

Internationalisation of MNCs from Developing Economies: Case of Malaysia

Syed Zamberi Ahmad* and Fariza Hashim**

Internationalisation is a process that MNCs have to engage in becoming global players. This process enables them to be mature in their operations in foreign markets and strengthen their competitive position abroad. The current trend has witnessed the surge of MNCs not only from developed nations but also from developing nations that actively involve in the global economy. The process of internationalisation take place among MNCs from developed economies are also experienced by firms from developing economies, however the pattern of the process is slightly different. This study explored the internationalisation process of MNC from Malaysia, namely TM Berhad, a leading telecommunication company in the country. Its motives, expansion strategies and entry mode chosen in setting up its operations abroad are deeply analyzed. This study discovered that internationalisation process that Malaysian firm experienced is not similar to the internationalisation process that are discussed in the literature which were based on firms from developed economies. TM as a government linked firms internationalise by utilizing its ownership advantages as other MNCs, but the efforts were more driven by opportunities and government linkages rather than other factors.

Field of Research: Developing countries, Malaysia multinational.

1. Introduction

Internationalisation is an utmost important factor for firms to grow and develop economically and technologically. Firms from developing countries nowadays are also actively participating in foreign direct investment to reap the benefits of globalisation. Developing countries multinational corporations (MNCs) are becoming important in the global economy as their foreign direct investment becomes remarkable in recent years. In 2004, Asia and Oceania contributed more than four-fifths of outward FDI from developing countries (UNCTAD, 2005). This phenomenon reflects that developing country Asian firms have succeeded in global market places, and have elevated its status from

* Dr. Syed Zamberi Ahmad, Senior Lecturer in International Business and Entrepreneurship, Department of Policy and Business Strategy, Faculty of Business and Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia. Email: szamberi@um.edu.my

** Dr. Fariza Hashim, Senior Lecturer in International Business, Faculty of International Studies, Universiti Utara Malaysia, Malaysia Email: fariza@uum.edu.my

domestic market players to become global players. Singapore-based firms for instance are expanding their business opportunities to the global market and Malaysia is following this trend, increasing its presence remarkably not only in Southeast Asia but also other parts of the world. Rapid technological change, economic integration, convergence of consumer tastes and increased worldwide competition are among factors that motivate Malaysian firms to engage in internationalisation process. Malaysia was at 32nd position for the periods of 2003-2005 among the 128 economies worldwide (UNCTAD, 2006). This indicates that the Malaysia's participation in outward foreign direct investment in the global market is apparent and significant. Hence, there is an important interface between the micro level (firm specific) issues and the macro level (country specific) issues in Malaysian firms' internationalisation.

2. Malaysian MNCs and Investment

Currently, flow of outward direct investment from Malaysia has increased significantly, reflecting the emergence of a growing cohort of Malaysian multinational companies. In terms of the host economies for Malaysian investment abroad, Singapore was the largest recipient during 1992-1996. After the 1997 crisis, the United States emerged as the largest host economy for the period of 2000-2001. At present, the share accruing to other ASEAN economies has also increased, over time. Within ASEAN, beside Singapore, Indonesia also received an increasing share of Malaysian investment until 1996. Overseas investment from Malaysia was led by the oil and gas and service sectors, followed by the manufacturing, agriculture and construction sectors (Asia Pacific M&A Bulletin, 2005). A government-linked corporations (GLCs), Petroliam Nasional Berhad (Petronas), was named as one of the top 50 non-financial MNCs from developing countries including FELDA, KL Kepong, Kumpulan Guthrie Berhad and Sime Darby Berhad. Investment in manufacturing were largely for the manufacturing of fabricated metal products, machinery and equipment (including electronic and electrical products), palm oil, wood and wood-based products.

The study on firms' internationalisation process within the Malaysia context is significant from a number of perspectives. First, there is limited studies conducted on internationalisation of Southeast Asian firms, most of the studies did not represent phenomenon of Malaysia. Second, the Malaysia economy as in other developing countries is driven by firm business operations and therefore, governments within these countries are keen to grow and expand its internationalisation potential (Sim, 2005). Third, Malaysian firms are growing at fast rate and they are viewed as vehicles of innovation, employment, social and cultural regeneration (Tham, 1998; Ragayah, 1999 and Sim, 2005). Hence, this paper attempts to explore the emergence and evolution of Malaysian pioneer telecommunication

multinational – TM Berhad. This study focuses on the evolutionary pattern of this corporation.

