Int. Journal of Business Science and Applied Management, Volume 3, Issue 2, 2008

Transnational corporations from Asian developing countries: The internationalisation characteristics and business strategies of Sime Darby Berhad

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Abstract

There is limited empirical research on the internationalisation processes, strategies and operations of Asian multinational corporations (MNCs), particularly MNC's based in Malaysia. The emergence and development of an MNC from this developing country represents a significant addition to the literature on this topic which augments and supplements the information already available with regard to nascent MNCs from Asian Newly Industrialised Countries (NIC's). Drawing on primary data from in-depth interviews with 12 key executives from Sime Darby Berhad (SDB), a developing Malaysian-based MNC, this paper will examine and investigate the firm's internationalisation process, its characteristics and strategies, including motivations, patterns, and sources of competitive advantage. The empirical findings, limitations and areas for further research are discussed.

Keywords: internationalisation, Malaysia multinational corporations, business strategies, Sime Darby Berhad

Acknowledgements: We gratefully acknowledge the generous participation of senior executives from Sime Darby Berhad (SDB) which allowed this case to be developed and cited here.

1 INTRODUCTION

Theories and research on the internationalisation of firms (or their expansion across national borders) have received significant attention from many scholars and researchers within the areas of international business, international marketing, and business strategy (Anderson, 1993; Calof and Beamish, 1994; Blomstermo and Sharma, 2003a and 2003b; Ramamurti, 2004, Sim, 2005, and UNCTAD, 2005). To some key authors, internationalisation is the process by which firms gradually increase their involvement in international business activities, and establish and conduct transactions in other countries beyond their national jurisdiction (Welch and Luostarinen, 1988; Beamish, 1990; Pananond and Zeithaml, 1998; Luo, 1999; Sim and Pandian, 2003, Kitchen and Ahmad, 2007). In spite of the importance of understanding the dynamism of the internationalisation process however, most studies have been confined to firms operating in well-established developed countries namely, North America, the European Union, and Japan. Therefore, these early studies exhibit – perhaps of necessity - a distinct Western perspective on the process of international expansion of firms to create competitive advantage, and advance a view that takes into account the development of MNC's from the most advanced and successful economies in the world (Erramilli et al., 1999). However, few studies have investigated the internationalisation process of developing country MNCs and specifically those based in Malaysian.

This paper will analyse and describe the internationalisation process of a leading Malaysian-based MNC, namely Sime Darby Berhad (SDB), through an historical approach. The paper will identify the form and behaviour of this corporation in streamlining its expansion processes including the motivations for international investment, competitive strategies, and selection for foreign entry modes. Although results from a single case study of a Malaysia multinational corporation cannot be generalised as representative of all developing-country multinationals, the case does offer interesting insights which can contribute to the literature of developing-country MNCs.

2 THEORETICAL PERSPECTIVES ON DEVELOPING COUNTRY MNCS

Theories on the internationalisation of firms are largely based on Western multinational corporations. Starting from Vernon's product life cycle theory (1966, 1971) through the Uppsala international expansion stage model (Johanson and Weidersheim-Paul, 1975; Johanson and Vahlne, 1977) and the more recent works of Dunning on his eclectic paradigm theory (Dunning, 1993, 1995) and Investment Development Path (Dunning, 1981, 1986) - predominantly concerned multinational firms from industrialised developed countries. Dunning's work on electic paradigm sometimes referred to as 'OLI theory' links coherently ownership, location, and internationalisation advantages all of which are pertinent in the following case study. However, while the model does appear to be relevant in the early stages of internationalisation, the model is purely static, and unreflective on issues concerning strategic elements, situational contingency, and competitive forces. Moreover, as the trend of outward investments from developing countries began to accelerate in the 1990s (United Nation, 1988, 1993) the body of literature concerning these latter investments and entry modes has been augmented and developed significantly. Recent studies of these emergent or nascent MNC's include papers by Cantwell (1997), van Hoesel (1997a, 1997b, 1999), Dunning et al., (1997), Yeung (1997, 1998a, 1998b, 1998c), Mirza (2000), Mathews (2000), Tolentino (1999, 2000), Adrian (2002), Sim and Pandian (2003), Ibeh et al., (2004), Sim (2005) and Kitchen and Ahmad (2007). Most of these studies focus upon the challenges faced by developing country corporations in becoming respected international players in the global market.

According to the scholars on developing country MNCs, ownership advantages of these corporations differ, and there are two separate "waves" of development: differing as regards historical background, nature of business, extent of the role of government in operations and transactions, geographical direction, and mode of internationalisation activity. Scholars characterised developing country MNCs in the 1980s as those more concerned with cost competitiveness vis-à-vis their competitors (van Hoesel, 1999). Developing country MNCs in the 1990s, on the other hand, placed greater emphasis on the development and/or redirection of business strategies in response to the changing patterns of world business structure brought about by trade liberalisation and economic globalisation (Dunning et al., 1997). In addition, they placed more emphasis on technological competence as the source of competitive advantage (Pananond and Zeithmal, 1998). The sources of ownership advantages for developing-country MNCs have grown through a gradual accumulation of skills, information and technological effort.

