An Empirical Case Study of International Strategic Alliances in Malaysia

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Abstract

The initial objective of the research project reported in this paper was to examine the strategic approaches, processes and factors involved when foreign companies make its foray into an Asian market. The study focused on the South-East Asian Market, specifically Malaysia, given both the regions and the country's growing importance in international trade. The theoretical underpinnings of this paper focus on foreign investment, modes of entry, export marketing, strategic alliances, investment criteria, firm characteristics, international business, external factors, host and home country factors, and Asian culture and management.

Keywords: strategic alliances, internationalization, investment, case study, Malaysia

Introduction

The initial objective of the research project reported in this paper was to examine the strategic approaches, processes and factors involved when foreign companies enter an Asian market. The study focused on the South-East Asian Market, specifically Malaysia, given both the regions and the country's growing importance in world trade. These initial objectives were modified and expanded following preliminary discussions with respondent companies when there appeared to be some significant similarities and differences in the strategic approaches adopted by the Minor Regional Multinationals (MRMs) in Malaysia vis-à-vis Major Global Multinationals (Global Ms).Numerous definitions abound concerning strategic alliances from varied authorities. At the outset it should be noted that the term "strategic alliances" connotes a process of inter organizational linkages or networks. Essentially, what is anticipated here are different forms of cooperation and collaboration among participating organizations (Buttery *et al.* 1999:415). Therefore, because of the generic structure of the phenomenon, the term strategic alliances has been used interchangeably with concepts such as business networks, clusters, strategic partnering, collaborative arrangement, cooperative strategy, flexible specialization and linkages. However, this paper adopts the definition proposed by Hamilton *et al.* (1995; 1996) which defines international strategic alliance (ISA) as:

"A durable relationship established between two or more independent firms, involving the sharing or pooling of resources to create a mechanism (corporate or otherwise) for undertaking a business activity or activities of strategic importance to one or more of the partners for their mutual economic advantage".

There are, in general, many contextual explanations of the motive behind the formation of international strategic alliances (ISA) by companies. These explanations derive from the following intertwined theories:

- Theories of competitive advantage;
- Theories of the firm or organization;
- Theories of location (value-adding activity);
- Transaction cost analysis;
- International trade theory;
- Resource dependency perspective;
- Chaos theory; and
- Institutional theory

Most of these theories are complementary, and the motives can be essentially summarized as being: market seeking; natural resource seeking; rationalizing or efficiency seeking; and strategic asset seeking. The last motive is seen as companies wanting to augment their competitive advantage globally. Within this ISA motivational paradigm, there are essentially three contextual components:

- The country or region of the investing firm and that in which they are seeking to invest.
- The industry and/or economic activity in which they are engaged.
- Firm specific characteristics.

This study normalizes for the first two of these components initially by selecting Global Ms and MRMs originating from distinctly different regions but investing in Malaysia, and then by choosing only the food industry as the focus of their economic activity. The study then reports on the specific characteristics of 11 firms within this focus group of respondents.

Venturing overseas: The literature

The theoretical underpinnings of this paper focus on foreign investment, modes of entry, export marketing, strategic alliances, investment criteria, firm characteristics, international strategy, external factors, host and home country factors, and Asian culture and management (see Agarwal and Ramaswami, 2002; Barney, 2001; Beamish and Banks, 1997; Cavusgil and Zou, 2004; Contractor, 1994; Dunning, 1993; Gomes-Casseres, 1999; Kojima, 1995; Kumar, 2004; Lague, 2001; Mahoney and Pandian, 2002;McNicoll and Marris, 2003; Murdoch, 2003; Padmanabhan and Cho, 2006; Stewart, 2003). The research findings are examined and discussed in relation to the above studies, which stem mainly form the international business literature. Aspects of the literature more specific to objectives to this research are discussed further in the sections that follow.

Exporting

Much of the theories in this area come from the literature on marketing and competitive advantage. Research in direct exporting covers a myriad of topics, such as export performance (Ayal, 2002); export behaviour and strategies (Cavusgil and Nevin, 2001); marketing mix and exporting (Christensen, Rocha et al., 1997); public policy and support for exporting, exporting problems, environmental parameters (economic, legal, political, industry, macro-environment) largely outside the firm's influence, and managerial factors (Cavusgil, 1996; Cavusgil, 1994; Aaby and Slater, 1999). Sriram and Neelankavil (1999) suggest that export knowledge, commitment, and technological superiorities of the exported products have positive relationships with success. They also found that external support programmes such as government assistance towards exporters had a negative influence, because highly restrictive government regulations with respect to export licences had worked against any positive assistance provided by the government.

Leibold (1999) argued that individual companies and firms would benefit from a regional export focus. Leibold's paper assumed that for individual firms to successfully export, they needed some form of assistance in terms of advice on exporting strategies from the home country government. Some governments tend to favour specific geographical regions over others, for example ASEAN over EC. This slant toward one region as opposed to another can be due to geographical proximity, common cultural ties, or strategic marketing considerations. A general model of exporting was provided by Aaby and Slater (1999) which summarised 55 different studies. These studies were all carried out by a variety of academics from countries in the northern hemisphere (USA, Canada, West Germany, Turkey, Norway, etc). Their study, although well cited in the literature, does not make any references to studies done in relation to MRMs or the Asian countries.

Value adding

Value-adding functions are defined as those that contribute directly to the product's value by inputs of labour, raw materials, packaging and marketing. For example, Asea Brown Boveri (ABB), one of the world's largest international joint venture (IJVs) in power generation, anticipated to triple its global revenue (in the next five years) by having extensive local value added activities in each host country (Redding, 2005). Traditionally, adding value to a product means any action that directly transforms raw or semi-manufactured material to a completed product. The activities that do not add value to products include inspection, material transport, time spent in inventory, time waiting for processing, and others. Adding value to food products can occur either within the country producing the raw materials, or in the host country where the product is completed. The final decision about the location for adding value depends on the prevailing factors in either host or home country. These include each country's competitive advantages in terms of raw materials, costs of manufacturing and availability of infrastructure for downstream activities.