3. Background of Industry and Firm (TM Berhad)

The telecommunications industry is typically considered as consisting of two main elements: the provision of services or network operators, and the supply of equipment. In the Malaysian telecommunications industry, the strongest and most influential domestic telecommunication firms are fixed-line and mobile network operators (Interview: 11 October 2004). Equipment manufacturers play a relatively restricted role compared to service providers.

The country's telecommunication sector has undergone consolidation with the original eight telco players subsequently being reduced to four companies, namely, Telekom Malaysia Berhad (TM Berhad), Maxis Communications Berhad, DiGi.Com Berhad, and Time dotcom Berhad. The consolidation was made due to the financial crisis that swept through Southeast Asia in 1996/97, when concerns over market saturation and infrastructure duplication with large-scale debt and negative equity hit the industry (Salazar, 2004). Consolidation was also made due to merger and acquisition of some firms to strengthen their position in the domestic market. Among the four telcos, TM Berhad remains the most internationally active, with the furthest international reach. In the event of empirical research, TM Berhad has operations and financial interests in 11 countries namely Sri Lanka, Bangladesh, South Africa, Malawi, Guinea, Cambodia, Ghana, Thailand, and more recently is India, Pakistan and Indonesia (Interviews: 5 October 2004; 11 October 2004).

In domestic market, the key operating revenue derived from fixed line businesses and cellular operations, data services, Internet and multimedia. TM Retail which began operations in July 2004 (formerly known as TM Telco) is a core business unit of TM. It responsible to manage and operate fixed line telephony and data based products and services in the country. Apart from building its domestic expansion and being less reliant on the competitive local market, TM has spread its wings and invested in several international projects. The group has taken further steps to raise overseas investment to contribute to group earnings. In line with TM's vision of becoming a global communications player, TM International Sendirian Berhad (TMI) was established in June 1992 as a subsidiary for international investment and managing the overseas investment activities. With the establishment of TMI, TM Berhad has some assurance of the effective management of its international investments, thus maintaining high standards of operation and management in the interest of value creation for the group. TMI aims to strategically expand internationally and capitalize opportunities in emerging markets, particularly in Asia and Africa.

3.1. Internationalisation Theories and MNCs

The Uppsala model of internationalisation indicates that firms exhibit an evolutionary process, gradually internationalising in an incremental manner through a series of evolutionary 'stages' (Johanson and Vahlne, 1990). Firms were presumed to begin their international activities via exporting by targeting 'psychically close' countries, and through confidence, accumulation of business knowledge and acquisition of international experience, firms committed greater resources and begin to target countries more 'psychically distant'. The Uppsala model emphasised the importance of gaining knowledge and experience about the characteristics of foreign markets along the internationalisation path, leading to reduced levels of uncertainty in unfamiliar foreign environments before investing. This 'stage' view of internationalisation has found support in the international expansion of firms from developing countries (see for example, Wiedersheim-Paul et al., 1978). The need to accumulate knowledge and experience through the learning process become more logical for developing country MNCs where lack of superior technology seems to be the biggest disadvantage in their internationalisation process.

Although the internationalisation theory provides a plausible explanation and has been respected as axiomatic in explaining the internationalisation expansion of firms, the theory has weathered various criticisms and disagreements. The main limitation is the small number of cases in the pioneer study of internationalisation process of firms; as a result, the findings are confined to the Scandinavian environment only. Zander (1994) stressed that some firms, especially those with large resources, do not necessarily follow any consistent pattern in their international expansion. Firms can 'leap-frog' stages and transfer learning from one market to another (Benito and Gripsrud, 1992). Zahra and George (2002) and Anderson (1993) further added that the popularity of the concept is inconsistent with empirical and theoretical evidence. On the theoretical level, Reid (1981), Strandskov (1986), and Turnbull (1987), criticised the theory as being too deterministic and mechanistic in nature, in the sense that it assumes that the progress of internationalisation is in linear fashion from one stage to another. Indeed, the model has been accused of being descriptive rather than explanatory (Turnbull, 1987). Anderson (1993) on the other hand made the criticism that the theory failed to take other firm-specific factors into account. Moreover, there is no attempt to explain the mechanism by which a firm proceeds from one stage to the next. Recent empirical findings show that firms are in a particular 'state' of internationalisation which can be subject to both backward and forward momentum, instead of progressing in an incremental fashion through stages (Burgel and Murrey, 2000).