Such views are consistent with the internationalisation process literature (Johanson and Wiedersheim-Paul, 1975). Known now as the 'Uppsala Internationalisation Model', this literature stresses the importance of internationalisation knowledge and experience accumulation process throughout a firm's internationalisation expansion. The model states that lack of knowledge of foreign markets and operations creates an obstacle to internationalisation, and that this knowledge can only be acquired by operating in, and experience of international markets. Admittedly, firms may lack knowledge of the internationalisation process, institutional knowledge or business knowledge (Eriksson et al., 1997). The Uppsala school extended the idea of incremental international development to the entire process of a firm's internationalisation from exporting to foreign direct investment (FDI). Given the fact that Malaysian MNCs are new and nascent to the international arena, particularly in terms of outward investment, internationalisation theory is of value in explaining the emergence of these corporations.

3 METHODOLOGY

Given the evident gap or paucity of studies on the area of an internationalisation process undergone by Malaysian-based multinational corporations, 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 12 key senior executives in Sime Darby to develop the case study as relying on a single source of information would be inappropriate. Thus, semi-structured open-ended interviews were conducted. All executives including the following titles: Directors, Executives, Senior Managers, and Managers), interviewed claimed to have an in-depth knowledge of their firm's international operation and investment and there seemed no reason to doubt their veracity. Each interview took between one to one and a half hours, and were digitally recorded, carefully listened to, and transcribed verbatim. A second listening accompanied by the typed transcription was performed to ensure full correspondence between the recorded and transcribed data. Complete case reports were sent back to interviewees to ensure validity and authenticity of the collected data. In addition, telephone and email interviews were used to collect further information from the interviewees. In order to give a clearer description of a case study, 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, 1994) were also collected in order to construct the case and to increase validity.

4 CASE COMPANY: SIME DARBY BERHAD (SDB)

Sime Darby was chosen as a case sample, based for the following main reasons:

a) it was the first Malaysian multinational conglomerate and is one of Southeast Asia's leading and largest corporations;
b) it is among the most internationally-oriented corporations with a long history of international business and trading activities;
c) the company has been a Malaysian multinational from its inception as it became a Malaysian entity through acquisition by the Malaysian Government in 1977, which has focused attention on how the management acquired internationalisation knowledge and experience when operating the organisation; and finally
d) the group is aggressively and widely diversified with interests in almost all economic sectors including plantations, energy, heavy equipment, motor vehicle distribution, travel and tourism, healthcare, and property development, both domestically and internationally.

SDB thus represented the country's dominant business organisation as a diversified conglomerate.

5 BUSINESS DEVELOPMENT OF THE COMPANY

The group structure[1], product and geographical diversification is a complex and overlapping process, but it falls into four chronological periods: its early development: from a plantation-based to a trading-based business (1910-1929), followed by domestic expansion (1929-1950s), conglomerate diversification (1950s-present), and international expansion (1970s-present). It is important to understand the group's history, as this offers knowledge about organisational progression and is expected to provide insights that might act as a basis for decisions about the future (Eisenhardt, 1989; Gummesson, 1991).

Early Development: from Plantation-based to Trading-based business (1910 - 1929)

Sime Darby was founded in 1910, when two British planters, William Middleton Sime, a Scottish gentleman, and Henry Darby, teamed up to form a company to manage 500 acres of Radell Rubber estates in the state of Malacca with a capital of US$20,000. The company was known as Messrs Sime Darby & Co Limited (Malaysian Business, 1 September 2003). Acting as managing agent for a number of plantation companies, it then moved into general trading as demand for goods and services from the rubber estates grew. In 1915, a branch office was set up in Singapore. With increasing volume of trade, it became an agency house which undertook many general trading activities including acting as selling agents for various firms and manufacturers, import and export businesses, in supplying a wide range of consumer and other products domestically and internationally. A London office was set up as a network branch to market the company's rubber. Profits from the rubber were literally ploughed back to buying more plantation land. In 1926, it bought a British competitor, R.G. Shaw & Co and ventured into discounting, money brokering and insurance brokering (Utrecht, 1981).

Domestic Expansion (1929 - 1950s)

The group's first wave of expansion was concentrated in the plantation-based business, particularly in rubber, palm oil and cocoa plantations. An important milestone in the company's growth was in 1929, when it acquired the Sarawak Trading Company which held a franchise of Caterpillar equipment (now known as Tractors Malaysia) (Cheong, 1989). As SD invested in more land, acquisitions were needed for heavy earth-moving equipment for developing these. After the Second World War, in 1952, SD started to enter other lucrative business areas, such as engineering, electronics and management services (Allen and Donnithorne, 1957). Over the years, its activities grew to include supply, finance, sales and shipping of products for many plantations, and by 1954 it was managing some 80,000 acres of rubber land with a total of 18 branch offices in Malaysia, Singapore, Brunei, and British North Borneo (ibid). The development continued when the company acquired Ewart & Co. in 1946, which was later, renamed Sime Singapore.

