to do consultation on what we have done previous year and what we are going to do the next year. It is once per year (SL: Suk_Tr_Bm_Mp)

During the early stages of the investment, however, this lack of communication had resulted in some misunderstandings between the parent and their subsidiaries. Because the businesses were left without proper involvement and monitoring by the parent, some managers in the subsidiaries did not feel confident about Malaysian business. They also questioned the honesty and integrity of the parent company in particular and the Malaysian business culture in general (see also quotation by subsidiary SG in Section 7.4.2):

When they acquired C&E, my personal view is that I am not sure they have the trust and confidence that is standard in international management (SG: Suk_Tr_Bm_Mp)

In the early stage, there was a need to really understand the acquisition which took longer to put in place. As a consequence of that, much of the thing that has not happened in the early period I think is only starting to happen now. It should have happened much earlier (SG: Suk_Tr_Bm_Mp)

The typical management style of the subsidiary is therefore, that the parent provides the boundary within which the managers in the subsidiaries could act. Managers in the subsidiaries can make decisions as long as they are made within the stipulated limit, beyond which approval has to be obtained from the parent company.

In describing this parent-subsidary relationship, most companies tend to give glowing accounts, especially the Malaysian parent companies:

Talking with each other very nicely. They are like brothers and sisters (CA: Pm_Mf_Mc_Mo_Cfb)

All are part of a big family [...] we are all like brothers (CD: Pm_Mc_Mp_GLc_Cg)

We work with them, we share with them [...] talk to them [...] sincere with them (CL: Pm_Mf_Mc_Mp_Cfb)

We share the idea [...] they will get back to us (CM: Pm_Mf_Mc_Mp_Cfb);

We are very free and they come very often (CO: Pm_Mf_Tr_Mm_Mp_Glc);

You have to see them, make phone call (CR: Pm_Svs_Mm_Mo_Glc).

However, some problems and cross cultural issues have arisen with the Malaysian acquisition of British companies which have resulted in delayed and even some bad business decisions. About 42.1% of the companies studied cited that there were cultural differences especially at the beginning of the investment and this view was supported by some of the U.K managers (see Table 7.6):

I think we have the split in terms of East and West. What we are used to in the eastern market requirement and western market requirement is different. Although we have small product development, in the eastern market this represents a significant amount to our business. The design team have a particular knowledge and expertise that is moving away from its priority in developing western product. Inevitably, because of the disadvantage of distance and the fact that they are a Malaysian-based company and we are a western-based company, there tend to be sometimes a lack of detailed knowledge, in this case of the U.K. market (SP: Suk_Su_Bm_Mp)

There was a lot of no decision from Malaysia, in the past. There have also been bad decisions made about the business over a number of years. Malaysians are a little bit similar in my opinion to Japanese in that they are thinkers. They think about something for a long time before they give their commitment and decision. (SL: Suk_Mf_Bm_Mp)

They don't say a lot. Listen and listen and listen and then give decision. I think Malaysian guy like to listen and like to understand from different perspectives and then formulate opinion. They don't tend to give direct answer. [...] The biggest difference I found in the Malaysian culture and having Malaysian over here is that they are not confrontational at all. You may have to explain things two or three times to really get their full understanding of what you are trying to say. If you try to get information from them, you also may have to ask the same question three or four times in different ways to get the required answer (SL: Suk_Mf_Bm_Mp)

Some British managers also expressed their lack of confidence in the Malaysian takeovers due to what is perceived as differences in attitudes towards business:

Within the company that I worked for, if we develop the product we would make sure that everything is perfect before we put it into the market place. The Malaysian attitude is that if we have got it nearly right, just throw the product out into the market and move from there. If it works brilliantly, then we go forward. If there is a problem then we can sort the problem out as we go along. That is one of the differences between Malaysian and English and I find it very difficult to accept in the early days. Because I am English born and bred. I used to work with the company which get it right first before going into the market. We get everything ready before we launch it. Who is right and who is wrong, I won't decide. A merit to the English way is that it may take you 6-12 months longer to get there. The Malaysian attitude is just being out there. And honestly it works (SA: Suk_Su_Bm_Mp)

At the same time, Malaysian managers also harbour negative perceptions of British managers:

British are good in technology but are less concerned about cost management. They are not motivated (CM: Pm_Mf_Svs_Mc_Mp_Cfb)

British people are lazy. Sometimes we think only British are good, but Malaysians are also quite good (CN: Pm_Mc_Mo_Cfb_Cg)

Malaysians are more intelligent, our standards are also high (CS: Pm_Mc_Mo_Cfb_Cg)

In extreme cases, cultural differences could lead to dispute between the parent and subsidiary. This happened to company CA which experienced a failed joint venture with a British businessman. In this case, the Malaysian partner had felt that the British partner had not treated them as a true partner but more as a financier. As a result, the Malaysian partner refused to provide more funds leading to the collapse of the joint venture:

Table 7.6: Problem Experienced by Malaysian Companies with the U.K. Investment (Cited by the Malaysian Parent and the U.K. Subsidiaries)

Malaysian Company	Product not competence	Cultural differences	Rules & Regulation	High Cost in the U.K	Human resources	Financial Constraint (Asian Crisis)	Dispute with partner	Foreign exchange	Competition/Market constraint	Bad Parent-subsiary relationship
CA (CFb Mf Su)		✓ (SA)	✓	✓			✓ (SA)			✓(SA)
CB (CFb Svs Cg)										
CC (Glc Bk)				✓				✓		
CD (Glc Mf Su Cg)				✓		✓			✓	
CE (Mf Su)			✓	✓	✓				✓(SE)	
CF (Glc Eng)						✓		✓		
CG (CFb Cg)				✓		✓				✓(SG)
CH (Glc Svs)			✓						✓	
CI (Glc R&D)		✓		✓	✓				✓	
CJ (CFb Cg)		✓ (SJ)				✓ (SJ)			✓ (SJ)	
CK (CFb Mf)				✓						
CL (CFb Mf)		✓ (SP)		✓ (SL)		✓ (SL)		✓	✓ (SL)	✓ (SL)
CM (CFb Mf)		✓		✓	✓				✓	
CN (CFb Mf Cg)		✓		✓					✓	
CO (Glc Mf Su)	✓			✓					✓	
CP (CFb Mf Su)		✓ (SP)		✓	✓	✓ (SP)			✓ (SP)	✓ (SP)
CQ (Glc Cg)				✓					✓	
CR (Glc Eng)		✓		✓	✓				✓	
CS (CFb Svs Cg)				✓						
Frequency	1	8	3	15	5	6	1	3	12	4
Percentage	5.3	42.1	15.8	78.9	26.3	31.6	5.3	15.8	63.2	21.1

Note: Item in bracket indicates it was cited by the parent companies and also cited by the manager in the U.K. subsidiaries

Source: Author's Survey

UK guys are very different; I think they are still very colonial type of people. They always think they are very much better than us, they are advanced, and we are still the third world. These are their mind set and it is very difficult to break this mind set. As a result of that we were refused to pump in any more money. All things fall short. They always have a feeling that once upon a time you are under us. As a result of that we said enough is enough if you want to put it under administration order let put it under administration order and do a voluntary liquidation or winding up (CA: Pm_Mf_Mc_Mo_Cfb)

Manager of company CA also observed that unlike the western culture, the Malaysian culture regards respect to the bosses as paramount irrespective of their background:

It is difficult to find the right people, to understand the mind-set of the U.K. people. Not many of them can take instructions from people like us. They always have a feeling that once upon a time you are under us (CA: Pm_Mf_Mc_Mo_Cfb).

He also believed in business secrecy which is not apparent in the British partner:

If you don't have that kind of experience about their culture from day one, you are going to fail [...] in western culture, whatever it is, everything is discussed with the wives. For example, when we invite the wife to a function or dinner, the wife would tell you that what you are doing is not right [...] In our culture it is different with respect to the bosses, the elders (CA: Pm_Mf_Mc_Mo_Cfb)

In general, misunderstanding between the parent and subsidiaries is more about business culture. It is about different opinion between Malaysian and British managers on certain management issues. It also concerns a lack of exposure or ignorance of each others business culture:

I don't think most people with any real knowledge consider Malaysia as a developing country anymore. I think very pragmatic to say that Malaysia is a developed country. A developing country consists of a very poor level of economy. I think if you go back two decades, then you can say Malaysia is a developing country. But Malaysia today is a prosperous country that has kept adding to its prosperity (SG: Suk_Tr_Bm_Mp)

A perception that Malaysia is developing young, well educated, very knowledgeable young businessmen. They are not people who are inferior in terms of education and knowledge. They come from different cultures

but only the culture is different. The level of knowledge and expertise and understanding is not the issue (SG: Suk_Tr_Bm_Mp)

I have only been to the Far East once to Singapore for international sales and marketing meeting. This is the first time I have been to Malaysia. As I said I was impressed with the people. Very professional people and very professional organisation (SA: Suk_Su_Bm_Mp)

7.4.3 Rationalisation of Subsidiaries

It has been mentioned earlier in Section 7.2.2 that some Malaysian companies have been acquiring failing U.K. companies. Post acquisition witnessed subsidiaries that have recovered while some are still continuing with the losses. As in the financial year 2003/2004, four subsidiaries namely subsidiaries SD, SL, SO and SK had incurred losses. From the interview, subsidiaries SE and SA also failed to make a decent profit for the financial year 2003. Table 7.7 show the profile of the U.K. subsidiaries including its turnover and profit for the financial year 2003.

Table 7.7: The Profile of U.K. Subsidiaries including Profit and Losses for the Financial Year 2003

UK Subsidiary	Paid-up Capital (£)	No. of Subs.	No. of Employees	Turnover (£)	Profit (£)	Financial Year
SA	320,000	na	na	na	na	2003
SB	na	na	na	na	na	2003
SC	na	na	na	na	na	2003
SD	1,000,002	na	8	5,760,000	60,000	2003
SE	1,000	na	na	na	na	2003
SF	34,500,000	31	3,103	623,500,000	13,000,000	2003
SG	38,897,000	4	2,265	112,470,000	1,457,000	2003
SH	135,000	n.a	44	1,825,947	364,111	2003
SI	3,210,000	n.a	93	3,729,491	10,000	2003
SJ	37,300,000	6	2,961	283,500,000	2,000,000	2003
SK	-3,040,000	1	222	20,034,000	-777,000	2003
SL	3,393,000	7	621	23,506,000	-476,000	2003
SM	1,750,000	2	8	2,265,512	228,432	2003
SN	2,718,000	n.a	96	14,144,000	629,000	2003
SO	3,500,000	4	86	22,975,000	-1,859,000	2003
SP	2,052,000	1	21	n.a	129,213	2003
SQ	28,394,000	1	447	23,892,000	-3,693,000	2003
SR	200	n.a	n.a	n.a	n.a	2003
SS	131,800,000	19	1,682	287,700,000	67,400,000	2003

Note: Information on subsidiary SB and SC are not available.

Source: (1) FAME Database (2004)
(2)Hemscott Company Guru (2005)

The first strategy, Malaysian investing companies seek to undertake restructuring activities including implementing new business strategies and repositioning the portfolio of activities upon their acquisition of the U.K. companies. About 31.6% of the companies studied cited that they have undertaken measures to rationalise and restructure the U.K. subsidiaries (see Table 7.5). Subsidiary SL, for example, experienced a downturn in their business volume in the U.K. where lack of confidence among the clients had contributed to their poor market performance:

We may change to Mega Automotive System, re-brand ourselves. Go back to customer. The marketing tool is that “we are not Bloxwich anymore. We are an international company, Mega First Automotive System (SL: Suk_Mf_Bm_Mp)

Another company, subsidiary SJ, began developing a new image for their brand, by concentrating on retailing only within the U.K. and closing down their retail shops worldwide and shifting to franchising instead. Its retail stores in the U.S. were closed and businesses in the U.S. are now run under licence. They have also completed their exit from Europe because European business was “bleeding the business” (Suk_Tr_Mm_Mp):

Critically, we also need to build up our brand because it is very old. The brand has been around for 60 years now. It has worked at some stages but not others. The focus now is on repositioning the brand to where we want to be now. In the last 18 months we have redefined the brand and repositioned it (SJ: Suk_Tr_Mm_Mp)

In business, strategy changes when the environment changes. There are many instances to show that Malaysian investors have changed the investment strategy of their U.K. subsidiaries. Subsidiaries that are involved in manufacturing, for example, had to reposition their activities because of the high costs of U.K. manufacturing. They have had to relocate their manufacturing activities to lower cost areas based either in Malaysia or other countries. Subsidiary SQ, for instance, has undertaken investments in China and Eastern Europe to produce household refrigerators, while its U.K. subsidiaries produce premium products such as wine coolers and medical cabinets for storing blood and serum. The Chinese and Eastern European production, however, use the technology of subsidiary SQ:

In manufacturing, if it doesn't make money we don't set up factory. Let other people do it. It involves a lot of money to buy machines and so on. The strategy is we enter into an off take agreement. I agree to buy so many fridges from you a year and in return I will transfer the technology to you and you will sell the fridges to me at this price (CD: Pm_Mc_Mp_GLc_Cg)

Similar strategies were undertaken by companies such as Subsidiary SK which sources some of its parts from their factory in Malaysia, and Subsidiary SL, which produces parts and components in Malaysia and South Africa. Other companies that used to do manufacturing in the U.K. are subsidiary SP and subsidiary SM. Subsidiary SP has closed down its U.K. pewter manufacturing under the Englefield brand and now concentrates on its production in Malaysia using the brand Royal Selangor Pewter:

Even though we have a small manufacturing base at Englefield, we decided it is not economical to continue the manufacturing there. The costs are higher and we already have the manufacturing facilities here in Malaysia where the costs are cheaper. Labour, packaging, and facilities are bigger here where we can utilise economies of scale (CP: Pm_Mf_Mc_Mo_CFb)

I think frankly throughout the world, the traditional pewter manufacturer in the West is becoming increasingly difficult to survive. A massive contraction has occurred in the U.K., France, and Germany. The traditional pewter manufacturers are terminally declining and we are now sourcing product from China, Indonesia and so forth [...]. The giftware trading constantly changes. It is very difficult for the U.K. manufacturer to keep up with the trend (SP: Suk_Su_Bm_Mp)

Another example is subsidiary SM which has moved from producing parts and components of paper mills to dismantling and selling second hand paper mill machines. The main reasons behind the shift are high costs and lack of competitiveness to produce in the U.K.

The data shows that many Malaysian companies still perceive that the U.K. is excellent in technology and R&D and therefore, the strategy of the Malaysian manufacturing companies is to add value to their products with U.K. technology. Parts and components, for example, are sourced from cheaper countries:

There are cases where we manufacture the shell or incomplete boilers since the labour cost is much cheaper here. Then we send it to U.K. We then get the components from them, so it is a very flexible system (CK: Pm_Mf_Mm_Mo_Cfb)

It is better for us to manufacture in Thai baht and sell it in Pound sterling or Euro (CA: Pm_Mf_Mc_Mo_Cfb)

With regards to retailing, two contrasting strategies have been employed. For example, subsidiary SJ has closed all of their retailing business in Europe and the U.S. and has shifted to franchising and licensing. In contrast, subsidiary SG has consolidated its position as a retailer worldwide. The different strategies are, however, both related to cost and profit where subsidiary SJ has been burdened with the high overhead cost of its European operation which was also not profitable whereas, subsidiary SG's European operation is profitable.

Overall, the rationalisation strategies undertaken by Malaysian parent companies in their subsidiaries have not been a total success. There are various reasons for this. One, as already noted, is that the many of the U.K. companies were already facing problems at the time of their acquisition. A second reason was internal problems faced by the parent company, particularly cash-flow problems and increasing debt; any such problems were exacerbated by the 'Asian Crisis' of 1997. Some companies have also experienced stiff competition. Company CO, for example, first exported its car into the U.K. to cater for the low end market and competed on cheaper price. It failed, however, to capture substantial market share because of competition from other manufacturers. The U.K. passenger car market is very open and thus is very competitive. It might also explain that although the cars were cheap they were not all that good, and there were much better cars that were not much more expensive.

We need to strengthen our position in the U.K. since our old products are not really competitive. We are very limited in terms of product, whereas Toyota has 10 new products a year. We have only one product that is surely not enough. In U.K., for example, the Proton cars cannot be found everywhere in the U.K. It depends on where the dealers are. If you go to Bristol and Norwich, yes you can see the WAJA, for example. But when you are doing small volume, and you don't have spread of product, your composition to the dealers is not very well expanded. So you have to use

multi-franchise dealers, dealers that sell multi brands (CO: Pm_Mf_Mm_Mp_Glc)

In another example, subsidiary SQ had claimed that it used to control 60% of the U.K. home refrigerator market; this has now been reduced to 4%. It has to compete with cheaper refrigerator from China and Eastern Europe:

Today, refrigerator penetration into British home is 99.99%. That means the only market left is a replacement market or for people that started new home. So now the market is smaller and LEC is currently fought for that share. The British market also is quite open, the European can come, even the Chinese can come, and as a result we don't have enough sales because we need to compete (CQ: Pm_Mc_Mp_Glc_Cg)

The higher operating costs especially in manufacturing have also contributed to the failure of some of the investments. This has been cited by 78.9% of the companies studied (see Table 7.5):

By and large, the U.K. is not a low cost manufacturing base but it is a good trading port (CA: Pm_Mf_Mc_Mo_Cfb)

Now we still do manufacturing which is a problem. British manufacturing has come to a certain point, for example, where you want to source a compressor but nobody in U.K. makes compressors cheap enough. We have to import from Eastern Europe. The steel plates for refrigerators we imported from Italy since nobody in the U.K. can produce them cheap enough. I know that we entered the U.K. for technology transfer back into Malaysia. But now after so many years England has changed a lot where our manufacturer has found that it is not feasible to manufacture in England (CD: Pm_Mc_Mp_Glc_Cg)

Of course the learning took a little bit longer in terms of the high costs of manufacturing in the U.K. But we had hoped that the product sales could catch up with the costs (CG: Pm_Mc_Mo_Cfb_Cg)

It is very hard to manufacture in U.K. now. We find that U.K. is a very difficult place to manufacture, very expensive (CL: Pm_Mf_Mc_Mp_Cfb)

Among the main contributors to the high costs as raised by Malaysian companies are labour costs such as wages (e.g. company CA, CK, CL), very high overheads (e.g. company CE), and the obligation to contribute to National Insurance and pension funds which are perceived to be very costly (e.g. company CL). Many

companies regard the cost as being too high to bear, especially in manufacturing, and some have slowly restructured their manufacturing activities in the U.K. by outsourcing their products from low cost countries:

I would rather relocate the manufacturing because the cost is too high. For the Japanese they are coming to the U.K. because the British Government gives a lot of incentive to those companies. Those companies are enticed with subsidies and grants. If not, it does not make sense to manufacture in the U.K. unless for high end product. In our case we are not in that segment. Our segment is very price competitive and our margins are not huge (CO: Pm_Mf_Mm_Mp_Glc)

The quotation above has also raised the question of why were the Malaysian companies not able to access investment incentives. The U.K.'s Department of Trade and Industry (DTI) noted that incentives are often granted for investment in regions that have relatively low levels of economic activity and high and persistent unemployment or known as an Assisted Area. Companies that are looking at the possibility of investing in an Assisted Area, but need financial help may get the incentives. Malaysian companies may not be included in the category of supported projects since the investment has not created employment or are not in an Assisted Area or they entered by acquisition (few incentives offered) or entry was prior the incentives put in place (Department of Trade and Industry, 2005).