An example of value adding with local raw materials in a host country can be seen in Kellogg's manufacturing of 12 breakfast cereal brands in South Africa (Anonymous, 2003).Value adding has been discussed extensively by various researchers within the theories of location (Furzer, 1999; Eager, 2003; Fawcettt, 2003; Lotterman, 2003; Clausi, 2004; Roberts, 2004; Redding, 2005; Wilmore 2005). However, there are only a few practical examples cited therein pertaining to the Asian region. Muthaly (2003) identified Australian food products that could be exported to Malaysia after value adding in Australia. He argued that Malaysia's ethnic population had maintained their separate identities in specific food products, but at the same time had concocted a gastronomic melting pot a spiced dishes.

Financial issues

The theories here come essentially from the literature pertaining to the firm or organization, although the literature on location and competitive advantage also contribute to the theories in this area. For example, Chan (2005) measured the performance of US parent companies which were engaged either in IJVs or in Wholly-Owned Subsidiaries (WOSs) in a foreign country. His study focused on the effectiveness of IJVs versus WOSs and also attempted to show some distinctive financial characteristics of these firms. The performance indicators used were profitability ratios such as return on assets (ROA), return on sales (ROS), return on investment (ROI), return on equity (ROE), return on foreign investment (ROFI) and foreign income as a percentage of sales. Chan (2005) contends that since IJVs comprise two separate entities, the strategic relationship is problematic. Problems arise when two management teams with different nationalities, backgrounds, experiences, abilities, and perhaps objectives, are asked to co-operate, to pursue a common goal, to agree on common means and to work under the same authority. These issues create problems in terms of future planning and have a causal negative effect on the financial performance of the firm (Chan, 2005). Chan's study therefore showed that WOSs had a better overall financial performance than IJVs.

Chan however claimed that firms engaged in IJVs tend to be larger and also have a greater presence in international markets than those which have WOSs. This has been supported by other research which indicates that firms entering via IJVs tend to have enough resources to diversify their operations into many countries rather than invest fully in one or a few WOSs. Production factors such land, labour, entrepreneurship and capital for IJVs are not as large as for WOSs. IJVs incur lower cost and resource commitments compared to WOSs and this result in a positive effect on the overall performance. These studies however, do not provide any predictive models of entry strategies for either IJVs or WOSs. In another study conducted by Agarwal and Ramaswami (2002), it was found that a firm's ability to establish a WOS is constrained by their size and multinational experience. They further suggest the following in terms of host governments and WOSs:

"The government in host countries, therefore, will not only have to develop policies that make it attractive for foreign firms to invest markets, but more importantly, will have to reduce their risk perceptions through regulations that permit repatriation of profits, majority ownership and control, patent protection for technology/products and enforcement of contracts (p. 21)".

Beamish and Banks (1997) suggested that although the start up costs of a WOS is generally lower than that of an IJV, the long-term average costs may be much higher. This is due to the significant cost incurred by WOS to counter the lack of knowledge about the local economy, politics and culture of the host country. Gomes-Casseres (1999) showed that IJVs tend to be more unstable than WOSs in the long run. This was due to multinational enterprises' inclination to terminate some joint venture partnerships in order to adapt their ownership policies as they gained experience in the foreign markets.

Firm specific attributes

Firm Specific Resources and Home Country Institutional Characteristics are sometimes referred to as resource-based theory (Fladmore-Lindquist and Tallman, 2004). This theory focuses on how unique firm-specific resources can be used for competitive advantage under different situations (Barney, 2001; Mahoney and Pandian, 2002). Tallman (2001) contends that the concept of a firm's resources provides important insight on the determinants of a firm's performance. In an analysis of the 16 largest Canadian multinational enterprises, firm-specific advantages relating to marketing and experience were found to be the most important factors for their success as global competitors (Rugman, 1996). Sometimes these firm specific resources are referred to as idiosyncratic resources such as human, financial and organizational resources. Multi-National Companies (MNCs) utilize these firm specific resources in their worldwide strategy to practice cost minimization and profit maximization (Tallman, 2002).

Grant (2001) highlights, that, the key to a resource-based approach to strategy formulation is the understanding of the relationships between resources, capabilities, competitive advantage and profitability.The resources and capabilities of a firm are the central consideration in formulating its strategy (Table I). They are the primary constants of which a firm can establish its identity and frame its strategy, as well as the primary sources of a firm's profitability. Collis (2001) examines the contribution that the resource-based approach makes to global competition and strategic management. His resource-based analysis relates core competence, organizational capability, and administrative heritage to strategy. Core competence comprises a set of differentiated technological skills, complementary assets and organizational routines and capacities. He also suggests that firm will choose product market positions that represent the best application of their core competence. Organizational capability consists of intangible resources such as management capability, which allow a firm to effectively implement strategies and continually upgrade its core competence. Finally administrative heritage refers to the organizational constraints on strategic choice in terms of both intangible cultural heritage (charismatic and corporate leadership style and organization culture) and the physical heritage (plant locations, office facilities and communication systems).

Table 1: A profile of firm specific resources with examples

A profile of firm specific resources ***Firm specific resource***	***Examples***
Financial	Cash flow, debt capacity, equity
Physical	Fixed assets and inventory
Human	Personnel and R&D capabilities
Organisation	Corporate culture and relationships
Technological	Highly efficient product system

Source: (Mahoney and Pandian, 2002)

Collis based his research on case studies of three firms in the worldwide metal bearings industry. He suggests that the resource-based view of the firm complements economic analysis and that both are essential to a complete understanding of global strategy. He concludes that resource-based strategies recognize that sustained superior performance is founded on applying unique firm-specific resources in a market rather than on the use of market power in an inefficiently structured industry. The impact of industry structure on firm performance is also highlighted by Ratnatunga (2005). Firm-specific resources such as intellectual property are internal competencies, which are intangible assets which MNCs are usually reluctant to share with other parties. As such this may result in MNCs choosing to have a WOS as compared to an IJV.

Venturing overseas: general models

While the richness of the above literature cannot be fully captured in terms of diagrammatic models, the following two models (Figures 1 and 2) have been provided as a summary of the "conventional wisdom" of the literature in terms of the current study in order to provide a framework for discussion. Figure 1 illustrated the conventional wisdom of the link between a company's strategic focus to venturing overseas and the size of its relative investment in such overseas markets.Figure1: Strategic focus and relative investment matrix

Strategic Focus to Venturing Overseas

Figure I.