Conglomerate Diversification (1950s - present)

By the late 1950s, the company had grown large enough to establish a holding company, Sime Darby Holding Limited, in London. The company then naturally extended its activities from trading and management to manufacture in the late 1960s. In 1971, Sime Darby established itself as a major force in the plantation industry through the acquisition of Seafield Amalgamated Co. and the establishment of Consolidated Plantations. The rapid growth and extensive diversification of Sime Darby gave the company multinational status even prior to Malaysian independence (Ragayah, 1999). Because of this strategic importance as an MNC, and to protect the national interest whereby many critics viewed the largely British management of the company as a sore reminder of colonial exploitation, the Malaysian Government through its trust agency Pernas or National Corporation acquired the company in the mid-1970s. According to Utrecht (1981):

> "The SD take-over is a clear sign that the Malaysian government wants a greater say in producing and marketing its resources"

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[1] Some of the literature refers to multinationals from third-world countries (see Wells, 1983; Tolentino, 1993; Dunning, van Hoesel and Narula, 1997; Sim and Pandian 2003; Ramamurti, 2004). It refers to domestic firms with head-quarters in developing nations, which control assets and/or exert influence in the decision-making process of one or more cross-border subsidiaries and/or affiliates in another country (Yeung, 1994).

Through this process, SD became among the first Malaysian multinationals in the country.

SD initially expanded within plantations. The group's desire to grow further into non-core activities led to major diversifications in many industries, starting in the early 1980s. To name a few, these included motor vehicles, paint and tyre manufacturing in 1981, oil and gas in 1983, property and insurance in 1984, health and hospitality in 1990, travel and tourism in 1991, power generation in 1994, finance in 1996, hypermarkets in 2000, and retail petroleum in 2001. Through its own subsidiaries, Sime Darby diversified into a variety of projects including hospitals, housing development, manufacturing, gasoline and motor fuel distribution, shipping operations, shop lots, golf courses and many others.

In brief, Sime Darby's domestic growth was made up of three major waves. The first wave of expansion was focused in the plantations sector. The second wave was based on geographical expansion of its trading business, and finally, the third wave covered a range of diversified business strategies both upstream and downstream, such as oil and gas, financial services, property development, energy, and motor vehicle distribution. It can be seen that the group's diversification strategies were incremental, rather than revolutionary within each specific industry. The group has used a market segment strategy to expand its business operations both domestically and internationally.

Following this account of the domestic development of the group, the international activities are discussed in the next part of this paper.

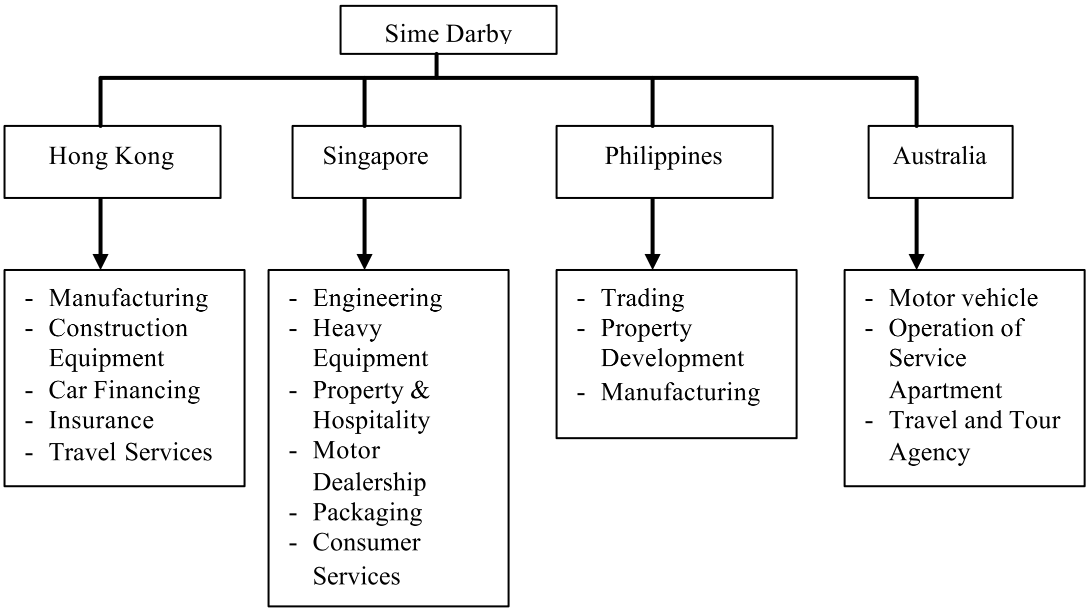
International Expansion (1970s - present)