A few managers in the parent companies have also attributed the failures to the difficulties in finding the right people to handle the business in the subsidiaries. About 26.3% of the companies studied cited that they have experienced problem with local employees (see table 7.6). They are also dissatisfied with the performance of local managers in the subsidiaries, and with the difference in motivation between parent and subsidiary managers with regard to the management of the business:

The problem is that you are in Malaysia and the company is overseas. The key is to get a manager that you can trust. That is the challenge. It also takes time (CR: Pm_Eng_Mm_Mo_Glc)

Yes, they do it their own way. I am not saying that they are not good. (CI: Pm_R&D_Mm_Mp_Glc)

Unfortunately these people are incapable of running the company. They are good in technical areas such as workshop manager. But when we let them manage the project they are not concerned about the cost structure. Managing cost is something that is natural to us. Maybe because we are Asian, we are very particular about the cost. So that is the first problem we faced (CL: Pm_Mf_Mc_Mp_Cfb)

Unfortunately people in the U.K. are not motivated. We extend them fund from Malaysia to do contract and so on, because if we make money their shares will go up. Even that is not enough to motivate them, to change them, so eventually we have to control the management and decided to scale down (CM: Pm_Mf_Mc_Mp_Cfb)

In the early days, the manager was not up to the mark. Until the current incumbent who is very good so we are able to have less meeting to review his work and he just produces good work (CP: Pm_Mf_Mc_Mo_Cfb)

7.4.4 Diversification Strategy

Diversification allows businesses to grow fragmented. Companies in downstream activities, for example, may consider upstream activities as a possible area of diversification and business expansion:

We don't want to put everything in one basket. When the business grows, there will be limitation in terms of market. It is the nature of business. If you are producing palm oil and then go to downstream activities, there will be a stage where it cannot be expanded further. When producing products to the level of critical mass, further expansion is possible if we venture to other market. It is also because the size of business is growing (CG: Pm_Mc_Mo_Cfb_Cg)

The data show that an important precondition for diversification expansion undertaken by the Malaysian company is that the company have excess resources. Some may argue that the investing firms can always borrow, if they can persuade capital providers that their plans are good. However, Malaysian companies may be strange to U.K. financial institutions and may not have international track record to enable them to get financing. At the same time the status of the acquired company (some are failing) would be best to be funded by internal money. Bigger companies such as conglomerates are more likely to adopt a diversification strategy because they have to find ways of utilising their excess resources even if the activity is unrelated to its existing business. In the case of small companies the data shows that

they may face difficulties if they diversify into unrelated business. Company CK, for example, is involved in the boiler business as their main activity. It tried to diversify into property development and the retailing business but was not successful and later disbanded the business:

To be honest at one stage we were diversifying into development but now we are back into boilers. Last time we were trying to do development in Penang. We established handi-mart (chain store for DIY) and other things. But at the end of the day, do things that you know best. Specialise and focus on what you know best (CK: Pm_Mf_Mm_Mo_Cfb)

Diversification strategy is also influenced by trends and opportunities. It is not a fixed strategy but emergent (Mintzberg, 1994b). At one time, there was a trend for Malaysian companies to diversify into power generation in Malaysia or in another country. This was because this sector was highly profitable and because it was easy to get funding from financial institutions. Three of the companies studied, company CL, CS and CK are in the power generation business. Company CL's main business was initially engineering while company CK's main business is boiler manufacturing. Company CS is part of a bigger group involved mainly in the construction business before it became involved in the utilities business such as electricity and water. Therefore, as far as the Malaysian companies are concerned the diversification strategy has evolved over time as new opportunities emerged. In other words, they may not have a fixed diversification strategy but based on random opportunism, an approach similar to an emergent strategy (Mintzberg, 1994). It might also follow the same argument of opportunistic strategy by Crick and Spence (2005) as discussed in Section 2.3.1.

Generally, Malaysian investment in the U.K. could be considered as geographical diversification strategy. However, diversification of businesses especially into the European Union (EU) originated by the U.K. subsidiaries has not happened even though the initial motivation was to capture a larger UE market. This is shown in Table 7.5 in which three U.K. subsidiaries have diversified into other countries after they were taken over by Malaysian companies. The reasons could be due to limited capability and opportunity on the part of the U.K. subsidiaries and their inability to

raise fund for further diversification. Insufficient funds could in turn be due to financial constraints faced by the parent after the Asian crisis and high cost to keep the U.K. subsidiaries afloat. The continued losses of the U.K. subsidiaries and the deterioration of the UK businesses could also worsen their capability for expansion. Malaysian products are also not competitive in the European market and face competition from low cost manufacturers from Eastern Europe and China. Different motivation between parents and subsidiaries with regards to the direction of business of the U.K. subsidiaries could also deter the intended expansion into the European market.

7.4.5 Core Competence Strategy

Malaysian companies in the U.K. have to some extent employed their core competence in the establishment or acquisition of their U.K. subsidiaries. However, only 15.8% of the companies studied cited that they are utilising their core competence in the U.K. subsidiaries (see Table 7.5). This again confirms the earlier finding in Section 6.3.1. They have also, in turn, utilised the existing core competence of their subsidiaries. Many Malaysian companies, for instance, have used their financial strength in acquiring U.K. companies, in a ‘financier and debtor’ match, where some of the acquisitions can even be categorised as ‘rescue operations’. Although financial strength was used initially to secure the target company, Malaysian investors have shown restraint in further spending which may amplify the failure of some of the subsidiaries to gain profit in post-acquisition. Some might argue that by buying a failing company but not making further investment will not prevent the new operation continue to fail. However, further spending will not guarantee recovery if the company’s fundamentals are weak, such as deterioration of market shares due to competition and increasing operational cost. Malaysian companies are thought to act cautiously in spending more money in the subsidiaries due to the uncertainty of the subsidiaries’ future:

We have to do it via acquisition. But we are very pragmatic and cautious. We don’t simply spend. We have so much money even people are very sceptical as to why we are not investing more. There are a lot of projects out there. But we are very discriminating to ensure that this project can work (CS: Pm_Mc_Mo_Cfb_Cg)

The data also suggest that the parent companies have also extended their strength in cost management to revive their subsidiaries in the U.K.:

The core competence of our company in Malaysia is manufacturing management which involves cost control. In U.K., we found our core competence when we switched the operation mode of the company. For them it is solely technology without thinking of the cost. But we managed to turn it around. [...] So being familiar with the industry we have the advantage of doing things in a short period. Other competitors can play a small part but they cannot carry the whole project. We understand how many days and hours that we can take to finish the project (CM: Pm_Mf_Mc_Mp_Cfb)

For conglomerate companies, there is a tendency for them to develop new core competences. Company CG, for example, has developed their core competence in plantation management but has never been involved in retailing unlike their subsidiaries in the U.K. This suggests that unlike the focused companies, the conglomerate firms develop their core competence in the periphery. Core competence may be developed, owned and stays at the subsidiaries and the fragmentation of core competence prevents sharing of knowledge within the group. In other words, there is no central core competence because the activities are spread across various businesses.

Malaysian companies have also undertaken a strategy of acquiring core competence in the U.K. subsidiaries via acquisition. This was cited by 42.1% of the companies studied (see table 7.5). Specific technology is one core competence that some of the subsidiaries in the U.K. have and which the Malaysian companies wish to acquire. However, the extent of technology transfer from the U.K. subsidiaries to the Malaysian parent companies is unclear. Technology transfer is not guaranteed even with wholly-owned subsidiaries, because technology can be embedded in people and knowledge can be tacit. Company CQ for example, had acquired subsidiary SQ for the purpose of technology transfer to Malaysia, but since then is still fighting to revive the company:

The original purpose is transfer of technology. But today we are trying to revive it in order to maximise its value. If we can revive and make

money, we will keep it. If it doesn't work that way, we may well look to sell it. But at the moment the purpose is to revive it. So we look at it from the professional business point of view. There is no sentimental value since the product has not even been sold in Malaysia (CQ: Pm_Mc_Mp_Glc_Cg)

It has also been suggested that sharing core competence between parent and subsidiary is difficult because of the physical distance and limited direct involvement of people from the parent in the subsidiary.

There are, however, some success stories, such as company CL that managed to establish a car pulley manufacturing in Malaysia using technology from their subsidiaries in the U.K. Company CS, although it had only just acquired its U.K. subsidiary, was optimistic about its acquisition:

It is too early but it is only a matter of time that we start to draw upon Wessex Water management resources in terms of technical services and expertise to help enhance our other businesses elsewhere (CS: Pm_Mc_Mo_Cfb_Cg)

Other than to leverage on subsidiaries' technology, the strategy of Malaysian investment in the U.K. companies is also probably best described as 'exploitation' of brand and goodwill possessed by the U.K. subsidiaries:

Therefore you have to associate yourself with a company that has been noted for the technology. Lotus Group International Ltd is renowned for its work for General Motors, Ford, all the major car players, renowned in engines, right hand drive (CO: Pm_Mf_Mm_Mp_Glc)

We maintain the company because we know that we have created a name for ourselves in machine dismantling. We have to use the U.K. company. We cannot use Malaysian company to go there and do the job. So we used the name L&G to deal with this business (CM: Pm_Mf_Mc_Mp_Cfb)

7.4.6 Synergy Realisation

The Malaysian companies studied stressed that they have managed to realise synergy in the forms of resource and information sharing with Malaysian parent companies (see Table 7.5). For example, Malaysian companies whose subsidiaries

are involved in manufacturing in the U.K. have outsourced their raw materials from associated companies in Malaysia. This has promoted trading between subsidiaries. There are also cases in which the labour intensive part of the manufacturing which was previously done in the U.K. has been shifted to associated companies in Malaysia and re-exported back to the U.K. for assembly. In other words, certain activities including non-manufacturing activity such as information management have been moved to the lower cost country and in the process, synergy is realised via collaboration between business units:

There are a number of synergies that have emerged from the business. At the operational efficiency level, the setup of the business where consolidating information for the products was previously done in the west, it is now done in Malaysia. It is done at lower cost because labour cost is lower, and it is done more efficiently than in the west because of the ability to retain better quality people. Everything you move to the East is to get lower cost since labour is cheap (SG: Suk_Tr_Bm_Mp)

Synergy in the form of flows of human resources between parent and subsidiaries is, however, limited due to distance and cost. Communication between parent and subsidiaries is minimal and/or limited to a few people. Other than normal telephone communication, there were occasional visits by people from the parent company. A more direct means of human resource sharing is by mutual directorship between parent and the subsidiaries. In other cases, some of the U.K. subsidiaries were headed by people from the parent company. In the context of subsidiaries that are involved in product marketing, the most highly regarded synergy is sharing of market information between parent and subsidiaries. To them, sharing market information is necessary since the product is manufactured in Malaysia and the market is in the U.K. and other countries in Europe. However, there are also situations where interrelationship between business units is limited due to the unrelatedness of activities between them. This is further inflated by a 'remote' form of management between parent and subsidiaries.

Synergy has also been realised because of the different levels of skill owned by parent and subsidiary. This is a complementary form of relationship which enables synergy to be realised:

By nature, we are more creative (in overall business management). They concentrate more on R&D and design. So it is a good blend. We do swap people around. What they can pick up from us, it is transferred to the other side (CK: Pm_Mf_Mm_Mo_Cfb)

We dictate to them what to do and when to do it in some project. They have the technology and we supply them with the management. They know how to take things out and put them back. That they know. But they cannot manage the things together, shipping and all these things. They don't have the management skills (CM: Pm_Mf_Mc_Mp_Cfb)

Generally, the extent to which Malaysian companies have managed to realise synergy as a result of internationalisation is still unclear. It was difficult to ascertain between intended synergy creation and realised synergy between the parent in Malaysia and the subsidiary in the U.K. The synergy between Malaysian companies and the U.K. subsidiaries as raised by the respondents are justifications for their action rather than realisation or achievement of synergy. As Porter (1996) argues, the meaning of synergy itself is vague (see Section 3.2.5.). Malaysian companies have tended to concentrate more on ensuring the survival of the U.K. subsidiaries rather than managing the synergy between the businesses.

7.4.7 Ethnic Business Networking

Most of the respondents believe that business networking is important in any form of business, both in Malaysia and in international ventures. Chinese business networking or *guanxi*, for example, remains an influential factor in the business environment in Malaysia and in Southeast Asian countries. However, this does not have much visible impact on the internationalisation strategy of Malaysian businesses in the U.K., because Malaysian businesses tend to follow the western style of business networking rather than the personalised network characteristic of Chinese business. None of the companies studied cited having ethnic business network in the U.K. (see Table 7.5). This finding confirms the assumption in Section 4.4.6 concerning the irrelevance of *guanxi* in the U.K. investment.

Every respondent acknowledged the importance of business networks in Malaysia:

In Malaysia, networking is very important. But not everybody can network. You must have Tan Sri, Dato³⁷ etc. Otherwise how to open the door [...]. What is important is not how much you know but who you know. Everybody needs to have networking, it is degree of networking (CN: Pm_Mc_Mo_Cfb_Cg)

The networking is very important particularly with the government, like Tan Sri Nik can pick up the phone and call the Prime Minister (CD: Pm_Mc_Mp_GLc_Cg)

Networking is important to open doors for business to grow and to gain favours. One respondent even believes that *guanxi* is more important in Malaysia than in China. This opinion is however difficult to be validated. In contrast, the main element of networking in the U.K. is to capture the market and win client. This is different from the networking of the parent company in Malaysia, where the purpose is to win the contract, and especially government contracts:

I think whatever networking you need at that level is already there. It doesn't work in the same way as we do in Malaysia. In Malaysia our networking has to be at all levels. At the company level, between companies, business and bankers, with government, Malaysian Incorporated is just like the Japanese. I think it is much less here (SJ: Suk_Tr_Mm_Mp)

One Malaysian subsidiary views that, if networking does exist in the context of U.K. business, it is definitely not across race such as Chinese with Chinese or British with British but professional network:

Yes we network, but not across race. What I have brought to the business, particularly Peter I think, were the contacts we have with the manufacturer, suppliers, retailers within our target sector.[...] I don't think we have structured networking like the Chinese network. We don't tend to get that in our industry. It is an industry that depends very much on individuals (SP: Suk_Su_Bm_Mp)

³⁷ Honorary titles conferred by the King in appreciation for services to the country.

Obviously, while networking is important in the context of Malaysian investment in the U.K., it is on a more formal basis - membership of relevant trade and industry associations, and participation in road shows and exhibitions. There are several reasons why networking of the *guanxi* kind is not found in the U.K. Yeung (1999) argues that the diversification strategy of Chinese business is motivated by the social relationship in the *guanxi* circle. Yeung, however, based this view on investments in the Southeast Asian region. It is possible that social networking of the *guanxi* kind will be found where Chinese business is dominant, but will become less relevant outside this environment:

In our case, we don't do businesses locally (in Malaysia). We don't do Chinese networking (CA: Pm_Mf_Mc_Mo_CFb)

We don't have any special connection (*guanxi*). Not here, not in China. America, Europe. Nowhere do we have special connection. We have to compete in the open market (CN: Pm_Mc_Mo_CFb_Cg)

The more that business is done outside Malaysia, the less important is the *guanxi* in the business. One manager said "When you go overseas people don't even know your title. But locally it is very important" (Pm_Mc_Mo_CFb_Cg). A younger generation of Chinese businessman who are western educated and spent most of their early years in western universities also think differently:

I don't want to speak about it (Chinese business) which might anger people. We are the third or fourth generation of Chinese [...]. We don't see ourselves as Chinese businessmen. We are Malaysian businessmen. We are western educated so we see ourselves more like western businessmen. [...] .We are not typical Chinese which have a limitation in how far they can go if they do not bring the professional (CA: Pm_Mf_Mc_Mo_CFb)

A second reason for the absence of *guanxi* networks is that most of the U.K. subsidiaries are managed by locals. The local managers either bring with them their past network or the subsidiary companies have already established their own network. Thirdly, parent companies are not involved in the daily running of the business and therefore the parent's networking becomes irrelevant in this case. Apparently, there is an inability on the part of the parent company to build business

networks because of the different culture and physic distance. To the parent company, locals have a better position to establish networks:

Even if I stay for 10 years in the U.K., networking between market communities is not that simple. This guy who is working with us got many years in the medical field. It will take years to build brand images and so on. If you look at all our customers, the biggest one is chain medical stores such as Boots. It took us three years before we could build the business to anything substantial, that gives us a good margin. If I stay there for 10 years, we will still not be able to do this. Whether you like it or not, there is a difference (SE: Suk_Su_Bm_Mp)

It is also important to note that historically, *guanxi* had emerged in an environment of mistrust and insecurity between merchants and government back in mainland China. Early immigrants to South East Asia brought this feeling with them when they faced a similar hostile environment with government and native people (see Chapter 3). Because this type of environment is perceived to be absent in western countries such as U.K., personalised networking is not necessary for the business:

I believe I am a true businessman. Truly Malaysian businessman. Do manufacturing, trading, after sales services and going international. No political connection (CN: Pm_Mc_Mo_CFb_Cg)

Not so much on `kamching-kamching³⁸, relationship. But of course in every business there are always inter-personal relationships but that is more on personal basis (CG: Pm_Mc_Mo_CFb_Cg)

Generally, the findings about the Malaysian internationalisation process tends to agree with the suggestion by Crawford (2000) that the larger the corporation and the wider the business activities, the harder it is to maintain ethnic networks. Chinese business networks needs the environment of dominant Chinese business in the market and higher monopoly power in the business which facilitate the movement of resources. But based on the data, it seems that *guanxi* that is based on personalised relationships is not a sustainable strategy in the internationalisation process. In addition, not every Chinese businessman believes in the business network such as *guanxi* as a valid business strategy:

³⁸ The expression used by Malaysian Chinese which is equivalent for western `best of buddies`.

I am not a believer in this type of network. That is overblown. A good businessman anywhere will find partners that they can work with. Like Chinese and Taiwan, I feel far more comfortable to work with the British or Canadian, Australian. You look at YTL (refer to YTL in Wessex Water) there is no Chinese man involved. Every time, these people I think, they want something sensational to write. To me what makes business sense, you do it. The whole emphasis on working on ethnic basis is a wrong footing to start the business. Very, very wrong. Those who think along this line is very, very narrow-minded (CP: Pm_Mf_Mc_Mo_CFb).

The above comment comes from a family business which has been growing but which still remains in private hands until today. They also believe that the Chinese business can no longer depend on the network to grow:

The businessman or consumer will choose products that are best, with the best services regardless whoever sells it (CP: Pm_Mf_Mc_Mo_CFb).

7.4.8 Targeting Niche Market Segments

Malaysian companies also invest in niche markets as one of their internationalisation strategies. This was represented by 31.6% of the companies studied (see Table 7.5). A business that focuses on a niche market is addressing a need for a product or service that is not being addressed by mainstream providers, a company is not dealing in something that other companies have done and if it has been done, it is done it in different ways. Dalgic and Leeuw (1994) for example describe niche market as being:

- Sufficient size, to be potentially profitable;
- No real competitors, or markets which have been ignored by other companies;
- Growth potential;
- Sufficient purchasing ability;
- A need for special treatment; and
- Customer goodwill.

Niche market targeting is also one strategy for entering a new market. Large multinationals often have highly sector-specific expansion routes, and leave market niches in and around these for SMEs to exploit (Buckley, 1989).

Niche markets are either small, requiring specialised products, or they may have different consumer preferences that are not covered by other available products:

Here, we are not dealing with something that other people have done. Like the first chemical that we were producing earlier, nobody else produce it in the world. It is our small niche market. It is where we use knowledge to generate product, the real knowledge-economy I would say (CI: Pm_R&D_Mm_Mp_Glc)

It is a smallish company. They own a niche market. They are specialised in certain market sector in U.K. Beels Boilers is very active in African market. They are also strong in Hong Kong. I don't know how this British started to penetrate these markets and started developing these market segments (CJ: Pm_Mc_Mp_CFb_Cg)

Malaysian companies in the U.K. which are targeting niche markets are basically companies that find it difficult to compete with other companies in the same market. Most of these companies sell products that are produced in Malaysia for the U.K. market and countries in the European Union. Company CO, for example, started selling their cars in the U.K. market by targeting the pensioner market. This market was previously flooded with Eastern European cars such as Skoda, but company CO felt that their cars were better in terms of quality. There are also U.K. subsidiaries that focus on specific areas such as producing premium products for the U.K. market and sourcing cheaper products from other low cost countries. A good example is subsidiary CQ which produces high premium fridges for the U.K. market.

Some of these companies' business strategies are to penetrate markets that the big companies are not willing to serve because it is uneconomical for them to market their products in such an area. Their main business strategy is to produce speciality products for a special market and market directly to end consumers:

We have now focused on niche marketing, speciality of products, and expand our market and customer based at the end consumer level. We get a better margin (CE: Pm_Mf_Mc_Mo)

I think on the European front, in certain areas, the big boys don't want to go because it is too small for them. We go because it is just right for us as we are not big. We can control our production range and all that, and we can sell at a higher price which is more attractive to us rather than making a lot and selling at low prices (SE: Suk_Su_Bm_Mp)

The above example shows how subsidiary SE's presence in the U.K. is to find a niche market because they are not able to compete with the big player which sells medical gloves at low prices.

The main advantage of niche market servicing is that in this market area, companies are able to sell premium products at higher prices and competition from other companies is also less because the market is small:

Why is it important for us to grow globally? Because we believe that until an industry that is open, that has no protection capability and where you're competing with everybody else in the world, you must be able to find niches over market. That would be very good to do. Our preferred niche is actually looking at LNG transportation (CH: Pm_Svs_Mm_Mp_Glc)

7.5 CONCLUSION

This chapter shows the process and strategy of Malaysian investment in the U.K. Data in this thesis provide examples of the incremental process of market servicing strategy. The data suggests that the incremental stage of internationalisation does not necessarily start with a physically close neighbouring country. Instead, first time investors may invest in a distant country if they can not find a similar opportunity in nearby countries. Data on Malaysian companies investing in the U.K do not show a common route for internationalisation, nor do they suggest an ideal mode of foreign market servicing. Malaysian companies have taken a diversity of processes and strategies in their internationalisation paths.