	High	Low
World Marketer	**Focused Investment Strategic Alliances**	**Global Company**
Exporter	**Shipper**	**Distributor**

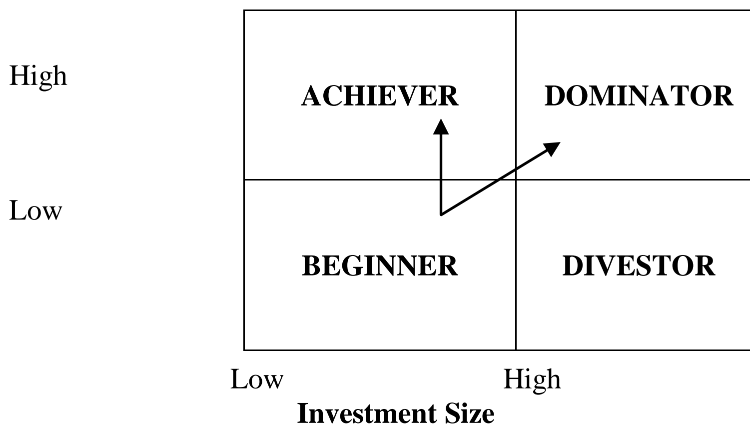
Relative Investments in Overseas Markets

A company with an export orientation and a low-relative investment is defined as a "shipper" who has limited involvement in exporting and often supplies export markets via foreign import companies. The relative investment of such companies is limited to the amount of "accounts receivable" from the importing company. In contrast, a company with a very high investment in the export trade is defined as a "distributor" as such companies tend to establish a sales office, appoint distribution agents and carry significant consignment stock in the foreign country. Such exporters also tend to invest heavily in promoting their product in the overseas market. The usual FDI motive of an exporter is market seeking. Companies with a "world marketer" strategic focus can limit their investment by concentrating on specific countries or regions and/or by entering international joint ventures (IJVs) and other "strategic alliances" with local partners. As their investment levels increase, these world marketers tend to set-up wholly-owned subsidiaries (WOSs) and operate in all major markets, becoming global companies. The FDI motives for such companies could be any of the four motives listed earlier, i.e. market seeking, natural resource seeking, efficiency seeking and/or strategic asset seeking.

Figure 2 categorises companies in terms of their total investment in a foreign country and their relative market share in their selected target market(s).

Figure 2. Relative market share/investment size matrix

Relative Market Share



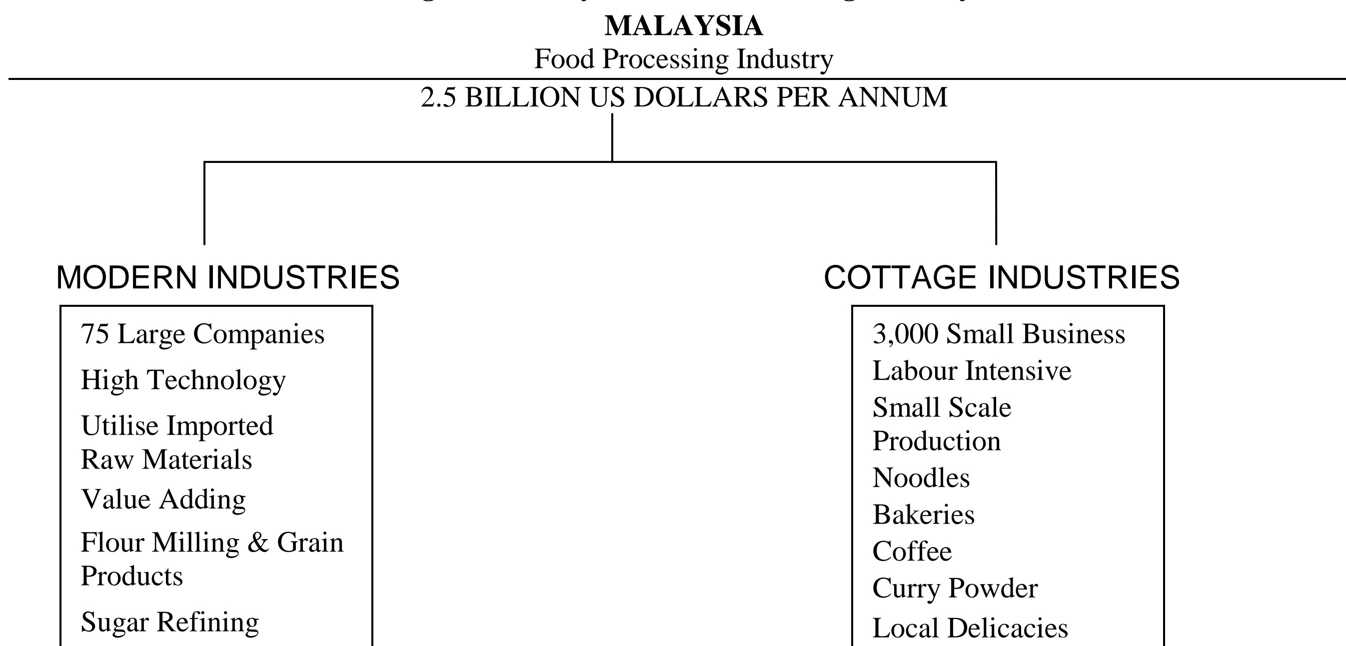
The conventional wisdom in the literature is that companies enter a foreign market as "Beginners" with a relative low investment (either as shippers or via strategic alliances – see Figure 1) the consequence being a relatively low market-share (Guisinger, 1995; McClintock, 1998). If they are fortunate enough to capture a relatively high share in their market niche with still a low investment base, then they would be "Achievers", i.e. companies achieving high returns on investment (ROIs). Such companies tend to be IJVs or small subsidiary companies catering to niche markets.When a "Beginner" company continues to invest heavily in the overseas venture, there are two obvious outcomes: the capturing of a high relative market share and a resultant "Dominator" position in the niche sector, or the failure to do so resulting in low returns on investment and thus an ultimate withdrawal from the market as a "Divestor". Strategic long term investments in some cases do not have any returns for at least the first few years of operation in new markets.