Researchers have provided further empirical evidence that shows that firms do not always start with occasional exporting and ending up with a production facilities abroad (Hedlund and Kverneland, 1985; Oviatt and McDougall, 1994). The theory also explains the current behaviour of firms in the dynamic business environment insufficiently, i.e. the impact of global economy, and high technology (Axinn, and Matthyssens, 2002). Hirsch and Meshulach (1991) further argued that in explaining the internationalisation process, the Uppsala model focuses more on the firm's internal resources (market knowledge and experience from foreign activities), and completely ignores other external factors such as market potential and competitive conditions. Blomstermo and Sharma (2003) have pointed out that there is a lack of operationalisation of important dimensions in the related theory. Thus, many of the basic assumptions about the process remain controversial, untested, and largely un-investigated. This point was similarly stressed by Christensen (1991), Johanson and Vahlne (1990), and Bonaccorsi (1992). According to Hadjikhani (1997), critiques of the internationalisation process can be divided into two groups: first, concerning the empirical validity of the stage theory, and second, concerning the theoretical underpinning of the model. Finally, the argument against the stages process stems from the emergence of the 'born global' firms theory as proposed by Oviatt and McDougall (1994). According to the 'born global' theory, growing global competition and accelerating technological development are now forcing firms to internationalise more rapidly (in some cases from the beginning) without necessarily following an incremental process. These firms are, by theoretical definition, international (or 'born global') almost from inception (Madsen and Servais, 1997).

However, despite the various criticisms cited, it is important to note that the internationalisation process theory remains a valuable reference when investigating and examining the internationalisation process of nascent MNCs from developing countries, most of which are small and new to the international business environment. Their internationalisation expansion – at first glance – apparently does depend on knowledge gained and experience of foreign markets. Thus, an understanding of extant theory is required as these firms do follow a similar developmental approach – a gradualist relying on internationalisation knowledge and experience, and also technological competence in their growth and expansion. However, there is still a paucity of literature in relation to multinational corporations (MNC's) emerging from developing or underdeveloped nations. Plainly, these companies tend to be few and far between hence a research approach using qualitative inductive methods seems to be a prerequisite in researching issues connected with nascent MNC's.

4. Methodology

This study employs a case study research method to examine a single firm's learning and internationalisation process. The research design requires an exploratory case study drawing upon multiple units of analysis (Yin, 1994). The main data collection method was a series of in-depth interviews with senior managers in order to develop the case study as relying on a single source of information would be inappropriate. Therefore multiple sources of evidence, including both primary and secondary data, including internal unpublished documentation, internal brochures, archival records, internet web sites, company annual reports, company newsletters, newspaper clippings, magazines and other sources (published and unpublished materials) (Punch, 1998; Yin, 1989) were also collected in order to construct the case and to increase validity.

5. Research Findings

TM Berhad expansion has been restricted to countries with which the Malaysian government has good or at least neutral relations. TMI's strategy is to target emerging high growth markets with low penetration rates (Interview: 1 October 2004). Most of TM's international investments were made in the mid-1990s. They were initially prudently restricted to markets nearer home. The relative proximity and in most cases a cultural affinity provides some comfort (Interviews: 5 October 2004, 11 October 2004). To date, TMI has investments in South Africa, Guinea and Malawi in the African continent. Nearer in the region are Bangladesh, Sri Lanka, India, Cambodia, Indonesia and Thailand. This evidence shows that the technology of TM consists of assimilating and adapting foreign technologies rather pushing back the frontiers of knowledge. At the time of conducting the empirical research in the organisation, TM Berhad had investment in 11 countries. However, based on 2006 data from TMI, there are several new investments were made. Table 1 shows details of TMI's international investments. Most of the projects initiated were in the region and in collaboration with the dominant local partners, thereby establishing a strong regional presence.

Table 1:
TM International Investment Ventures (Subsidiaries and Associate Companies)