The above discussion of the incremental process of investment suggests that exporting is the first step in the cycle of internationalisation which increases foreign market experience. Companies which seek to protect or defend a market position previously served by export, have established their own sales unit to take over the role of marketing in the U.K. This is a defensive strategy rather than a rigorous expansion of market horizon. However, the decision to invest directly in the host country is not necessarily due to the increase in foreign experience alone. In the case of Malaysian companies investing in the U.K., the main strategy is to cut the agent out of the market transaction, with the intention of securing long-term presence in the U.K. market and beyond. This is a straightforward internalisation procedure, where the transaction costs of using agents are deemed to be too high, compared with the costs of carrying out the activity within a foreign subsidiary.

Acquisition of U.K. subsidiaries, on the other hand, is a strategy to increase technology core competence in the home country against other competitors as well as to expand competitiveness globally. Although Malaysian companies prefer 100% ownership, they still accept shareholding if it is considered sufficient to leverage on the U.K. companies' capability and expertise. A majority of Malaysian companies, however, prefer to become the controlling shareholder, and if that is not possible, they prefer to acquire shares that are considered sufficient to benefit them. Malaysian companies also tend to set up a new company in the U.K. to distribute Malaysian products. Joint ventures may be considered if the Malaysian companies perceive that the local partner can contribute in terms of technology, expertise and know how about local culture. Wholly-owned subsidiaries have generally been preferred, however, to avoid interference in decision making and to manage the resources effectively.

The strategy of Malaysian investment in the U.K., therefore, depends on the nature of the business and products and the size of investment in the subsidiary companies. A majority prefer to retain the existing management of their subsidiaries to preserve continuity, in addition to accepting the notion that locals are more familiar with local needs and business environments. Even then, Malaysian shareholders still determine the companies' business direction and overall policy. The parent

companies may be inclined, however, to get involved in the management of the subsidiaries if performance is below expectation.

Networking is often perceived by the scholars in Chinese business studies as the heart of corporate manoeuvres, but *guanxi* is not warranted in every business, and especially in western dominated business. In other words, it is less influential in overseas operations. Many businesses have adopted western-oriented business networking, and this is handled by overseas subsidiaries rather than by the parent. Customers' acceptance of the brand name is more important for the business to grow. Finally, investing in a developed country is very much about efficiency, cost structure, capability and transparency. The ability to find a niche market is important, where companies are unable to compete on a larger scale.

Evidence also suggests that Malaysian investment in the U.K. has often targeted ailing companies, and that this opportunistic or emergent strategy has led to some failures, as a result of the poor state of the target companies. Generally, many of the Malaysian companies have changed their strategy as a result of the failure of the investment to contribute to the group's growth. Only a few companies are still looking for expansion if there is an opportunity to do so. Although some of Malaysian direct investments in the U.K. are not favourable in terms of profit, most companies still stick to the strategy of leveraging on the expertise, technology know how and experience of their subsidiaries in the U.K.

CHAPTER 8: TYPES OF FIRM AND FOREIGN DIRECT INVESTMENT PRACTICES

8.1 INTRODUCTION

This chapter explores the type of Malaysian firms in the United Kingdom and the extent to which this determines their FDI practice. As discussed in Chapters 6 and 7, firms' investment behaviour can be associated with factors that are embedded within the firm such as the ownership and management structures, and the actors within the organisation. Mutinelli and Piscitello (1997) suggest that the strategies underlying FDI are linked to international experience and other characteristics of the parent firm. These factors determine the evolution of their overseas operations such as how decisions are made, the initial process of investment, their strategies and mechanisms and also their management approaches in the relationship between the parents and subsidiaries. Thus, when firms decide to invest abroad they also realise that they have to face uncertainties and risks due to the lack of knowledge about the socio-economic environment of the foreign country. Their investment is also influenced by the amount of tangible and intangible resources demanded by their foreign ventures, where small firms may act more prudently than bigger firms in foreign operations since they are bounded by scarce financial and managerial resources (Mutinelli and Piscitello (1997, p 186).

As elaborated in Chapter 3, Malaysian firms in the U.K. can be broadly categorised into three groups: Chinese family businesses, conglomerate corporations and Government-linked companies (GLC). The Chinese family business is built on ethnic business networks (Yeung, 1999), is tightly controlled and has a family-centric operating structure (Carney and Gedajlovic, 2002). This description, however, was largely based on Chinese capitalism in East and South East Asia. In conglomerate corporations, the diversification strategy of Malaysian firms has contributed to their business expansion and added value to the company. This contrasts with western conglomerate diversification which tends to be associated with 'conglomerate discount' (Burch et. al., 2000). Conglomerate diversification within the Malaysian corporation is also opportunity driven and this has added to the corporate value of the firm (Claessens et al., 2000a). Finally, Malaysian GLCs

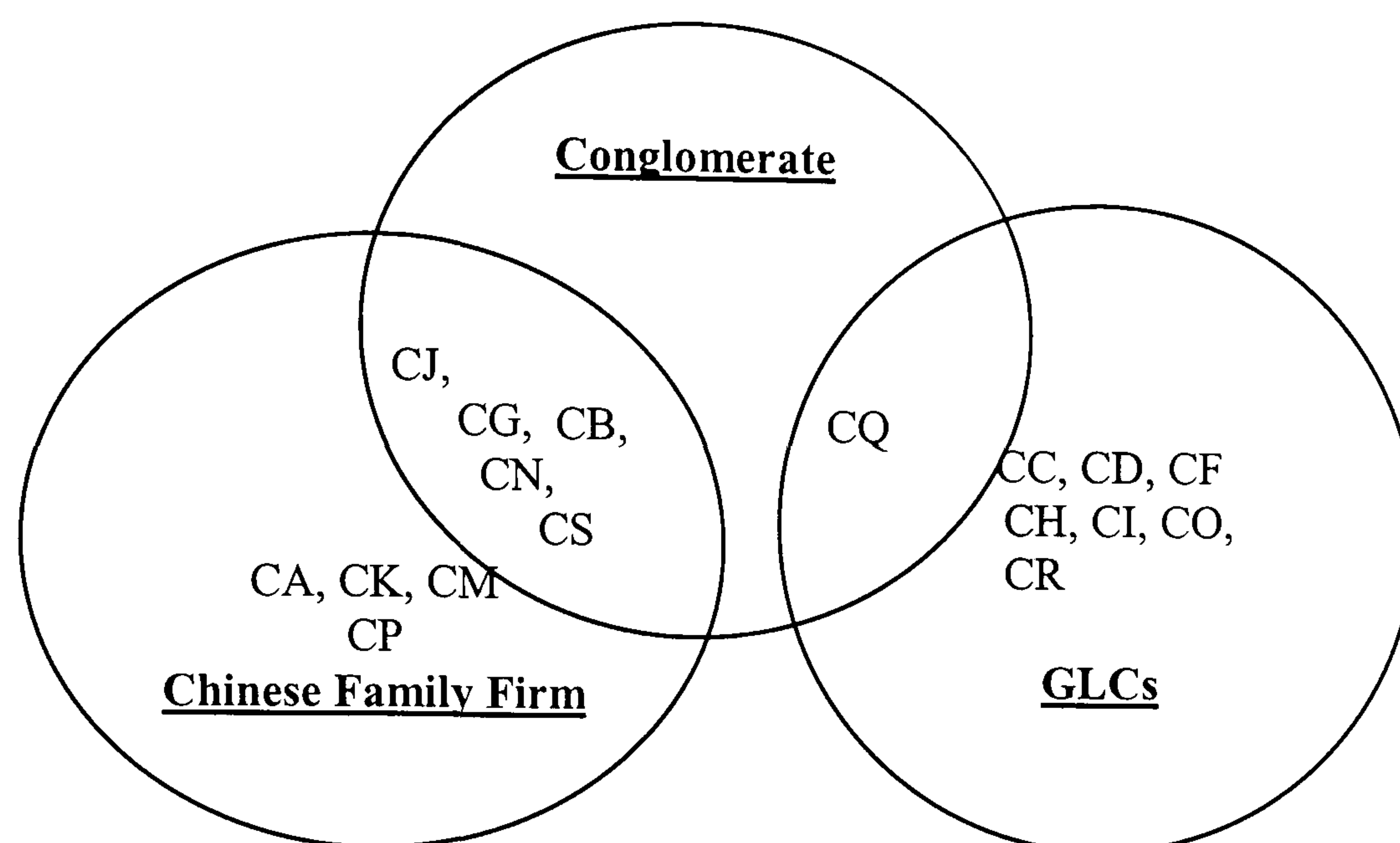
undertake foreign direct investment to acquire foreign technology and expertise to spur the home country industrial competitiveness.

Data and information used in this chapter are mostly drawn from the interviews, companies' annual reports, official publications as well as companies' websites. The approach of this chapter is to use descriptive tabulation supported by qualitative argument. This incorporation of numbers together with narrative explanation provides an in-depth account of the subject being presented in this chapter. This approach is taken in order to answer the third research question, namely the extent to which the firm's character influences their internationalisation methods and strategies.

8.2 LIMITATION IN THE SCOPE OF ANALYSIS

The analysis in this chapter has, however, been carried out within certain limitations. One of the major constraints is the overlapping characteristics of firms. For example, a single firm may be a Chinese family business, or be a GLC, and still fit the model of a conglomerate corporation. No mutually exclusive typology fully fits the reality. It is useful, however, to think of the companies as belonging to these three ideal types, while recognising that many companies share the characteristics of more than one of these. Figure 8.1 shows the overlapping characteristics of the Malaysian companies studied. It shows that of the six conglomerate corporations, five are also Chinese family companies and one a GLC.

Figure 8.1: Company Cluster Based on Type



Source: Author's Survey

Another limitation is the seeming reluctance of respondents to talk about the family business during the interviews. The family members and even professional managers engaged by the companies were unwilling to talk about family ownership in the company. There are even instances of complete denial when asked whether their companies can be considered as family business, although the shareholding structures suggest otherwise:

No! I don't consider this as a family business. It is a public company. I don't believe in family business (CA: Pm_Mc_Mo_CFb)

I don't consider this as a family business (CB: Pm_Mc_Mp_CFb_Cg)

Oh! We have discarded that image because eventually you need to progress. Although the majority shareholders are family, the terms and everything else are very transparent (CG: Pm_Mc_Mp_CFb_Cg)

In Malaysia, we are actually a public listed company. We have key shareholders but they are not the majority. Tan Sri Lim and his family is one of the key shareholders. The company is owned through a private company which belongs to his associates. Some of them are executive directors and some are not (CM: Pm_Mc_Mp_CFb_Cg)

No, this is a public company. I cannot say it is a family business (CN: Pm_Mc_Mp_CFb_Cg)

The fact remains that the above companies CB, CG, CM, and CN are more than 35% under the control of family members or family companies. One of the reasons for the reluctance to talk could be because the companies themselves are trying to downplay or even drop their family business image which may be perceived as inappropriate, especially with regards to corporate governance,³⁹ because of their current status as public listed companies (Plc). Another reason could be the negative perceptions relating to family controlled companies. Redding (1994), for example, argues that Chinese family business has a limited capability to expand, and that there is a concentration of control in the hands of a few family members. There are also perceptions that family businesses are secretive and lack transparency (Redding, 1993). As such, in a situation where family business may not be highly regarded as a business model, promotion of this status could be seen as detrimental to the company's image and may even undermine public confidence in it:

In family business, it is very difficult. In the decision making process you take many things into consideration like uncles, aunties and all sorts of things. All are very confusing (CA: Pm_Mc_Mo_Cfb)

Although the majority shareholders are family, the terms and everything else are very transparent (CG: Pm_Mc_Mo_Cfb_Cg).

8.3 CHINESE FAMILY BUSINESS

The data suggest that when Chinese family businesses expand internationally, some of the Chinese family firm's characteristics, such as close-knit networks, tend to become irrelevant and insignificant in the new international environment. Table 7.5 for example shows the absence of *guanxi* in the U.K. investment. However, the motive and practice of investment may still be a reflection of the embedded characteristics of the Chinese family business, such as protection and preservation of family wealth and matters relating to the management of the company.

³⁹ The Security Commission of Malaysia stipulates that Malaysian Corporate Governance requires a company gives fair treatment to all shareholders (especially the rights of minority shareholders), has transparency, accountability and independence of the Board of Directors (Security Commission, 2005)

8.3.1 Wealth Creation as a Motive of Investment

The textbooks in corporate finance tend to take it as given that the objective of all firm investment is to achieve growth in shareholder value. As we have seen, however (see Section 3.4.1), family enterprises may need slightly more careful consideration. Family enterprises are often the major repository of wealth of the family members who are the shareholders; this may mean the business is not only considered with the *growth* of wealth, but also with its preservation and longevity:

For C&E they have been investing in long term business which I think is part of the Chinese culture, not necessarily Malaysian Chinese. I think it is a wealth creation aspect (SG: Suk_Tr_Bm_Mp)

The investments of such a company can be the result of a combination of opportunism, rent seeking and utilisation of excess resources. In particular, large cash balances but limited investment opportunities in Malaysia have driven some Chinese family companies to seek opportunities overseas so that their wealth could be increased:

If we put too much money in the bank, the return is limited (CG: Pm_Mc_Mp_Cfb_Cg)

A lot of that (projects) involved the role of the key shareholders. To me, that is very important because the shareholders are always looking to increase wealth. They don't just sit back and say that this business has grown enough and I get (certain percentage) per annum in terms of dividend. They don't just stop there. They know that income growth is about capital growth and an increase of shareholders' value (CS: Pm_Mc_Mp_Cfb_Cg)

This is from the owner/manager of a Chinese family business, where the objective of increasing shareholder value and the objective of increasing family wealth are one and the same. As such, internationalisation by the Chinese family business can be considered as a means of increasing both family wealth and shareholder value. It also means that the owner-managers have personal motivation to increase their own wealth. On the other hand, professional managers could also wish to increase shareholder value but with the objective to safeguard their jobs. Although the motive of wealth creation is assumed to be important in the context of OCFB

(Yeung, 1999), it was not highly cited by the respondents in this study. Secrecy on family matter could be the cause of this.

8.3.2 Investment Practices

Malaysian Chinese family business investments in the U.K. do not seem to behave in a similar manner to their parent in Malaysia. This may be due to distance and the different business environment between a western country (U.K.) and an Asian one (Malaysia). The investments, in particular, are not based on *guanxi*, and are not within the same ethnic group. Centralisation of control is limited to finance and overall direction of the business. There is also an obvious separation between ownership and management in the subsidiary, in contrast with that of the parent company in Malaysia, where the shareholders are also the managers.

8.3.2.1 Close Knit Network

In Chapter 4, studies of Chinese business have emphasised that they are tied together in circuitous webs of cross-holding, and have developed through networks or *guanxi* (Redding, 1993; Tsang, 2002). Analysis of Malaysian parent companies in this study, however, has found that some Chinese or Chinese family companies do not regard ethnic business networking as being paramount in their organisation. Further examination of the subsidiaries in the U.K. also did not reveal any obvious influence of business networks among close-knit family members or within particular ethnic groups (see Table 7.5). Indeed, data on Malaysian investment in the U.K. suggest that close-knit networks are not significant for Malaysian Chinese family firms in their investment in distant countries:

I think that whatever networking you need at that level is already there. It doesn't work in the same way as we do in Malaysia. In Malaysia our networking has to be at all levels. We at the company level, between companies, business and bankers, with government, Malaysian Incorporated is just like the Japanese. I think it is much less here. (SJ: Suk_Tr_Mm_Mp)

Yes we networked, but not across race. What I have brought to the business, particularly Peter I think, were the contacts we had with the manufacturer, suppliers, and retailers within our target sector. Between

Peter and I, we have 15 yrs experience. We are complementary in that aspect [...] I don't think we have structured networking like the Chinese network. We don't tend to get that in our industry. It is an industry that depends very much on individuals (SP: Suk_Su_Bm_Mp)

We don't have any special connection (guanxi). Not here, not in China. America, Europe. Nowhere do we have special connection. We have to compete in the open market (CN: Pm_Mf_Mc_Mo_Cfb_Cg)

This is in contrast to the concept of 'social capital' in the Southeast Asian region described by Cheung (2004) as 'the socially constructed reaction to the political and social instability' in the region. This finding, however, supports another suggestion by Cheung (2004), that interconnection and transnational networks among the 'Chinese diaspora'⁴⁰ are relevant to regional internationalisation, but are less relevant to internationalisation beyond that domain (and so less relevant to 'globalisation' as properly understood). As such, the advantage of the 'Chinese diaspora' is limited by regional boundaries.

The above findings suggest that the 'virtual nation' (Cheung, 2004) cannot be constructed if there is no potential community of ethnicity, languages, associations and Confucianism. As clearly described in Chapters 6 and 7, except for personal relationships developed through business, close-knit networks and ethnicity have not played a role in the motivation and internationalisation strategies of Malaysian Chinese family firms. This finding is consistent with that of Gomez (2001) who noted that there is no indication that Malaysian Chinese businessmen have sought out or worked with British Chinese on investments in similar areas of business. Gomez is also doubtful that Malaysian Chinese in the U.K. have networked with other ethnic Chinese businessmen from East Asia in the U.K.

This finding, however, contradicts the suggestion that Chinese capitalism institutionalised ethnic networks that permit diasporic co-ethnics to move capital across national boundaries (Gomez, 2001). Instead, data on Malaysian companies

⁴⁰ Chinese diaspora is being described as a dispersion of an originally homogenous people from a common place of origin, and to the elements of shared culture and inter-relationships that continue

tend to suggest that the movement of capital across boundaries beyond East and South East Asian are more likely to be driven by opportunities, entrepreneurship, rent seeking, and the desire to become a part of the global economy rather than being confined within ethnic networks.

8.3.2.2 Centralisation in Management

Centralisation in the context of this study is the centralised control of decision with the shareholder in the parent company, particularly the family member who is also the majority shareholder. Family members are involved in the management of the subsidiary, except for daily management which is held by local professional managers (see Table 8.2).

Table 8.1: The Element of Controls by the Parent Companies of the U.K. Subsidiaries

Malaysian Company	Centralised decision making	Periodic Reporting	Control of finance	Malaysian in subsidiary's Board of Directors
CA (CFb_Mf_Su)	✓	✓	✓	✓
CB (CFb_Svs_Cg)	✓	✓	✓	✓
CG (CFb_Cg)	✓			✓
CJ (CFb_Cg)				✓
CK (CFb_Mf)				✓
CL (CFb_Mf)	✓		✓	✓
CM (CFb_Mf)	✓		✓	✓
CN (CFb_Mf_Cg)				
CP (CFb_Mf_Su)			✓	✓
CS (CFb_Svs_Cg)				✓
Frequency	5	2	5	9
Percentage	50%	20%	50%	90%

Source: Author's Survey

However, centralised control in the case of Malaysian parent companies and their U.K. subsidiaries is rather limited to finance, budget and overall business policy. The physical distance between the parent in Malaysia and subsidiaries in the U.K. and the absence of personnel from the parent limits control of the daily operation. Table 8.1 shows that only 50% of the OCFB companies studied could be considered as undertaking a centralised form of decision making. About 90%

to link them. It refers namely to the emigration of the Chinese out of China over the past 150 years, scattered mainly in East and Southeast Asian countries (Tracy, 2002).

considered that being in the Board of Directors would enable control and monitoring. However, 50% of the OCFB companies studied agreed that the decisions with regard to the use of cash and funds have to be approved by the parent companies.

Where centralised control is applicable to policy and financial matters, daily operations are more likely to be decentralised with the subsidiaries which communicate with the parents through some form of reporting system:

The ownership of the business is very hands-on ownership. How budget is approved is very much through contact and consultation. We submit our budget and discuss whether it is appropriate to carry on (SP: Suk_Su_Bm_Mp)

The MD has retired and now we have a Malaysian MD that we report to. So now Malaysian far more interested and come here more regularly. In the last 12 months, he has been here four to five times. Mr Chew comes here four to five times. They spend a lot of time here. Understand the business and get involved in what need to be done. We are now in the middle of transferring the reporting on South Africa to Malaysia, from reporting to the U.K. as it used to be (SL: Suk_Mf_Bm_Mp)

Centralised control in the family business depends on the level of ownership (Carney, 1998), that is on whether the subsidiary is privately owned or a public company, and on the level of multinationality. The data show that centralised control is usually exerted by parent companies over small subsidiaries where the parent has whole ownership; centralisation is less likely when the parent has only a minority shareholding due to limited voting power. Table 8.1 shows that centralised control was not cited by company CJ which does not wholly own the U.K. subsidiary.