The research project was initially designed to obtain case study information on a number of foreign food companies which had invested in Malaysia, especially in terms of their strategic approaches, investment bases and market share achievement. However, subsequent to the preliminary discussions with the respondent companies, the researchers believed that the conventional models depicted in Figures 1 and 2 needed to be studied further. The study, which resulted in a modification to Figure 3, is discussed at length in this paper, and form the essence of the contribution of the research project.

The Malaysian Food Manufacturing Industry

Figure 3 provides an overview of the Malaysian Food Processing Industry. The food industry comprises modern industries and cottage industries.

Figure 3. Malaysian Food Processing Industry



Source: Interview with Ministry of Agriculture, Malaysia – March 2006

The modern industry sector

The modern food industry sector comprised multinational companies located in Malaysia which contributed to about 75 percent of the total ("Modern" plus "Cottage"), output of approximately US$2.5 billion (Wan Daud, 2003). Some of these MNCs have operated in the country for the last five decades. These MNCs are controlled from their headquarters located in Europe, the USA, Japan, Australia and New Zealand. The companies that fall into the modern industry sector are the large multinational food companies and large local food companies (semi and fully government owned and private companies). Table II provides a list of Malaysia's leading food companies (public listed food processing companies) and these companies both local and foreign food companies who have floated their shares on the Malaysian stock exchange.

Table II. Public listed food companies in Malaysia

Name	Year	Products	Country of Origin
Ajinomoto	1962	Seasonings	Japan
Carlsberg	1971	Beer	Denmark
Chocolate products	1970	Chocolate	Singapore
Cold Storage	1968	Dairy and meat	Malaysia
Dutch Baby	1963	Milk	Holland
Federal flour mills	1962	Wheat flour	Malaysia
Guinness	1964	Beer and stout	UK
KFC Holdings	1980	Poultry meat	USA
Khong Guan	1969	Biscuits	Malaysia
Malaysian flour mills	1961	Wheat flour	Malaysia
Nestle	1912	Milk, cereals, noodles	Switzerland
United Malaysia flour mills	1961	Wheat flour	Malaysia
Yeo Hiap Seng	1959	Canned food	Singapore

Source: Kuala Lumpur Stock Exchange (2006)

These food companies utilize high technology, import raw materials and also value-add in many product areas. They are mainly involved in flour milling, manufacturing dairy products, preparation of poultry meat, and sugar refining. Large trading companies (Diethelm Malaysia, East Asiatic Company, Eastern Agencies, Harpers Trading, PSD Trading and Boustead Trading) and specialist importers (Pok Brothers, Ben Foods, Ad-East, etc.) are actively involved in production (i.e. manufacturing under licence) and distribution of a variety of branded food products. A list of these branded products can be seen in Table III.

There is also a high incidence of eating out, and many Malaysians, especially the younger generation patronize fast food outlets (KFC, McDonalds, Pizza Hut, White Castle, Domino Pizza, Subway, Nando's etc.). This can be attributed to the increased level of urbanization in Malaysia. The World Bank Development Report (2001) indicated that Malaysia's urban population was 26 percent in 1965, which by 2000 had risen to 42 percent. Projections for the year 2008 show an urban population of 65 percent.

The cottage industry sector

There are about 3,000 small food businesses situated all over the country. These food businesses are very family oriented and extremely labour intensive in most cases. There are a few small scale operations located in each state of Malaysia. These family businesses are concerned mainly with making noodles, cakes, curry powder, and other local delicacies. These manufacturers utilize raw materials, some of which are imported via local importers and distributors, and also from the modern industry factories.

Table III. Major food brands in Malaysia

Malaysia Food Market	
Major food brands	**Products**
• Kelloggs	• Breakfast cereals
• Nestles	• Instant coffee, cereals, condensed milk, juices, breakfast cereals, sauces and noodles
	• Snack foods and biscuits
• Nabisco and Twisties	• Cheese
• Kraft	• Chocolates
• Mars, Van Houten, Kit Kat, Kandos and Cadbury	
• Peters, Walls and Magnolia	• Ice cream
• Gardenia, Cold Storage, Federal Baker	• Bread
• Meadow Lea, Planta	
• Carnation, F&N, Dutch Lady, Dumex and Anchor	• Margarine
• Heinz	• Milk
• Pepsi, Coke, Seven Up, Fanta, F&N, Orangina, Magnolia etc.	• Baby foods and jam
• McDonalds, KFC, Pizza Hut, A&W, White Castle, Shakeys Pizza, etc.	• Soft drinks
	• Fast food outlets

I

Source: compiled from various food magazines

Food companies

In Malaysia, similar to many Asian countries, undertaking case-study research is always difficult as data collection via lengthy interview is frowned on by most organizations even those that are foreign owned (Ragayah, 1999; Chia, 1996; Lecraw, 1981). The researchers therefore approached the Malaysian Industry Development Authority (MIDA) to provide an "introduction" to the foreign food companies operating in the country. A list of 16 such companies was provided. Eleven of these food companies agreed to be interviewed in Malaysia, in early 2006, comprising 68.75 percent of all the foreign food companies provided by MIDA. These respondent companies can also be categorized as follows: two foreign wholly owned subsidiaries (WOSs) and nine international joint ventures (IJVs). It is interesting to note that of 116 companies provided by MIDA, 12 were major global multinationals (Global Ms) operating from head offices relatively distant from Malaysia and the remaining four were minor regional multinationals (MRMs) with head offices relatively close to Malaysia.

Although the study initially set out to seek similarities of differences to venturing overseas by WOSs and IJVs, it was observed in the preliminary discussions with the respondents that while there seemed to be significant differences in the strategic and investment approaches between the closer MRM and the more distant Global M food companies in the respondent group, there were also interesting similarities in the performance outcomes between these two categories of multinationals. For example, among the four respondent MRMs, there were two IJVs and two WOSs. Although their investment bases seemed to be much lower than the other Global Ms they also enjoyed a high relative market share in their niche-markets. The Global Ms also enjoyed high market shares, but their investment levels seemed to be significantly higher. Some of the reasons for these similarities (in market share) and differences (in investment base) seemed (during the preliminary discussions) to stem from their relative size and the proximity of their home country base to Malaysia.The four MRMs also had a different approach to the ASEAN region than did the other Global Ms based in Malaysia. While many of the Global Ms had also set up subsidiaries and IJV s in other ASEAN countries, the MRMS had only the Malaysian organization as a foreign investment, and exported to the other ASEAN countries from their Malaysian base.