Sime Darby's international exposure began through international trading activities particularly exports of commodity products, as Malaya during that period was the biggest rubber and cocoa producer in the world (Allen and Donnithorne, 1957). It was in the early 1970s that the company experienced phenomenal expansion both geographically and sectorally. The expansion began with the purchase of China Engineers (Holdings) Limited, Harpers International Limited, and Amoy Canning Corporation (Hong Kong) Limited, all based in Hong Kong (United Nations, 1985). With Amoy Canning came the production of canned food, and with China Engineers came engineering, manufacturing, insurance and shipping activities. Harpers provided SD with the franchise for the distribution of Ford, BMW, and Mitsubishi automobiles (ibid).

In the United Kingdom, SD acquired Shaw and Co., a company engaged in investment, shipping, and trading with considerable investments in South Asia. SD also moved into discounting, broking and insurance with the acquisition of Clive Holding Ltd., Guy Butler and Robt Bradford and Co. Limited (United Nations, 1985). In Singapore, having been a market player since 1928, and the sole Caterpillar dealer in Malaysia for more than 70 years, SD, via Tractors, managed to penetrate the Singapore market. In fact, 95% of Sime's business in Singapore's heavy equipment sector comes from the sale of Caterpillar products. Nearer home, the company ventured into downstream processing activities with the purchase of Edible Products Ltd., a major vegetable oil refinery in Singapore.

Administratively, the group's international expansion can be divided into four main regions. Priority was given to neighbouring Asian countries with a similar culture. Like its domestic business activities, SD's international operations involved the group's five core areas: plantations, motors, heavy equipment, property and energy. Figure 1 lists the geographical locations of the group's international activities by region. SD acted on the assumption that the diversification of business based on geographical area would work well in reducing its business risks (Ragayah, 1997, 1999,; Kitchen and Ahmad, 2007).

Figure 1: Sime Darby Major Business Regions for International Activities



Source: Sime Darby

At the time of the study, the group had 185 subsidiaries and associated companies involved in various business activities in the Malaysian market. In its international operations, the group had 46 companies in Hong Kong, 72 in Singapore, 9 in the Philippines, 11 in Australia, 5 in Indonesia and 19 in other developing countries. In the developed countries, the group had 12 companies in the United Kingdom, 2 in the United States, and 15 in New Zealand (Sime, 2006). Sime Darby's major strength lies within the Southeast Asia region, with only limited coverage in other parts of Asia. Overseas operations accounted for about 60% and 35% respectively of the group's gross revenue and pre-tax profits for the past four years - with Malaysia, Hong Kong, Singapore and Australia collectively, holding the prize in posting revenues in excess of RM1 billion. By virtue of the fact that SD has operations in 20 countries, international business is one of the key sources of growth for the group. The next section explains how SD has built up its ownership advantages and business strategy.

6 OWNERSHIP ADVANTAGES

Strong Brand Name and Extensive Distribution Channels

With more than 95 years of corporate history and being involved in many avenues of diversified business, the group has built a strong reputation in trading domestically and internationally from recognisable brand products through its franchises and dealership agreements with various foreign parties. For instance, in the group's motor business, brands such as BMW, Ford, Land-Rover, Peugeot, Caterpillar and Kawasaki, to name but a few, are among the well-renowned brands to which the group holds primary distribution rights in several countries Through these and other recognisable brand names, SD has gained a reputation for the high level of quality and higher standards in its products typology.

The broad range of quality products offered by the group, has not only enhanced SD's market power but would also compensate for any declining revenues in specific highly competitive industries. For instance, in the automotive industry, the group suffered a setback when it lost its exclusive BMW automobile distribution franchise which was expected to have a significant effect on revenue. In June 2003, the German-based Bayerische Motoren Werke (BMW) group formed a 51:49 joint-venture company with Sime to take over wholesale distribution of BMW vehicles in the country. BMW invested about RM93 million in the venture (Malaysian Business, 1 September 2003). Losing its exclusive distributorship will have an impact on SD, as it was considered Sime's largest revenue contributor - at approximately 35-40% every year. It remains to be seen, however, as the group's diverse range of automotive brands seeks to minimise its investment risks.

SD has employed an acquisition strategy since its early establishment, with the purchase in 1929 of Sarawak Trading, which held the Caterpillar franchise. Benefiting from this acquisition until now, the group has the sole distribution rights for Caterpillar and this has contributed towards the growth of the group's business operations. As a result, SD enjoyed substantial advantages over newcomers, and consequently their industries became and remained oligopolistic.

In order to facilitate its marketing activities, the group continues to invest in the expansion of its distribution network and services facilities. With access to the group's marketing networks both domestically and internationally, customers do have confidence in accepting SD's products. In addition, recruiting its own staff to oversee day-to-day operations in all of its marketing networks ensures that quality meets international standards. This strategy has enabled the group to distinguish itself from other competitors in the same industry.