The level of multinationality in the family company also affects centralisation. Company CN, for example, has decentralised its international operations according to region:

This is not a typical Malaysian company. We maybe the only company trying to be a true multinational. We manage our company based on geographical territory. Malaysia is not mentioned at all. (He shows the

researcher the company's chart). So if you ask me about the Malaysian turnover, I will scratch my head. We have broken down Asia into four zones. Malaysia is in the Southeast Asian zone. We also include Australia and New Zealand in Southeast Asia, whether they like it or not. We broke down China into four zones (CN: Pm_Mf_Mc_Mo_CFb_Cg)

It is, however, unclear whether this arrangement is influenced by the family or the conglomerate nature of the enterprise, since company CN is an example of the 'family conglomerates' mentioned earlier. The arrangement may even be due to the company's large international operations, which make it unfeasible to have centralised control. This suggests that for a multinational company, even with the help of electronic communications, it is still difficult to have the same style of centralised management and decision making as a Chinese family business where the control is at hand.

8.3.2.3 Owner-management

The separation of ownership and management in Malaysian Chinese family firms is not a common phenomenon. Having a family member in the top management post clearly distinguishes between the structures of management of family firms and firms with other forms of ownership in the Malaysian companies studied. In the family business, the owner and the family members hold important posts in the company (Lee and Tan, 2001). This study shows that in Malaysian family-owned companies, the owner and family members also hold the top posts such as the Executive Chairman, CEO or Managing Director. They also hold executive positions on the Board of Directors (BOD). In the Malaysian context, the BOD consists of: (i) Executive Director who is involved in the daily management of the company; (ii) Independent Non-executive Director who acts independently of management, is free from any business or other relationships that could materially interfere with the exercise of their independent judgement, and who provides unbiased and independent views, advice and judgement; and (iii) Non-independent Non-executive Director who acts independently of the management but may have other forms of interest in the company. Table 8.2 shows the composition of family members and professional managers on the BOD in the parent companies.

Most family members who sit on the BOD hold executive positions. Company CS as shown in Table 8.2, has more than half of its BOD members who are siblings. However, there are companies with executive directors who are not family members (e.g. company CA, CB, CG, CK, CM and CS). A quite different phenomenon is observed for company CN in which the member of the family does not hold an executive position. Further analysis, however, revealed that this company is actually a subsidiary of another family controlled company where the family member already holds an executive position in the holding company. In general, in the parent company, the family members who are also the shareholders are directly involved and hold executive positions in the management of the company.

Table 8.2: Composition of Family Members and Professional Managers in the Boards of Directors of the Parent Company

Malaysian Company	Members of Board of Directors					
	Directors	Family Member*		Professional Manager		
	Total	Total	X	Total	X	NX
CA (CFb_Mf_Su)	7	1	1	6	4	2
CB (CFb_Svs_Cg)	9	2	2	6	4	2
CC (Glc_Bk)	9	-	-	9	3	6
CD (Glc_Mf_Su_Cg)	9	-	-	9	3	6
CE (Mf_Su)	n.a.	-	-	n.a.	-	-
CF (Glc_Eng)	9	-	-	9	1	8
CG (CFb_Cg)	12	3	2	9	1	8
CH (Glc_Svs)	7	-	-	7	1	6
CI (Glc_R&D)	13	-	-	13	n.a	n.a
CJ (CFb_Cg)	9	2	1	7	-	6
CK (CFb_Mf)	7	2	2	5	1	4
CL (CFb_Mf)	9	3	-	6	-	6
CM (CFb_Mf)	7	3	3	4	1	3
CN (CFb_Mf_Cg)	8	2	-	6	-	3
CO (Glc_Mf_Su)	14	-	-	14	2	12
CP (CFb_Mf_Su)	-	-	-	-	-	-
CQ (Glc_Cg)	12	-	-	12	2	10
CR (Glc_Eng)	-	-	-	-	-	-
CS (CFb_Svs_Cg)	15	8	8	7	1	6

Note: * Family member who is also major shareholder; X: Executive; NX: Non-Executive

Source: Bursa Malaysia (2005)

Mostly, the owner or the family members are involved in the day to day operations of the business and sits on the Board of Directors of the company. In company CA

and CB, for example, the CEO is also the single major shareholder who most of the time makes the final decision:

(On final decision) Yes! (I will decide) because I am the CEO. I have to take the responsibility. If everything goes to the Board, I will close shop (CA: Pm_Mf_Mc_Mo_Cfb)

Tan Sri owns about 30% of the shares in Company CB. Since Company CB is an owner-managed company, he is involved in the day to day operation of the company (CB: Pm_Mc_Mp_Cfb_Cg)

The influence of major shareholders in family business is also high. There is the personal motivation of the major owner in the corporate decision making:

He (the major owner) likes to take the risk. He is very entrepreneurial in the sense that if there are opportunities and the investment have a potential for good return he will invest in it [...]. It is 100% (shareholder's role) (CB: Pm_Mc_Mp_Cfb_Cg)

The above statements give us an idea of how powerful the majority owners in these companies are, even when the company is a public listed company. Corresponding to this, a strong indication of how the family member-owner is involved in the management of family controlled company is given by the following assertions:

It is family owned. They are also the majority shareholder and therefore the company has a lot of owner management and influences (CS: Pm_Mc_Mo_Cfb_Cg)

About the influence (by the family) yes, being they majority shareholder, I think they also command influences (CG: Pm_Mc_Mo_Cfb_Cg)

The Group MD who is also the major shareholder is the one that makes the final decision (CL: Pm_Mf_Mc_Mp_Cfb)

Major shareholder is fully involved (CM: Pm_Mf_Mc_Mp_Cfb)

Every quarter, we are 'butchered' by Tan Sri. It is a quarterly strategic business meeting. He is very much involved in the company operation (CN: Pm_Mc_Mo_Cfb_Cg).

A high degree of family-major shareholder's involvement in the daily operation of the parent company has brought about the possible underlying motive and strategy of such behaviour as discussed in Chapter 7:

A lot of that (projects) involved the role of the key shareholders. To me, that is very important because the shareholders are always looking to increase wealth. [...] income growth is about capital growth and an increase of shareholders value. To ensure appreciation of share value. I don't complain about the fact that shareholders, the X Family, is very involved in the business (CS: Pm_Mc_Mo_Cfb_Cg)

The above statement shows how the Director of company CS describes the involvement of family members in the running of business, with the motive of increasing their family wealth. It is indifferent between big and small family firm whereby they have similar motive of wealth creation. It is common that the key position in the management hierarchy, such as the CEO or Managing Director, is held by the family member.

This study further revealed that in the U.K. subsidiary of Chinese family company, the involvement of family members in the subsidiary of a family-owned parent company is also high, as indicated in Table 8.3. However, it is not as high as in the parent companies. Their involvement in the U.K. subsidiaries is only on the board of directors and none in daily management. In the companies studied, none of the family members have become the CEO or Managing Director of the U.K. subsidiary. The Malaysian expatriates that do manage the companies are professional managers. Still, the separation of ownership and management is limited to non-core decisions. Family members are highly involved in policy and financial matters.

Table 8.3: Composition of Professional Manager and Family Member in Board of Directors of the U.K. Subsidiaries

U.K. Subsidiary	Category of Parent	Total Directors	Professional (British/Malaysian)	Owner/Family Member
SA	CFb_Mf	5	British=1 Malaysian = 4	Owner = 1 (Previous year)
SB	CFb_Cg	2	Malaysian = 1	Siblings = 1
SD	CFb_Cg	4	Malaysian = 4	-
SE	Unknown	3	British = 2	Owner =1
SF	Glc_Eng	10	British = 7 Malaysian = 3	-
SG	CFb_Cg	3	British = 2	Family Owner =1
SJ	CFb_Cg	8	British = 3 Japanese = 2 Malaysian = 2	Family owner = 1
SK	CFb_Mf	7	British = 1 Malaysian = 3	Co-owner = 1 Father & Son = 2
SL	CFb_Mf	4	Malaysian = 4	-
SM	CFb_Mf	5	British = 1 Malaysia = 2	Co-owner = 1 Family owner = 1
SN	CFb_Cg	3	British = 3	-
SO	Glc_Mf	6	British = 4 Malaysian = 2	-
SO2	Glc_Mf	5	British = 1 Malaysian = 4	-
SP	CFb_Mf	5	British = 3	Family owner = 2
SQ	Glc_Cg	4	British = 2 Malaysian = 2	-
SS	CFb_Cg	13	British = 8 Malaysian = 2	Family Owner/siblings = 3

Note: Information on company SC, SH, SI and SR are not available.

Source: ICC Information Database and Author's Survey.

The above Table 8.3 shows that almost all subsidiaries of family-owned parent companies have family members on their Board of Directors; the exception is company SN which is owned indirectly through a U.S.-based intermediate company. This suggests that although Malaysian family members are rarely involved in daily operations, they are highly represented in higher decision making such as on the boards. Therefore, direct management from the family member in the parent company also occurs in the foreign subsidiaries, albeit at a different management level. As such, the family members remain visible in their overseas subsidiaries, indicative of the importance of control in Chinese family business.

8.3.2.4 Role of Professional Manager

Earlier study of Chinese family business showed a minimum involvement of professional managers in the organisation (Carney, 1998) due to issues such as trust and the risk of information dissemination outside of the family circle. However, Malaysian Chinese family business, unlike other Chinese family business in Asia, shows more willingness to expand and modernise business activity (Yeung, 1999).

The data in this study suggest that one of the reasons is limited managerial capacity within the family, so that they have to bring in professional managers to manage the growing family business:

This company is run by professionals. In my case, it is very straight forward, all driven by corporate goals and objectives. I believe if you run professionally it is the only way for you to expand (CA: Pm_Mf_Mc_Mo_CFb).

This finding confirms suggestion in the literature on Chinese family business suggests that managerial resources within the family become exhausted once the company expands and grows (Carney, 1998; Tsang, 2002). Even within their business domain such as in the domestic market, it is inevitable that family businesses have to hire professional managers. This could explain why most U.K. subsidiaries are run by professional managers. Table 8.2 and 8.3 clearly show the high composition of professional managers in the parent company as well as the U.K. subsidiaries.

There is also a shift in the family business in terms of a high level of educational attainment among the later generation. The founders are normally former immigrants from mainland China who have grown the family business based on limited capability. The founders have realised the importance of education for their children, and the second generation family members are normally well educated, with some graduating from universities in the West. Therefore, many second generation family members are also professional managers in their own right. This is a comment from a second generation Chinese who graduated from Harvard University, but whose father had emigrated from China:

We are focused in a very professional way because we are also professional people (CG: Pm_Mc_Mo_Cfb_Cg)

The companies, however, view the importance of the professional managers as providing checks and balances, and also showing to public shareholders that the companies are professionally managed:

Check and balance between major shareholder and professional manager. Major shareholders give suggestions and the manager would see whether they make sense or not, give a feedback, and then have discussions. To be safe and in order for the company to expand, there is a need for the professional manager to be part of the process (CG: Pm_Mc_Mo_Cfb_Cg)

Eventually there is a need to hire more professionals. Existing owners have become older and worn out and have started losing creativity. So now we start to hire people and have the second layer, eventually (CK: Pm_Mm_Mo_Cfb)

Another occurrence in the public company, including family controlled companies, is the implementation of Employees Shares Option Schemes (ESOS) as a reward for staff. As a result, the professional manager has also now become a company shareholder. Although the shareholding might not be big, to the company this will serve to ensure that the professional manager is committed to the company (e.g. company CB and CS). At the same time, the professional manager has slowly become the owner of the company albeit through a very small shareholding in the company.

Although the level of involvement of professional managers in Chinese family business has increased over time, their authority is still limited. The main positions are still held by family members. Professional managers rarely have executive authority on the Board of Directors:

Professional managers do the day to day running and administration. They report to the MD and the MD reports to the Board. If it involves policy, the MD will be involved. After a proper conclusion is reached, then it will go to the Board for endorsement (CM: Pm_Mf_Mc_Mp_Cfb)

These findings are similar to those reported by Carney (1998) on Hong Kong Overseas Chinese, where he found that the important decision making and management of overseas Chinese companies remained in the hands of close-knit family members and were rarely delegated to professional managers.

The professional manager has not only become an important element of management for large family businesses, but also for smaller family companies. Company CP, for example, established as a small family business, has expanded tremendously over the decades, with increasing involvement of professional managers:

By and large, the company is managed by professional here in Malaysia as well as in the U.K. In Malaysia, we have professional management. We have executive director and other departmental head and they run the business (CP: Pm_Mc_Mo_Cfb)

The dependence on professional managers in foreign subsidiaries is even more critical due to the physical distance and lack of capacity of the family members in managing remote investment units. The family member is needed more in the management of the parent company over the relocation to manage foreign subsidiary. Only if the parent company requires more control of the investment will they assign Malaysian professional managers in the subsidiaries (but not family member), as in subsidiaries SG and SJ. Otherwise, local professional managers are hired to run the business.

We can thus conclude that in the case of a family controlled company, the company can only survive on internal resources if they are small and stick with the *status quo*. Once the company expands, and in particular overseas, there is an overriding need for external human resources so that the company can be professionally managed and so remain competitive internationally:

We have experience, and they do value. We appreciate the importance of professional manager in the business (SP: Suk_Su_Bm_Mp)

Although professional managers run the foreign subsidiaries, the power and decision making are still within the control of family members. The Chinese family business in Malaysia, however, has slowly transformed into a new hybrid of business entity, with more professional managers than previously. Also, new blood family members, having received better education, are professional managers in their own right.

8.4 CONGLOMERATE CORPORATION

Conglomerate corporations have resulted from firms undertaking diversification into unrelated activities. In the case of Malaysian conglomerates in the U.K., some have invested in un-related activity while there are companies that have invested in a weakly related activity (Davis et. al., 1994). Weakly related means the activity in the U.K. is related to other activities in Malaysia within the same production chain. There are also investments in business activity that are related with the already diversified un-related business in the parent company. In the case of diversification into unrelated activities, it can be considered as a strategic intent, where the move into a wider investment portfolio is motivated by the management and financial capability of the parent company, rather than by any other relatedness to existing activities.

8.4.1 Form of Diversification in the U.K.

Diversification by Malaysian companies into the U.K. can be classified into three categories, namely vertical diversification, horizontal/geographical diversification and conglomerate diversification (Buckley and Casson, 2002). This classification is used in Table 8.3 to present the diversification activities of the companies studied. The company is classified as focused if at least 90% of their revenues are derived from one segment of activities, and as diversified if none of the single segment activities accounts for more than 90% of the company's total revenue. Single segment means that the activities are closely inter-related to each other, as in the manufacturing and trading of the same products. Claessens et al. (2002) classify firms as single-segment if at least 90% of their total sales are derived from one two-

digit Standard Industry Classification (SIC) System segment. Firms are classified as multi-segment if they operate in more than one two-digit SIC industry and none of their two-digit SIC segments account for more than 90% of total firm sales (p.8). A firm's diversification level is based on the number of its segments. The diversification level of the company is 'low' if they are only involved in a few segments of business and 'high' if they are involved in multi-segments of business including unrelated segments.

Table 8.4: Home and U.K. Business Approach

Malaysian Company	Level of Parent' Diversification in Malaysia	Diversification Approach into the U.K.		
	(None/Low/Medium/High)	Vertical Diversification (V _d)	Horizontal/Geographical Diversification (H _d)	Conglomerate Diversification (C _d)
CA (CFb_Mf_Su)	Low	V _d		
CB (CFb_Svs_Cg)	High		H _d	
CC (Glc_Bk)	None		H _d	
CD (Glc_Mf_Su_Cg)	Low	V _d		
CE (Mf_Su)	None	V _d		
CF (Glc_Eng)	None		H _d	
CG (CFb_Cg)	High	V _d		C _d
CH (Glc_Svs)	Low		H _d	
CI (Glc_R&D)	None		H _d	
CJ (CFb_Cg)	High		H _d	
CK (CFb_Mf)	None		H _d	
CL (CFb_Mf)	None		H _d	
CM (CFb_Mf)	Low	V _d		
CN (CFb_Mf_Cg)	Low		H _d	
CO (Glc_Mf_Su)	Low	V _d		
CP (CFb_Mf_Su)	None	V _d		
CQ (Glc_Cg)	High			C _d
CR (Glc_Eng)	None		H _d	
CS (CFb_Svs_Cg)	Medium			C _d

Source: Author's Survey; Bursa Malaysia (2005), see also Buckley and Casson (2002) and Claessen et al., (2002)

Vertical diversification occurs when the company diversifies into a new area which is 'forward' or 'backward' to its core or traditional activities. Based on Table 8.4, six companies are involved in forward vertical diversification, namely companies CA, CD, CE, CG, CO and CP. 'Forward' diversification here typically means that these companies have set up or acquired sales subsidiaries in the U.K, to meet demand which they have previously supplied through exports. Only company CM

undertook 'backward' vertical diversification, when it acquired a company which was originally one of its suppliers.

Horizontal diversification occurs when Malaysian companies acquire U.K. subsidiaries and undertake business similar to the parent's core or traditional business. Eight out of the nineteen companies studied are involved in horizontal diversification. Horizontal diversification is in these cases always accompanied by geographical diversification, as the companies are expanding their traditional business into a different country.

The companies under study, in their investments into the U.K., show two slightly different forms of diversification. One of these occurs when a company in Malaysia invests in the U.K. in an activity unrelated to the core activity of the parent. This is clearly diversification in the simple sense, on the path towards the creation of a diversified conglomerate. Only three Malaysian companies, CG, CQ and CS, are invested in totally new activities (see Table 8.4). Subsidiary of company CG namely subsidiary SG involved in the manufacturing and retailing of toiletries, whilst the main activity of company CG in Malaysia is plantations. However, this diversification can also be described as vertically integrated, since the oil palm activities in Malaysia produce raw materials for the toiletries products. Company CQ acquired a refrigeration factory in the U.K. i.e. company SQ, which is totally unrelated to its core activities in Malaysia. Finally, company CS can also be considered to have undertaken conglomerate diversification when it acquired a U.K. water company i.e. company SS, since it had no previous experience in water supply. In this case, however, the company argued that it had experience in regulated utility businesses (for example in power generation in Malaysia and electricity generation in Australia), and that this gave relevant 'related' experience.

The second occurs when the parent company in Malaysia is *already* a diversified conglomerate, and invests in the U.K. in an activity which is related to one of its existing activities. This is shown by company CB and CJ in Table 8.5. We can either regard this kind of investment as 'concentration on existing activities' (and so not a manifestation of 'diversification'), or we can regard it as 'confirmation of

diversification'. The business of their U.K. subsidiaries is the horizontal expansion of the parent's conglomerate activities in Malaysia. Company CJ, for example, is involved in retailing and hotel operation in Malaysia. The company has extended these two operations into the U.K. by acquiring subsidiary SJ which is involved in retailing and the U.K.-based Corus and Regal Hotel chains. These companies can be described as multi-foci, where originally they were a focused company. Over the years they have developed different segments of businesses that have eventually become free-standing. These companies therefore have multiple core activities which makes them conglomerates:

The core business of the company comprises of six businesses. Since the business is big by itself, they are also a core. As you know (we) are a big conglomerate and an investment holding company. So we have several core businesses (CQ: Pm_Mc_Mp_Glc_Cg)

Looking at the business of the KKK itself, we are focusing on four business sectors: plantation, manufacturing, properties and retailing. Side by side of course we have overseas investment. Nevertheless we are focusing on four core businesses (CG: Pm_Mc_Mo_Cfb_Cg)

Another observation is that conglomerate companies that have been involved in conglomerate activities in foreign countries are also involved in conglomerate activities in the U.K. In other words, they have been involved in unrelated business activity in another country prior to entering the U.K. market. A possible explanation of this circumstance is that a conglomerate is naturally big and therefore is more capable of venturing into unrelated diversification activities compared with a smaller company, even in industrialised countries.

Looking at conglomerate geographical diversification, the data suggest that most Malaysian conglomerates still undertake unrelated conglomerate diversification in the domestic rather than foreign market due to the perceived lower risks involved. Focused companies also definitely venture internationally into businesses that they are familiar with, and these are the same activities as their home country business.