The objectives of the research study

Due to their basic strategies, companies venturing into foreign markets via IJVs have different characteristics to those venturing via WOSs. The initial objective of this study was to examine these differences in the strategic approaches more closely. However, significant differences in approach and similarities in outcomes were also observed in the preliminary discussions especially between Global Ms and MRMs. Therefore, researchers decided to modify and expand their research objectives by also comparing and contrasting the strategic approaches to venturing overseas between these two groups of multinationals.

Two testable propositions were developed from the above modified research objectives as follows:

P1: That there were significant differences in terms of value-addition, asset utilization, financial structure and regional exporting strategy between the Minor Regional Multinationals and Major Global Multinational food companies operating in Malaysia.
P2: That there were significant differences in the investment size to market share variables between the Minor Regional Multinationals and Major Global Multinational food companies.

Data were gathered from the 11 case studies, and the questions asked to the respondent companies were both structured and unstructured. All interviews exceeded two hours, some taking as much as six hours. The emphasis was on the dynamic processes involved in their strategic approaches to venturing overseas. The research follows a multiple-case, holistic design (Yin, 1994; Punch, 1998). Cases are examined against the models presented in Figures 1 and 2 to either confirm the conventional wisdom or explain reasons why there are deviations. The design follows a replication logic, whereby each case in analogous to a single experiment. Obtaining similar results across cases is like achieving similar results across a number of experiments, i.e. the results are replicated. When the results are not replicated, the researchers provide a theoretical explanation. If this result can be predicted and replicated under pre-specified conditions (e.g. exporting vs IJVs) then the theoretical explanation is confirmed (Yin, 1994). The balance of this paper proceeds with a discussion of the results of the structured interview results. This is followed by a discussion of the unstructured interview responses, especially in terms of the Global Ms in Malaysia. Comparisons are made between the MRMs and the Global Ms, especially in relation to the strategic objectives of such companies venturing to Malaysia. It is argued that the lessons learnt from these specific observations can be applied generally with regards to food companies venturing overseas to an Asian market.

The results: *The structured questionnaire results*

The discussions that follow will evaluate the responses to a structured questionnaire administrated at the time of the interview. Table IV provides an overview of the responses.

Table IV. Means and standard deviations for foreign food company respondents in Malaysia

	Global Ms (7)		MRMs (4)	
Variable	Mean	Std. dev	Mean	Std. dev
Sales ($millions – 2005)	91	109	352	264
Malaysian market sales (%)				
Percent of domestic sales (%)	63.17	36.61	85	17.32
Exports (%)				
Percent of export sales	36.83	36.61	15	17.32
Market share in Malaysia (%)	42.83	29.05	42.50	17.08
Growth rate in Malaysia	8.67	4.97	21.25	6.29
Percent of exports to ASEAN countries	11.67	2.89	16	5.66
Value adding in Malaysia (percent of total value)	61.5	34.68	76.25	14.93
Local equity (%)	38.5	37.99	21.75	27.43
Foreign equity (%)	61.5	30.26	78.25	27.43
Tptal staff (actual)	479	617	102	82
Total fixed assets (£millions)	39	47	2.12	0.53
Community expenses (£thousands)	215	507	3.12	2.4
Product life cycle (stage 1-4)**	2.57	0.535	2.25	0.5
Years of operation in Malaysia	20.57	11.93	6.5	7
International activity of parent company*** (Likert of 7)	5	2.828	6.75	0.5
Used local brands (number of responses)	6 (85.7%)	NA	4(100%)	NA
Plans to invest ASEAN (number of responses)	6 (85.7%)	NA	1 (25%)	NA

Notes: *Value adding constitutes raw materials (both imports and locally obtained in Malaysia), labour and overheads obtained in Malaysia; **PLC = Stage of product life cycle (1= introduction; 2=growth; 3= maturity; 4= decline); * Extent of international activities of the parent companies .A score of "1" being low level and "7" being extensive , were given respondents**

The key financials

Sales

Global Ms had the highest mean sales (USD 91 million), being more than 25 times that of the MRMs operating in Malaysia at the time. However individual percentage domestic sales to total sales ration of these MRMs within Malaysia was higher (85 percent). The Global Ms also had the highest percentage of export sales (36.83 percent) in the region, although their percentage of exports within ASEAN was on average lower than the MRMs based in Malaysia. Reasons for these differences are discussed later in this paper.

Fixed assets

On average, Global Ms had fixed assets which were close to 15 times (USD 39 million vs USD 2.12 million) higher than for MRMs. Companies tend to be more comfortable as they gain experience in a foreign environment. The Global Ms have been in Malaysia for very much longer than the MRMs (e.g. Nestle has been there since 1912) and this may explain their higher investment in fixed assets.Previous studies (Barney, 2001; Mahoney and Pandian, 2002) have suggested that high investment in fixed assets can be utilized as a competitive advantage because it forces competitors to follow a similar expensive route or risk being non-competitive. Production staff efficiency is one of the main areas that should provide some indication of effective utilization of companies' resources and competencies. The ratio of fixed assets to production staff as utilized in another study (Miller, 1997) has been adopted to measure the level of production efficiency between the types of food manufacturers. The utilization of ratio for fixed assets to number of staff controls for size (although size investment differs), and the results in Table IV suggest that both sets of food companies have utilized their fixed assets in a similar manner.

Equity

The rationale for investment in equity follows the same arguments as for fixed assets. From Table IV, it can be seen that there is a significant difference between the MRMs and Global Ms in terms of foreign and local equity percentages. However the debt to equity ratio was similar for both companies.The MRMs had a lower percentage of domestic equity and higher percentage of foreign equity when compared to the Global Ms in Malaysia. This can be attributed to the fact that there were two IJVs and another two WOSs, and the average percentage of domestic equity would have been diluted by the equity for WOSs (no domestic equity).There was a higher level of equity in terms of a total investment by the Global Ms, which showed a more long-term commitment by them. This long-term strategy was mentioned in some of the unstructured interviews as an illustration of the differing strategic visions of the "Dominators" as compared to the "Achievers" (see Figure 2).