Company	Country / Year Incorporated	Type of Investment / Business Networks	Partners / Alliances / Ownership (%)
Societe Des Telecommunications De Guinee (Sotelgui s.a.).	Republic of Guinea (December 1995)	Joint Venture (with local Government)	Strategic partnership: 40% - Government of Guinea to form Sotelgui s.a (national telecommunication operator); 60% - TM
Ghana Telecommunications Company Limited (Ghana Telekom)	Ghana (Feb 1997)	Shareholder (with local Government and local partners)	Purchase of equity: 70% - Government of Ghana 30% - TM
Telkom SA Limited (TSA)	South Africa (May 1997)	Joint Venture (with foreign partners and Government of South Africa)	Joint with US-based South Western Bell Corp (9%) via Thintana Communications LLC to acquired TSA (total 15%); 6% - TM
Dialog Telekom Limited (formerly known as MTN Networks (Private) Limited (MTN))	Sri Lanka (February 1994)	Shareholder	TM majority shareholder in MTN Networks (Private) Ltd (100%)
TM International (Bangladesh) Limited (TMIB)	Bangladesh (October 1995)	Joint Venture	30% - AK Khan & Co. Ltd (a leading Bangladesh business group) 70% - TM
Samart Corporation Public Company Limited (SAMART)	Thailand (June 1997)	Joint Venture	Stake (19.22% of TM) in Samart Corporation Public Company Ltd.
Cambodia Samart Communications Co. Ltd. (CASACOM)	Cambodia (May 1998)	Shareholder	Partnership with Samart Corp. Public Co. Ltd from Thailand (100% - TM)
Telekom Networks Malawi Limited (TNM)	Malawi (January 1995)	Joint Venture	40% - Malawi Telecommunications Ltd 60% - TM
PT Excelcomindo Pratama (Excelcomindo)	Indonesia (January 2005)	Shareholder	59.7% - TM, 16.8% - Khazanah, 7.4% (AIF Indonesia Ltd), 16.0% (PT Telekomindo Primabhakti), 0.1% (Employees & Public)
MobileOne Limited	Singapore (August 2005)	Joint Venture	29.79% - SunShare. Sunshare Investments Ltd is a consortium in which TMI holds 80%; Khazanah 20%

Table 1 (*continued*):
TM International Investment Ventures (Subsidiaries and Associate Companies)

Mobile Telecommunications Company of Esfahan (MTCE)	Iran (December 2005)	Joint Venture	Agreement between TMI and Technology Resources Industries – to transfer MTCE equity from TRI to TMI
Multinet Pakistan (Pvt) Limited (Multinet)	Pakistan (February 2005)	Joint Venture	78% - TMI, 22% - local investors
Spice Communications Private Limited	India (March 2006)	Joint venture	49% - TMI; 51% - Mcorp Global

Source: *TM International, 2006*

The first international investment of TMI began in 1995, when the group expanded its operations internationally in the Sri Lankan market. MTN Networks (Pvt) Limited (MTN) was set up to establish, operate and maintain the GSM cellular services utilising the 900 MHz frequency band. The Government of Sri Lanka awarded the licensing agreement to the TMI for a period of 18 years until 2013. The success of the early international venture motivated the group to pursue its international expansion activities vigorously during 1995-1997. In December 1995, the group formed a strategic partnership with the Government of Guinea (GOG) to form Societe Des Telecommunications De Guinee (Sotelgui S. A). Telekom Malaysia acquired 60% equity in Sotelgui S.A, amounting to a value of US\$45 million, while GOG owns the remaining 40%. The investment is focused on Government-to-Government collaboration (Interview: 11 October 2004). However, in December 2005, TM Berhad has announced to draw its investment in Guinea in relation to group strategy to more focus in ASEAN countries.

In the following year, TMI expanded its operation in Calcutta, India, holding a 37.7% share in Usha Marting Telekom Limited. Having begun its operation in September 1995, the group was given a licence to install and operate a GSM cellular network in the country under the brand name, COMMAND. The stake, however, was sold in October 2000 for US\$130 million, to Hutchinson. The main reason for Telekom's withdrawal from India was the restricted coverage given to it, which, as a result, would have capped its growth (Interview: 1 October 2004, Malaysian Business, 1 August 2004). Another investment of TMI in the African continent is in Malawi. The group formed a joint-venture company with the Government-owned Malawi Telecommunications Limited (MTL) in 1995 to form Telekom Networks Malawi Limited (TNM). Telekom Malaysia holds 60% equity while MTL holds the remaining 40%. The rationale for investment of the group is in line with the Malaysian Government's call to local companies to form strategic alliances with foreign parties (Padayachee and Valodia, 2002). In 1996, the group further expanded its ventures to

Bangladesh where TMI and A.K Khan Group (a leading Bangladesh Business Group) entered into a joint venture to form TM International (Bangladesh) Limited (TMIB). The former holds a 70% stake in this joint venture while the latter holds the remaining 30%. The company commenced commercial operations in November 1997 and was granted a 15-year license, renewable annually thereafter, to develop and operate an extensive nationwide Dialog GSM cellular service on 900 Mhz frequency band in the country, under the brand name AKTEL.