Table 8.5: Conglomerate Diversification of Malaysian Companies

Malaysian Conglomerate	Multi-foci activities in Malaysia	Activities of the U.K. Subsidiaries
CB	<ul style="list-style-type: none"> - Manufacturing activities - Consumer marketing and direct selling - Investment holdings - Hotels, Recreation development - Financial services - Property development - Gaming and lottery 	<ul style="list-style-type: none"> - Hotel operator
CG	<ul style="list-style-type: none"> - Plantation - Manufacture of palm and cocoa product - Manufacture of gloves and other rubber products - Investment holding - Manufacture of parquet floor - Property development 	<ul style="list-style-type: none"> - Manufacture and distribution of toiletries products
CJ	<ul style="list-style-type: none"> - Retail operation - Hotels - Food and confectionary - Financial services - Property development - Travel and tourism 	<ul style="list-style-type: none"> - Retailing of home products - Hotel operator
CN	<ul style="list-style-type: none"> - Manufacturing industrial products - Distribution of vehicles - Ship building and repairing - Property development - Investment holdings 	<ul style="list-style-type: none"> - Manufacture and sale of air pollution control and environmental products - Manufacture of air-conditioning products
CQ	<ul style="list-style-type: none"> - Oil palm cultivation & other agriculture farming - Property development & investment - Manufacture of tyre and other rubber based products - Automotive dealership - Hire purchase financing - Cinema operation engineering services - Warehousing - retailing - Travel agency 	<ul style="list-style-type: none"> - Manufacture of refrigerator
CS	<ul style="list-style-type: none"> - Property development - Manufacture of ready mixed concrete - Civil engineering - Aircraft chartering - Plantation - Car rental - Travel agent - Financial services - Internet business - Power generation 	<ul style="list-style-type: none"> - Water treatment and supply

Source: Bursa Malaysia (2005)

8.4.2 Strategic Consideration of Conglomerate Diversification

Malaysian conglomerate firms argue that they are involved in multi-product activities. Their large size has meant that they are able to segment their activities into multi-cores that are then treated as separate businesses:

Since the business is big by itself, they are also a core. As you know (we) are a big conglomerate and an investment holding company. So we have several core businesses. Since we are already in these big core businesses, we are also a conglomeration in all these core businesses (CD: Pm_Mc_Mp_GLc_Cg)

The strategic consideration is to maintain the existing conglomerate structure. For most of the companies, once they have diversified they will forever remain diversified. What this means is that, once the company is involved in multiple activities, over a period of time each activity will develop into a strong division by itself. Then with the holding system, each business in the hierarchy is transformed into a 'separate' core business but still remains within the hierarchy. Then the loose system of investment holding which allows most of the subsidiaries to run their businesses more independently, allows this company to further expand which results in the birth of a big conglomerate or a holding company of hundreds of subsidiaries. Company CQ, for example, will not stop looking to expand their core business, as pointed out by its director:

Still looking for other businesses that have potential to become core business. We want to get more involved in power generation. We choose power generation because it has a future (CQ: Pm_Mc_Mp_Glc_Cg).

8.4.3 Managing the Subsidiaries

There are instances of direct involvement of the managers from the parent companies in subsidiaries owned by the conglomerate. An observation from the data shows that parent's representative is holding top management post in their U.K. subsidiaries which may be related to the size of their investment. Direct involvement by the parents in the management of a big investment is essential so they would be able to monitor their investment and minimise the risk of losing their

money. Therefore, they have appointed Malaysian expatriates to top management posts in their U.K. subsidiaries (e.g. company CG, CJ, CQ and CN):

The Chairman is in the Board. In the financial side we also have representative. If not we don't know how they are performing. So we let them to do the business. We are not restrict them in managing the daily business, but we oversee them in different angle, so they can execute task properly (CG: Pm_Mc_Mo_Cfb_Cg)

LEC is run by a British but the MD is Malaysian who has resided many years in the U.K. He is married to a British, and he himself is half British. He maybe a British citizen but he is still Malaysian (CD: Pm_Mc_Mp_GLc_Cg)

The reason for having Malaysians run the U.K. subsidiaries is also to enable the parent company to revive the subsidiary:

Because we have a direct control and because it is in financial difficulties. A lot of Malaysians involve, which is good. But on the other hand, the local people are in the day to day operation (CD: Pm_Mc_Mp_GLc_Cg)

8.5 GOVERNMENT-LINKED COMPANIES (GLCs)

In Chapter 3, it was stated that most GLCs are owned by Khazanah Nasional, a government investment arms which invests on behalf of the country:

Khazanah Nasional is the investment holding arm of the Government of Malaysia and is empowered as Government's strategic investors. As trustees to nation's financial assets, our main objective is to promote economic growth and make strategic investments on behalf of the government which would contribute towards nation building

(Khazanah Nasional, 2005)

This study on GLC companies show that their overseas investment is directly or indirectly to assist Malaysia to achieve growth in the certain areas of the economy, especially with regard to technology transfer and overall industry competence.

8.5.1 Motive for Investing Abroad

The government's direct involvement as a shareholder in Malaysian companies is concentrated in areas which show one or more of the following characteristics: one, the area is considered to be of 'strategic' importance (where 'strategic' here is defined by the concerns and priorities of the Malaysian government); two, the area is considered to be high technology (and so valuable to the industrial future of Malaysia); and three, and most importantly, the area is one which will contribute to national development as a whole. In Table 6.1, there are eight GLCs such as Companies CC, CD, CF, CH, CI, CO, CQ and CR. The majority of them have acquired the U.K. companies under strategic assets seeking motive i.e. to own the technology. The motivation of FDI by GLCs is related to the government's industrial policy and the motive to achieve national competitive advantage in product and services (Porter, 1998). Company CO, for example, was established by the government to spearhead heavy industry development in Malaysia, especially in the automobile sector:

This company was set up to be the main catalyst of the industrial sector especially when the government introduced the Industrial Master Plan. To be the catalyst in Malaysia plus for the country's industrialisation. It is to spur the industry (CO: Pm_Mf_Mm_Mp_Glc)

The intention was also to expand the export market and at the same time to reap the benefit from technology advancement in the U.K. automobile industry. The company had acquired Lotus Cars Ltd, a well-known British car engineering company. Company CI, which is owned by a government statutory body, has retained its research centre in the U.K. to enable them to take advantage of R&D in rubber products. A similar objective is held by the alliance between company CF and subsidiary SF, which is the market leader in construction engineering in the U.K.

The other objective is to increase competitive advantage of the country in a particular sector of the economy. Company CH, for example has invested in many countries to help the country's competitive advantages in the shipping industry and to promote export from Malaysia.

The company was set up in 1968 under government desire to create national shipping line. More importantly at that time was to address trade balance because Malaysia is a large exporting nation. A lot of cargo destined for. It was also established to facilitate the government's desire to correct balance of payment (CH: Pm_Svs_Mm_Mp_Glc).

Another example is company CC which has a branch in London, New York and Tokyo to monitor the development in international financial market so Malaysia would be able to react to any changes in the world economy that may affect the Malaysian economy;

There are three different functions. First, because foreign exchange at that time is traded 24 hours a day, because of the time zone difference, we need the center there to monitor our position. If the market crashes, we know the position there while we are sleeping here. That's why we have London and New York branches and subsequently we have Tokyo. So we have covered 24 hours [...] at the same time it's so-called a listening post, to watch, learn anything that is new in the market and the place where our officers go there to learn, and bring something meaningful home. It is also to expose our officer to the players there, other major banks in the world. All major banks in the world are in London (CC: Pm_Bnk_Mm_Mp_Glc)

In these companies, the government plays a very important role, especially with regard to big decisions. "Our Prime Minister also has a personal interest in this" said one of the directors of company CO, indicating the relationship of the company with the government.

8.5.2 Separation of Ownership and Management

The management structure in a GLC normally involves the separation between management and ownership in which all managers are professional managers (see Table 8.2). The government as the shareholder is represented by government-owned institutions. Professional managers do not own shares in the companies and are normally appointed by the government to act on its behalf. The board of directors, which is the highest ranked decision maker, makes decisions based on the interest of the government, but the companies are run as private firms. The government as the owner has the authority to appoint Board of Directors, senior

management and make major decision such as contract awards, formulate strategy, restructuring and financing, acquisition and divestment (Kazanah Nasional Berhad, 2005). Meanwhile, the manager has every right in running the day to day operations of the company;

I chair the credit committee. Decide on Labuan offshore. On our own accord, based on our evaluation on risk and return. The government has nothing to do in the operation (CC: Pm_Bnk_Mm_Mp_GLc)

The government is not involved in day to day operation. They don't interfere. This is a private enterprise (CD: Pm_Mc_Mp_GLc_Cg).

In the GLCs, only a few people have executive powers in the company; these are normally the person who holds the top key post, and other key directors (see Table 8.2). The majority of other directors are either non-executive independent directors or non-executive directors (e.g. company CC, CD, CF, CH, CO, CQ, CR). This is in contrast to family-controlled companies where most of the family members are executive directors. The government, on the other hand, is represented by its proxy, consisting of professional managers who have no embedded interests in the company and who are also non-shareholders. The role of the professional manager is therefore greater in a GLC, where there is separation between ownership and management.

There are, however, no differences in terms of the management of foreign subsidiaries between family-controlled companies and GLCs. The only positions that are normally assigned to Malaysian expatriates are the CEO or Managing Director of the subsidiaries, while local managers fill most of the other posts.

8.6 ORGANISATIONAL STRUCTURE AND FDI: A COMPARISON

The organisational structure here is referred to firm size and type of business organisation - Chinese family business, conglomerate corporation and GLC - have to a certain extent provided an avenue for comparison between them in terms of motives, strategies and practices of their foreign investment. The differences or similarities, however, are not matters, but rather variations in motives, strategies

and practices among these organisations. As described in Section 8.2, this could be due to the overlapping characteristics of a number of companies.

8.6.1 Firm Size and Multinationality

The importance of firm's size in determining firm's decision to involve in cross border investment has been presented in many previous studies (Horst, 1972; Kinoshita, 1998). Using the number of employees as the measurement for size, the data on Malaysian companies show bigger companies do not necessarily have higher proportion of overseas revenue compared with smaller companies (see Table 5.3 and Table 8.6).

Table 8.6: Comparing Company Size and Percentage of Overseas Revenue

Malaysian Company	Rank (% revenue from overseas) ¹	Percentage of revenue from overseas ²	No. of employees	Size of company ³
CA (CFb_Mf_Su)	7	57.97	238	Small
CB (CFb_Svs_Cg)	10	41.27	20,000	Large
CC (Glc_Bk)	15	5.92	7,685	Large
CD (Glc_Mf_Su_Cg)	14	7.17	1,689	Medium
CE (Mf_Su)	17	n.a	n.a	Small
CF (Glc_Eng)	18	0	187	Small
CG (CFb_Cg)	3	80.28	22,293	Large
CH (Glc_Svs)	9	46.15	6,794	Large
CI (Glc_R&D)	19	n.a	1,702	Medium
CJ (CFb_Cg)	2	82.98	13,000	Large
CK (CFb_Mf)	1	83.22	612	Small
CL (CFb_Mf)	8	46.80	1,083	Medium
CM (CFb_Mf)	11	17.96	2,647	Medium
CN (CFb_Mf_Cg)	5	68.28	8,766	Large
CO (Glc_Mf_Su)	13	8.03	6,000	Large
CP (CFb_Mf_Su)	16	n.a	600	Small
CQ (Glc_Cg)	6	60.22	26,384	Large
CR (Glc_Eng)	4	78.00	n.a	Small
CS (CFb_Svs_Cg)	12	10.37	1,481	Medium

¹Ranking is between the case study companies only

²Percentage to total revenue

³Size of company is according to number of employees. This classification into small, medium and large is done relatively to other firms to differentiate the size of these companies for easy analysis.

Source: Bursa Malaysia (2005)

This means that in terms of percentage, a larger company does not necessarily have a higher degree of overseas investment compared with the smaller company. In Table 8.6, company CK has the highest degree of overseas investment but is very

much less in terms of size compared to company CQ. About 83.22% of its revenue is generated from overseas investment compared to 60.22% of company CQ. Within the same group with company CK are companies CA, CR and CL.

The above findings show that different degrees of internationalisation is not sensitive to size of firm but more on the type of products and services. In the case of smaller Malaysian companies, their high degree of overseas involvement is attributed to the nature of product and services provided by these companies (as discussed in Chapter 7). The nature of the services and the location of their clients require them to be present overseas.

For shore inspection you need a presence globally. Because for shore inspection like Petronas, Shell and etc. they will buy equipment from all over the world, Italy, Germany, Argentina and so on. So they tend to buy globally. So the client want company to do inspection in the manufacture company before it reach the project site (CR: Pm_Eng_Mm_Mo_Glc)

The above findings seem to undermine the argument that large firms are often considered to be better credit risks than small firms and large firms may have easier time financing the fixed cost entailed in investing abroad (Horst, 1972) and that larger scale production implies that the firm is likely to produce goods efficiently through learning-by-doing (Kinoshita, 1998). In the case of Malaysian companies, the nature of products and services are still the core that determined the propensity to undertake such investment. Company CO, for example, is a big company in terms of turnover, but most of its products are dominant only in the domestic market. It has been producing car but is facing strong competition with other big global players in other markets.

Higher overseas revenue in the case of Malaysian companies, however, does not correspond to high foreign product diversity. In the case of trading companies, they are selling single product.

8.6.2 Types of Companies and FDI

In Chinese family business, the main impetus for their FDI decisions lies in the vision of the major family shareholder, who normally holds the top post in the company. There is also an influence of the founder, although in some cases this figure has taken a backseat. The second generation family members also happened to be more rigorously looking for opportunities to venture outside the country. The main objective for investment is to preserve family wealth or to increase the value of shares in the company.

In conglomerate corporations, the diversification motive plays a major influence. The objective is to expand their existing core business, either through related diversification, or through looking for new businesses that may potentially become new core businesses, that is, un-related diversification. Like the Chinese family business, the role of individual major shareholders in foreign investment decisions may exist if it is also a 'family conglomerate'.

A GLC's FDI motive is different from a Chinese family business, because of its shareholder, namely the government. The government uses the GLCs to facilitate nation building and develop home country industrial segments. The aim is to bring foreign technology to Malaysia via the ownership of a foreign subsidiary that is strong in technology. At the same time, technology acquisition is also the motive of FDI for the other types of companies where they acquire foreign technology so that they become more competitive compared to others in the home country. This is shown in Table 6.3 for companies such as CK, CL and CM which had acquired the technology from the U.K.

In many cases, a family member is involved in the management of foreign subsidiaries, especially at the level of the Board of Directors (see Table 8.3). For GLCs, the companies are managed by professional managers at all levels (see Table 8.2). The study also shows that since the conglomerate firms undertake big investments, some of their subsidiaries are managed directly by Malaysian expatriates. This is including the U.K. subsidiaries owned by family conglomerates

such as subsidiary SG and SJ in Table 8.3, and also subsidiaries owned by the GLCs conglomerates such as subsidiary SQ and SO. The separation between ownership and management is limited in Chinese family business compared to the other types of organisation.

The level of ownership shows little differences among the type of organisations. Malaysian companies in the U.K. prefer majority ownership (see Table 7.3). In cases where there is less than majority, the shareholding must be sufficient for them to gain benefit from the investment (see Section 7.3.2). In terms of the status of the investment, GLC's investment can be considered as one-off and motive dependent. If the investment is to acquire technology in a particular company, there is no indication that they are also looking for business expansion in the host country. Chinese family business and conglomerates, however, may expand if it could provide profit to the shareholders.

8.6.3 Malaysian Conglomerates vs. Chaebol and Keiretsu

Malaysian conglomerates companies are similar to Korean *chaebol* (Choi and Cowing, 1999; Lee et. al., 1991; Shin and Park, 1999) and to a certain extent different from Japanese *keiretsu* (Lin, 2004). Like *chaebol*, there is a strong overlap between ownership and management, and there is a dominance of family members in the management. In most of the companies, the founders hold the top management posts, or remain in decision making team even when the second generation has taken over the management. In *chaebol*, support from the Government is substantial (Lee et al., 1991), but most Malaysian conglomerates do not benefit from direct support from the government, except for GLC conglomerates. The owners or major shareholders in the conglomerate companies do, however, have a close rapport with the political powers, and get some favours in return in the form of government projects. However, support from the government in Malaysian foreign direct investment is minimal compared to the Korean *chaebol*. However, as a comparison, Malaysian conglomerate more closely resemble *chaebol* than western conglomerate especially the element of family business. This is in line with the assumption made in Section 4.3.3.

In *Keiretsu*, the internal capital market is an important element. *Keiretsus* maintain close ties with financial institutions and implement the main bank system. This has created the 'power view' as described by Montgomery (1994) by taking advantage of internal capital market. Unlike Malaysian conglomerates and *chaebol*, *Keiretsu* shareholding is dominated by institutions and not by individual family members (Ferris et. al., 2003). The relatively homogeneous society of South Korea may have contributed to the Confucian corporate culture in the *chaebol* management system. In the Malaysian conglomerates, however, there is a mix between western style management systems and Chinese business culture. This is because Malaysian conglomerates have slowly been transformed from purely family businesses into modern organisations, with spread of ownership among institutions and the public, while often still retaining elements of family control.

8.6.4 Internationalisation: Malaysian GLCs and Chinese SOEs

Research on Chinese SOEs, including their internationalisation experience, has been growing over time (Young et. al., 1998). Comparison between Malaysian GLCs and Chinese SOEs is interesting because of the close similarities between these two organisations. The main difference is that Malaysian GLCs are not necessarily owned 100% by the government, as are the Chinese SOEs. The comparisons made here are not exhaustive, however, and detailed comparison must be left to future research.

With reference to Table 8.7, the main motive of internationalisation by GLCs and SOEs is to bring back the benefit to the home country from the investment. This is probably due to the home country's developing economies status. Knowledge seeking (SOEs) and technology seeking (GLCs) are also important elements of internationalisation to improve the nation's competitiveness. There is also a clear strategy and direction that comes from the parent companies

Table 8.7: Internationalisation: Malaysian GLCs and Chinese SOEs

Malaysia GLCs	Chinese SOEs
Main motivation are nation building and industrialisation	Main motivation are industrialisation and diversification
The objective to acquire technology	Knowledge generation motive
The objective to exploit global trading	Utilise global trading
The objective to exploit natural resources	Substantial parent strategy in subsidiary
Management of subsidiaries based on parent guided policy	To increase competition domestically
Leverage on expertise of the subsidiaries as investment strategy	Ambition to be global
Investment driven by opportunism	Korean and Japanese FDI as model Driven by relation with foreign correspondent/ bank

Source: Authors survey; Young et al. (1998)

8.7 CONCLUSION

This chapter has discussed the extent to which the three types of Malaysian business organisations in the U.K. - Chinese family business, conglomerate firms and government controlled companies - have influenced their internationalisation practice.

The ethnic business network remains one of the core aspects of the 'Chinese diaspora' in Asia, and is still considered as the catalyst of the expansion of Chinese capitalism. In this study of FDI by Chinese family firms into the U.K., however, the ethnic business network does not seem to play a significant role in the determinants and strategies of internationalisation. This may be due to the small nature, or even lack of, an 'overseas Chinese' environment in the U.K., which makes it different from countries such as Taiwan, Hong Kong, Malaysia, Singapore and to a lesser extent Thailand and Indonesia (Yeung, 1998). Thus, the motivation of investment

is rent creation and profit orientation, which ultimately leads also to the expansion and preservation of family wealth expansion.

The remoteness of the subsidiary in the U.K. has also eroded the significance of some traits of the Chinese and Chinese family business in the Malaysian family-owned firms. There is increasing dependence on professional managers to manage the subsidiaries, as the companies expand and parent companies are not able to send family members abroad on a permanent basis because they are also required at home. Despite this, however, the parent still controls the finance and subsidiaries also have to adhere to monitoring systems between the parent and subsidiaries.

Diversification into a purely un-related foreign activity by Malaysian conglomerate companies is not a normal strategy. They are more comfortable undertaking such un-related investment in the domestic market rather than in the foreign market. Shortage of human capacity and internal resources also explain the reluctance to venture into totally new ventures overseas.

GLC investment abroad is obviously to assist the home government in achieving industrial advancement, through the transfer of technology and other expertise. At the same time, they are also seeking rent, like any privately run company. Basically, they have been supported by the government through the whole process of overseas investment.

CHAPTER 9: SUMMARY AND CONCLUSION

9.1 INTRODUCTION

The objective of this final chapter is to summarise the main findings of the thesis. The chapter will also draw conclusions from the findings, and show how the thesis has contributed to the body of knowledge concerning international business. The implication of the findings to the Malaysian government policy and managers undertaking FDI are also presented. Finally, there are also limitations encountered during the study and suggestions for future research are made.

The thesis has provided new insights into how and why companies from Malaysia have penetrated U.K. markets. The value of this, in the context of the existing international business literature, is that the literature has tended to place great emphasis on FDI flows *out* of developed countries, and *into* developing countries. There has been much less written about FDI flows *from* developing countries, and *into* developed countries. Existing literature in the area of FDI flows from developing countries is still limited, and where it exists has been structured according to models developed to understand western country multinational companies. Research on developing country multinationals has also tended to focus on the bigger developing countries such as China, India and the Central European transition economies. Research in international business needs to expand in scope, to cover international business activity regardless of direction, size and origin of FDI. This thesis has contributed to this expansion of scope, by looking at the international operations of Malaysian multinational companies, and in particular their expansion into the United Kingdom. It is argued here that the three units of analysis - multinational companies, home countries and host countries – cannot be considered to be homogeneous. Any pair of countries, and the multinational companies operating between them, need to be considered in their specificity, before generalisations can be made. Heterogeneous multinational firms act in a heterogeneous way in international operations, and are influenced by a diversity of motivations and objectives. In the context of Malaysian firms, for example, we

have seen that an 'emergent strategy' has been common in their foreign investment practices.