Local inputs and value-adding

McMaster (2002) highlighted that 50 percent of the total wheat exports from Australia to Malaysia were value-added by the noodle industry in Malaysia. An Australia-American joint venture (Simplot Australia, formerly Pacific Dunlop's food division) planned to improve market share in Asia by adding value and rejuvenating its existing products to suit "Asian Palates" (Jarrett, 2006). It was also mentioned by this company that producers who did not adapt and value-add to their products would not utilize the market's potential. Therefore, it can be concluded that for companies to be successful in niche markets, value-adding and adapting to tastes, preferences and culture must be carried out. One of the major issues for the MRMs was however, that there are no appropriate raw materials available in Malaysia (due to climatic conditions) for manufacturing types of food products sold by the multinationals.

While the logic of value-adding is apparent, the dominance of the large food MNCs in Malaysia may also indicate the existence of a "Cross Cultural Palate" or an "International Palate" as the same food product seems to dominate in all countries around the world (for example, "Nescafe" by Nestle).The MRMs had a higher level of local value adding (76 percent) than the Global Ms (see Table IV). From the unstructured interviews, it became apparent that both MRMs and Global Ms in Malaysia utilized local labour and locally sourced buildings, plant and machinery for manufacturing and packaging the food products, while raw materials were mainly imported from their respective home countries.Value-adding in this study does not include inputs from multinational companies in terms of finished goods, or raw materials from home country or other overseas subsidiaries. The findings indicate that the MRMs utilized more local resources than Global Ms. Interviews with the Global Ms on the other hand confirmed that they had a standard resource allocation formula in providing semi-finished products to each of their overseas subsidiaries. This would have attributed to their lower level of value-adding in Malaysia.

Community expenses

From a societal standpoint, the Global Ms had the highest commitment in terms of community expenses. They spent on average about USD215 thousand for community expenditure. Notes from the unstructured interviews show that this was spent on projects pertaining to education, building of parks, recreation centres and sponsoring special events. These expenses helped companies to build closer ties with the local community. There is a significant positive correlation between sales and community expenses among the Global Ms in Malaysia. Such a correlation is to be usually expected because many companies set community expenditure budgets on a percentage of sales basis.

The foreign venturing strategy

International focus

The MRMs' home country offices had high levels of international focus in their activities, and this was confirmed by their high average of 6.65 out of seven on a Likert scale in terms of valuing the importance of such activities (see Table IV). The MRMs had parent companies that were proactive in international markets, suggesting that it was the constant interaction with the international market that helped them realize the opportunity in the Malaysian market and also the ASEAN region as a whole.

Exports within region

The MRMs also had the highest percentage for exports within the ASEAN region (16 percent) among the food companies in this study (see Table IV). However, in terms of dollar value of exports, it was very much lower for MRMs. Although the Global Ms had a smaller percentage of exports (12 percent) within the ASEAN, this was based on a very much higher total sales value and therefore the Global Ms had higher absolute exports to the ASEAN region compared with the MRMs.

Since the MRMs had a higher overall percentage of exports within the ASEAN and also higher percentage of domestic sales, it is appropriate to assume that these companies chose to not only take advantage of the local Malaysian market, but also to capitalize on accessing ASEAN's opportunities from Malaysia (i.e. exporting). The lack of finance for investing in other ASEAN region countries by the MRMs may have prompted them to strategically plan for building a marketing base from Malaysia. This was supported by their view of investing directly from their home country in other ASEAN countries; only one of the four MRMs had any intentions of such an investment. These companies would rather carry on operating from Malaysia and consider it as a "window" into the ASEAN market rather than make any direct capital commitments in other ASEAN countries. By the same token, the overall low percentage of exports to other ASEAN countries by the Global Ms is probably because some of them are already operating subsidiaries in other ASEAN countries.

The key marketing variables

Age in market

The Global Ms have been in the market very much longer than the other companies (20 years on average) and this long-standing position in the market has given them the competitive advantage of having both the highest market share and highest sales. Conversely, MRMs had been operating in Malaysia for less than a decade (an average 6.5 years).

Market share investment

MRMs operating in Malaysia had the highest market share for their respective food products, and their success would show that other MRMs do have a considerable future for growth in Malaysia. MRMs also have the opportunity of having local Malaysian companies manufacture their food products under licence in Malaysia. This enabled MRMs to capitalize on Malaysia's food consumption, which grew at an annual rate of 6.4 percent per annum between 1999 and 2002 (Gude, 2003). Some generalizations regarding investment size and relative market share pertaining to the respondent groups are shown in the matrix in Figure 4, which is based on the categorizations illustrated in Figure 2. Figure 4 shows that all the MRMs fell into the "Achiever" category and all the Global Ms fell into the "Dominator" category. It can be seen from Figure 4 that there were no "Beginners" and "Divestors" from among the respondent companies. This could be purely a function of the sample, rather than the adequacy on the model. The model therefore remained untested, but not unproven. Further testing of the model required unstructured interviews, the results of which are reported in the next section.

The unstructured interview results

Foreign investment strategy

Table V provides the reasons given by the two categories of respondents for choosing Malaysia (with respective frequency) presented in a descending order of importance. From Table V, it can be seen that the main reasons for both Global Ms and MRMs investing in Malaysia are market demand and growth potential for their products. In the question relating to reasons as to why these companies investing in Malaysia, it was indicated that a majority of these companies went to Malaysia to capitalize on the country's growth potential. However the Global Ms had higher percentages in terms of their companies global expansion plans, the utilization of Malaysia as a window into ASEAN, and the utilization of Malaysia's excellent infrastructure. These major reasons (above 50 percent responses) for investing in Malaysia are supported in other studies for different regions (see Agarwal and Ramaswami, 2002; Dunning, 1993; Kojima, 1995; Kumar, 2004). It is worth noting that although the MRMs regarded Malaysia less as a window into the ASEAN, they did use it as such after they got established in Malaysia.