It would be too simplistic, however, to claim that the group's ownership advantage derived from its reputation in selecting quality brands and extensive distribution marketing channels alone. The SD group's competitive advantages domestically and internationally were also derived from several other sources which will be discussed next.

Strong Management-orientation and Financial Standing

Relying on brand name alone is no longer sufficient in the today highly competitive business environments. The group's competitive advantages in the domestic market were also derived from its strong management-orientation, sound financial standing and adoption of a conservative business strategy. Having the Malaysian government via its state agencies and trust funds such as Skim Amanah Saham Bumiputera, Employees Provident Fund, Permodalan Nasional Berhad (PNB), and Lembaga Tabung Haji (Pilgrims Fund Board) as its major shareholder made Sime Darby rather exclusive in the corporate scene. One expert expressed the opinion that "by virtue of its status as a Government-controlled Company, Sime is a professionally and well managed company that is transparent in its ways" (Quoted in Malaysian Business, 1 September 2003). A similar view was also acknowledged by its former CEO who stressed:

> "In any organisation, you will find codes of conduct and procedures, but such rules and regulations cannot really be substitutes for basic honesty, integrity and common sense. Sime Darby could not have become the corporate giant it is today without being professional in whatever it does." (Nik Mohamed Yaacob, 1996)

Sime Darby's corporate strategy and management professionalism were guided by strong company values and its code of conduct. Hard work, honesty, integrity, professionalism, and entrepreneurship are some of the company's key principles, adopted by all levels of staff. The group's mission statement demonstrates attempts to the seriousness of its professionalism and commitment toward its image as a reputable Malaysian Corporation.

As well as its management orientation, Sime Darby's excellent financial standing was another source of advantage for group expansion. SD has been seen as among the wealthiest domestic corporation. The links of SD with the country's major trust funds and state agencies have contributed towards its domestic and international expansion. PNB, for instance, is among the country's leading investment institutions with total funds of more than RM49 billion and having a 40.82% interest in the group. This is followed by Employee Provident Funds (EPF) with 12.99% interest and Pilgrims Fund Board with 2.13%.

This has given the group an image and reputation for credibility that not many other Malaysian corporations have enjoyed. This privileged status made the group a preferred choice for foreign firms seeking a joint venture partner in the domestic market. Furthermore, SD's credibility also enhanced the group's relationships with financial institutions. SD has never had much difficulty in getting support to finance its operations and expansion.

However, links with the Permodalan National Berhad (PNB) do not necessarily bring benefits, especially for the group's business strategy; which is considered conservative and too methodical (Malaysian Business, 1 September 2003). The group's investment strategy is often described as 'conservative', focusing on exploiting incremental investment opportunities under the guidance of the holding company and its major shareholder. As an example, evidence of this was seen when the group took on a smaller player, IOI Corporation Berhad, in its bid to acquire Palmco Holdings Berhad in 2003, and lost its bid. For the record, Sime ended up with a 22% stake in Palmco and two board representatives, while IOI went to buy Loders Croklaan BV in the Netherlands (Malaysian Business, 1 September 2003). Many have suggested that with its huge cash pile, the group could have made better use of its money by acquiring Loders instead (ibid).

With regard to this, Nik Yaacob, a former group CEO, admitted in an interview that:

> "I think it is true that people have the perception that we are conservative. But I would like to mention for the last six years or so, we have achieved very consistent growth." (Malaysian Business, 16 July 1993)

Despite attracting criticism, the 'conservative' business strategy adopted by the group, however, proved to be an advantage and helpful in minimising the impact from the Asian financial crisis in 1996/97. Like most Malaysian firms, SD was burdened with the problem of its foreign debts and losses on its financial account. The group were in the red with a loss before taxation of RM70.7 million in 1998. However, in 1999 and 2000, the group made profits of RM1,018.2 and RM1,199.1 respectively (Annual Report, 2000), thanks to its 'conservative' investment strategy. The next paragraphs discuss how internationalisation knowledge and experience became another source of the group's advantages.

International Knowledge and Experience

The group's ownership advantages were not only based on its management skills in managing the organisation, but also on its knowledge and experience in international trade, and knowledge about the regional market. The ability to understand how developing country markets work was another important advantage of SD. The group's past experience in dealing and managing an international project and trading business in the region provided a useful advantage for the group's international expansion. By focusing its business operations on the Asian market, segmenting its business operation into several product groups, and geographically spreading into five main regions, SD was able to take full advantage of its management know-how in plantations and other businesses to tap those markets without much competition from either local or foreign competitors. The group's skills and strength in plantations contributed to other business operations.