This thesis has contributed, in particular, to understanding the relationship between the ownership and organisational structure of the firms, on the one hand, and their investment practices on the other. This is related to the exposition of the three major (and sometimes overlapping) characteristics of Malaysian firms - Chinese family businesses, conglomerate corporations, and government-linked companies.

Given the nature of the research questions and the need for the respondents to recall events that had happened in the past as well as recent issues, the research was undertaken using a qualitative approach, using interviewing techniques that were found to be the most appropriate methods of data collection. The ability to conduct interviews with respondents in two different countries, with the parent company in Malaysia and some of the subsidiaries in the U.K., has enriched data quality and triangulation. It has also contributed to the improvement of validity, as the managers that interviewed in the U.K. were professional managers, able to give independent opinions about the research topics.

This chapter presents the conclusion about the research questions with regard to the determinants, mechanisms and strategies of Malaysian firms. The discussion incorporates the findings to the existing body of knowledge, and discusses their theoretical implications. It is also acknowledged that because this research has been undertaken in a specific context, of Malaysian corporate investment into the U.K., it has limitations deriving from this. However, the research has achieved the objective of researching FDI from Malaysia into the U.K., and it is hoped that this in itself will enrich the resources of international business studies. The research also has implications for managerial action and government policy, and for future research, and these are discussed in the final part of this chapter.

9.2 THE MAIN FINDINGS OF THE RESEARCH

The origin of this thesis is based on the idea that existing research in international business is biased towards outward FDI conducted by multinational corporations from western countries. This has resulted in an incomplete picture of internationalisation. The thesis argues that a firm's internationalisation decision is influenced by its geographical location, and by its ownership and organisational characteristics. These points have been recognised in international business literature, not least through Dunning's eclectic paradigm. They have not, however, been extensively illustrated through examples of outward FDI from developing countries to developed countries, and this thesis fills the gap.

9.2.1 Motivation of Investment

The motivation of Malaysian firms undertaking direct investment into other countries seems to conform to most of the frameworks discussed in the literature. In other words, the conventional theoretical framework of international business can be used to explain the data about Malaysian investment into the U.K. However, there is some evidence of inconsistency between theoretical suggestions and research findings. This has confirmed the assumption made in Section 2.2.1.4 that Dunning's four types of FDI can only provide partial explanation on Malaysian FDI into the U.K. For example, the resources seeking motive does not necessarily seek low cost input (but skilled personnel and technology) and synergy seeking and competence seeking FDI have been highly rated by Malaysian companies. Another important observation is that every company has its own specific determinants that are different from other companies, and that these firm-specific factors are probably more important than other considerations.

This research on the motivations for FDI by Malaysian companies suggests that there is lack of evidence to support the assumption that Malaysian firms that undertake investments in the U.K. are strongly driven by their own firm-specific advantages. Therefore, the assumption made in Section 2.3.3 that Malaysian companies have greater competitive advantages (arising from ownership specific

advantages) relative to those of the U.K. domestic firms is refuted, with the exception of only company CS that had entered competitive bidding with other local firms. This contrasts with earlier studies on multinational firms from Singapore and Hong Kong (Fong and Komaran, 1985; Tolentino, 2000), South Korea (Kumar and Kim, 1984), Taiwan (Tolentino, 2000) and Brazilian multinationals (Wells, 1988; Neto, 1995), which invested overseas to exploit and sell their technology (see Section 2.5.2, Table 2.1). They, however, used advantages in technology in other developing countries, while research in this thesis looked at Malaysian investment into developed countries. Since this research did not look into Malaysian investment in other developing countries, therefore, it could not confirm or refute whether Malaysian firms also have advantages in technology in their investment in other developing countries. In investment into developed countries, this thesis suggests a similar motive of FDI to acquire technology as multinationals from China (Gang, 1992; Young et al, 1996), Indonesia (Lecraw, 1992) and India (Encarnation, 1982). This finding also confirmed earlier study by Ragayah (1999). In the context of entry by acquisition, for example, the impetus for a firm to enter the market seems more likely to be driven by the firm's financial strength which is matched with the need for new funding of the target company. In this case, the financial strength of the acquiring firms has played a key role.

Malaysian companies do not make extensive use of managerial and human resources from the parent companies, in the subsidiaries. The acquisition involves taking over an existing and viable package of managerial and human resources, to which the new parent company does not need to add. This contrasts with Korean multinationals (see Section 2.5.2) which exploit their own human resources in foreign investment (Ghymn, 1999). This thesis therefore suggests that a firm's specific asset other than firm's financial capability is less likely to determine the decision of entry by Malaysian companies into the U.K. market.

This research also suggests that Malaysian companies perceive there to be locational advantages and disadvantages in the U.K. Location advantages among other are the availability of skilled personnel, the presence of advanced technological resources, and the market potential, particularly as a platform to

penetrate the European market. Locational disadvantages, such as distance from the home country, and higher operating cost such as high wages and compulsory contribution to the pension fund and national insurance. The finding confirmed the assumption (as in Section 2.3.3) that Malaysian investors do perceived locational cost disadvantages in the U.K. They were aware about the higher costs but it did not put off the firms from remaining in the U.K. because they recognise that the benefits, in terms of market potential and technological capabilities of the subsidiaries, outweigh the costs of operating in Western countries and the market transaction costs. They are also confident that they would have continued leverage from subsidiaries' core competence that would benefit the parent. This means that locational advantages do attract inward FDI and locational disadvantages do not necessarily keep away the investors, as investors tend to respond interactively to any location factors they can leverage. This finding therefore contributes positively to the understanding of locational factors in FDI and how it affects firm's investment decision.

Small home country market also seems to be an important motivation for the overseas expansion of Malaysian companies. This is similar to the motivation of firms from Taiwan and Singapore based on a study by Tolentino (2000). Other factors, such as competition in the domestic market and economic recession, have also impacted on Malaysian investments abroad. However, the data indicate that the Asian crisis is more likely to affect the ability of Malaysian companies to make further investment overseas rather than to drive the FDI. There is some suggestion in the data that the legal and regulatory regimes surrounding business in Malaysia were also a factor encouraging firms to look outside Malaysia for investment opportunities, in particular the NEP. This finding is similar to the observations made by Yeung (1999) and Redding (1993) on the effect of home government intervention in the creation and distribution of wealth on investment decision among Ethnic Chinese in Southeast Asia (see Section 4.4.2). Information about this, however, was difficult to obtain, since those most strongly affected by problems in this domain, that is to say the ethnic Chinese business community, were reluctant to give opinions that might be construed as criticism of Malaysian government policies.

The thesis also shows that market seeking is one of important motives of investment in the U.K. This finding is similar to earlier studies (see Section 2.5.2, Table 2.1) on developing countries's firms from Singapore (Hui and Fong, 1986), China (Gang, 1992; Young et al, 1996), Brazil (Neto, 1995; UNCTAD, 2004c), India (Encarnation, 1982), Indonesia (Lecraw, 1992). It also confirms the earlier study on Malaysian FDI by Ragayah (1999). The majority of market seekers usually involved companies that market their products in the new market by creating sales and production subsidiaries. The market seeking objective may also explain the related diversification by conglomerate firms through forward integration with their Malaysian business activities. Although their investments are based in the U.K., most companies consider the U.K. as the gateway to the larger European Union market. Their presence in the U.K. is perceived to have an adverse 'country of origin' affect in the minds of customers especially in the third world and at the same time increased product value deriving from the increased capabilities of their U.K operation. This might not have been possible had the product originated directly from Malaysia.

Efficiency seeking FDI is also found to be one of the motivations of Malaysian investments in the U.K. There are two key elements that can be associated with the objectives of gaining efficiency: these are exploiting differential cost in different countries, gaining economies of scale and scope. Data in this thesis suggests that Malaysian companies are undertaking upstream value-added activity in the U.K. at relatively lower real cost due to their access to cheaper factors endowment in Malaysia. This finding confirmed the assumption made in Section 2.3.3 that Malaysian companies engage in foreign operation to combine spatially transferable intermediate products produced in Malaysia with other intermediate product in the U.K. Previous studies on multinationals from developing countries rarely emphasise this element of efficiency seeking FDI except concerning the motive for vertical integration by Chinese multinational (Young et al, 1996). The motivation of gaining economies of scale and scope could be achieved by access to technology and R&D, which increase the capability of production in Malaysian plants. An access to bigger network could also allow production at a bigger scale.

Synergy seeking, competence seeking and growth seeking could also describe Malaysian FDI into the U.K. Synergy seeking and competence seeking are rated higher than growth seeking. This shows that adding these three factors to Dunning's existing types of FDI could provide more explanation of the factors that motivate Malaysian FDI. Synergy is expected to be achieved through business complementary, as resources and networks of the parent and subsidiaries are combined, and to use the U.K. subsidiaries as a platform for further market expansion. The target is a strengthening of the position of the parent company in its home market. The findings regarding Malaysian investment in the U.K. also suggest that efficiency is attainable through leveraging the subsidiary's core competence, including its technological capability. There is, however, lack of evidence to support the contention that the subsidiaries are also leveraging on the core competence of their new parent companies. Although Malaysian companies consider themselves as having certain degrees of core competence, the root of their 'core competence' is unclear and requires further study. There is no evidence, either, to support the argument that they have distinctive advantages compared to competitors, except in their financial strength. Thus the assumption made in Section 2.3.3 could not be confirmed.

Similar to Dunning's (1988) argument on technology seeking FDI, this thesis suggests that technology seeking FDI of some Malaysian companies can also be regarded as a form of strategic asset seeking FDI. The main motive of technology seeking FDI by Malaysian companies is to achieve product competitiveness and product confidence, via acquisition of companies that have the technology that is associated with renowned brands. Brand and technology represents strategic assets to the company. An earlier study of Indian multinationals also found that acquisition of brand name is one of their overseas investment motives (UNCTAD, 2004b).

The findings on technology acquisition have also raised issues of tacit knowledge and people-embedded technology. The Malaysian companies perceive that the ability to mobilise people between the two countries is limited due to costs, and due to the unwillingness of some workers to be relocated. Consequently, this limits

technology transfer between parent and subsidiary. This is also the reason why the Malaysian government has retained its R&D laboratories in the U.K. since the 1950s, because the majority of its scientist are British. It also supports the earlier argument that the benefits of having access to technology outweigh the higher costs of remaining in U.K. Technology acquisition motives are widely supported by previous studies on multinationals from the developing countries (see Table 2.1)

Home and host country factors are another important elements on the motives of Malaysian direct investment into the U.K. Home country factors such as the continued development of the Malaysian economy have increased the competitive advantages of the Malaysian companies which drive them to expand across borders. Malaysia's domestic market is relatively small for companies to expand their core activities thus diversifying into other activities overseas is inevitable. This finding is similar to a previous study of multinationals from Singapore (Fong and Komaran, 1985; Tolentino, 2000). The Asian crisis and how it directly drives the outflow of capital initiated by Malaysian into the U.K. could not be clearly determined from this study. Table 3.9 in Chapter 3 also does not show a clear difference in the pattern of investment into the U.K. before and after the Asian crisis in 1997. The Asian crisis, however, has clearly reduced the flow of capital into the U.K. as a result of capital control policy to contain the effect of the Asian crisis to the Malaysian economy. Another government policy that drives overseas investment is the NEP, especially overseas investment by Chinese family business. This finding confirms the earlier observations by Yeung (1999) and Redding (1993) on the effect of restrictive equity domestic policy on outward direct investment in Southeast Asian countries.

This research has also found that, given the choice of many countries in Europe, the Malaysian companies in the sample prefer the U.K. as their entry point. Familiarity with the market place was one of the factors that contributed to this decision. Familiarity also comes from the historical link between Malaysia and the U.K., and the effects of this in shared aspects of language, law and regulations, and the educational system. The evidence from the Malaysian companies also suggests that familiarity about the host country as an outcome from socio-political link could

reduce the disadvantages of geographical distance between Malaysia and the U.K. The research focus on 'psychic distance' has made this point before, as well as Hofstede's cultural dimension between nations. Previous studies also found similarity as one of the factors for the choice of location of investment such as the motivation of Brazilian multinationals to invest in other countries in South America (Neto, 1995). An earlier study by Ragayah (1999), however, found that close cultural factors are not highly rated as motives of investment by Malaysian companies (see Section 2.5.2, Table 2.1).

In banking and other services, the findings in this thesis are similar to other research, where the 'follow the client' motive is shown to be important in overseas investment. This motive however, is not confined to financial institutions, but also affects other forms of services such as engineering and shipping services. One trading company shows that its decision to locate subsidiaries in different locations worldwide is to enable them to be close to big international clients that operate around the world. A similar finding is also found among the motive of multinationals from India (UNCTAD, 2004b), Brazil (UNCTAD, 2004c) and the motive of FDI by banks (see Engwall and Wallenstal, 1988).

The motive of diversification for FDI is most likely to be associated with conglomerate firms, and also with owner-managed firms. This thesis suggests that diversification is driven by opportunism, by the availability of financial resources, by the desire to achieve future business growth, by the search for enhanced earning potential, and by the search for a widened asset base. Although international diversification by Malaysian conglomerates is not likely to achieve market power internationally due to the size of the investment which is not big and expanding, such diversification supports a resource-based view of the firm, where firms are driven by abilities and resources within their organisation. However, the findings do not support the argument in the literature that diversification is a result of the manager wishing to diversify his or her risk and widen the scope of their discretion. Many Malaysian family conglomerates are owner-managed and diversification is always the decision of the owner. Even conglomerates that are controlled by the government and the role of professional manager is bigger compared to the family

business, the influence of the government in the decision making is still vital. In addition, some of the conglomerates are actually family-controlled and like any Malaysian family business, this means little separation of ownership and management. Therefore, it is business diversification to expand income base and risk-hedging.

Modern financial management literature tends to frown on corporate diversification as a risk-hedging strategy. It is clear, however, that some Malaysian conglomerates consider their investment in multi-business activities as a means of risk diversification. A similar element was proposed by previous studies such as a study of Hong Kong multinationals (Wells, 1978), Singapore (Fong and Komaran, 1985; Hui and Fong, 1986) and China (Young et al, 1996). The findings, however, show that most diversification occurred because of existing opportunities. Most Malaysian conglomerate investments in the U.K. are in activities that are related or loosely related to their core activities in Malaysia, which means that these activities are not totally unrelated.

Another important consideration is that Malaysian companies invest in the U.K. to avoid transaction costs in the market, such as difficulties with agents and distributors, and costs resulting from psychic distance. One company, for example, took another step ahead to reduce the potential transaction cost by acquiring the company that used to be their supplier. The objective was to avoid changes to the existing contract if the company were to be taken over by another party. Improvement of customer services such as timing of supply has also induced Malaysian companies to invest and operate nearer to their customers. This finding confirms the assumption made in Section 2.2.2 that the decision by Malaysian companies to internalise activities in the U.K. within the hierarchy is to avoid transaction cost due to perceived market failure. The transaction cost motive with the acquisition of former supplier and licensor is not widely cited in previous studies of developing countries' multinational. This motive is also related to the emergent strategy of Malaysian firms.

This thesis has also argued that two prominent determinants of Malaysian investment into the U.K. are business opportunism and owner entrepreneurship. Opportunism occurs when the owner or company acquires a target company, as the result of an unexpected and unplanned discovery of a business opportunity. Wells (1978) also reported that Hong Kong multinationals invested overseas in search for business opportunity. Opportunism of this kind requires that the acquiring company has the financial resources to react at short notice to discoveries of this kind. By opportunistic acquisition of this kind, the acquiring company can pursue the objective of taking a presence in a western country market. The creation of such a presence may, in itself, be a major corporate objective for the acquiring company, irrespective of the sector or product. Such opportunistic investment may not be part of a carefully thought out business plan, and may not fit well into the strategic management literature. Investments of this kind, however, have certainly happened in Malaysian corporate involvement in the U.K. Another factor that drives FDI is the entrepreneurship of the owners, involving a combination of opportunistic behaviour and risk taking. Many investments in the U.K. by Malaysians are due to the owner's initiatives, and the subsequent high involvement of the major owner, especially in the early investment stage.

To conclude, there are determinants and motivation elements that may be considered more important than others, when looking at Malaysian investment into the U.K. These are, investment opportunity, entrepreneurship, market seeking, strategic asset seeking, diversification seeking, home and host country factors and transaction cost considerations. Investment opportunity and transaction cost considerations are relevant to almost all the companies. In addition, opportunity is not only confined to opportunity to acquire but also opportunity to gain rent and profit in longer term investment. The element of entrepreneurship, on the other hand, is common in Chinese family firms, or more precisely in the entrepreneurship of the major owner of the family firm. Market seeking is frequently associated with trading firms, technology seeking is relevant for manufacturing firms, and finally diversification seeking is associated with conglomerate firms.

9.2.2 Mechanism, Strategies and Investment Performance

The research reveals that some Malaysian companies were involved in export prior to their direct investment in the host country. The decision to move from exporting to direct investment was a result of the increased experience in foreign markets, although not necessarily of an increased experience in a particular country. There is also lack of evidence to suggest that companies started their investment in sequence from neighbouring to distant countries, thus this finding could not confirm the assumption made in Section 2.3.2 that Malaysian companies directly follow the incremental path of internationalisation. This is also in contrast to the study of international investment from Taiwan, Korea, Hong Kong and Singapore which show a regional phenomenon (Tolentino, 2000 and Yeung, 1998). International experience is not only gained across markets but also across projects, thus distance sometimes becomes irrelevant. In other words, Malaysian companies based their investment strategy on projects as well as on countries. This research shows that Malaysian companies are familiar with the target companies through having acted as agents for them in Malaysia, producing products in Malaysia under license, and sourcing their parts and components from the U.K. This finding has therefore broadened the understanding of the incremental involvement in foreign markets due to increased experience.

Every company has a different entry strategy into the foreign market. Malaysian companies differ between themselves because of the different motivations for their investment. In companies that are not involved in trading of products, the findings tend to confirm the assumption made in Section 2.3.4 that Malaysian companies do not directly follow a sequential entry choice from less integrated to integrated mode. The decision to engage in integrated mode of entry for example is influenced by motives of investment and types of investment. In an integrated mode of entry, acquisition is preferable if the motivation for the acquisition is to acquire technology or an established brand. This allows companies to leverage on expertise, technology and established brands, to exploit the existing business for rent seeking, and to utilise the existing marketing network. On the other hand, greenfield is chosen if it involves the marketing and distribution of own products that originate

from the parent company in Malaysia. The strategy of trading based companies tends to refute the assumption made in Section 2.3.4 as they have been involved in export to the U.K. prior to their direct investments into the U.K. In greenfield entry, the companies are not acquiring an existing marketing network, the strategy is to assign experienced local people to head these subsidiaries, as these individuals coming along with personal networks established through their previous work in the sector. Joint venture (JV) is not a popular entry choice among Malaysian firms in the U.K. A lower incidence of JV contradicts the suggestion by Yeung (1998) that developing countries' TNCs prefer minority equity JVs. This is because joint venture is not a requirement set by the U.K government as found in many developing countries including Malaysia in which the government does require joint venture between foreign investor with a local party. Malaysian parent companies seem to want to control the acquired company in the U.K., develop the brand and wholly pursue the operations. However, Malaysian companies do not reject joint ventures completely. A JV will be chosen if the inward investor perceives that the local partner can contribute in terms of technology, expertise and know how about local culture. Otherwise 100% ownership is preferred. The assumption made in Section 2.3.4 that the higher the cultural distance between markets, the more control the Malaysian companies was likely to maintain over its foreign operation is refuted as a majority of Malaysian investment in the U.K. are wholly-owned and Malaysian investors also feel that they are familiar with the U.K. because of their historical relationship. In other words, even in a situation of lower cultural distance, Malaysian investors still prefer majority ownership.

The element of opportunistic investment and investor's entrepreneurship stated in Section 9.2.1 could also be regarded as fundamentals in the concept of 'emergent strategy' as suggested by Mintzberg (1994). This thesis has provided plenty of evidence (see Section 7.2.2) to suggest Malaysian investment in the U.K. has been influenced by strategies that are not elaborately planned but resulted from opportunities that emerged in the U.K. market that suited the company's corporate strategy. Therefore, this thesis has provided an example of emergent strategy in international business, an obvious contribution to its existing framework. It also confirmed the assumption made in Section 2.3.1 that Malaysian investment has

swayed away from structured strategy and general norms of investment. This emergent strategy is also related to a defensive strategy of internationalisation such as to strengthen the marketing of product which were previously controlled by distributors or to secure the control of the supplier. There is also lack of evidence that Malaysian companies aggressively undertake FDI into the U.K. based on technology competitiveness and other advantages. This confirms the assumption made in Section 2.5.5 concerning the importance of defensive strategy in the internationalisation process of the firms sampled.