The group's international ventures to Thailand began in 1997 when the company acquired a 24.99% stake in SMART Corporation, a public listed company in Thailand. It also bought a 33.33% in Digital Phone Company (DPC), a Smart subsidiary for US\$135 million (RM337.5 million) with the commitment to buy new DPC shares at US\$45 million (RM112.5 million) to bring the total stake to 40%. TMI's principal partner in Smart is the Vilailuck family, one of the country's successful entrepreneurs, with a 48.73% shareholding in the company. The partnership is the first step in creating a regional telecommunications infrastructure to rival all others in the global market (The Edge, 16 June, 1997). Similar to India, the group's investment in Thailand with DPC was disposed of in year 2001 for US\$245 million, resulting in an exceptional gain of RM827.8 million for the group. This was due to the nature of the competitive markets and restricted coverage given, which limited opportunities to expand in that country (Interview: 5 October 2004). The major and most profitable international project made by the group was in South Africa. The investment took place in 1997. TMI invested in Telkom South Africa (TSA) through its consortium with South Western Bell Corporation (SBC Communications Inc.) of the United States through Thintana Communication LLC. The purchase of a 30% stake in Telekom SA Ltd by TM is reported to be closely linked to the Malaysian utility's policy of investing in developing countries to overcome competitive pressures in its own domestic telecommunications industry. It is the largest investment in Africa by a Malaysian company (Business Report, 27 March 1997).

TM's investment in South Africa may be part of a strategy to further penetrate the African continent. Telkom SA Ltd and TM are seeking to expand in Africa, where telecommunications privatisations are under way in Uganda, Senegal, Cote d'Ivoire, Ghana, and the Democratic Republic of Congo (Business Day, 17 September 1997). As strategic equity partners, the two companies jointly hold a 30% stake in TSA. By June 2004, the company reported an exceptional gain of RM 640 million from the partial sale of its stake in Telkom SA South Africa. Thintana disposed of a 14.9% stake in Telkom SA comprising 82.99 million shares for 6.06 billion rand (RM3.54 million). With the stake sale, Thintana's interest in Telkom SA has been reduced from 30% to 15.1% (Interview: 1 October 2004; The Star, 22 Jun 2004). Thintana is 60% owned by SBC and 40% by TM. Therefore, Telekom's effective stake in Telkom SA Ltd was reduced from 12% to 6% (Interview: 1 October 2004).

Telekom's portion of the sale was 33.19 million shares, amounting to 2.42 billion rand (The Sun, 21 Jun 2004). On 15 November 2004, TMI sold its remaining 6% to South African Black Empowerment Consortium. The disposal resulted in an exceptional gain of RM1, 515.2 million for the financial end 2004 which contributed to the group profit. When TM first announced its intention to reduce its stake in the South African company, it raised some doubts, as the latter was achieving excellent results. However, it is believed that the move signalled a strategy to move away from a market reaching saturation point and reallocate investments to areas that promise higher growth potential. The partial disposal is in line with Telekom's move to consolidate its strategic investment overseas and focus on markets closer to Malaysia, especially in the Asia-Pacific region (The Sun, 21 Jun 2004). Moving to the Asia-Pacific region would be a positive step for TM considering the good growth potential in those countries (Malaysian Business, 1 August, 2004).

Apart from South Africa, Malaysian Telekom also bought a 30% stake in Ghana Telekom in 1997. TM was part of G-Com; a consortium (which includes African Communications Group, Western Wireless and Ghana National Petroleum Company) led by the Telekom group and the Government of Ghana (70%). The group acquired 30% equity in GT for US\$38 million in February 1997 governed by a Stock Purchase and Sale Agreement. GT had been a profitable telecommunications provider even before its privatisation. The company recorded a profit of US\$14 million in 1997 and US\$3 million before the privatisation (Malaysian Business, 1 August 2004). In August 2000, TM signed an agreement to acquire an additional 15% for US\$100 million. The investments in Ghana, however, did not meet expectations, and in July 2001, only four and the half years after the start of operation, TM lost management control in GT after the Government of Ghana 'unilaterally terminated' the employment contract of the managing director and appointed an interim management committee to oversee day to day affairs. Telekom's management of GT became a contentious issue during the elections and the contract was not renewed when it expired in February 2002. The new government under the New Patriotic Party led by John Kufuor had chosen Norway's Telenor to replace Telekom Malaysia as the strategic investor to improve GT's network. In late 2002, Telekom withdrew its investment in Ghana, 'as it can no longer protect its investment' (Interview: 1 October 2004; Malaysian Business, 1 August 2004). The disposal of the GT stake is Telekom's third exit from its strategic investments overseas after India and Thailand in 2001, due to the nature of the competitive markets in those countries.