Although SD is known for its international investment in 20 countries worldwide, including Hong Kong, Singapore, Australia, New Zealand, Macau, China, Qatar, the Philippines, Papua New Guinea, Thailand, the United Kingdom, Egypt, Indonesia, Solomon Islands, and New Caledonia, the focus of its business is on exports and international trading activity. Sime Darby's interest in foreign direct investment only began in 1990s, when the domestic market was becoming saturated and internationalisation was another way to expand. Although the group's export markets were spreading to various developed countries such as the United Kingdom, European countries, and the United States, the group's destinations for foreign direct investment were still mainly concentrated in nearby Asean member countries and the Pacific Basin region.

Business Networking and Technological Capabilities

To cope with a diversified business activity, business networking is an important mechanism for a firm's growth (Chow et al., 1997). Networking with partners and other players in the industry may help a firm to acquire resources, market information and accessibility or business opportunity, domestically or internationally. Most businesses now rely on business alliances and networking as a strategy, and Sime Darby is no exception to this. With the group's diverse range of business activities, it was unlikely that the group could succeed without having assistance from other players.

With regard to this, close ties with PNB and (Employee Provision Fund) EPF certainly benefited the group's expansion. The group's close links with government trust agencies have been a source of its ownership advantage. Widely known as the first multinational in the country, the fact that Sime Darby enjoyed close links with the government cannot be denied. Because of its strategic value and status as a national company, it was given access to the right places, since any failure could have negative implications for the economy and government (Malaysian Business, 1 September 2003). Links with the PNB gave Sime Darby a remarkable advantage, in accessing investment opportunities to which other industrialists did not have access. In addition to these connections, SD's close links with the government can be seen since its early establishment, inviting top-management officials in the civil service with extensive experience to join the group as advisors or even as full-time employees. These included a former Minister of Finance (1959-1974), Tun Tan Siew Sin, as the first SD chairman from 1976-1988; a former Bank Negara governor (1962-1980), Tun Ismail Mohamed Ali as the second chairman from 1988-1998; and a former Chief Secretary to the Government as the third chairman (1998-present) (Malaysian Business, 16 October 2002; Annual Report, 2005).

Links with the government alone were not enough for the group's development, however. The second necessary sources of the group's connections were joint ventures with domestic and foreign partners. Because the technological sophistication of developing country MNCs tends to be insufficiently advanced, a developing country's firms need to accumulate technological capabilities from suitable foreign partners (Bell and Pavitt, 1997). In the case of SD, the group was able to form joint ventures and learn from its established partners in their respective industries in order to accumulate technological competencies. For instance, when the group decided to embark on entry into the petroleum industry, SD made an acquisition of 60% of C. E Crest Engineering (M) Company, which provided engineering and construction services to the petroleum industry. The group's expansion into agro-genetic engineering is another example where it decided to team up with a California-based company, International Plant Research Institute, which specialised in the research application of genetic technology to tropical crops (United Nations, 1985). A similar case was the group's decision to diversify into petroleum retailing, when it formed a joint partnership with the Houston-based Conoco Corporation (Business Times, 6 December 2001). Table 1 shows some of the group's current technological partners.

Table 1: Some of Sime Darby's Technology Partners

Foreign Partners	Country of Origin	Activity	Form of Contract
1. Aero-Green Technology	Singapore	Aeroponic Farming	Joint venture
1. Caterpillar	USA	Heavy Equipment Distribution	Joint venture
1. Caterpillar Financial Services Corporation 2. Diamond Lease and The Bank of Tokyo-Mitsubishi	USA Japan	Hire Purchase and Leasing	Joint venture
1. Sembcorp Engineering	Singapore	Oil and Gas	Joint venture
1. BMW 2. Ford 3. Mitsubishi 4. Alfa Romeo 5. Suzuki 6. Land-Rover	Germany USA Japan Italy Japan United Kingdom	Motor Franchises	Joint venture
1. Rengo	Japan	Packaging	Joint venture
1. Kansai Paints Co Ltd 2. W & J Leigh Co	Japan United Kingdom	Paint	Joint venture
1. Inax	Japan	Sanitaryware	Joint venture
1. B.F. Goodrich Philippines	Philippines	Rubber	Acquisition
1. Amston Equipment Pte Ltd	Singapore	Filter Presses	Acquisition
1. National Oil Services Company of Vietnam	Vietnam	Bituminous products and electrical control panels	Joint venture
1. Tesco Limited	United Kingdom	Retailing	Joint venture

Source: Sime Darby

As observed from the SD case, forming joint partnership with established foreign counterparts enabled the group to learn and accumulate technological skills. The group then made the effort to add more value and modify acquired technologies and needs. SD interviewees claimed that gaining technological competence enabled the group to expand its operations in foreign countries.

In sum, the domestic and international growth of SD was achieved through a mixture of the factors discussed above. With a strong business reputation and track record, the company has managed to grow from a company offering a single product and service in one country into a strong and dynamic international group with a comprehensive range of business activities domestically and internationally. The business networks of the group come not only from its early and ongoing connections with the government, but also from joint ventures and alliances with foreign partners. The limitations of its internationalisation knowledge were compensated for by its relationship with various parties for the group's expansion. The next section analyses the group's internationalisation pattern and process and entry mode strategy.