Figure 4. Marketing – Finance foreign investment matrix

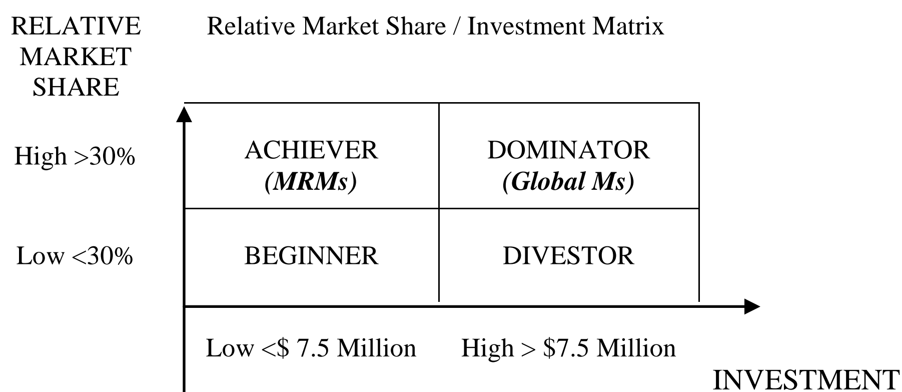


Table V. The rationale for foreign MNCs investing in Malaysia

Reason for choosing Malaysia	MRMs %	Global Ms %
Malaysian market demand for the goods	100	75
Vision of parent company and global expansion into the region	25	71
To use Malaysia as a window into the ASEAN	25	57
Malaysia's excellent infrastructure	25	57
Availability of educated, English speaking and good quality workforce	25	57
Corporate policy for investment in the region	25	50
Competitive cost of labour	-	43
Malaysia's growth potential in the region	50	42
Accessibility to raw materials	25	29
Low production costs	-	28
Malaysia's political stability	-	14

The Global Ms did not consider political stability, access to raw materials, and low production costs as major reasons for investing in Malaysia. Malaysia's market forces outweighed the supply factors for Global Ms choosing to invest in Malaysia. Finally, care must be taken in interpreting the results due to size differences between Global Ms and other food companies (MRMs) in this study. Empirical results of this study do not explain the practical issues regarding structure, procedures and resource allocations for large and small food manufacturers.

Mode of entry

The typical mode of entry for Global Ms was as international joint ventures (IJVs). None of these Global M companies were wholly owned subsidiaries (WOSs), and they had the benefit of having both local and foreign investors.

The foreign component may have assisted with introduction of new product development, maintaining standards, and research and development assistance. The local partner assisted with the running of the day-to-day operations in the light of local environmental changes (including local legislation), and providing a "hands on" approach with local market needs and development. Apart from the above, close to 85 percent of this companies had intentions to invest in other ASEAN countries. Gomes-Casseres (1999) reported that restrictive host country policies have strongly encouraged US firms to establish joint ventures. These restrictive policies include host requirements for prior government approval and mandatory requirements on the level of domestic equity. It was unclear from the responses in this study as to whether these foreign companies were subject to such restrictions from the Malaysian government, or was given special exemptions. Tin (2000) has suggested that most Asian governments require local equity participation in foreign investment projects, and that local investors have been encouraged to take up the majority of equity interests in the business. In terms of local participation via employment, the Global Ms had the highest number of total staff (479 employees on average) in comparison with the other food companies, and the highest percentage of domestic equity (38.5 percent), while the MRMs had only 21.75 percent (see Table IV). There was a strong view from among many respondents that the Global Ms had joint ventures in Malaysia due to being located in an unfamiliar region, coupled with less R > D investment intensity, and with restrictions in the host country. This effect has also been highlighted in the literature as follows:-

"Japanese firms generally prefer full ownership to shared ownership for their foreign affiliates when:"

(1) the affiliate is located in a more familiar host country;
(2) the investing firm is more R > D intensive; and
(3) they invest in less restrictive host countries (Padmanabhan and Cho, 2006, p. 16).

Product modifications

The MRMs had localised their brand names for all their products sold in the domestic market. This indicates that they had made adaptations to their products to meet the local market demands. Failure to make product modifications to domestic market conditions has, in some cases, resulted in loss of market share, and this was experienced by General Mills with respect to Betty Crocker cake mixes in the UK (Henkoff, 2003).

"Adapting products to local taste is essential. There are very few foods that sell uniformly across Asia (Selwyn, 2001, p. 28)."

Again, Nissan Food, a leading Japanese food company operates in their overseas markets as follows:

"The company pays close attention to local tastes. In India, its products are spiced with curry, while in the US, they are packed with short noodles so they can be picked up with a fork. It also carefully monitors the product cycle, introducing newer, more expensive products as markets mature (Friedland, 2003, p. 47)"

Promotional strategy

A general view emerged that the MRMs did not spend enough on promotional support when new products were launched. The lack of promotional support was also highlighted in the interviews of Global Ms which as a group provided significant promotional support for their new products in the Malaysian market. The Global Ms believed that one of the fundamental methods of increasing market share for food products in overseas markets is by way of spending more on product promotions and market research (see also Akoorie et al., 2003). An excerpt from a publication on Australian Agri-food Industries' potential in the Asian marketplace notes the following:

"Asian buyers see Australians as passive marketers in an environment dominated by aggressive competitors. Australia's competitors gather for more market intelligence and implement aggressive marketing programmes. Face-to-face contact between Australian firms and Asian buyers, such as regular visits and participation in trade shows, is minimal. There is a need for Australian suppliers to increase their presence in the marketplace if Australian firms are to reap benefits of proximity to Asia (Frank Small and Associates, 2005, p. 2)"