The Asian financial crisis in 1996/7 forced the group to slow down its international expansion. The group's growth in profit before taxation decreased to 70.8% or RM702.3 millions compared to RM2, 404.5 millions in 1996. It was forced to defer some of its proposed overseas ventures. The

group has concentrated on cost reduction through various measures. For example, Telekom investment in Cambodia in 1998 only began its commercial operations in 1999. The group acquired a 51% stake in Cambodia Smart Communications Co. Ltd (CASACOM), the remaining 49% being held by Smart Corporation Public Company Limited ('SAMART'), a Thai communications company. As part of its plan to increase its revenue from overseas ventures and be less reliant on the domestic market, the group announced its entry into Indonesia and re-entry to the Indian market at the end of 2004, thereby establishing a strong regional presence. In 2004 TMI targeted new core investments in a bid to strengthen its presence closer to home. In Indonesia, TMI reached an agreement with the Rajawali Group, the principal shareholders of PT Excelcomindo Pratama (XL), to acquire Indonesia's third largest mobile operator, which was duly completed on 11 January 2005.

In India, the group revisited the country with renewed vigour when it formed a joint venture with Singapore Technologies Telemedia (STT) to buy shares equity in IDEA Cellular, the leading cellular operator in India to operate cellular services with a subscriber base of over 4.5 million (Utusan Malaysia, 27 November, 2004). Both parties have entered into a definitive agreement to acquire a 47.7% stake in IDEA Cellular for a total consideration of approximately US\$390 million (US\$1 = RM3.80). The joint venture with STT would further improve TMI's ability to compete in the increasingly competitive global mobile telecoms market (Malaysian Business, 1 August 2004). The proposed investment is consistent with the objectives of ST Telemedia and TM International: to become significant wireless players in the Asian markets; and to participate in the growth opportunities in the Indian cellular market. Telekom has also indicated its interest in Pakistan telco. The Government of Pakistan, which owns an 88% stake in Pakistan Telecommunications Corporation (PTC), intends to sell its shares of 26% sometime in June 2005. According to various sources, TM is now currently in the process of conducting studies and extensive due diligence in considering this venture (Utusan Malaysia, 5 February 2005). Pakistan is being considered for TMI investment, as it able to provide a window of opportunity into the Middle Eastern market.

From the interviews seven primary factors have been identified to motivate the firm in their internationalisation process: globalisation of industry and commerce, reducing of trading barriers, privatisation, competition, regulation asymmetry, new telecom technologies and political needs.

TM International Sdn Bhd is poised to expand its foreign investments with greater confidence and contribute further to the financial performance of the group. The internationalisation made extra demands on the management (Interview: 5 October 2004). TM International will seek selective new markets abroad with teledensity below the average levels in the ASEAN and South

Asian region. The company now has re-strategise its international investments to focus on regional markets closer to home (The Star, 12 December 2004). It can be seen as an adjustment to new international strategy. Potential new markets include those in Indonesia, Myanmar, Cambodia and Vietnam in South East Asia and India, Pakistan, Afghanistan, Iran, Bangladesh, Nepal and Sri Lanka in the South Asian region. The company's core focus in the international market will be on the provision of cellular and value-added services.

6. Discussion

In reviewing the internationalisation process models (Johanson and Vahlne, 1977; Bilkey and Tesar, 1977; Cavusgil, 1980, 1984; Czinkota, 1982; and Reid, 1983), knowledge and experience of internationalisation is a prominent factor in the internationalisation process of firms. The models rest on the assumption that firms have imperfect access to information and explain internationalisation as a process of increasing experiential knowledge. The firm increases its commitment incrementally as it learns about international markets. This is manifested in a sequence of operational forms labelled the establishment chain. Firms expand internationally only after having accumulated some forms of ownership advantages based on higher technological capability or internationalisation knowledge and experience.

The international expansion of TM, however, does not quite fit the above explanation, and poses challenges to the internationalisation literature. First, it remains to be seen that the international expansion of the firm during 1994–97 is merely based on opportunistic impulse, primarily through South-South Co-operation and exploitation of bilateral trade relations rather than incremental investment processes led by exporting activities. Second, it has been seen that TM's knowledge about and experience of internationalisation is limited. Although the group's emergence was built on its vast knowledge about the telecommunications industry, its capability was more focused on its domestic market. Its first foreign direct investment only took place in 1995, and it initially expanded overseas via growing South-South economic links. Therefore, business networks considerations appear to be a major determinant of TM's upsurge in foreign direct investment. Third, in selecting entry mode strategy, TM prefers to have a majority ownership with management control rather than following a series of resource commitment stages in the entry-mode literature (Anderson and Gatignon, 1986). Fourth, TM's status as a GLC in the home market invites attention to how the firm used its 'brand name and reputation' as a specific ownership advantage in the international market.