7 DISCUSSION: AN ANALYSIS OF SIME DARBY INTERNATIONAL EXPANSION

Conventionally, a firm becomes multinational by going through three stages: it begins as a domestic firm and through the normal process of development acquires technological, management and marketing capabilities to become a domestic leader. Limitation of the domestic market forces motivates the firm to begin to export abroad in order to increase revenue. Finally, when exports are threatened by tariff protection or competition, it uses its competitive advantage to produce products abroad and is then involved in direct investment (United Nations, 1985; Johanson and Vahlne, 2003).

Following this view, a closer look at the development of SD as a national MNC, reveals that the company was internationalised prior to its emergence as a Malaysian conglomerate. The group became a Malaysian MNC overnight through the acquisition of a British firm operating in the country. Sime Darby was a British-controlled corporation until the company's domicile was transferred from the United Kingdom to Malaysia in 1979. In line with the New Economic Policy (NEP) to increase Malay equity, the Malaysian government, after consulting investment bankers Rothschild and through its state trading arm Pernas, bought a number of Sime shares on the London Stock Market.

Through the efforts of Tradewinds (M) Sendirian Berhad, a Pernas subsidiary, Sime's equity became Malaysian-owned in 1977. Prior to its establishment as a Malaysian MNC, SD had international business in several foreign countries, and this included having offices in London and Singapore to support its international trading operations.

The argument proposed here is that the techniques employed by the Malaysian government through its state agencies, which allowed a massive acquisition drive, signified a new era in the method of internationalisation and thus went well beyond traditional theories of FDI as suggested by most scholars. However, it could be argued that the company possessed significant internal and ownership advantages created by nationalisation and favourable treatment by the Malaysian government as had been noted by Dunning's OLI theory (Dunning, 1993, 1995). Nonetheless such advantages had to be accompanied by strategic initiatives within the context initially of a regionally located competitive scenario. Nonetheless, the experience of SD presents an interesting and appealing alternative to companies attempting to become international by acquiring an existing MNC. Government intervention and nationalisation are, however, unlikely to happen in all situations, but sometimes government can augment or underpin MNC development in different ways as in the case in companies arising from the ex-Comecon countries. Further, the emergence of SD as a Malaysian MNC, however, supports the theory raised by Oviatt and McDougall that the firm can be internationalised from its inception. Oviatt and McDougall (1994) argued – for example – that firms need not to follow slavishly well-established steps to internationalisation. They may, instead, begin their international involvement directly from inception. Nonetheless, this theory stresses that such firms have ownership advantages prior to their establishment.

In its international expansion programme, although the group's expansion seemed to commence as an international trading company, especially in its commodity products, those trading businesses were expanded through the acquisition of firms in domestic and international markets. For instance, about two years after the coming home of the firm, SD acquired BF Goodrich Pilipinas in 1981, and started its tyre business with the setting up of Sime Darby International Tyre Company (SIDITCO), which also invested in rubber, coconut, cocoa and coffee plantations. SIDITCO in 1988 changed its name to Sime Darby Pilipinas Incorporated to reflect the company's growth from a pure tyre and tube manufacturing concern to a diversified company with tyre manufacturing, agriculture and agri-equipment businesses (United Nations, 1985). In the United Kingdom, the group bought Carboxyl Chemical Ltd, which manufactures metallic stearates, wires, lubricants and defoaments.

Evidently, the international expansion of the SD group poses issues and challenges to the internationalisation literature, which suggests that firms may minimise the risk of involvement when they first enter the international market and that, as the firm acquires more internationalisation knowledge and experience, it will assume a higher degree of involvement and resource commitment. However, the group's frequent use of equity participation through acquisition of firms operating in the country and abroad seems contradictory to that proposition. This contradiction may result from narrow assumptions about developing country firms which have been portrayed as small, having limited resources and lacking in management capabilities (Yeung, 1994).

Joint venture with foreign partners is another alternative arrangement available for SD's participation in international expansion. In some countries, the group chose to set up joint ventures with local partners in the host countries, to the mutual benefit of both parties. There are many reasons for SD to expand internationally and choose a particular country to be the recipient of its investments. In general, these may be classified as 'push' or 'pull' factors such as finding new markets, diversifying risks, home government disincentives, higher returns on investment, cheap and abundant resources, overcoming import restrictions, competition to enter new markets and to exploit technological innovations and the production process better. As with these views, SD's international expansion was driven by its goal to seek growth constantly through entry into new markets abroad and to facilitate the export of products to another country, especially in other developing countries. This was the reason for the group setting up regional divisions in countries like Hong Kong, Singapore, the Philippines and Australia, to support its business. This is because the developing countries not only offered opportunities for growth but also shared some similar features with which the group were familiar.