This research shows a consistent approach in terms of the way Malaysian companies manage their subsidiaries. The majority of the parent companies consider that their investments in the U.K. need to be handled from a distance, because of the high costs involved in sending people from the parent to manage the subsidiary. Therefore, most subsidiaries are managed by locals, except for a few big subsidiaries where the top managers are Malaysians. This suggests a relationship between the size of the investment, and the perceived need for direct management. Malaysian expatriates tend to hold top posts in bigger subsidiaries, and where management control is considered necessary to revive the performance of subsidiaries. In contrast, management of smaller subsidiaries tend to be 100% local, because the companies could not afford to spend on expatriation costs. Local management is also important in understanding local environments, local culture and local business networks. This finding suggest that the bigger the investment and the higher the parent perceived the importance of the business to them, the more direct is the preferred management approach. The research also shows that transparency, sincerity, sharing of information and forming good relationships help the company to be managed efficiently, thus avoiding 'psychic distance' problems (Hofstede, 1999). This strategy has to be taken because of the absence of people from parent companies in the subsidiaries. However, many parent companies found that because of the remoteness of the subsidiaries from the parent, it was difficult to find the right people to handle the business in the subsidiaries. This finding contrasts with the study by Ragayah (1999), who suggests that most decisions of Malaysian investment are made at the subsidiary levels, but confirms the reporting procedure between parent and subsidiary. The parent and subsidiary relationship is

also similar to that found among Singapore multinationals (Fong and Komaran, 1985 and Hui and Fong, 1986) which implement direct management in larger FDI but use periodical visits and periodic reports for smaller FDI projects.

Another strategic area concerns decision making and control. Distance between Malaysia and U.K. seems to affect only daily control, but not overall control of the operation of subsidiaries. Malaysian parent companies undertake intervention policies in subsidiaries, involving things like daily reporting and communication, setting control systems and providing a clear line of authority to managers in the subsidiary, based on a set of rules and policies. Therefore, autonomy in the Malaysian subsidiaries is limited to the daily management of the company which is based on rules set by the parent. Autonomy is also limited to non-financial matters. The distance between Malaysia and the U.K. and its effect on the level of control and autonomy of subsidiaries seems to confirm the assumption made in Section 2.4 that Malaysian companies are not able to implement total control of subsidiaries. However, the subsidiaries have not experienced a high level of autonomy either.

Investment strategies by Malaysian companies in their U.K. subsidiaries focus on developing the core competence of the target company, and creating synergies between the subsidiaries and parent. The research, however, shows that shared core competence between parent and subsidiary is difficult to achieve because of the physical distance, and also because of the limited number of people from the parent that are directly involved in the subsidiary. Although there is successful transfer of core competence to the parent from the subsidiaries, the result is not conclusive for every company. This has contributed to the understanding that ownership of foreign subsidiaries does not guarantee transfer of technology, as knowledge is with people and sometimes people are immobile. For example, there is limited movement of people between the Malaysian parent companies and their subsidiaries in the U.K.

The performance of the U.K. subsidiaries of Malaysian companies is rather weak. There are several possible reasons such as improper investment decision and incorrect investment strategy. Opportunistic investment, as undertaken by Malaysian companies, does not conform to strategic management good practice,

and there are reasons for this. Acquiring an ailing target company may not be a wise investment decision, or a good entry strategy. There are reasons, after all, why a company comes to be in difficulties in the first place. Malaysian companies may also underestimate the costs of investing in a distant and high-cost country such as the U.K. For example, the finding suggests that parent companies try to reduce agency costs through close monitoring and policy control, but a lot of their U.K. businesses are still failing and there was dissatisfaction with the performance of local managers in the subsidiaries. There was also evidence of different motivations between parent and subsidiary managers with regard to the management of the business. This suggests that close monitoring and policy control does not efficiently resolve agency problem between parent and subsidiaries.

There were also problems due to cross cultural differences between the parent in Malaysia and the British business culture. This may have been due to lack of exposure to, or ignorance of, each other's culture. There were also real internal problems within the parent company, such as lack of cash flow and increasing debt, partly because of the Asian economic recession in 1997. Stiff competition and changes in the world economy have also affected the subsidiaries' performance.

We might conclude that the performance of U.K. subsidiaries has been poor for a number of reasons: because either the parent or the subsidiary lacked firm specific advantage; because the entry strategy was wrong; because management was remote; because there was a lack of understanding on the part of the parent companies; and/or because there was inadequate financing from the parent companies. Also, this study has shown that there are easy ways to enter a foreign country market, but that easiness does not necessarily lead to success, or constitute an appropriate entry strategy. If a company has the finances available, it is easy acquire a company in difficulties. It is more difficult, however, to manage subsidiaries successfully in foreign countries, due to the many social and economic challenges.

9.2.3 Firm Organisational Form and Investment Practices

It was expected that one of the major contributions of this study would be to establish a link between the FDI theoretical literature, and the investment behaviour of the three kinds of company under study - Malaysian Chinese family business, conglomerate firms and, government-linked companies. However, research on some of these subjects proved to be difficult, especially concerning Chinese family business. This problem was also observed by Yeung (1995) in his study of Hong Kong TNCs. Members of the family, and even professional managers engaged by the family firms, tended to avoid discussion of family ownership. There were instances of outright denial when asked whether they considered the company to be a family business, despite the shareholding structure suggesting otherwise. This has confirmed that Chinese family business is still full of secrecy to outsiders. This finding is similar to previous studies by Carney (1998), Tsang (2002) and Redding (1993). Consequently, this has limited the ability of this research to get inside information on family business in Malaysia. It is difficult to see how this research problem could be overcome, short perhaps of participant observation and ethnography. However, the research has made a contribution concerning the role of business networks or *guanxi* in the internationalisation practices of Chinese family firms.

The study revealed that although *guanxi* remains an element in the development of Chinese family business in Malaysia and Southeast Asia, it has lost its significance beyond this region. This suggests that interconnection and transnational networks among the Chinese are less likely to go beyond the domain that is constructed based on ethnicity, languages, associations and Confucianism. This has confirmed that networking in Chinese business networks is strong only within the environment of Chinese business culture. It also confirmed the assumption made in Section 4.4.6 that *guanxi* is less important or not relevant when doing business in the western countries. It becomes less relevant outside this environment. In the U.K., where the subsidiaries are run by local managers, they tend to follow the western type of business network. The research shows that networking based on ethnicity is also less acceptable to second or third generation family members, due to their exposure

to western education and business culture. This finding also confirms the same observation by Gomez (2001) that there was less interaction between ethnic Chinese in the U.K. in business.

In terms of management of subsidiaries, there is still the element of centralised control, especially for Chinese family business concerning financial matters. Therefore, the assumption made in Section 2.5.5 that the Malaysian TNCs are dominated by centralisation of control is true. It also confirms similar observation by Carney (1998) about concentration of decision making in Chinese family business. However, there is a lower degree of centralisation in overall management. Due to the distance, Chinese family businesses have also allowed greater control of the subsidiaries by professional managers, and this is rare in Malaysia in domestic Chinese family companies. However, the family members still represent their family's interest in the subsidiaries' Board of Directors or the decision-making body in the company. This has again confirmed the assumption made in Section 4.4.6 about the retaining of control and family members role in the management of OCFB. However, in the case of investment in the U.K., the finding contrasts with a study by Tsang (2002) that family members are in charge of key expatriate position in Singapore OCFBs.

In the case of conglomerate companies, their diversification strategy is influenced by trends and opportunities rather than careful planning. Their strategy evolves over time as new opportunities emerge. The U.K. subsidiaries, for example, do not diversify within the U.K. and its region due to lack of opportunity and limited resources available from the parent. The ownership of excess resources seems to be one of the factors that drive Malaysian companies to diversify into the U.K. market. Market power view and agency theory could not explain the motivation of Malaysian companies' diversification. Malaysian companies are relatively small and would not be considered to have market power. High incidence of owner-managed companies also would not suggest diversification as professional manager's initiatives. This has confirmed the assumption made in Section 4.2.5 about the usefulness of the resource base view in explaining Malaysian FDI. In addition, although the term conglomerate suggests unrelated diversification

activities, the research has not found a true example of Malaysian conglomerates that are involved in totally new activities in the U.K. What this research has found is that the U.K. activity is similar to some aspects of the diversified domestic activities of the parent conglomerate. This suggests that Malaysian conglomerates undertake unrelated conglomerate diversification in the domestic market rather than the foreign market, and it may be that unrelated diversification in the domestic market is perceived as carrying less risk. The data also reveal that Malaysian conglomerates are multi-foci, which means that each segment of activity is managed as an independent unit within the same business group. The assumption made in Section 4.3.3 that Malaysian conglomerates are engaged in unrelated activities in the U.K. as they are in Malaysia could not be confirmed.

This research also contributes to the understanding of developing country firms that are controlled and/or owned by the government. As privately run firms, their motivations, objectives and strategies of foreign investment are not much different from to other Malaysian firms. However, because they are controlled by the government, they may be pushed to undertake investments so as to fulfil the government's development policy in the home country, especially with regard to the acquisition of technology resources. This finding is similar to the motives of FDI by Chinese SOEs (Gang, 1992). However, the structure of Malaysian GLCs and China SOEs is different in which Malaysian GLCs are not wholly-owned by the government as are Chinese SOEs. Moreover, although the separation between ownership and management is made clear, the Government still influences many aspects of the company's operations. This finding refutes the assumption made in Section 2.5.6 on the domination of Malaysian FDI by the private sector initiatives because although GLCs are privately run, there are still elements of government initiatives in their FDI.

The motives, strategies and characteristics of Malaysian TNCs presented in Section 9.2 confirms the assumptions made in Section 2.5.6 about similarities and differences of FDI between Malaysian TNCs and other developing countries TNCs. A similarity in some of the motives of Malaysian outward investment with the Chinese and Indonesian TNCs (Gang, 1992; Lecraw, 1992) are probably due to

similar level of technological development between these two countries. Malaysian TNCs, for example, do not export technological capabilities as TNCs from Korea (Kumar and Kim, 1984), Singapore (Fong and Komaran, 1985) and Brazil (Wells, 1988; Neto, 1995). Like other developing countries as presented in Table 2.1, Malaysian investors frequently treat market seeking and access to technology as the main motive of their FDI.

9.3 THE POSITION OF THE RESEARCH FINDINGS IN THE INTERNATIONAL BUSINESS THEORY

The main consideration of this research with regard to the theoretical framework of international business is whether the existing international business theory is sufficient to explain developing country FDI and to what extent the research on Malaysian outward direct investment has contributed towards reviewing the existing theory.

9.3.1 Has the Findings Confirmed International Business (IB) Theory?

The conventional theoretical framework of international business can be used to explain Malaysian investment into the U.K. However, it is not possible to find a single theory that provides an explanation of FDI for every country. Every FDI decision will be influenced by specific factors such as type of firm, country of origin, types of product, location of investment and type of industry.

The findings in this thesis suggest that it confirms the explanation given by the IB theory on the motivation, strategy and mechanism of direct investment by Malaysian companies in the U.K. However, there is some evidence of inconsistency. The ownership advantages in OLI paradigm (Dunning, 1988) for example, suggest the investing firms should possess ownership advantage over local firm to enable them to successfully undertake FDI. Evidence from the Malaysian companies investing in the U.K. has not shown this. Location disadvantages such as high cost of investment in the U.K. should put off any FDI but this study suggests that providing the investing firm could benefit from the investment, they are willing to absorb the cost. This is normally found in

technology seeking FDI. The decision to internalise the activity within the hierarchy is as suggested by the IB theory which is the effect from transaction market failure. Dissatisfaction with agents and distributors in the market for example, has driven Malaysian companies to establish sales subsidiary in the U.K. In this regard, this finding also confirms the theory on the transaction cost (Williamson, 1985).

Types of FDI as suggested by Dunning (1993) can also be used to explain Malaysian investment in the U.K. But this thesis would not suggest resource seeking FDI by Malaysian companies to gain access to natural resources. The finding on the other hand, suggests the investment is to acquire technological capability and to exploit skilled personnel in the U.K. The finding, however, confirms the view of market seeking which is related to selling of Malaysian products in the U.K. and 'follow the client' motives. Under the efficiency seeking motive, Malaysian companies have lowered the real cost of the product by sourcing input from Malaysia. Strategic asset seeking FDI by Malaysian companies is more on the acquisition of technological asset and brand name.

The strategy of investment, especially 'stages' FDI (Johansson and Vahlne, 1977), has been experienced by some Malaysian companies but there are investment that follow business opportunity rather than distance between countries. In addition, although Malaysia and the U.K. have historical relationship, this does not diminish cultural differences (Hofstede, 1999) as have been experienced by some companies. Generally, this study confirms that IB theory can be used to provide a broad explanation of FDI by Malaysian companies, but other consideration outside the OLI paradigm and the 'seeking' motives of FDI are equally important to explain Malaysian FDI.

9.3.2 Is the existing international business (IB) theory sufficient to explain the developing country FDI?

It has been identified in this thesis that Malaysian investment in the U.K. was influenced by government role, specific home country factors, opportunistic behaviour and entrepreneurship of the owner and the emergent strategy

perspectives. These factors are not in the forefront of the existing IB theory. Some of these factors are even probably outside the acceptable norms of business practice such as in the case of opportunistic emergent strategy. Opportunistic emergent strategy for example, does not necessarily follow the 'stages' theory of internationalisation. This emergent strategy can still fit into 'stage' theory if the investors limit their opportunistic investment within close countries. This thesis shows that this is not the case with Malaysian companies undertaking opportunistic investment in the U.K.

This thesis also shows the important role of GLCs in Malaysia's direct investment overseas and, hence, the role of government in Malaysian FDI. In past research, the role of government is also obvious in the case of multinationals from Singapore and China (see Section 4.5). The implication to the OLI paradigm is that the government as the shareholder would provide additional ownership (O) advantages for developing countries' TNCs. In the case of Malaysia, GLCs would have an advantage in terms of access to capital input and government to government bilateral relationship. Government may use its position to initiate or facilitate FDI by Malaysian GLCs. The important role of government in developing countries' direct overseas investment could also provide an additional perspective to Dunning's four types of FDI. The objective of GLCs in Malaysia and Singapore (see Ragayah, 1999; Tolentino, 2000) and also in China's SOEs (see Gang, 1992; Deng, 2004) to become a global company and to raise their profile internationally could provide the basis for the 'fifth' type of FDI, thus it would provide more complete explanation of types of FDI by developing country TNCs in addition to Dunning's four types of FDI. Finally, home country factors such as the availability of cheaper resources could also be considered as firm's ownership advantages since developing countries firms can sell or provide services in foreign countries at lower real cost. Therefore, there is a need to strengthen the elements of ownership (O) advantages of developing country firms.

9.4 POLICY IMPLICATION

There are three key implications of the research concerning the existing Malaysian government policy concerning outward direct investment (ODI): the policy on promoting ODI, the NEP and capital control policies. The research found that although the Malaysian government agrees that it would benefit from outward direct investment (ODI) in terms of profit remittance, they still believe that Malaysia would benefit more from inward investment. The study has revealed that transnational operations by Malaysian companies are not necessarily driven by state ODI policy. There is evidence, however, that the state has used the GLCs to achieve the transfer of technology and expertise to Malaysia. Malaysian policy on ODI is very general. Malaysian companies have received limited incentives to go abroad; incentives that also are dwarfed by the incentives for inward investment. In contrast, multinationals from Korea and Singapore have received huge government support in the initial stages of their foreign investment. The Malaysianisation of the British owned companies by Malaysian Government in 1970s could not be considered as the era of active involvement of state in ODI since it was a respond to political pressure at that point of time only. Other than the GLCs, the transnational operations are very much an outcome of the individual entrepreneurship, conglomerate diversification and an expansion of the horizon of family business. Government agencies may not provide the best assistance thus leaving the companies with their own effort in new venture overseas. For the policy-makers this study could provide an indication of the need to have a systematic approach and thorough policy with regards to overseas investment.

It is also critical to acknowledge that Malaysian companies investing abroad still lack competitiveness. This in turn gives rise to the implication to the Malaysian government policy on inward investment i.e. whether Malaysian inward FDI policy has created the linkages between foreign and local companies in term of developing local companies' competency.

The social fabric of Malaysia that has created the New Economic Policy (NEP) has been identified as one of the factors that have driven ODI especially of the Chinese

family business. The effect of this policy has also been suggested in earlier studies by Yeung (1999) and Redding (1993). The socio-political and economic justification in NEP may be well understood, but the implementation of such policy should be done in more pragmatic manner to prevent 'capital flight' (Cuddington, 1987).

This study also reveals that government policy on capital controls, which restricts the movement of Ringgit from Malaysia, has badly affected the ability of Malaysian parent companies to undertake further investment overseas and to expand existing investment. The government may need to realise that the capital control policy that has benefited the country as a short term measure to control currency speculation has also affected any potential investment abroad.

9.5 MANAGERIAL IMPLICATION FOR MALAYSIAN INVESTORS ABROAD

This study demonstrates the implications at the managerial level involving Malaysian investors abroad- particularly with regards to strategic management, corporate finance and cross cultural management. The main issue for strategic management is whether the processes and strategies undertaken by Malaysian companies are supported by acceptable corporate norms and practices, and are driven by well-thought out considerations of profit and risk rather than merely by opportunism. It was revealed in this study that limited resources and competence has a direct effect on the capability of Malaysian companies to revive failing U.K. subsidiaries. Therefore it is recommended that managers should make a systematic and prudent approach in the decision to invest overseas, and the decision to buy the failing overseas target companies simply because of their give away price is never a wise decision. Equally, it shows that Malaysian companies underestimate the risk and overestimate the potential benefit achievable in such investment. The findings show that many target companies are not profitable before the acquisition and continue to make losses under Malaysian ownership. Furthermore, FDI is not merely a matter of the ability and the opportunity to enter a market but also having the potential to remain in the market competitively. The decision to acquire an

ailing U.K. company, for the first time investor, is probably a bad decision with regards to established norms in corporate finance.

In relation to cross-cultural management, there is evidence in the study that shows a delay in the acceptance by British managers of the fact that the company no longer belongs to the British, and that they have to receive directives from a foreign parent company from Malaysia. British managers also admitted that there are some differences in approach between British and Malaysian managers, especially where there was influence from Chinese business culture. For example, the British manager would make sure that everything is perfect before the product is marketed. The Malaysian Chinese manager's attitude is that if the product is nearly right, just put into the market and move from there. This indicates that culture and perception are complex and intricate in nature. Familiarity as mentioned by Malaysian managers which is brought about by the historical relationship, language and laws and regulation may facilitate an investment but does not warrant a straightforward business relationship.

The above issues, arising from strategic management, corporate finance and cross-cultural management, also provide lessons on managing remote subsidiaries, where there is separation of ownership and management. In particular, the absence of expatriate managers from the parent company in the foreign subsidiary, has slowed down the process of understanding the business, the realisation of synergy and the transfer of technology. The managers in GLCs, for example, need to rethink their strategy to ensure that ownership of a technology-based foreign company will result in the transfer of technology.

This study also has specific application to the managers of a family business (which also includes the family member). In particular, such firms need to realise that business cannot be developed internationally, on the same models of *guanxi* or close-knit networking that work within the Chinese business in Asia. The modernisation of the Chinese family business is critical. They need to reorganise their structure of organisation to allow more transparent corporate governance.

9.6 RESEARCH LIMITATIONS AND SUGGESTIONS

This research has many limitations, especially with regard to data and scope of research coverage. Resource limitations and time constraint would allow only one-off interview with the target companies in Malaysia and in the U.K. Although repeat interview would be beneficial in this kind of research, one-off interviews have enabled broad explanations to be gained about the research questions, and are sufficient in a new and exploratory research area of this kind. Future research of this kind has to take into consideration the time and resources required due to the distance between the U.K. and Malaysia so as to make it possible for multiple interviews to be undertaken in the same organisation.

The research is also unable to get a complete set of match pair firms (one Malaysian parent company and one of their U.K subsidiaries) as intended in the beginning of the research project. This was due to the reluctance of the U.K subsidiaries to participate in the interview, even though permission had been granted by the parent. The problem of non-respondent however, is very common in research of this kind. Therefore, the ability to 'triangulate' data from the parent with data in the subsidiary is limited for some of the companies. However, triangulation is still permissible using documentary data especially from the 'announcement' made by the company to Bursa Malaysia.