Political factors

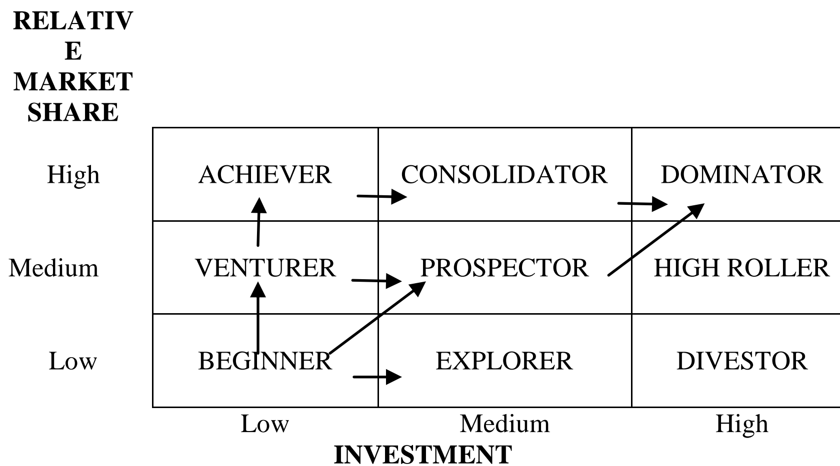
Although the MRMs were subsidiaries or partners of large food companies' headquarters in countries with close proximity to Malaysia, they did not invest large amounts in Malaysia (see Figure 4). This may stem from a perceived fear of expansion of operations in Malaysia due to periodic tensions in the political relationship between the countries in the region (see for example: Lague, 2001; McNicoll and Marris, 2003; Murdoch, 2003; Stewart, 2003).

Stringent control on equity requirements by the host country may also have discouraged the formation of regional IJVs (see Beamish and Banks; Contractor, 1994; Dunning, 1993).

Investment – market share strategies

As shown in Figure 4, the unstructured interviews showed that firms that are “Beginners” could either focus on a strategy of low investment (often with the help of local joint ventures) to achieve relatively high market shares within a small market niche or decide to invest more financial resources in the host country and aspire to “Dominator” status. It was also recognized by the respondents that there are various intermediate stages in moving from a “Beginners” status to either that of an “Achiever” or “Dominator”. Some of these intermediate stages give adequate returns in terms of risk and investment, such that the four-way dichotomy as shown in Figure 2 can be expanded to a nine way matrix as shown in Figure 5. Some organizations may have a linear growth in their investment/market share ratio (i.e “Beginner” – “Prospector” – “Dominator”) while other may follow a pattern of “Beginner” – “Venturer” – “Achiever” – “Consolidator” – “Dominator”. Still others may be forces into other considerably riskier options, such as “Explorers” and “High Rollers”. The ultimate sacrifice is to become a “Divestor”.

Figure 5. Relative market share / investment matrix (expanded version)



During the unstructured interviews, especially with the MRM respondents, it emerged that the possible investment – market share strategies were significantly more complex than the four – way matrix depicted in the conventional literature (see Figure 2 and 4). Many “Beginner” companies entering foreign markets via IJVs restricted further investment to only the promotional area, i.e. “Venturing” out and testing the competitive waters only through advertising. Some of these companies achieved improved market shares, leading ultimately to obtaining high returns on a relatively low investment-base (especially as advertising budgets are usually taken as an expense in the year incurrence). Such “Beginner” companies became “Achievers” via the “Venturer” route.

If only modest market share gains were achieved by such promotional strategies, then the “Beginner” company became a “Prospector”, i.e. a decision was needed if to invest further to strike “gold” in terms of high market shares. Such further investments were restricted to still more promotion, or investment in the other marketing-mix variables such as the ‘localisation’ of the product, the use of local inputs and value-addition, and the setting-up of distribution channels. These strategic alternatives often required fixed capital investment. Companies that continued to invest in a foreign country, without high market share gains on the other hand, acted like “high rollers”, waiting for that elusive jackpot.

If any market share gains were achieved via a “Beginner’s promotional efforts, then the foray into the foreign markets was seen as an “exploration”, often resulting in abandonment of divestiture. However, some foreign companies continued to invest in more promotion, and even more fixed capital, hoping to achieve market share gains and (at least) “Prospector” status. One “Achiever” status had been arrived at, firms needed to decide if to remain “small and nimble” by concentrating on only a few market-niches, or “Consolidate” their market share gains by growing in size via further investment of fixed capital, the ultimate aim being to achieve “Dominator” status.

Conclusions

Discussions in this paper confirm Proposition 1, i.e. that the Global Ms have significantly higher levels of fixed assets, higher market share, higher total, and foreign equity than MRMs in Malaysia. The higher level of commitment of fixed assets and foreign equity together with a higher market share indicates that the Global Ms seem to be more settled in Malaysia than the MRMs. These results were, to a large extent, expected. Interestingly however, the MRMs had higher value-adding of local Malaysian components in comparison to the MGMs in this study. Further, although in US dollar terms, Global Ms exported more than MRMs (USD 10.62 million compared to USD 1.92 million); by controlling for size, and when export sales to ASEAN are expressed as a percentage of total sales, then it was seen that MRMs exported significantly higher percentage of sales within the ASEAN region. These MRMs in Malaysia seemed to be utilizing the country as a window into ASEAN, one reason being that their financial resource base was inadequate for direct investment in other ASEAN countries. In many cases the Global Ms already had their presence via joint-ventures or subsidiaries in other ASEAN countries, a factor which would have contributed to their lesser percentage of export sales. This confirms the investment attitudes of “Dominators” and “Achievers” (see Figure 4).

This view further confirms the findings of PIMS/BCG studies which have indicated the role between market share and investment (Buzzell and Gale, 1997; Buzzell et al., 1995; Buzzell and Wiersema, 1991; Henderson, 1999). A possible option for these “Achivers” was to achieve even higher levels or relative share with only minimum increase in focused investment, especially in promotion (i.e. to become “Consolidators” and then “Dominators”). This paper also confirmed Proposition 2 that there were significant differences in the investment size to market share variables between the MRMs and MGMs and the results also suggested that the two-by-two “Relative Market Share/Investment Matrix” should be expanded to a nine way matrix to introduce new strategies that were discovered in the study in relation to relative market share and investment. The interviews highlighted for example the view that MRMs have the potential to become “Consolidators” and “Dominators”, but that this potential has been hampered due to lack of resources and their reluctance to invest (see Figure 5). These companies are in danger of experiencing loss of market share as suggested by Jarret (2006), and having to divest from the Malaysian market.

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