Specifically, from the interviews of key executives in the company, three primary reasons appear to be important reasons for SD to invest abroad. The first is to take advantage of market opportunities, that is, regionalising to key markets and access growing consumer demand in the region. The second is to diversify risks. And, the third is related to motivations which invariably revolve around diversification to escape high costs, labour, and other resource constraints in Malaysia. An equally important factor is the familiarity of the countries where the investment is directed, in the sense of common or shared experiences in history, culture, economics and even politics. From the point of view of location strategy, familiarity with the country and closeness to Malaysia will be the main criteria.

Diversifying risk is also an important determinant of the choice of overseas location. SD emphasises that the very nature of its organisation is to diversify risk by having a spread of products or geographically located businesses. The diversification strategy has worked for the group, since it may be that one business is declining but that it will be compensated for by the other businesses. The group's strategy in its investment is to be a long term player and try to make business work in every economic condition. In some countries, the group's business strategy was to start in trading; this then provided a window on opportunities, enabling SD to identify both new businesses and partners for establishing joint ventures.

With regard to its long-term strategy, SD wants to strengthen its position in the Asian regional market, and then the next logical step for SD is to be truly global. For this, it has to aim at inclusion in the Fortune 500 companies and thus must strengthen its presence in the European Community and the North American markets. Although it has set up subsidiaries, joint ventures and acquisitions in the United Kingdom and the United States, these are still inadequate. Moreover, it needs to be rather more aggressive about growing the business that it already has, as well as establishing new ones (ibid).

Managerially, there are many lessons to be drawn from the case analysis. They include the following:

a) managers need to avoid narrow or parochial views with regard to potential MNC development. There are many and diverse routes to such.
b) strategic initiatives – such as joint venture – are not purely dependent on cultural criteria, but on competitive circumstances, government support or lack of it, technological innovation, capitalisation, and managerial skills and know-how.
c) the rationale for 'going abroad' relies on opportunism, risk aversion, and managerial motivation.
d) strategies for entry will vary based on individual country criteria coupled with the three items mentioned above.

With regard to relevance and transferability to other Asian, national, company or cultural contexts, undoubtedly, new and old business models and modelling processes for FDI and internationalisation processes abound. Few, however, have concerned Malaysian-owned, Malaysian-managed MNC's. While SDB represents a somewhat unique case, several elements have been identified as relevant to the future development of nascent MNC's in Malaysia, other developing economies, and indeed emergent MNC's from developed economies. Thus, while there is no one straight road or approved path for this process, lessons learned from this case, may facilitate more strategic thinking than would otherwise be the case.

8 CONCLUSION

This paper has discussed the domestic and international expansion of the Sime Darby group, one of the largest Malaysian multinational conglomerates. Being internationalised from its inception through the reverse takeover of foreign companies operating in the country, SD can be viewed as a new model for the internationalisation process. The group's growth was achieved through a combination of its expanding its capacity as a diversified corporation. Its ownership advantages were derived from various internal and external sources, such as strong brand names, extensive marketing and support networks, strong financial standing, good management capabilities, international knowledge and experience, and business networks with various parties. SD's unique ties with the Malaysian government through its trust and state agencies helped the development of the group, and gave the group a formidable image of credibility and reliability. Its relationships with foreign partners in developing its technological capabilities also played a significant part in its domestic and international expansion.

SD is at the vanguard of Malaysia's thrust into the international arena as one of Asia's leading conglomerates. The Asia Pacific region is SD's stamping ground and its energy has largely been directed to this area, but ventures have also been made further afield for some of its investment, notably in the United States, the United Kingdom, South Africa and Egypt. To Sime Darby's way of thinking, it has grown beyond the boundaries of the region and will continue to broaden its horizons in future FDI. The group plans to grow using internal resources as well as to expand via acquisitions.

Having recognised the need to adapt to the challenges of globalisation, the group has outlined the broad strategies that it believes are vital for it to compete effectively in the international arena. Among these are:

a) a renewed focus on core competencies. This extends beyond the rationalisation of business units to leveraging the group's underlying strengths to build market leadership,
b) aiming for continuous growth in synergistic, related businesses through horizontal and vertical integration
c) fostering a learning culture which encourages the sharing of knowledge across organisational boundaries and geographical divides.
d) SD's overall strategy is to maintain its reputation as Malaysia's leading and most geographically diverse conglomerate, focusing primarily on the growth of the Asia Pacific region through products and services of impeccable quality.

From the experience of Sime Darby, three primary insights can be drawn. First, the acquisition method used by the Malaysian Government to acquire MNCs seems to portray a new dynamic in the extant patterns or modes of internationalisation. Second, although Sime Darby can now be considered as an established and successful MNC, without the proper investment strategy and skills required for its diverse activities, SD would have faced difficulties in expansion and this would ultimately have led to potential losses in their investments at home and abroad. Finally, in terms of international expansion, the group can now further capitalise upon its knowledge on international business in order to further augment its international prominence in the future.

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