There is also a possibility of respondent and interviewer biases in undertaking the interview. The respondent bias in this research would come from the situation when the respondent is not able or reluctant to tell the 'true' opinion or facts in the conversation such as:

- The respondent may not be able to tell the 'truth' in the companies due to their lack of authority in the organisation such as holding a lower management post in the company;
- The respondents are reluctant to tell the 'truth' for matters regarded as secret in family business. In Chinese family business, secrecy still prevails, and

many respondents were reluctant to discuss the family issue openly. They either declined to talk on the subject, or sought to portray themselves as public companies even when the family was the major shareholder;

- The position of the interviewer as a Malaysian government servant could encourage the interviewee to give only positive remarks about government policy.

The interviewer bias may arise from the following aspect:

- The conversation could be influenced by perception of the interviewer about the respondent and vice versa as a result of cross cultural effect such as between Malay and Chinese and between Malay and British. This perception could arise from the sentiment in the context of the socio-political relationship between Malay and Chinese in Malaysia and historical relationship between British and Malaysia;
- The position of the interviewer as a government servant could encourage the respondent to alter the answer in order to impress or please the interviewer. The interview may not be able to get the 'true' inner feeling, attitudes and behaviour of the respondent.

The above limitations could impose a threat to the reliability of the research. Several measures have been taken to reduce this threat. The use of semi-structured interview as well as guiding questions has been able to present to both the respondent and the interviewer the expected question to be asked in the interview. The use of documentary data and interview with the subsidiaries (where applicable) has enabled confirmation or rejection of the data.

A limited availability of past research about Malaysian outward investment limits the possibility to make comparison, or to compare data between this research and other research. The scope of research is also limited to the U.K., thus giving results specific to the U.K., and which may not be applicable elsewhere.

9.7 AREAS FOR FURTHER RESEARCH

This study was undertaken purely based on qualitative approaches. Future study should look at the possibility of undertaking research on Malaysian outward investment in general, based on a larger sample size, and looking beyond one specific host country. Such research would complement the findings of this research, and make possible a more rounded understanding of Malaysian outward investment.

Another possible approach is selecting fewer companies, so that the study of each could be more detailed. This would lead towards a case-study approach. Some of the problems of secrecy and reticence might be overcome by such an approach.

Another possibility would be to compare Malaysian outward investment with outward investment from other countries at a similar stage of economic development.

A last area of interest would be further comparison of the strategy of Malaysian Chinese family businesses and conglomerate firms with western corporations. One key research question concerns whether Chinese family-run conglomerates will become more like western corporations, as they engage in international activity, or whether they will remain faithful to their domestic model of business. This is an area of research relevant not only to Malaysia, but to large parts of East and South East Asia.

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Gross Malaysian Outward Investment Flow by Country¹
(1992-2002)/RM'000

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Singapore	258.6	686.1	987.4	2063.8	1689.2	1783.0	2096.0	1635.0	2865.0	2072.0	1057.0	845
United States	93.9	627.6	445.3	478.0	1005.1	1334.0	1654.0	547.0	3930.0	3959.0	5714.0	994
United Kingdom	63.0	372.2	436.9	439.8	595.1	1716.0	822.0	568.0	538.0	269.0	400.0	493
Hong Kong	336.7	733.9	1486.0	706.2	582.4	936.0	169.0	435.0	158.0	100.0	410.0	520
P.R. China	20.1	112.2	216.3	326.8	451.3	331.0	79.0	201.0	153.0	311.0	306.0	243
Australia	99.9	137.4	461.0	542.2	425.2	505.0	2748.0	105.0	72.0	303.0	172.0	167
Indonesia	10.0	10.6	87.9	309.5	394.3	649.0	229.0	398.0	533.0	1682.0	900.0	356
Philippines	5.9	54.0	223.2	643.9	252.0	300.0	106.0	100.0	109.0	54.0	59.0	66
South Africa	0.0	0.0	45.6	68.7	132.5	148.0	42.0	33.0	23.0	75.0	3.0	3
Thailand	24.0	32.7	43.4	78.0	126.0	133.0	540.0	151.0	292.0	133.0	45.0	226
Vietnam	13.3	7.6	69.2	94.5	106.6	142.0	71.0	142.0	50.0	87.0	77.0	86
Japan	111.1	108.2	39.8	32.7	104.2	148.0	97.0	159.0	83.0	55.0	142.0	137
Switzerland	45.4	11.2	162.7	88.6	53.5	185.0	13.0	85.0	6.0	124.0	13.0	32
Canada	9.3	8.9	50.2	96.3	36.0	61.0	29.0	3.0	27.0	34.0	181.0	30
Bermuda	16.3	0.0	0.6	21.2	23.1	0.0	99.0	173.0	58.0	35.0	7.0	420
Netherlands	21.0	28.7	99.8	5.8	20.9	109.0	266.0	104.0	2.0	531.0	928.0	87
Germany	4.8	137.6	59.5	10.4	17.6	110.0	13.0	33.0	28.0	21.0	30.0	54
France	2.2	3.0	9.9	4.0	15.7	90.0	206.0	1230.0	747.0	77.0	1.0	2
India	4.9	2.3	24.4	3.6	14.5	34.0	35.0	101.0	22.0	43.0	76.0	57
Others	170.0	338.2	587.5	629.7	559.0	897.0	1151	3913	569	1045	5903.9	5824
TOTAL	1310	3412	5536	6643	6604	9611	10465	10116	10265	11010	16424	10642

¹ Refers to direct equity investment, purchase of real estate abroad and extension of loans to non-resident abroad. Includes capital invested or loan extended by foreign-owned companies to their parent companies abroad;

² inclusive of investment in Chad RM1099.0 million, Mauritius RM420.0 million and Cayman Island RM906 million:

Source: Bank Negara Malaysia (2003)

Appendix 1.2

**Malaysian Investment Outflows by Country*
1992-2001 (Percentage)**

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Singapore	19.74	20.11	17.83	31.06	25.58	18.55	20.03	16.16	27.91	18.82
United States	7.17	18.39	8.04	7.19	15.22	13.88	15.81	5.41	38.29	35.96
United Kingdom	4.81	10.91	7.89	6.62	9.01	17.85	7.85	5.61	5.24	2.44
Hong Kong	25.70	21.51	26.84	10.63	8.82	9.74	1.61	4.30	1.54	0.91
People's Republic of China	1.53	3.29	3.91	4.92	6.83	3.44	0.75	1.99	1.49	2.82
Australia	7.62	4.03	8.33	8.16	6.44	5.25	26.26	1.04	0.70	2.75
Indonesia	0.76	0.31	1.59	4.66	5.97	6.75	2.19	3.93	5.19	15.28
Philippines	0.45	1.58	4.03	9.69	3.82	3.12	1.01	0.99	1.06	0.49
South Africa	0.00	0.00	4.62	3.33	7.84	8.30	2.00	2.02	0.80	3.62
Thailand	1.83	0.96	0.78	1.17	1.91	1.38	5.16	1.49	2.84	1.21
Vietnam	1.02	0.22	1.25	1.42	1.61	1.48	0.68	1.40	0.49	0.79
Japan	8.48	3.17	0.72	0.49	1.58	1.54	0.93	1.57	0.81	0.50
Switzerland	3.47	0.33	2.94	1.33	0.81	1.92	0.12	0.84	0.06	1.13
Canada	0.71	0.26	0.91	1.45	0.55	0.63	0.28	0.03	0.26	0.31
Bermuda	1.24	0.00	0.01	0.32	0.35	0.00	0.95	1.71	0.57	0.32
Netherlands	1.60	0.84	1.80	0.09	0.32	1.13	2.54	1.03	0.02	4.82
Germany	0.37	4.03	1.07	0.16	0.27	1.14	0.12	0.33	0.27	0.19
France	0.17	0.09	0.18	0.06	0.24	0.94	1.97	12.16	7.28	0.70
India	0.37	0.07	0.44	0.05	0.22	0.35	0.33	1.00	0.21	0.39
Others	12.98	9.91	10.61	9.48	8.46	9.33	11.00	38.68	5.54	9.49
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Refers to direct equity investment, purchase of real estate abroad and extension of loans to non- resident abroad. Includes capital invested or loan extended by foreign-owned companies to their parent companies abroad.

Source: Bank Negara Malaysia (2003)

Countries in Asia**West Asia**

Bahrain
Iran, Islamic Republic of
Iraq
Jordan
Kuwait
Lebanon
Oman
Palestinian Territory
Qatar
Saudi Arabia
Syrian Arab Republic
Turkey
United Arab Emirates
Yemen

South, East and South-east Asia**East Asia**

China
Hong Kong, China
Korea, Democratic People's Republic of
Korea, Republic of
Macao, China
Mongolia
Taiwan Province of China

South Asia

Afghanistan
Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

South-East Asia

Brunei Darussalam
Cambodia
Indonesia
Lao People's Democratic Republic
Malaysia
Myanmar
Philippines
Singapore
Thailand
VietNam

Source: UNCTAD (2005b)

Malaysia: Major FDI Indicators, 1970-2003 (US\$ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
FDI Inflows	94	100	114	172	571	350	381	406	500
FDI Outflows	0	0	0	0	0	0	0	0	0
FDI Inward Stock	0	0	0	0	0	0	0	0	0
FDI Outward Stock	0	0	0	0	0	0	0	0	0

	1979	1980	1981	1982	1983	1984	1985	1986
FDI Inflows	573	934	1265	1397	1261	797	695	489
FDI Outflows	0	201	293	260	226	242	210	249
FDI Inward Stock	0	5169	5369	6066	6322	6510	7388	6111
FDI Outward Stock	0	197	496	741	960	1160	1374	1527

	1987	1988	1989	1990	1991	1992	1993	1994
FDI Inflows	423	719	1668	2611	4043	5138	5741	4581
FDI Outflows	214	198	273	129	175	115	1063	2329
FDI Inward Stock	6806	7054	8096	10318	12440	16860	20591	22916
FDI Outward Stock	1812	1855	2136	2671	3043	3736	5008	7940

	1995	1996	1997	1998	1999	2000	2001	2002	2003
FDI Inflows	5815	7297	6323	2714	3895	3788	554	3203	2474
FDI Outflows	2488	3768	2675	863	1422	2026	267	1904	1370
FDI Inward Stock	28731	36028	42351	45065	48960	52747	53301	56505	58979
FDI Outward Stock	11042	15212	12361	15472	18425	21276	24428	28316	29686

Source: UNCTAD (2005a)

Appendix 3.2

Equity Investment by Country, 1992-2002

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Singapore	165	569	680	1616	1319	1108	832	589	756	300	382
United States	159	585	332	364	1064	1072	1494	267	1032	1277	229
United Kingdom	32	91	150	358	620	1453	501	224	66	43	270
Hong Kong	99	284	642	370	345	350	107	356	73	46	99
People's Republic of China	10	107	181	308	461	292	67	137	103	303	299
Australia	68	99	433	475	271	324	2696	76	52	257	88
Indonesia	8	4	75	232	329	547	110	197	161	1375	685
Philippines	5	3	167	614	283	148	48	80	98	47	34
South Africa	-	-	26	42	1157	214	40	14	23	53	3
Thailand	18	5	34	78	94	107	501	89	276	132	30
Vietnam	13	7	60	94	110	110	62	67	25	78	65
Japan	36	19	30	77	593	350	45	107	34	35	63
Switzerland	45	9	45	88	57	135	11	16	6	12	11
Canada	7	3	43	95	32	58	28	1	26	34	2
Netherlands	-	26	171	47	14	5	2	12	1	515	927
Germany	2	3	6	3	17	33	10	30	23	10	2
France	24	2	10	14	91	86	206	1219	743	154	1
India	-	2	25	3	18	32	34	82	2	35	60
Others	84	251	182	516	870	735	1554	1593	656	1040	3743 ³
TOTAL	775	2058	3292	5394	7745	7159	8348	5156	4156	5746	6993

³ inclusive of RM1,099 million investment to Chad and RM654 million investment to Cameroon.

Source: Bank Negara Malaysia (2003)

Invitation Letter to Malaysian Parent Companies

[Address]
«Salutation»,

**RE: MALAYSIAN OUTWARD INVESTMENT - THE CASE OF
MALAYSIAN COMPANIES INVESTING IN THE UNITED KINGDOM**

My name is Mohd Mokhtar Tahar. I am a Malaysian civil servant, presently on study leave as a PhD student at Leeds University Business School (LUBS), Leeds, United Kingdom. Prior to this, I was attached with the Foreign Investment Committee (FIC), Economic Planning Unit, in the Prime Minister's Department, Malaysia.

I am currently pursuing a research project for my PhD programme under the Centre of International Business, University of Leeds (CIBUL). This project is an investigation of the determinants, strategy and process of Malaysian company investment in the U.K. Information to be gathered includes the decision to make an investment into the U.K., motivation for operating in the U.K., investment method and strategies, difficulties encountered during the process, and future plans. The fundamental objective is to answer the question of why and how Malaysian companies undertake foreign direct investment in a developed country such as the U.K. The research that I am undertaking will involve an in-depth interview with selected Malaysian companies that have currently undertaken direct investment in the United Kingdom (U.K.).

The interview would ideally be held with a person(s) who has knowledge of your company's overseas investment. This person may be involved in decision making, operation and monitoring of investment in the U.K.

The interview may take between one to two hours. The questions will be based on several themes that will be sent to the respective person prior to the actual interview. All the information supplied in this interview will be treated in strictest confidence and will not be used for any purposes except those of this research. No reference to your company will be made other than by consent.

In this respect, I earnestly seek your cooperation to participate in the research, and to suggest a person for the interview regarding your company's direct investment in the U.K. The actual interview will be held during the months of August and September, 2003. Further correspondence will follow upon your company's agreement to participate in the study.

Thank you for your time, cooperation and support for this research.

Yours Truly,

Mohd Mokhtar Tahar
Doctoral Researcher

Invitation Letter to U.K. Subsidiaries

{Address}
{Salutation}

INVITATION TO PARTICIPATE IN THE RESEARCH PROJECT.

TITLE: MALAYSIAN OUTWARD INVESTMENT: A CASE OF MALAYSIAN COMPANIES INVESTING IN THE UNITED KINGDOM

My name is Mohd Mokhtar Tahar. I am currently pursuing a research project for my PhD programme within the Centre of International Business, University of Leeds (CIBUL). This project aims to investigate the determinants, strategy and process of Malaysian companies' investment in the U.K. With regard to this, on () September 2003, I conducted an interview with (Name of interviewee) in Malaysia to gather information on these subjects. At the same time I conveyed my intention to interview the subsidiaries in the U.K. and your parent (associate) company in Malaysia encourage me to meet you. The interview with the subsidiaries/associates of the Malaysian companies in the U.K. is regarded as the second phase of data collection for this project. Information to be gathered in this proposed interview includes subsidiaries' perception of the motivations, strategies and determinants of Malaysian investment in the U.K., the relationship between parent and subsidiaries, management and decision making, investment method and strategies, and also the costs and benefits of the investment to the Malaysian parent companies.

The research that I am undertaking will involve an in-depth interview with 19 U.K. based companies, wholly owned or partly-owned by Malaysian(s). The interview would ideally be with an individual at senior managerial level (preferably British/non-Malaysian) who has knowledge about the history of the Malaysian investment in the company.

The interview may take about one hour. The questions will be based on several themes as attached together with this letter. All the information supplied in this interview will be treated in strictest confidence and will not be used for any purposes except those of this research. No reference to your company will be made other than by consent.

In this respect, I would like seek your cooperation to participate in the research. The proposed interview will be held in June 2004. I am very hopeful that you are able to participate in this research, and would be very pleased if you could kindly propose the person(s) for the interview.

Thank you for your time, cooperation and support for this research.

Yours Truly,

Mohd Mokhtar Tahar
Doctoral Researcher
Leeds University Business School

Guiding Question Interview I

- A. **Background Information Concerning the Company**
- The history of the company, the evolution of its overseas operation, and specifically of its investment in the U.K.
 - The ownership and management structure of the company in Malaysia and overseas/U.K. affiliates.
 - The nature of the company: Focussed or Diversified? Conglomerate?
 - Identity and character of owners - Family-owned or shareholder-owned? Owner-managed? Etc...
- B. **Motivations for Overseas Operation and Investment in the U.K.**
- The driving force behind the company's overseas operation.
 - The specific driving force of the company's investment in the U.K.
 - The extent to which the nature of the parent company has been a driver of overseas/U.K. investment activity.
- C. **Mechanism and Strategies of Investment in U.K.**
- What is the core competence of the company? How is it being developed and utilised in the context of overseas/U.K. operations?
 - What is the rationale of the company's diversification activities/strategies?
 - What are the major sources of funds for overseas/U.K. investment?
 - What was the mode of entry to the U.K. market (acquisition, greenfield, joint venture, etc)?
 - How would you describe the relationship between parent and subsidiaries?
 - Are there strategic relationships between your subsidiaries?
 - To what extent are the major shareholders involved in the overseas/U.K. operations?
 - Can you explain the role of professional managers in the company and their relationship with major shareholder/owner, 1) in Malaysia, 2) in the U.K.?
 - (where appropriate) Do business networks of any kind (sectoral, ethnic, etc.) play a role in your company's overseas/U.K. investment? If networks are important, how have they evolved over time?
- D. **The Impact of U.K. Investment**
- The positive or negative impacts of U.K. investment on company performance.
- E. **Difficulties Encountered in U.K. Operation**
- Has the company faced any difficulties in its operation in the U.K.?
 - If yes, how were these difficulties overcome?
- F. **Future Direction of Foreign Investment**
- What are the company's future plans for the U.K. (and if appropriate other foreign markets)?

Guiding Question Interview II

INTERVIEW WITH THE GOVERNMENT OFFICIALS

- Government attitudes towards outward investment
 1. What is the overall Malaysian government policy toward outward investment?
 2. What is the Malaysian Government policy towards Malaysian investment in the developed country in general and in the U.K. in particular?
- Benefit and cost of outward investment to the Malaysia
 3. What benefits gained by Malaysia from this outward investment? And what is the cost?
- Detail Malaysian Government policy toward outward investment
 4. What form of incentive that Malaysian government provides to the Malaysian companies investing abroad?
 5. How far the policy has benefited the Malaysian company abroad?
 6. What form of problem encountered so far?
- Government London office role in Malaysian
 7. What role that your office played for Malaysian investment in the U.K.?
- Problem encountered by Malaysian companies investing the U.K. – how it has been resolved?
 8. What are the problems encountered by Malaysian company investing in the U.K.? Can you quote any example?
- Effect of bilateral agreement between Malaysian Government and British Government in flow of investment into U.K.
 9. To what extent the bilateral relationship between Malaysia and Britain help promote investment between these two countries?
- Capital flight
 10. What is your comment on the statement that ` Malaysia outward investment represents a capital flights`

MATTER ARISING

- Ask for any written document that may help the research
- Ask permission for another interview/contact as the research goes on.

Guiding Questions Interview III

OBJECTIVES, THEMES AND TOPICS FOR DISCUSSION DURING INTERVIEW WITH THE U.K. SUBSIDIARIES

The following are items and topics which might be discussed during the interview. They do not necessarily cover all relevant issues, however, and should be seen as a starting point for discussion rather than an exhaustive questionnaire.

Main Objective:

To find out whether subsidiaries view issues similarly or very differently from the parent.

To find out whether subsidiaries' perceptions of motivations, strategy and determinants differ from the parent.

To find out the relationship between the British managers and their Malaysian counterparts.

Themes and Topics for Discussion during the Interview:

1. PRE-REQUISITE INFORMATION

The extent to which the British manager is familiar with the Malaysian shareholder or the Malaysian parent company.

2. DETERMINANTS AND MOTIVATION

The motivation and determinants for the Malaysian company investing in the U.K. Have the motivation and determinants for the Malaysian company changed over time, after experience of the U.K.

3. MECHANISM OF INVESTMENT

Rationale for using a particular mode of entry into the U.K. market (for example, acquisition, joint-venture, greenfield investment, and so on).

Justification for business diversification or business focus (where applicable).

The justification of the present degree of ownership in the U.K. subsidiary.

Source of funding for the U.K. activity (for example, recurrent parent funding or self-generated funding).

4. STRATEGY OF THE INVESTMENT

The specific business strategy undertaken by the U.K. subsidiary; the extent to which this strategy is influenced by the Malaysian ownership.

The core competence of the U.K. subsidiary; the development of this core competence before and after acquisition by the Malaysian company.

The realisation of synergies (if any) between the U.K. subsidiary and the Malaysian parent.

The role of business networks for the U.K. subsidiary, and the role of the Malaysian parent company in these networks.

5. MANAGEMENT OF SUBSIDIARY

Relationship with the parent/owner in Kuala Lumpur.

Level of autonomy granted to the company by the parent.

Balance between British and Malaysian management.

PERCEPTION ABOUT MALAYSIAN SHAREHOLDING

Perceptions of working for the Malaysian company.

Perception about the contribution of the Malaysian shareholder to the U.K. company.

Pro and Cons of the Malaysian ownership or shareholding in the company.

7. PROBLEMS

What has gone right, what has gone less than right?

8. ANY OTHER ISSUES of outstanding importance not covered by the above.