This study highlighted that Telekom's international investment reflected an opportunistic attempt to reap the benefits of new market opportunities. When the telecommunication industry in the developing countries was opened up

due to the pressure of globalisation and market liberalisation, the firm took this opportunity to invest internationally, in line with Mahathir's promotion of South-south relations (Interview: 11 October 2004). Through the Malaysia Government, TM has been invited to spread its business abroad primarily to other developing countries. TM's status as a GLC was the driving force in its regionalisation activities. Although it is contended that all the decisions of TM to invest abroad were made independently, and not at the request of the government, however, the process was facilitated by the government. Most of the early ventures relied on government-to-government arrangements. The quest for rewarding opportunities was evident in TM's overseas ventures. The group has announced to expand abroad almost at the same time. Within the period of 1995-1997, the group invested in five foreign countries, namely, Republic of Guinea and Malawi (1995), Bangladesh (1996), Ghana and South Africa (1997). As suggested by Lecraw (1977), the desire to escape the constraints of a slow-growing domestic market motivated some developing-country firms to move abroad. As for TM, the saturation of domestic market is one of the key reasons that motivate TM's to search new opportunities abroad especially in other developing-country (Interview: 5 October 2004). It is therefore more accurate to explain TMI's foreign investment as opportunity-driven attempts to seek new markets abroad, where overseas investment criteria include the presence of democratic and developmental-oriented governments. The core investment activities are focused particularly on providing cellular network infrastructure and fixed-line operations. The group has focused its investment activity towards those lines of business where it already possessed domestic-derived skills and competencies (Interview: 1 October 2004).

The rapid international expansion of TMI's made it necessary for the group to select reliable joint venture partners in the respective country. Due to TMI's lack of internationalisation knowledge and experience, the selection of reliable local partners is extremely important with regard to providing local access, connection and knowledge of local market (Interview: 1 October 2004). In selecting the partners, the criteria differ from one to another, depending on the country where investment takes place. Among the most important criteria when choosing partners are; similarity of their business strategy to TMI; knowledgeable in technological know-how; financially sound; and able to add value to the venture which TM's lacks (Interviews: 11 October 2004; 21 October 2004). Like other national telcos in the country, TM's reputation as a government-linked corporation (GLC) in the domestic market carries great weight in regard to its international expansion. This reputation reflects the group's business stability and strength in the telecommunication industry.

7. Entry Modes and Expansion Strategy

The literature on developing country MNCs has consistently shown evidence that joint ventures with minority shares in the equity have been the preferred

mode of market entry (see also Donckels and Lambrecht, 1995; Lee and Beamish, 1995). This strong preference, however, does not necessarily apply to TMI's international expansion strategy. Some of the firm's foreign investments are through acquisition. For example, in January 2005, TMI acquired PT Excelcomindo Pratama in a quest to break into the Indonesian market. TMI also chooses to use joint venture with management control as an entry mode strategy for its international investment to sustain its long-term business strategy. The new acquisitions have provided TM with new scale of growth opportunities. Through acquisition, TM may gain access to new market opportunities, and obtain a local network of distribution and suppliers (Interview: 11 October 2004). Acquisitions will also enable TMI to increase synergy potential from its regional network given high traffic flows of voice and data, potential to share assets, purchasing leverage and improved risk management (Interview: 1 October 2004). The firm sought local partners who could provide necessary capabilities, i.e. knowledge of local markets and connections to national authorities. TMI compensated for its lack of contacts in foreign countries by finding local partners with the necessary contacts. For instance, TMI's investment in countries such as Guinea, Ghana, Bangladesh, Thailand, Malawi, Pakistan and Indonesia was as a joint partner with government-linked companies in those countries. However, there are some cases where the partners in these countries were foreign telecommunication operators. For example, South Western Bell Corporation (SBC) was one of the partners in the South Africa investment, Samart Corporation of Thailand in the Cambodia venture, and Singapore Technologies Telemedia Pte Ltd in the Indian project.

In recent years, the group has announced its intention to streamline its investment strategy abroad. TMI wants to strengthen its position in the Asian regional market (Interview: 21 October 2004). This decision was driven more by market factors to search for emerging high growth markets with low penetration rates. The group announced that it would enter markets closer to home with similar economic and cultural environments. By focusing on developing countries, the group could take full advantage of its know-how in telecommunications without much competition from either local or foreign competitors (Interview: 5 October 2004). Moreover, developing countries also offer more room for growth with a low penetration rate. For instance, a country like India was a promising area in which to invest. Compared to South Africa, the economic condition in India is growing very rapidly (Malaysian Business, 1 August 2004). In explaining how the firm chose its entry mode strategy, its key executive stressed that the company often chooses joint ventures and greenfield operations as its main entering strategies (Interview: 5 October, 2004). It has been the company's policy to ensure that international investments are accompanied with active management participation and control. This is probably a reflection of increased internationalisation and knowledge experience and the gaining of confidence in its foreign operations in recent years. However, acquisition of strategic assets was not the only

reason behind TMI's international ventures. The group was equally driven by its interest in targeting companies with listing potential (Interview: 11 October 2004).

The willingness of the group to focus on only a handful of investments demonstrates a developing country MNC are willing to face with greater risk of business. This contradicted with theories of the internationalisation and developing countries MNCs. TMI has not gradually built up its international portfolio of investments as suggested by Johanson and Vahle (1977), but in an aggressive manner of foreign direct investment. In doing so, TMI for instance, has formed strategic partnerships with major telecommunications companies in South Africa, Ghana and Guinea, Thailand, Sri Lanka, Bangladesh, Malawi, India and Indonesia. TM sought reliable local partners, typically domestic telecoms carriers capable of providing knowledge and connections for their operations. Finding a well-connected local partner in each market has benefited the group, particularly, in adapting locally in circumstances where TMI may lack knowledge experience. The partnerships also provide a way for TM to familiarise itself with the local market, so that subsequent investment decisions can be made on a better informed basis (Interview: 8 October 2004). The status of TM as a government-linked corporation has given the firm an advantage in terms of reputation, thus, facilitating the search for partners. Most of TMI strategic partners are also firms owned by the government in the country concerned. For example, in the Republic of Guinea, TM formed a joint venture with the local government to form Societe Des Telecommunications De Guinee. In Ghana, the group's strategic partner is the Government of Ghana. Relying on the local government would benefit the group in terms of gaining knowledge and expertise to operate in the chosen market. When asked what role is played by TM in its international investments, a key executive of TMI stressed its contribution in technological expertise, maintaining network as well as financial support and management capability. However, these commitments vary from one country to another (Interview: 5 October 2004). TMI claimed that its technological skills, management capabilities, expertise and experience as a pioneer telco in Malaysia for more than fifty-five years were beneficial to its international joint ventures. TMI wants to be a strategic partner by bringing expertise that other partners may lack, as its investments are in the less developed countries, in addition to equity contribution. In order to continue maintaining its double-digit growth, the group plans to be more aggressive in its expansion plan (Interview: 5 October 2004).

8. Conclusion and Implication

This paper aims to explore the emergence and internationalisation pattern and process of a leading Malaysian telecommunication company and nascent MNC namely TM Berhad. The case study of TM Berhad has presented some interesting insights on the growth of the country's major telecommunications

player, which has moved in a relatively short time from domestic telecommunications firm into an international player and nascent MNC. Undoubtedly, its status as government-linked corporation, had underpinned the group's growth in the domestic market which was partly based on business network connections with the Malaysian government; although the group via its interviewees wished to claim its technological expertise was a major contributor. However, TM's exploitation of these extensive relationships is understandable; given the status of the company prior to privatisation was a government department within the Ministry of Energy, Telecommunications and Posts.

The firm's international expansion process does not seem to be based just on government connections, but also upon its technological expertise, business networks with foreign partners, and knowledge and experience of developing-country markets. Undoubtedly, the group's reputation as Malaysia national telecommunications firm increased its credibility in the eyes of its foreign partners. TMI's primary motives for overseas expansions were to gain market presence by searching for new opportunities and establish regional coverage of operations. Regional economies which typically have high populations but low phone penetration rates remain the main focus of its international investments. The group believes most of its ventures are located in important growth regions in the industry, which have the potential to become fast growing markets.

Some of the findings in this paper contradict prevailing misleading stereotypes in the developing-country MNCs literature that corporations from developing countries are inherently weak, their advantages derived from conventional cost savings and are labour intensive, often unable to compete internationally, and their internationalisation follows an incremental process. The evidence from the TM case shows that the group's international expansion was facilitated through various types of ownership advantages such as knowledge and experience in the telecommunication industry, technological competence, and reputation of the firm as a government-linked corporation. The firm's internationalisation process reflected opportunistic moves rather than being incremental in process and stages. The case study thus offers interesting insight into the birth, developmental process, and international expansion of a nascent multinational corporation from a previously unconsidered developing economy.

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